

The neo-liberal appropriation of tertiary education policy: Accountability, research and academic freedom*

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ABSTRACT

The changes to education which took place after 1984 which resulted from the 'insertion' of the New Right into policy making in New Zealand were motivated by the adherence of the groups most centrally involved - the Fourth Labour Government, the New Zealand Treasury, and the New Zealand State Services Commission - to perspectives on the State, economy and education which differed fundamentally from those that had held sway under the period of the welfare state. The broad faith in the state's grandmotherly role of 'guidance and governance', typified in the economic sphere by Keynesian demand management, was replaced by a range of new academic, social, and philosophical perspectives whose central common assumptions can be seen as constituted by a particular strain of liberal thought referred to most often as 'neo-liberalism' (Burchell, 1991, 1993; Rose, 1993; Peters and Marshall, 1990) or as 'economic rationalism' (Marginson, 1993; Codd, 1990). The central defining characteristic of this new brand of liberalism was that it was a revival of the central tenets of classical liberalism, particularly classical economic liberalism.

Introduction

The changes to education which took place after 1984 which resulted from the 'insertion' of the New Right into policy making in New Zealand were motivated by the adherence of the groups most centrally involved - the Fourth Labour Government, the New Zealand Treasury, and the New Zealand State Services Commission - to perspectives on the State, economy and education which differed fundamentally from those that had held sway under the period of the welfare state. The broad faith in the state's grandmotherly role of 'guidance and governance', typified in the economic sphere by Keynesian demand management, was replaced by a range of new academic, social, and philosophical perspectives whose central common assumptions can be seen as constituted by a particular strain of liberal thought referred to most often as 'neo-liberalism' (Burchell, 1991, 1993; Rose, 1993; Peters and Marshall, 1990) or as 'economic rationalism' (Marginson, 1993; Codd, 1990). The central defining characteristic of this new brand of liberalism was that it was a revival of the central tenets of classical liberalism, particularly classical economic liberalism. The central presuppositions shared include:

1. *the self-interested individual*: a view of individuals as economically self-interested subjects. In this perspective the individual was represented as a rational optimiser and the best judge of his/her own interests and needs.

2. *invisible hand theory*: a view that the uncoordinated self-interest of individuals correlates with the interests and harmony of the whole society.
3. *free market economics*: the best way to allocate resources and opportunities is through the market. In this sense a 'flexible', that is, deregulated, market system provides the best opportunities for people to utilise their skills and therefore optimise their life goals. The market is both a more efficient mechanism and a morally superior mechanism.
4. *a commitment to laissez-faire*: because the free market is a self-regulating order it regulates itself better than the government or any other outside force. In this, neo-liberals show a distinct distrust of governmental power and seek to limit state power within a negative conception, limiting its role to the protection of individual rights. Although the less extreme neo-liberals will allow some degree of state welfare, it is only as a basic last resort. In general, they are unsympathetic to an extension of state activity outside or beyond its limited negative role just as they are against 'bureaucracy' and for lower taxation.
5. *free trade*: consistent with the faith in market economics, in the international sphere neo-liberals favour 'free trade', involving the abolition of tariffs or subsidies, or any form of state-imposed protection or support, as well as the maintenance of floating exchange rates and 'open' economies.

Notwithstanding a clear similarity between *neo* and *classical*/liberal discourse, the two cannot be seen as identical, and an understanding of the differences between them provides an important key to understanding the distinctive nature of the neoliberal revolution as it has impacted on OECD countries over the last 30 years. Whereas classical liberalism represents a negative conception of state power in that the individual was taken as an object to be freed from the interventions of the state, neo-liberalism has come to represent a positive conception of the state's role in creating the appropriate market by providing the conditions, laws and institutions necessary for its operation. In classical liberalism the individual is characterised as having an autonomous human nature and can practise freedom. In neo-liberalism the state seeks to create an individual that is an enterprising and competitive entrepreneur. In the classical model the theoretical aim of the state was to limit and minimise its role based upon postulates which included (1) universal egoism (the self-interested individual); (2) invisible hand theory, which dictates that the interests of the individual are also the interests of the society as a whole; and (3) the political maxim of *laissez-faire*. In the shift from classical liberalism to neo-liberalism, then, there is a further element added, for such a shift involved a change in subject position from 'homo economicus', who naturally behaves out of self-interest and is relatively detached from the state, to 'manipulatable man', who is created by the state and who is continually encouraged to be 'perpetually responsive'. It is not that the conception of the self-interested subject is replaced or done away with by the new ideals of 'neoliberalism', but that in an age of universal welfare the perceived possibilities of slothful indolence create necessities for new forms of vigilance, surveillance, performance appraisal, and of forms of control generally. In this new model the state has taken it upon itself to keep us all up to the mark. The state will see to it that each one of us makes a "continual enterprise of ourselves" (Gordon, 1991) in what seems to be a process of "governing without governing" (Rose, 1993).

As Graham Burchell (1996: 23-24) puts this point, while for classical liberalism the basis of government conduct is in terms of "natural, private-interest-motivated conduct of free, market exchanging individuals", for neo-liberalism "the rational principle for regulating and limiting governmental activity must be determined by reference to *artificially* arranged or contrived forms of free, *entrepreneurial* and *competitive* conduct of economic-rational individuals". This means that for neoliberal perspectives, the end goals of freedom, choice, consumer sovereignty, competition and individual initiative, as well as those of compliance and obedience, must be constructions of the state acting now in its positive role through the development of the techniques of *auditing*, *accounting* and *management*. It is these techniques, as Barry, Osborne and Rose (1996: 14) put it:

[that] enable the marketplace for services to be established as 'autonomous' from central control. Neo-liberalism, in these terms, involves less a retreat from governmental "intervention" than a re-inscription of the techniques and forms of expertise required for the exercise of government.

Notwithstanding this rather crucial difference between the two forms of liberalism, the common element expresses a distinctive concern. For both classical as well as neo-liberalism, what defines this concern is a common orientation concerning "the limits of government in relation to the market" (Burchell, 1996: 22). This was so, says Burchell, in relation to the early classical liberals, the Anglo-Scottish-school, the Ordoliberalen of the Federal German Republic, as well as the Chicago School of economic liberals, as well as other variants of neo-liberalism, in the twentieth century. Hence, as Burchell says (1996: 22-23), classical liberalism emerged "in relation to a problem of how a necessary market freedom can be reconciled with the unlimited exercise of a political sovereignty". The Anglo-Scottish school "set limits to the State's capacity to know and act by situating it in relation to the reality of the market or of commercial exchanges, and more broadly of civil society, as quasi-natural domains with their own intrinsic dynamic and forms of self-regulation". For modern forms of neo-liberalism it is still a matter concerning the limits of government action in relation to the market. Hence:

For the German school of *Ordoliberalen* that developed during and after the Second World War...the problem is not one of how a space can be found within an existing State for a necessary market freedom, but of how to create a State on the basis of an economic freedom that will secure the State's legitimacy and self-limitation ... The Chicago school of economic liberalism ... also functions as a criticism of the consequences of too much government. What they have in common, putting it very crudely, is a question concerning the extent to which competitive, optimising market relations and behaviour can serve as a principle not only for limiting governmental intervention, but also rationalizing government itself. Both are looking for a principle for rationalizing government by reference to an idea of the market. Where they differ from earlier forms of liberalism is that they do not regard the market as an existing quasi-natural reality situated in a kind of economic nature reserve space marked off, secured and supervised by the State. Rather, the market exists, and can only exist, under certain political, legal and institutional conditions that must be actively constructed by government. (Burchell, 1996: 22-23)

While there is thus an important difference between those forms of liberalism that existed from the 17th to the end of the 19th century and the forms of neo-liberalism that emerged in the 20th century, the special nature of the relationship between government and governed, and the priority of a market of free associations within this relationship, constitutes a central and continuous thread through the various different forms of liberalism. In this, as Burchell (1996: 23) points out, both early and later liberalism "set out a schema of the relationship between government and the governed in which individuals are identified as, on the one hand, the *object* and target of governmental action and, on the other hand, as in some sense the necessary (voluntary) *partner* or accomplice of government". For classical liberalism, as Burchell (1996: 24) also notes, the individual is not only a rational self-interested optimiser but also part of a biological population and a member of a society on that basis. In fact, it is largely in terms of biological theories in the 19th century that the conception of the individual as a self-interested rational optimiser is justified, and which, hence, constitutes its scientific basis. Thus:

Economic exchanges - private, individual, atomistic, egoistic - are seen as arising within a natural and historical milieu comprising a tissue of proximate, passional ties, associations, affiliations, antagonisms, enmities and friendships ... which characterize *civil society* Within this milieu a historical dynamic is identified that arises from, on the one hand, the fissiparous tendency of economic egoism that leads exchanging individuals to engage in an abstract form of activity involving relations with others that are indifferent to their memberships of any particular society or nation and, on the other hand, the complex interplay of particular localized patterns of sociability, of allegiances and antagonisms. It is on the basis of this natural and historical dynamic society that there evolve spontaneous relationships of power, authority and subordination or, in other words, forms of the "self-government" of civil society. (Burchell, 1996: 24)

In his own analysis, Burchell is commenting on and articulating Foucault's perspective on liberalism as a form of state reason or 'governmentality'. For Foucault (1979), neo-liberalism represents an art of government or form of political reason. A political rationality is not simply an ideology but a worked-out discourse containing theories and ideas that emerge in response to concrete problems within a determinate historical period. For Foucault, like Weber, political reason constituted a form of disciplinary power containing forms and systems of expertise and technology utilisable for the purposes of political control. Within this framework, liberal partitions between the public and the private, or the governed and the government, constitute constructed spaces by which individuals can be secure in relation to their juridically assured rights. Liberalism, rather than being the discovery of freedom as a natural condition, is thus a prescription for rule, which becomes both the *ethos* and *techne* of government. In this sense, as Barry, Osborne and Rose (1996: 8) put it:

Liberalism is understood not so much as a substantive doctrine or practice of government in itself, but as a restless and dissatisfied ethos of recurrent critique of State reason and politics. Hence, the advent of liberalism coincides with discovering that political government could be its own undoing, that by governing over-much, rulers thwarted the very ends of government.

For Foucault, liberalism represented a constructed political space, or a political reconstruction of the spaces in terms of which market exchanges could take place and in terms of which a domain of individual freedom could be secure. As such a constructed space, liberalism, says Foucault, enabled the domain of "society" to emerge in that it stood opposed to the *polizeiwissenschaft* of the *ancien regime* which constituted a formula of rule that sought total control. In this sense liberalism is a form of permanent critique of state reason, a form of rationality which is "always suspicious of governing overmuch, a form of government always critical of itself" (Osborne, 1993: 346).

In his essay *Governmentality* (1979), Foucault traces a genealogy where he notes that from the middle of the 16th century until the end of the 18th, political writings shifted from a predominant concern with "advice to the Prince/Ruler" to a concern with the "art of government ... of how to be ruled, by whom, to what extent, and what methods, etc." (Foucault, 1979: 5-6). It was a concern, he says, with the "problematic of government in general" (1979: 6) and it articulated "a kind of rationality". In his own genealogy Foucault traces the concern with government from its initial usage in relation to the management of the family to its concern with the category of population within the boundaries of a geographical area. In this manner, says Foucault (1979: 10):

government is the right disposition of things, arranged so as to lead to a convenient end ... the things which the government is to be concerned about are men, but men in their relation, their links, their imbrication with those other things which are wealth, resources, means of subsistence, the territory with its specific qualities, climate, irrigation, fertility, etc., men in their relation to that other kind of things which are customs, habits, ways of doing and thinking, etc., lastly, men in their relation to that other kind of things again which are accidents and misfortunes such as famine, epidemics, death, etc.

Hence the art of government that one finds at the end of the 16th and beginning of the 17th century "organises itself around the theme of the reason of state" (1979: 14) in the sense that:

the State is governed according to rational principles which are intrinsic to it and which cannot be derived solely from natural or divine laws or the principles of wisdom and prudence: the State, like Nature, has its own proper rationality, even if this is of a different sort. Conversely, the art of government instead of seeking its foundation in transcendental rules, cosmological models or philosophical-moral ideals, must find the principles of its rationality in that which constitutes the specific reality of the State.

Liberalism emerges as a form of state reason with the 17th century jurists and philosophers "who articulate or ritualise the theory of the contract" (1979: 15). In this sense, liberal reason constituted itself in relation to juridical, biological, economic and political doctrines that were to emerge from the 17th century and which anchored the scope of government in relation to the prevailing sciences of biology and evolution and in accord with the recognised scientific views concerning the

individual. It is this formation of a "savoir" proper to government which is bound up with the knowledge of the processes related to population in its widest sense, and which incorporates also our contemporary idea of the 'economy' (1979: 18).

It is the conceptual coupling of political rationality with specific technologies of governance which enable us to understand the link between discursive systems and practical policy implementation and thus which are essential to conceptualising liberal and neo-liberal forms of state reason. Foucault's concept of governmentality is relevant to how governmental technologies insert themselves into practical policy development and implementation at a particular historical juncture. There are indeed a number of elements involved. While the concept of *political reason* pertains to the broad discursive frame of reference through which political problems and solutions are identified and considered and which determine the focus and objects of governance, the concept of *technologies of governance* pertains at the level of operationalisation and involves a consideration of the techniques and means through which practical policies are devised and inserted.

Neo-liberalism constitutes a revival and continuation of earlier liberal perspectives that developed from the 17th century and continued right up into and through the 19th century. Marginalised by the ethical qualifications of the 'new' welfare state liberals of the late 19th century, and by the economics of Keynesian demand management in the 20th century, the earliest writings of the neo-liberals of the 20th century showed all the hallmarks of a displaced embattled minority fighting a rear-guard action for political survival.

Although Frederich Hayek (1899-1992) must in many senses be considered a classical liberal, his writings from the 1930s onwards contribute to neo-liberalism in that he shares many of the themes of neo-liberalism and, in addition, he deeply influenced later forms of the doctrine as it manifested in Chicago economics, Public Choice Theory, Human Capital Theory, Agency Theory, Transaction-Cost Economics, as well as the various forms of Managerialism that developed in the 1940s to 1960s and became ascendant as forms of state reason from the 1970s. Hayek can be considered a part of, and having major debts to, the Austrian School of Economics founded by Menger (1840-1921) and carried on by von Wieser (1851- 1926) and von Mises (1881-1973). Amongst the major themes of his economic and social philosophy are his argument that 'local knowledge', as is found in markets, is always more valid and effective than the forms of codified text-book-type knowledge that it is possible to introduce through planning. For this reason, markets have distinct advantages over state regulation or planning. The laws of supply and demand operate, via the price mechanism, as indicators of under- and over-supply as well as incentives for producers to produce high-quality, competitively priced goods for which there is an established demand. In a multitude of ways, markets provide fast and efficient methods of supplying information on consumer demand, and a sure way of making sure that producers and providers will respond.

Consequently, Hayek (1944, 1948, 1952, 1960, 1976) maintains that the proper functioning of markets is incompatible with state planning of any sort, either full-scale socialism or the more limited conception of the welfare state. A full-scale rational socialism is impossible because it would have no markets to guide resource allocation. In addition, central planning of any form, he claims, is not practical because of the scale of centralised calculation any effective attempt at allocation would require. On this basis Hayek contends that all forms of state action beyond the *minimal* functions of the defence of the realm and the protection of basic rights to life and property are dangerous threats to liberty which are likely to lead down the 'road to serfdom'.¹

His main arguments against central planning are based on two claims: (1) on its inefficiency, and (2) on the threat to freedom of the individual. It would be inefficient, in Hayek's view, because real knowledge is gained and true economic progress made as a consequence of locally generated knowledge derived from "particular circumstances of time and place" and the state is not privy to such knowledge (Hayek, 1944: 521). The market then is the mechanism which best allocates

resources in society. Planning ignores this localistic character of knowledge and interferes with the self-regulating mechanism of the market.

One of the major ways that Hayek departs from classical economic theory relates to his acceptance of the Austrian School's subjective theory of value, the theory that value is conferred on resources by the subjective preferences of agents. As John Gray (1984: 16) puts it, it was this "profound insight which spelt the end of the tradition of classical economic theory", marking a departure from economic theorists such as Adam Smith, David Ricardo, J. S. Mill and Karl Marx who had all analysed value in objective terms as deriving from the labour content of the asset or resource under consideration. Like von Mises, Hayek defends subjectivism in economic theory regarding value, but goes further, noting that the data of the social sciences are themselves subjective phenomena and that social objects like money or tools are constituted by human beliefs.²

Also derived from von Mises, Hayek's work was characterised by a strong antisocialism, most vehemently expressed in his opposition to Marxism, which he held did not constitute a rational means of organising an economy. For Hayek, economies are the outcome of spontaneous evolution which demonstrate the superiority of unregulated markets for creativity and progress. A spontaneous societal order such as a market order can utilise practical fragmented knowledge in a way in which a holistically planned order cannot. Hayek states his theory of spontaneous order first in relation to a comment on Bernard Mandeville when he says:

For the first time [he] developed all the classical paradigmata of the spontaneous growth of orderly social structures: of law and morals, of language, the market and money, and also the growth of technological knowledge. (Hayek, 1978: 253)

A spontaneous order emerges as a natural process. It can be observed in population biology of animal species, in the formation of crystals, and even in galaxies (Hayek, 1952: 180; 1967: 76; 1973: 39; 1976: 39-40). It is this idea that self-organising and self-replicating structures emerge without design, and that knowledge about some parts of the structure permit the formation of correct understanding about the behaviour of the structure as a whole, that Hayek is most keen to emphasise. It underpins his rejection of Cartesian rationalism, his historicism, his anti-foundationalism, his theory of the evolution of mind (1978: 250). In that the market is a spontaneous order, it displays a tendency to equilibrium, although an actual perfect equilibrium is never achieved but must be viewed as a constantly changing process of tending towards orderliness. This is not only with reference to economic life and the spontaneous emergence of markets, but also in social life in relation to the growth of language where we find the spontaneous formation of self-regulating structures, as well as in relation to the development of moral norms. Hence, as Gray points out, the emergence of spontaneous systems is "somewhat akin to the generalisations of Darwinian evolution" (Gray, 1984: 31) in that Hayek maintains that "selective evolution is the source of all order" (Gray, 1984: 32). Thus, in a market economy there is a real analogy to Darwinian natural selection in that the "profit-loss system provides a mechanism for the elimination of unfit systems" (Gray, 1984: 32) with the proviso that, in contradistinction to Herbert Spencer or W. G. Sumner, natural selection is not solely about individuals but about groups and populations. Such a thesis incorporates Hayek's arguments that social institutions arise as a result of human action but not human design (the 'invisible hand' thesis); that knowledge embodied in practices and skills that is practical, tacit and local is primary in terms of its epistemological status; and that there is a natural selection of competitive traditions whereby rules and practices that confer success come to replace those unsuited to the human environment. Following closely in the footsteps of von Mises, Hayek argues that any attempt to supplant market relations by public planning cannot avoid calculational calamities and is therefore doomed to failure.

Inasmuch as Hayek's theoretical work was an important source of inspiration for neoliberalism, his political activism was also important for the eventual discreditation and eclipse of Keynesianism as the hegemonic policy of western nation states. Foremost amongst his contributions in this respect was the establishment of the Mont Pelerin society of which Hayek was a moving force.

Established in 1947 at Mont Pelerin in Switzerland in order to debate the future of liberalism as part of the general concern for the preservation and extension of a free society, it was to become, in the words of the English newspaper *Sunday Times*, "the most influential but little known think tank of the second half of the 20th century" (Lindsay 1997: 1). At its first meeting from April 1-10 1947 it was agreed "that 'the battle for ideas' had to be won before there could be a substantial reversal of political trends towards *dirigisme*" (Hartwell, 1995: xii). The first meeting of 39 took place at the Hotel du Pare and included 17 from the USA, 8 from England, 4 from Switzerland, 4 from France and one each from Italy, Germany, Norway, Denmark, Belgium, and Sweden. Amongst those present were Milton Friedman (University of Chicago), Aaron Director (University of Chicago), L. von Mises (New York University), Michael Polanyi (University of Manchester), Maurice Allais (Ecole Nationale Supérieure des Mines, Paris), C. V. Wedgwood (Time and Tide, London), Karl Popper (The London School of Economics), Wilhelm Röpke (Institut Universitaire des Hautes Etudes Internationales, Geneva). Amongst its past presidents are included Ralph Harris, Max Hartwell, Chiaki Nishiyama, Antonio Martino, Manuel Ayau, Pascal Salin and Herbert Giersch. Amongst its Nobel prize winners are Hayek himself, James Buchanan, Milton Friedman, George Stigler, Ronald Coase and Gary Becker. Although originally a European and American club, membership spread to all corners of the globe. Members of the 1980s and 1990s include prominent Italian academic and politician Antonio Martino; British politicians Geoffrey Howe, John Biffen, and Rhodes Boyson; Japanese economist and politician Yoshio Suzuki; New Zealand's former Finance Minister, Ruth Richardson; Australians Gary Sturges, Wolfgang Kasper, Ross Parish, Geoffrey Brennan, Michael Porter and Maurice Newman; and Americans Milton and Rose Friedman, Frank Easterbrook, Deepak Lal, Allen Meltzer, Michael Novak, Richard Posner, Thomas Sowell and Harold Demsetz, to name a few. Its central common purpose that unites its members is their opposition to central economic planning and state interventionism. As originally intended by Hayek, it has functioned as an "international association of scholars" dedicated to "regenerating the ideas of classical liberalism in order to refute socialism" (Lindsay, 1997: 2).

Monetarism

The historical conjuncture of forces that permitted the political insertion of neoliberal policies came in the 1960s and 1970s as a response to inflation which allowed monetarist theories to challenge Keynesian demand management. Foremost amongst those arguing the case for monetarism was Milton Friedman who was strongly committed both personally and politically to economic and political liberalism. Initially, at a few centres like Chicago, the London School of Economics, and Manchester, Friedman and a growing group of supporting academics became increasingly predominant in their advocacy of monetarist accounts based on 'the quantity theory of money' which sought to argue that one could only solve problems in relation to stabilising the economy, and not through such things as wage and price controls (e.g., full employment, stable prices, rising living standards). The 'quantity theory of money' suggested that the level of prices be directly related to the quantity of money in circulation. Although an old idea, its revived significance lay in relation to the renewed priority in controlling inflation in western economies. As Gamble says:

The break with a Keynesian framework and the polarization between Keynesians and monetarists was dictated by the political need to reassert the principle of sound money, to restrict government intervention and to give less importance to other economic objectives. What monetarists wanted was for inflation to be recognised as the major problem whatever its rate. There was no question of governments assessing whether inflation or unemployment was the greater evil which required policy action. Sound money had to become the government's main priority again; without sound money no other objective - such as full employment or faster growth - could be achieved. (Gamble, 1986: 35)

The central idea is related to the importance of 'sound money' as the fundamental concern of state policy. If governments delivered sound money then the economy would be stabilised in relation to all other areas, and Friedman's theory about the 'natural rate of unemployment' followed

as a consequence of this, as did arguments for monetarist techniques for controlling the money supply, like 'floating exchange rates'¹³, setting monetary targets, fixing the definition of money, adopting medium-term financial strategies. In this sense monetarism constituted a crusade against Keynesianism and a series of techniques, premised on a theory that inflation is always everywhere a monetary phenomenon (see Friedman, 1970: 24).

If Friedman's approach to controlling inflation was confined to economic factors, the addition of Hayek's perspective, which shared the fundamental commitment to liberal axioms, was to extend the account of controlling inflation to include political factors as well. Hayek not only helped the monetarist attack on Keynesianism but he considered such things as the role of trade unions and of bureaucracy as factors in inflation. Rather than being simply a matter of incorrect economic policy, then, inflation was seen as spurred on by excessive government interference. In this way Hayek was to shift attention to the nature of the public sector and the nature of the political order as it interfered with the market order and infringed its proper functioning.

Human capital theory

Human Capital Theory (HCT) emerged, says Simon Marginson (1993: 35), from neoclassical economics in the second half of the 19th century. As a consequence of the marginalist revolution led by Jevons, Walras and Menger, the boundaries around economics were redrawn and narrowed. Economics became the science of predicting universal economic behaviour based upon mathematical methods in order to produce universal economic laws.

Human Capital Theory first emerged in modern form in the 1960s. Following the work of Theodore Schultz (1960a, 1960b, 1961), E. F. Denison (1962) and Gary Becker (1964), there was a renewed concern for investment in education. As Schultz (1960b: 571) put it:

I propose to treat education as an investment in man and to treat its consequences as a form of capital. Since education becomes a part of the person receiving it, I shall refer to it as human capital...it is a form of capital if it renders a productive service of value to the economy. (Schultz, 1960b: 571)

For HCT, investment in education accounted for the fact of economic growth. As Marginson notes (1993: 35), Schultz as well as earlier writers such as J. R. Walsh had noted that investment in education more than paid for itself. According to E. F. Denison (1962), as well, improved education was one of the major factors contributing to economic growth. Then in 1964 a major publication by Gary Becker, *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education* (1964), maintained that education was "the most important single determinant" of economic growth (1964: 45). Like Friedman, Becker saw human capital as a tradeable commodity capable of being organised according to _the principles of market exchange. His own approach was to prepare mathematical models and formulae for calculating the private and social investment in human capital.

Like Hayek, Becker searches for the mechanism of functional adaptation in social systems which they see as arising in a context of 'perfect competition'. Yet, while Hayek sees equilibrium as the product of the natural selection of competing practices, Becker's economic approach to human behaviour sees all human action as undertaken with ends or outcomes in view. Hence, the economic approach to human behaviour attributes a means-end calculational rationality to human agents, and it is under such a model, where rational human behaviour is seen as purposeful and goal-orientated, that individual 's will invest in education. Becker's model is thus slightly different to Hayek's. For Hayek, man is a rule-following being and it is through a historical process of natural selection that maladaptive rules are filtered out. For Becker, the economic approach is pure and simply an 'economising' and 'maximising' strategy where humans are programmed to compete in order to maximise their opportunities. Hence, at the base of Becker's approach to human capital is a rational choice model which contains "the combined assumptions of maximizing behaviour, market

equilibrium and stable preferences" (1976: 5). In this model the economic approach explains institutions in terms of costs and benefits in maximising the satisfactions of individual wants.

Although the human capital of a nation is the sum of skills, talents and knowledge embodied in its population, it is apparent that many influences increase the stock of human capital. These include job training, medical care, diet and formal education, amongst many others. The Human Capital perspective treats education and training as an investment and emphasises the direct impact of skill creation on productivity. Thus, work force and management skills are seen as essential determinants of national economic performance. Amongst the main propositions of HCT are:

- that education and training increase an individual's cognitive capacity
- which in turn increase productivity and
- an increase in productivity tends to increase an individual's earning which
- become a measure of human capital.

A distinction within HCT is made between the private rates of return and the social rates of return. This stems from the distinction between education as a private good and education as a public good. As a private good, education is seen to be a tradeable commodity in the market place for money and status and hence is seen as used for the advancement of the individual where returns accrue to that individual. Education as a public good is seen in a number of ways including the potential to develop the moral, ethical, social, cultural and political awareness of all citizens, as well as to assist in the effective operation of the democratic process.

The private rate of return is calculated by adding the benefits (earnings and consumption benefits) derived from education over a specified period of time. It is the private rate of return on human capital that provides individuals with the incentive to progress to further education (see Blaug, 1970: 22-32; Chia, 1989: 5-10). Individuals would invest in education to the extent that the increased private benefits were greater than the private costs. The HCT model suggests that rational individuals will invest in education as the benefits of higher earnings will more than offset the costs of that education. The model assumes that further education is geared for the labour market, that more education can be translated into higher productivity, and that the productivity results in higher earnings for the individual.

The social rate of return is meant to influence government decisions as to the level of investment it will make in tertiary education. The normal method of calculation is to sum the net benefits to individuals and then subtract the government's costs of funding of education as well as the cost engendered by 'externalities'. As to what the externalities comprise, as well as how large they are, is a subject of considerable debate. While Keynesians tend to place a high emphasis on them, Freedmanites do not see them as significant at all. Marginson (1993: 3 8-40) gives a more detailed account of the private and social rates of return from investment in human capital.

During the 1970s a crisis of confidence in the human capital approach saw it eclipsed by 'screening theories' and other types of explanations as the fact of various recessions in OECD economies made it apparent that there was no automatic relationship between education and economic growth, as the early HCTs such as Denison and Schultz had foretold. The rapid technological and structural change since the 1980s saw a renewed policy emphasis on investment in human capital adapted to a free-market form however. This neo-liberal version of HCT emphasised private rather than public investment in education and stressed that the benefits of investing in education accrued to the individual rather than to society.

The story of the neo-liberal appropriation of HCT is provided by Marginson (1993). While HCT in the 1960s had been a general economic model about the importance of investment in education, the revived model of HCT of the mid 1980s, as demonstrated in various OECD publications, placed greatest importance on private individual investment in education. In its monograph *Structural Adjustment and Economic Performance* (OECD, 1987), education was once again represented as an important source of flexibility and responsiveness in relation to technological and economic

change. Again, the OECD was focusing attention on education, skills and knowledge as central to production. The difference from the 1960s was crucial, however. As Marginson (1993: 49) notes:

The OECD did not recommend that its member governments adopt exactly the same policies as those of the 1960s. It called for a new reading of the relationship between private and social investment in education. The earlier period was dominated by the case for macro-level public investment, and private individual investment was downplayed ... The OECD now supported human capital econometrics for calculating the private rates of return on investment in education, but social rates of return were another matter. The earlier calculations of the social rates of return were no longer used 'as a criterion for public funding'. Screening theory was used to deconstruct the old form of argument for public investment in human capital. The OECD incorporated screening into its human capital framework, in a way that was compatible with the now dominant policies of smaller government and user payments for public services.

As Marginson also relays, while the neo-classical model of HCT was based on equilibrium and perfect competition, a revised model was influenced by studies of decision making in agriculture which, while not discarding the neo-classical model, argued that in the actual world a pure exchange model of perfect information did not apply. Marginson (1993: 46) cites Nelson and Phelps (1966) who argue that farmers' capacity to implement and adopt new technologies depended on education, and, further, that the level of education determines the diffusion of new technologies. In addition, Marginson (1993: 46) cites a number of studies that argue that above-average levels of education are associated with enhanced efficiency (Fane, 1975: 452), or with innovation (Wazniak, 1984), ability to change, to incorporate technology, to deal with disequilibria (Schultz, 1975). Thus, as Marginson (1993: 46) explains, "education is one of the determinants of competitive advantage". The HCT coupled with the market liberal reforms would be seen throughout OECD countries as important to deal with change:

To the free market school, investment in human capital could only be fully successful under the free market conditions assumed by the abstract human capital model: perfect competition and no government subsidies in the education market. (Marginson, 1993: 50)

Public choice theory

Inasmuch as the economy was a central object of neo-liberal analysis and restructuring from the 1970s, the analysis and redesign of public-sector institutions was also to receive attention. Unlike markets, the public sector lacked a comparable mechanism of economic efficiency to guide the utilisation or allocation of resources. In addition, the self-interested opportunism of bureaucrats and government officials would create conflicting loyalties and interests which would interfere with the implementation of policies in the genuine pursuit of the public interest. The school of Public Choice Theory (PCT), amongst whom James Buchanan and Gordon Tullock were leading figures, advocated the application of economic theories to public-sector institutions in the interest of making public organisations subject to the similar costs and benefits as operate in the private sector. In this, PCT represents an application of economic models and theories to politics on the assumption that economic behaviour (*homo economicus*) describes the the state of human nature and thus is applicable all aspects of life.

The central figure in the 'economics of politics' is James Buchanan who since 1969 was Professor of Economics and Director of the Center for Study of Public Choice at the Virginia Polytechnic Institute, Blacks burg, Virginia. Member of the Mont Pelerin Society and of the Institute of Economic Affairs advisory council, Buchanan describes PCT as "the application and extension of economic theory to the realm of political or governmental choices" (1978: 3). Buchanan claims to have come to PCT out of intellectual frustration with orthodox pre-war II Public Finance Theory, as enunciated by the likes of A. C. Pigou, Hugh Dalton in the UK and Harold Groves and Herny Simons in the US. Public finance and economics could not be independent of a theory of politics, said Buchanan (1978). In this he claimed to be influenced by the 19th century Swedish economist Knut Wicksell,

and by the political theories on voting behaviour of Duncan Black (especially his work on committees) and Kenneth Arrow (on social welfare). Impressed by Arrow's argument that a consistent social welfare function for a society could not be derived from individual preferences, Buchanan came to accept his view that any coherent social welfare approach must inevitably entail the imposition of will of some members or groups over others. In analysing how public goods were supposed to emerge from individual self-interested behaviour, Buchanan's achievement was to abolish any notion of the public interest as the derivation of the aggregate self-interest of individuals.

It is on this basis that PCT attacks as 'myth' the idea that government or public service is able to serve the public good. Influenced by William Niskanen's work on 'bureaucratic growth', Anthony Downs' pioneering work on political parties, Mancur Olson's work on 'interest groups', and Gordon Tullock's writing on 'rent-seeking' behaviour, it asserts the view that the notion of the public good is a fiction which cloaks the opportunistic behaviour of bureaucrats and politicians as they seek to expand their bureaus, increase their expenditures, and maximise their own personal advantages. In this, PCT is ruled by the imperative of a strict methodological individualism in which "all theorizing, all analysis, is resolved finally into considerations faced by the individual person as decision-maker" (Buchanan, 1975: ix). In *The Limits of Liberty* (1975), Buchanan maintains that a coincidence of interests between the bureaucrats' private interests and their conception of the public interest ensues, such that "within the constraints that he faces the bureaucrat tends to maximise his own utility" (Buchanan, 1975: 161). If preferences are inherently subjective then they cannot be known and transferred into a collective value judgement, such as a public good, for such a notion neglects the rights of consumers whose interests the public service and politicians are meant to serve, but do not. As Norman Barry (1983: 103) puts it:

Collective action to solve public good problems is distrusted by the Virginia School because their individualism and subjectivism implies that we cannot say that such action represents a genuine social improvement. It is claimed, therefore, that the assumption that market failure necessitates collective correction is false and has led, under the 'externalities' rubric, to numerous interventions which have violated individual preferences.

Buchanan sees both an over-expanded and over-intrusive state as the cause of moral decline as the self-interested basis of human nature rises to wreck the public goals of all institutions:

As laws and regulations have multiplied, competing group interests have been promoted. And persons selected for governmental office have exploited their positions to advance their own private interests under the guise of a non-existent national purpose. (Buchanan, 1986: 117)

The rule for the collective provision of public goods is that collective provision is acceptable only if it accords with the unanimity principle. As Buchanan (1975: 38, 41) states:

A rule of unanimity will ensure to each individual that he will not be harmed or damaged by collective action ... it places each person in a position where he can bargain bi-laterally with all others, treated as a unit.

The overall effect of this rule in PCT is one of conservatism, i.e., of limiting the role of government. Because the 'unanimity rule' is a tighter rule than 'majority rule', the overall effect of such an agreement is to endorse the status quo and prevent change. As Barry (1983: 104) notes, "the status quo ... is always superior to any change which *harms at least one person*". Such a position against any form of collective action not only protects the existing state of affairs, but it effectively allows the propertied groups to veto redistribution. It also minimises a government's political role and creates an enlarged space where individuals can bilaterally bargain and trade with each other.

As a further part of the argument against collective politics, or any notion of a public good, PCT suggests redesigning public institutions to make them reflect more accurately the preferences of individuals. This involves counteracting the possible forms of 'capture' which serve to deflect the interests of public officials from the public's real needs. To do this PCT advocates a variety of quasi-market strategies such as contracting out services to the private sector, increasing competition

between units within the public sector, placing all potentially conflicting responsibilities into separate institutions, separating the commercial and non-commercial functions of the state, separating the advisory, regulatory and delivery functions into different agencies, as well as introducing an assortment of accountability and monitoring techniques and strategies aimed to overcome all possible sources of corruption and bias.

Underpinning this approach is the neo-liberal model of rationality and human nature which PCT shares in common with Austrian economics and Monetarism. This is the model of the person as a self-interested utility maximiser of classical liberalism where the actions of individuals are the same in all times and places and where the model of rational egoism severely limits any possibility of individuals working collectively to pursue the common good. In this sense their fundamental arguments are theoretically *a priori*, i.e., working out the consequences of various structural forms of behaviour (prisoner's dilemma) based upon such axioms concerning individual preferences and rationality. In this extrapolation of the model of market man in relation to bureaucratic contexts, PCT and its offshoots Agency Theory and Transaction Cost Economics universalise what at best could be seen as a model governing certain *limited* market forms of activity as a *model for man in general*. It is in this sense, as Gamble (1986: 43) says, that PCT "represents a major recovery of self-confidence by economists".

Guided by such an approach PCT also assumes:

1. that individual interests underpin apparent group loyalties, resulting in an assortment of potential behaviours such as 'shirking' or 'free-riding';
2. that governments and bureaucracies have a tendency to the expansion and wastage of resources, sustained by the personal and group needs to stay in office, or maximise votes;
3. that governments and public bureaucracies are inefficient providers of goods and services compared to the competitive market, and that such services should, as a consequence, be 'contracted out' where possible;
4. that to the greatest extent possible the public sector should be rendered similar to the market order and that mechanisms of the market order should be introduced - use of economic incentives, costs and benefits should be more closely aligned with individual preferences, better monitoring of effectiveness of individual performance, etc., and
5. constitutional reforms should be introduced to underpin and safeguard property rights and to ensure limits on the growth of government and bureaucracy because these interfere with the maximisation of individual preferences and wants.

The weaknesses of this approach to public-sector restructuring have become increasingly evident during the 1990s in OECD countries. The defence of private ownership as more efficient than public ownership is empirically less than self-evident and would need much more rigorous argumentation than has been provided to date. In addition, PCT misconstrues the possibilities of market orders to satisfy individual wants, or cater for individual needs. As Self (1989: 19) notes, for instance:

consumers do not only want the cheapest possible market goods, they also want safe drugs, wholesome foods, clean air and water, quiet and safe streets, unpolluted beaches, a beautiful countryside.

Further, says Self (1989: 19), deregulation often results in public hazards (e.g., water privatisation in UK upon health and river pollution; electricity provision in NZ upon public safety, environmental catastrophes such as oil spills, acid rain, atmospheric pollution, deforestation, noxious wastes, etc.), all of which constitute increased reasons for *public action*. In other words, real individual wants and preferences value qualities such as good local services and amenities, the avoidance of urban congestion, all of which strengthen the case for effective public planning rather than the maximisation of market preferences. In this, as Self (1989: 22) notes:

the project of modelling government upon the market overlooks that government is the to control the market and needs an appropriate bureaucratic independence and integrity for this purpose. Its lack of any but a negative concept of 'public philosophy' blocks understanding of the broader role which governments today accept, and of the moral and intellectual resources essential to this task.

The one crucial respect in which PCT differs from classical liberalism and from Hayek relates to its positive gearing of the state's role as the constructor of the market order and guardian of individual wants and interests. Buchanan had little faith in the 'spontaneous' ordering of the market or in the efficacy of the social evolutionary process. For him, evolution may produce social chaos and dysfunctional patterns as readily as it may social harmony and equilibrium.

As Buchanan says, in referring to Hayek's *Law, Legislation and Liberty*:

My basic criticism of F. A. Hayek's profound interpretation of modern history and his diagnosis for improvement is directed at his apparent belief or faith that social evolution will, in fact, ensure the survival of efficient institutional forms. Hayek is so distrustful of man's explicit attempts of reforming institutions that he accepts uncritically the evolutionary alternative. (Buchanan, 1975: 194n)

Rejecting all talk of *automaticity* and *evolution*, Buchanan expresses a much greater faith in *conscious action* to legitimate the "long over-due task of institutional overhaul" (Reisman, 1990: 74) that many commentators recognise. It is on these grounds that he seeks to protect constitutional rules by the 'unanimity principle', as such a rule will constrain the leadership as well as the citizenry. It is also on these grounds that he makes the distinction between the 'protective state' and the 'productive state'. While the former is concerned with the basic constitutional framework of rights enforced by law and with national defence, the latter is both 'policeman' and 'participant' (Reisman, 1990: 81). These two levels of state relate to, as Buchanan (1975: x) says, two stages of social interaction: one which involves the selection of rules and one which involves action within these rules as selected. While the distinction between 'protective' and 'productive' is the distinction between law and politics (Buchanan and Tullock, 1962: 69), importantly in terms of the political theory of neo-liberalism, it is also a distinction between 'negative' and 'positive' freedom, and of the 'negative' and 'positive' role of the state. Importantly in this context, Buchanan's state has a *positive arm*. Hence, while the stringent constitutional safeguards on the protective state make any change in the status quo or redistribution of property almost impossible, the positive aim of the productive state effectively extracts compliance from individuals in order to engineer a market order. In doing so it cuts across the traditional guarantees of classical liberalism regarding the spaces it sought to protect- a domain of personal freedom, the rights of privacy involving freedom from scrutiny and surveillance, as well as professional autonomy and discretion in one's work. PCT effectively undermines and re-organises the protected domains of their classical liberal forebears. The shift, I will claim shortly, is both theoretically and practically important for understanding the changes in tertiary education in New Zealand and other OECD countries in the last few years, and especially the complex notion of academic freedom. Such a shift involves a change in subject position from 'homo economicus', who naturally behaves out of self-interest and is relatively detached from the state, to 'manipulatable' man, who is created by the state and who is continually encouraged to be 'perpetually responsive'. It is not that the conception of the self-interested individual is done away with by the new ideals of neo-liberalism, but that in the public sector the perceived possibilities for 'shirking' or 'rent seeking' create necessities for new forms of control. In the model of PCT, the state takes it upon itself to keep each one of us up to the mark in what seems to be a process of "governing without governing" (Rose, 1993).

Agency Theory

Central to this supply-side process of 'governing without governing' by which compliance is extracted and by which systems and people are 'toned', are a number of internal theories of

organisation through which efficiency and effectiveness are rendered operative in public sector institutions.

Agency theory (AT) has been widely used in the economic and social restructuring programmes in OECD countries, including Australia and New Zealand.⁴ As a theoretical orientation, it represents work relations hierarchically as a series of contracts between one party referred to as the principal and another referred to as the agent. The theory is concerned with problems of compliance and control in the division of labour between work relationships. Although initially developed in relation to business forms, it became adapted and extended to public sector work relationships as a means of exacting the accountability and performance of employees where market incentives and sanctions did not operate. AT theorises work relations hierarchically in terms of chains of authority and command which can be used to characterise authority relations at all levels of the management hierarchy. Hence, a single person will be principal to those further down the chain of command and agent to those further up. Central to its focus is how one gets an agent to act in accordance with the interests of the principal. Rather than specify a broad job specification based on a conception of professional autonomy and responsibility, it specifies chains of principal-agent relationships as a series of contracts as a means of rendering the management function clear and accountable. AT theorises hierarchical work relationships as contracts where a principal becomes a commissioning party to specify or delegate work to an agent to perform in return for some specified sanction or reward. As such, it is concerned with how to extract compliance from a voluntary exchange relationship based on dependency. Hence, it speaks to the relationship between employer and employee in all types of work contexts - schools, government agencies, universities and businesses.

Like other neo-liberal theories, AT assumes that individuals are rational utility maximisers and, because of this, the interests of principals and agents will inevitably diverge. In any management context, the problems that the principal will have amount to a range of uncertainties and difficulties in obtaining information. In many senses, both principals and agents have access to information that the other party does not. In addition, agents will have an incentive to exploit their situation to their own advantage. They may, for instance, withhold information that would be to their disadvantage in the process of recruitment. In addition, in similar vein, there are many instances where the behaviour of agents is difficult for principals to observe. In order to minimise risks in the employment situation, AT specifies a range of monitoring, information eliciting and performance appraisal techniques which include the following:

- determining the best form of contract
- determining the best way of motivating agents
- determining the best way of spurring performance (via rewards and sanctions)
- finding the best way of monitoring and specifying contracts to guard against excesses and dangers produced by opportunism on part of agent, due to 'shirking' deception, cheating, or collusion.

AT, as well as the other neo-liberal theories (such as PCT, Property Rights Theory, Transaction Cost Economics), is relevant to understanding the unprecedented disaggregation of the public sector that has occurred in New Zealand and other OECD countries since the late 1970s (Althaus, 1997; Scott and Gorringer, 1989; Deane, 1989; Boston, 1991, 1996; Wistrich, 1992). As Catherine Althaus (1997: 138) observes, AT has been central to the dramatic scale of the restructuring that has occurred in these countries. It has underpinned funder/provider and policy/delivery splits (the 'decoupling' strategies) both within the public-sector bureaucracy as well as between the bureaucracy and the state, and resulted in policies of deregulation, corporatisation, and privatisation. In addition, notes Althaus (1997: 137), "New Zealand and the United Kingdom have engaged in a unique application of agency theory which places them at the forefront of its application to the public sector". Indeed, "the striking aspect of an analysis of New Zealand's reform programme is its use of theory" notwithstanding the fact that "the agency model has serious deficiencies if applied uncritically to public sector management" (1997: 13 8). This influence of neo-

liberal theory was largely because the agenda for public-sector restructuring was driven by Treasury "under the influence of a small group of 'new-breed' reformers noted for their sensitivity to the market liberalism doctrine espoused by the Chicago school and think-tank institutes such as the Centre for Independent Studies and Institute of Economic Affairs" (1997: 139). As such, such theories influenced the 1984 and 1987 Treasury briefs to the incoming Labour governments and influenced the legislative form of the State Sector Act 1988 and the Public Finance Act 1989 which transformed personnel and financial management practices and initiated 'decoupling' strategies which separated policy from delivery through the creation of new delivery organisations. In the education sector these included organisations such as the Education Review Office, the New Zealand Qualifications Authority and the Teacher Registration Board. Because in the AT model policy is separated from delivery, the policy departments of state contract their delivery functions to independent organisations which function as agents. Further disaggregation was introduced between the different aspects of service. Hence ERO was charged simply with the evaluation but not advisory functions in relation to school reporting. Such a model, it was claimed, increased accountability and efficiency, rendering government departments analogous to private companies. As such, AT was a

means of conceptualising and rationalising human behaviour and organisational forms ... [i]t is a scrutiny of the interaction between a distinct relationship between two parties - the principal and agent - within a context assuming individual self-interest maximisation, bounded rationality, risk-aversion, goal conflict among members and the treatment of information as a commodity which can be purchased. (Althaus, 1997: 141)

What were not noted by the political reformers, however, were the negative consequences of such disaggregative models. Ewart and Boston (1993) note that when policy advice is separated from operations, the emergence of destructive sub-cultures can result, which can in turn lead to the duplication of advice as well as increased distrust and disruption instead of the theorised would-be benefits of greater contestability. Other research suggesting negative effects (increased tensions, rivalry, unnecessary duplication of services and resources, etc.) of disaggregative models has been noted in Britain by Hede (1991: 38), Greer (1992: 223) and Trosa (1994).

Transaction cost economics

Agency costs are effectively the subject of Transaction Cost Economics (TCE), which is another form of economic theory linked closely to AT, PCT and Property Rights Theory.⁵ Principally espoused in the work of Oliver Williamson (1975, 1983, 1985, 1991, 1992, 1994), it seeks to analyse and account for the efficiency costs of transacting business and the effect these have on organisational form. In this respect, as Charles Perrow (1986a: 18) puts it, TCE is "relentlessly and explicitly an efficiency argument". In this sense TCE is used to evaluate the efficiency of alternative governance structures or sets of institutional arrangements for various kinds of transactions, especially those generated by the market. Like other neo-liberal theories, it assumes a social-ontological context of 'uncertainty', 'bounded rationality', 'limited' and 'asymmetrical' information, and of the 'opportunism' of the 'self-interested' subject. Using theory-specific concepts such as 'small numbers bargaining' and 'asset specificity', TCE endeavours to show why various sorts of organisational forms (involving mergers or takeovers or various forms of organisational integration) may be preferred to a pure market form. In accounting for the increasing size of business organisations over the century, Williamson (1983: 125) argues "that efficiency is the main and only systematic factor responsible for the organisational changes that have occurred". In essence, then, TCE is about the most efficient method of organisation given a particular market context.

It has a number of central theory-specific concepts. These are 'uncertainty', 'small numbers bargaining', 'bounded rationality', 'opportunism', and 'asset specificity'. While opportunism expresses the 'self-interested' nature of individual actions, bounded rationality attests to the absence of perfect information, or to the asymmetrical nature of information between two or more

parties in any exchange relation. It is due to the absence of perfect information that the market equilibrium becomes unstable, introducing 'uncertainty', which in turn allows agents to act 'opportunistically'. For instance, where it is possible, a party to a contract may exhibit dishonest or unreliable behaviour in order to secure a market advantage. However, the ability to do so will depend upon the nature of the context, the degree of uncertainty in the environment and the extent to which information between the parties is 'asymmetrical'.

Williamson introduces several other concepts which attest to the bilateral nature of exchange and the distortions that are introduced and which need to be overcome when real-life interactions fail to match the precise model of the classical market. 'Small numbers bargaining' gives the parties to an initial contract an advantage over parties not so included in the contract and tends to constitute a conservative pressure for firms not to change or not to be responsive to actual market signals. In this sense, the convenience of preserving an existing arrangement, or of continuing to hire existing staff, may override the fact that more competitive tenders exist, or that 'better' or less disruptive staff could be employed. The concept of 'asset specificity' is related, for long term parties to a contract tend to have specific assets which become a form of bargaining power and, again, militate against change in line with the expectations generated by the classical model of the market order.

In the context of these potentially disruptive influences, TCE proposes that forms of administrative and governance structures can be instituted which counteract these adverse effects and which render transaction costs efficient relative to a specific form of market competition. Hence, while opportunism and bounded rationality produce different kinds of costs, these must be in turn offset by the types of governance structures in place. AT becomes relevant here in specifying a formalised structure of contracts between principals and agents to counter the possible distortions or costs associated with opportunism and bounded rationality. Forms of monitoring and performance appraisal also operate in this regard. In his later works, Williamson (1991, 1992, 1994) focuses attention on public-sector governance issues and specifically with the problem of selecting governance structures which are most efficient i.e., which minimise the costs of the different organisational transactions involved.

Underpinning TCE as well as AT is Property Rights Theory (PRT), which is the fundamental grounding theory for the conception of self-interested human behaviour assumed in neo-liberal theories. As such, the incentives structure of agents and principals in AT is assumed using PRT which is essentially a theory of 'ownership' of property as it inheres in the individual. Hence, central to PRT is the entitlement to scarce commodities and a conception of the system of exchange rules in terms of which such commodities may be transferred. As McKean (1974: 175) states, property rights are essentially "one's effective rights to do things and effective claims to reward (positive or negative) as a result of one's action". Such a theory assists in conceptualising the structuring of incentives in relation to the management of institutions.

TCE with AT, PRT, and PCT are collectively represented as part and parcel of the New Institutional Economics (NIE) or of New Public Management (NPM). The common language of such approaches stresses concepts such as 'outputs', 'outcomes', 'accountability', 'purchase', 'ownership', 'specification', 'contracts', 'purchase agreements', etc. Central to such an approach is an emphasis on contract which ostensibly replaces central regulation by a new system of public administration which introduces such concepts as clarification of purpose, role clarification, task specification, reliable reporting procedures and the freedom to manage. According to Matheson (1997), contractualism includes relations where (1) parties have some autonomy to their role, (2) where there are distinctions between roles and therefore where a clarification of roles is obtainable, (3) where the specific role components are specifiable and where as a consequence individuals can be held accountable, (4) where responsibility flows downwards, rather than upwards, i.e., responsibility can be identified as fixed in terms of a specific role, (5) where the assignment of work is by agreement, (6) where there is an objective basis for judging performance, (7) where transparency is

a feature of the agreement process, and (8) where there are explicit consequences (sanctions or rewards) for fulfillment or non-fulfillment.

The consequence of such a contractualism was to view all work relations as principal-agent hierarchies, thereby redefining the appropriate process in terms of outputs, and where services are viewed in terms of cost and quality. Such a system gave rise to new patterns of employment (fixed-term contracts) and new forms of accountability whereby relationships were more directly clarified and services more clearly described. Such an approach, says Alex Matheson, has low transaction costs, few legal fees, and few direct compliance costs.

According to Graham Scott, the New Institutional Economics, especially AT, constituted a strategy that "appeared promising" in terms of its commitments to (1) strategic management, (2) divestment of non-core activities (3) re-engineering to create customer focus, (4) delayering/delayering, (5) total quality management, (6) use of modern information technology for management information systems, (7) improved accountability systems, and (8) establishing appropriate cultural values, teamwork and leadership. Not only was the NIE important for the selection and modification of governance structures, but it enabled a much tighter and clearer specification of roles, as well as greatly increased accountability. Such theories, say Scott and Gorringer (1989), acted as influential forces on the people who were in "key advisory positions in the Treasury at the time" (1989: 158). The key concerns of the NIE were a concern with transaction costs, concepts and principles for analysing them through enhanced specification of tasks and goals, increased transparency, clear allocation of responsibilities and duties, the imposition of a heightened incentive structure, a greater ability to monitor the contracts linked to a greatly increased accountability system. Absolutely central to the "wave of structural reforms in New Zealand" which affected "every Department of State" were the following principles derived from NIE:

- separation of ownership and purchase responsibilities;
- separation of policy from operations;
- separation of funding, purchasing and provision of services;
- competition between service providers;
- reallocation of functions for focus, synergy and information. (Scott, 1997: 158)

The impact on education

The impact on education of the new management practices can be seen in the Treasury brief to the incoming Labour government in 1987, *Government Management*, and its companion volume, *Education Issues*. *Education Issues* set the stage for far-reaching changes to the management of education which are now well documented.⁶ Fundamentally, it saw three significant inefficiencies to the general provision of 'free' education by the state:

- the transfer costs of removing monies from families so that Government can spend it on their behalf;
- the inefficiencies of the state as a spender of other people's money in comparison with their own efficiency;
- the disparities between the likely state education agenda and those of informed families and the difficulty of resisting centripetal and provider pressures once the family is not indirect control. (NZ Treasury, 1987: 277)

The main brief then discusses the merits of establishing output standards rather than simply relying on inputs through syllabus prescriptions, as was previously the case. It was argued that the inefficiency cost of state intervention may be minimised by:

- maximising consumer choice and information;

- maximising flexibility and responsiveness to consumer demands;
- ensuring that management, accountability, and incentive structures cohere and relate to output targets rather than input goals; and
- minimising the in-kind provisions by the state. (*ibid.*:282)

Throughout the document Treasury asserts that equity objectives are essential and can be enhanced with the introduction of new efficiency measures. Both NZQA and ERO are signalled in the document. It is for example, stated that:

the need for examinations which hand out neither 'success' nor 'failure' levels, but can command the confidence of all parties for the objectivity and relevance of the information they contain... [and a need for] greater accountability through hard-nosed public inspection. (*ibid.*:282)

One of the general conclusions of the main Brief is that:

Government should seek methods of management and accountability which will counter rather than reinforce problems arising from the role of Government. The following may assist:

- clear targets and clear allocation of responsibility for achieving them;
- avoidance of placing conflicting goals on managers - for instance between satisfying demand side (consumer related) and supply side (provider related) demands;
- clear incentives and sanctions;
- pertinent and timely information on performance; monitoring functions separated from other functions to ensure independence and effectiveness. (*ibid.*:293)

It was followed a year later by the report *Adminstrating for Excellence: Effective Administration in Education* (the Picot Report) commissioned by government to investigate, among other things the possibility of "delegating responsibilities as far as is practicable" (Taskforce to Review Education Administration, 1988: ix). This report became the basis for 'Tomorrow's Schools' launched the following year. Because the detail of the subsequent changes that took place are now well known, in the rest of this paper I will confine my attention in what follows to aspects of the restructuring process that began to emerge in 1998/9 which would have, and may still, involve an extension of the neo-liberal reform agenda to different aspects of education.

The MacDonaldisation of education: Arthur Andersen's 'Schools and business' report for treasury

In August 1999 the American consultancy firm Arthur Andersen presented their commissioned report 'The Structure and Dynamics of Schools and Business: Do they Face Similar Issues?' (Arthur Andersen Ltd, 1999) to the New Zealand Treasury. In an official letter of introduction accompanying the release, the Treasury state that they commissioned this report "in an effort to bridge the gap between two opposing views about education: one view is that education is not traded in a market and therefore economics has nothing useful to say about the best way to organise education; the other view is that education is just another business and should be treated as such". Ifs eh a statement is intended to convey to the reader the impression that this is a moderate report, it would be grossly misleading, for far from bridging the gap between extreme viewpoints the real thirst of this report suggests a very explicit privatisation agenda and constitutes nothing less than *a manual* which explains how schools could be organised on a 'for profit' basis in a fully fledged competitive market order. Should education ever be totally freed from state regulation, this report presents a 'how to' dossier on how the intricacies of its organisation could be arranged and how problems associated with external control, accountability, and quality assurance could operate in the context of market uncertainty and fluctuation.

The theoretical approach of the report is Transaction Cost Economics (TCE). In the context of this report TCE explains how schools can best organise themselves so as to minimise their "transaction costs". which are all the costs that surround economic activity and exchange, including the costs of information, of drawing up and enforcing contracts, of meeting minimum legal standards, of ensuring standardisation, of ensuring quality control, of catering for staff professional development, and of changing institutional arrangements. Given the imbalances and uncertainties of the education market order, where consumers and providers have different amounts of knowledge and information resources (*asymmetrical information, bounded rationality*), and where individuals are by nature greedy and self-interested (*opportunism*), how can schools best organise themselves? What models of organisation exist? Which specific types of organisation suit which contexts? What organisational strategies and mechanisms exist to overcome typical problems generated by the market order? In addition, given that business has a variety of techniques to enable it to survive and succeed in such a market order, how should these be utilised in education?

This last question is really the nub of Arthur Andersen's report. Although education is seen as having some unique features which business does not share (such as its complexity and its custodial function), the authors attempt to "abstract' schools from "their present state regulatory environment to see whether their organisation could be 're-tuned' in accord with a competitive market model (Arthur Anderson Ltd, 1999: 15). And on this, it is fair to say, the report is highly optimistic with seemingly only one or two little teething problems likely to cause irritations in what otherwise gives all the appearances of a further massive surge towards privatisation.

Amongst the problems which education would confront in a fully de-regulated environment, in the jargon of TCE, are the following:

'Uncertainty' due to 'information asymmetries'. As happens in a market order when one party to a relationship or contract frequently has more information than another, so in education parents may have insufficient knowledge to judge a teacher's quality, or a school's quality. Schools may not have enough information to judge a student's learning. In addition, working out what degree of value is added by the school, given the enormous variation of a student's prior ability or learning, is also complex and difficult.

'Multiple objectives'. Schools are complex organisations, and the report concedes that it may not be possible to separate its diverse objectives should the tasks of education prove to be "integrally related". In TCE, the method of dealing with multiple objectives (which are deemed to be a bad thing in that they create confusion as to which objective should prevail) is to separate them under different organisational forms, each with their own goals, their own performance criteria, their own accountability expectations and assessment procedures. Organisationally, this may be dealt with by 'sub-contracting', 'contracting-out', or one of the multiple forms of decoupling, etc.

'Asset specificity', in relation to education, refers to skills or resources associated with an institution which may be lost if a change occurs in the external environment. In this sense it is a "synergy" concept relating to the value of existing relationships or resources, such as teachers' human capital, students' human capital, land, buildings or educational resources. Teachers with scarce expertise might become a 'specific' valuable asset. A group of teachers who work harmoniously together might be seen to constitute a specific asset. In another sense, buildings might become 'specific' to education, and in rural areas may become a "sunk cost". In that most educational resources are 'generic' and easily transferable (e.g., teachers' labour), the concept is of course not applicable.

All of these issues relate to problems of organising and conducting schools in a market order. The report suggests they can also be applied to education because education is a complex activity and its quality is hard to discern. In the development of public education in the late 19th and early 20th century, of course, all these problems were addressed and solved through the development of national systems of examinations, national externally monitored curricula, a standardised qualifications structure, uniform assessment procedures, an external system of inspection and

evaluation, and a national system of teacher training and certification. If education was to function in a fully-fledged market order "abstracted from state regulation and control", as the report states, the wheel would have to be reinvented to fit such a radically altered context. Amongst the possibilities considered and found generally suitable, the report lists:

- solutions to 'uncertainty' range from "pre-testing" students, to establishing independent testing and rating organisations, to "branding" and "reputation" undertaken by schools, to "guarantees" and "warrantees", to "contracting out" assessment and quality assurance functions, to the establishment of educational associations and to the establishment of educational "chains" and "franchises";
- as another response to uncertainty, strategies of co-ordination and co-operation, termed by TCE 'vertical integration', as successfully used in business, are now also recommended for use by schools through the application of such things as common systems of examination and common qualifications and assessment procedures;
- a common examination and curriculum is also seen as a response to the problem of 'uncertainty' caused by 'asymmetric information' and could be provided by a specialist external organisation on a contractual basis" (1999: 30). In addition, teacher certification would be useful so that schools and consumers have a reliable means of assessing teacher competence. Other solutions to the battery of problems generated by an untrammelled market order include such things as publishing school league tables in newspapers, or assigning accreditation of schools to external agencies;
- solutions to 'asset specificity' include long-term contracts to protect relationships and converting specific assets into generic assets, e.g., making curricula design modular and flexible, designing relocatable modular classrooms, utilising school premises after hours and in weekends, and avoiding investment in specific assets;
- "chains" are recommended to enable "economies of scale", ease of marketing and information dissemination, uniformity of standards and easier investments in "branding" and "reputation". In addition, a "chain's investment in branding would establish a reputation for a certain quality ... which it would capture in repeat business across the whole chain. Students shifting between schools would be likely to move to another school in the same chain, thus displaying some 'brand loyalty'" (1999: 64);
- franchises also offer a potential as "proxy signals for quality" and ensure "uniformity in quality". Franchises also assist with "network effects" in that they facilitate the development of compatible and standardised systems, standardised examinations and accreditation, thus ensuring compatibility and maximising interaction and moving from one school to another;
- solutions to the problem that schools provide multiple services and have multiple objectives would in a market context, according to TCE, lead to separating out those objectives or services. Thus certain functions might be treated "in-house" as part of the "core functions" of education while others might be "contracted out". As one of the many case-parallels with business presented, the authors compare the organisation of education to that of a department store or a mall, and ask whether schools should operate
 - ... more like a department store or a mall? In other words, could school simply consist of an owner of the land and buildings with independent teachers contracted to provide instruction in a range of subject matters? (1999: 77)

Moreover, "teachers [could] be employees, or contracted to the school" and "non-core services could be provided to students by independent teachers who simply leased the school facilities and contracted directly with students and their parents" (1999: 78).

For- and not-for-profit schooling

Although schooling under public provision has been traditionally 'not-for-profit', there is nothing "inherent" about primary or secondary education that precludes 'for-profit' schooling. In fact, a 'for-profit' business structure, says the report (1999: 58), has a number of advantages: "A single objective of profit-maximisation creates clear incentives for owners and managers, and allows the performance of the school to be monitored by owners, creditors (such as banks) and suppliers".

Although the report cites various reasons why running the school as a non-profit organisation might be preferred - on the grounds that people are more likely to be prepared to donate money, tax benefits, ease of attracting government funding, and absence of a possible conflict of interests between educational and monetary goals - it also specifies several disadvantages of a 'not-for-profit' school structure. These are that the organisation has mixed objectives, it is more difficult to measure performance, mixed signals are given to shareholders, it is unclear who the "residual claimants" are, governance arrangements are often weak, and there may not be strong discipline on costs. Moreover, a 'for-profit' structure could overcome such difficulties, by utilising strategies such as establishing sub-structures (such as a philanthropic trust) to take care of non-profit activities. In addition, a 'for-profit' school could still (with TCE's help) motivate volunteer support:

Students' parents might still be willing to operate a volunteer 'tuck shop', providing wholesome, low-cost food to students ... they might [also] be willing to provide after-school coaching for extra-curricular sporting activities. For profit schools are thus not inherently incompatible with donated input. (1999: 60)

In a gross distortion and simplification of historical origins of schooling the report notes that " ... schools have not always been run as non-profit organisations ... History indicates that the demise of for-profit schools is roughly co-incident with state adoption of educational responsibility" (1999: 61).

'For-profit' schooling in a competitive market order would enable various groups of schools to compete, differentiating themselves according to the examinations they offered, some opting for a highly academic orientation while others might choose a more vocational style. Hence 'for-profit' schooling would simultaneously promote co-operation within the network and competition between networks. In this context the report is optimistic that, in the absence of regulation, it is likely that schools would function much like other businesses. Without government involvement there is likely to be a diversity of organisational forms with different ownership patterns, governance structures and objectives.

The impact on tertiary education

In New Zealand, the proposed changes in tertiary education policy were developed in a series of reports which were published in the latter years of the 1980s. The Watts Report of 1987, commissioned by the New Zealand Vice Chancellors' Committee (NZVCC), tended to prefer government funding rather than user-charges. Although its main recommendations foreshadowed the concern with increasing student participation as a major issue, it was not until the Hawke Report (1988) and *Learning for Life, I and II* (1989) that the neo-liberal agendas were systematically stated.

Officially titled *New Zealand's Universities: Partners in National Development*, the Watts Report favoured public funding partly because it saw education as a 'right' and also because of the difficulty in estimating the balance between the private and public benefits of tertiary education. While it reluctantly accepted that, given fiscal restraints, some 'user-charges' might be necessary, these should not exceed 20% of average course costs. While its position on user charges was 'lukewarm', it clearly foreshadowed the future framework in terms of which the debate would be cast as "one of identifying the balance between public and private beneficiaries and hence of appropriate shares in financial contributions" (Universities Review Committee, 1987: 81).

In 1988 the New Zealand Business Roundtable (NZBRT) published its report *Reforming Tertiary Education in New Zealand*, which held that education shares the main characteristics of other commodities in the market place and as such is a private rather than a public good. In recommending structuring tertiary education according to a market model, it claimed that this would provide incentives and sanctions necessary to increase efficiency and effectiveness of tertiary education institutions. In so doing, it foreshadowed many of the proposals which were to be advocated in later reports, including student-centred funding, contestability in research, reduced state funding of student places, increased user-charges and a system of bank loans. It claimed that a market model would enable each institution to operate autonomously, which would improve performance. In addition, such a model would provide incentives enabling institutions to attract greater student numbers. As funding in this model would be by government subsidies to students, rather than via bulk grants, TEIs that failed to meet market demands (provide high-quality and appropriately priced courses) would fail to attract students and hence would not attract funding. While it considered that most of the benefits from tertiary education were private, it did not consider it feasible to introduce a pure market model whereby students paid the full amount through fees. Such a policy would impact negatively on participation rates, which were already low by OECD standards, and would be to overlook the fact that through labour market imperfections graduates were not always appropriately rewarded according to their skills.

The Report on Post-Compulsory Education and Training in New Zealand (Hawke Report, 1988) and the government's responses, *Learning for Life I and II* (1989) saw the initial onset of neo-liberal policies as they affected the tertiary sector. These reports identified the issues of efficiency and accountability as of central importance in the tertiary education sector. The Hawke Report had recommended that universities be more commercial and generate funds; that universities, not government, should set student fee levels; that research and teaching should be separated; that councils should be smaller; that councils should appoint the CEOs who should be appointed on fixed-term contracts; that accountability should be of a contractual form; and that there should be more extensive use of charters, audit procedures, and performance appraisals to regulate universities and to tighten controls. As regards funding, Hawke had advocated that the proportion of private funding should be higher, suggesting a Wran-type scheme of student fees and loans, as had been suggested in Australia. In addition, in what was seen by many as a blatant attempt to increase direct government control over universities, Hawke proposed the abolition of University Grants Committee (UGC), meaning that the contract between universities and the state would be directly with the Ministry of Education (MoE). Such a prospect was not welcomed by the universities who saw such a policy as undermining the institutional autonomy of universities.⁷

Learning for Life I and II (1989) maintained a similar market-driven approach. Although it recommended that the government should maintain a leading role as the principal funder of tertiary education, it also recognised the need for 'additional' sources of revenue through student fees as well as through selling its services (Ministry of Education, 1989: 12-14). What was to result was a more market-driven tertiary education sector. Whereas previously the different tertiary areas (polytechnics, colleges of education, universities, etc.) had operated with different rule systems, the new policies envisaged would be "across the portfolio". This notion, more of a slogan than argument, implied a level playing field which was designed to increase competition between TEIs in their efforts to attract students. This was heightened by giving them all the powers to award degrees, or achieve university status.

To improve efficiency, universities would be bulk-funded, with funding levels based on Equivalent Full-Time Students (EFTS), proportional to the EFTS in each course-cost category. Such a system would operate in a context in which all TEIs could compete with each other for students. It would also operate a devolved contractual model of accountability through mission statements and performance objectives, as well as a system of student user-charges and loans. Such changes resulted in a degree of corporatisation whereby TEIs operated like private businesses, utilising the

private-sector industrial relations framework and enabling a change in the managerial style of university administration.

The State Owned Enterprises Act (1986), although overtaken to a large degree by the State Sector Act (1988) and the Public Finance Act (1989), constituted the initial legislative platform on which these changes could be established. It was the SOE Act 1986 by which the managers of SOEs are given the powers of executive control; where SOEs must act in a context of competitive neutrality and contestability; where the commercial and non-commercial functions would be distinguished; and where the boards and councils of SOEs were to be constituted as much as possible from private-sector models. Under this act, government corporations were regulated by company law and had as their principal requirement to operate as successful businesses, i.e., being profitable and efficient in a way comparable to private-sector businesses. This was bolstered by the State Sector Act (1988) and the State Sector Amendment Act (1989) which re-wrote the conditions of employment for public-sector employees. A new system of appointing and remunerating senior public servants was established based on procedures used in the private sector involving large salaries and/or financial incentives, and relatively short-term contracts; a new financial management regime based on an increased concern with accountability and performance assessment was put in place; there was an increase in contracting-out of services which led to an increased casualisation of the labour market in the public sector; and the advisory, regulatory and delivery functions of departments of state were separated to safeguard against the various forms of 'capture'. What the corporate-styled reforms meant for universities was increased competition, an increase in user charges, a new system of funding, a private-sector management and industrial relations framework, and a new system of accountability. In addition, the Vice-Chancellor became a corporate chief executive (CEO) and the employer of every member of staff.

The process of corporatisation was consolidated further through the Education Amendment Act (1990) which legislated a system of charters by which each university would develop and maintain a contract directly answerable to the Ministry of Education. While such a contractual system can be said to have increased autonomy in relation to schools, in relation to tertiary education it undoubtedly increased government control.

In 1990 the Labour Government introduced a flat fee for students of approximately 10% of total estimated course costs, which was increased to approximately 20% under the National government in the 1991 budget. In this budget a new funding scheme for tertiary education was introduced calculated on an EFTS formula, whereby the government initially paid 85% of total course costs, leaving it to the universities to make up the shortfall, either by creating efficiencies or by charging fees. As student numbers increased in the first half of the 1990s, the proportion of costs paid by the government decreased in real terms, necessitating increased fee levels by TEIs, as well as increasing student-staff ratios and workloads. Partly in relation to the problems of financing increased participation rates in the early 1990s, the National government appointed the Ministerial Consultative Group (1994) under Jeff Todd to advise on how the growth in tertiary education numbers could be financed. Although various options and possibilities were canvassed and presented, the Todd Report reaffirmed the current trend to see tertiary education as a private investment rather than a right, in line with the views of Human Capital Theory and the other micro-technologies of neo-liberal government that were to encourage student-centred funding models in the later 1990s.

Reframing tertiary education: The Green Paper of 1997 and the White Paper of 1998

The Tertiary Education Review (Green Paper), released in September 1997, dealt with five major issues in relation to tertiary education:

- funding and tuition costs for students;

- the funding and assessment of research undertaken in tertiary institutions;
- issues of regulation and quality assurance with respect to qualifications, programmes, and the organisational effectiveness of TEIs;
- issues of ownership and organisational form; and
- issues relating to governance and accountability of TEIs with specific attention to Councils.

Essential themes in the Green Paper are 'accountability', 'responsiveness', 'transparency' and an attempt to provide for increased participation in tertiary education while limiting and containing costs. Some months before the publication of the Green Paper in July 1997, a memorandum summarising its basic proposals and preferences was 'leaked' into the public domain (Ministry of Education, 1997a). As this "leaked" document stated, "the broad implications of the package ... continues the direction set in 1989". It also acknowledged that "implementing the package would require a shift from current policy parameters in a number of important ways". The leaked draft proposed introducing a voucher system of funding to students through granting non-transferable entitlements to replace the existing bulk-funded system paid to providers. The Green Paper itself was less extreme and more non-committal over the details of a fully marketised funding system. The leaked document was perhaps the most radical report on tertiary education by a department of state ever produced in New Zealand. As Boston (1997b: 6) claims, if it had been introduced, it would:

witness the introduction of full-cost fees by all tertiary institutions, significant changes to the regulatory environment, a large expansion of the private sector, the potential for greater political control over public institutions (including universities), and a substantial change in the character and culture of most institutions.

In October 1998, the Tertiary White Paper (TWP) was released. The major policy changes proposed, as set out in Chapter 3 of the document, include, first, subsidies and costs; second, quality assurance, protected terms and financial viability; third, research; fourth, information; and fifth, governance and accountability. While it endorsed most of the recommendations of the Green Paper, there were some specific differences. While the Green Paper had favoured the establishment of TEIs as Crown companies under the Companies Act 1993, the TWP adhered to the statutory corporation form as 'Crown entities'. There were also differences on the specifics as pertained to governance, the establishment of council membership, the existence of the CEO as a council member, as well as several other differences relating to specific details. Because the TWP superseded the proposals of the TER (Green Paper), my comments below will, unless stated, confine its attention to the latter document.

To a large extent both the Green and White papers reaffirmed themes that were documented in the New Zealand Treasury's (1996) *Brief to the Incoming Government* concerning the need for increased monitoring and managing of tertiary funding, a greater role for student choice, a more even treatment of private and public providers, increased provider competition, a greater alignment of funding across the tertiary sector, and more reliance on student-centred funding models in contrast to the bulk-funded system. While a number of commentaries on both the Green and White Papers have now appeared⁸, in what follows I want to comment selectively on a number of factors which are important for the democratic functioning of universities and other tertiary institutions in New Zealand society. These relate to a number of issues that serve to undermine the liberal model of the university, especially as they affect institutional autonomy, academic freedom, collegiality and professionalism, as well as democratic governance.

Increased central control: Research and quality assurance

While neo-liberal theories seek ostensibly to actively advance and protect the freedom of individual agency and choice and limit the power and scope of the state, the paradox is, as Stuart Hall has noted in respect to Thatcherism in Britain, that neoliberalism is in reality a "highly contradictory

strategy ... simultaneously dismantling the welfare state, 'anti-statist' in its ideological representation, and highly state-centrist and *dirigiste* in many of its strategic operations" (Hall, 1988: 152). Such a state-centrism can also be evidenced in New Zealand in relation to tertiary policy proposals put forward in the 1990s.

Such state-centrist tendencies are indeed evident in the changes introduced into all tertiary education policy changes since 1990 and they reach a high point in the Tertiary Green and White Papers of 1997 /8. Although the White Paper was put on hold and subsequently eclipsed by the election of a Labour government in the 1999 general election, in that it represents tendencies already present within the tertiary sector during the 1990s anyway, my focusing upon it here manages to bring these already existing features into sharper view. There are three main forms of external control that are proposed in both policy documents:

- external control over funding and evaluation of research;
- external quality assurance; and
- government appointments on university councils.

The TWP makes major changes to the way in which research is funded. Instead of having research funded as a component of the EFTS grant, a proportion of the grant will be assessed and funded on a contestable basis by an authority external to TEIs. While initially this will constitute 20%, provision is made for it to increase to 80% and over several years. The contestable fund will target "advanced, high quality research with a strong strategic focus" (TWP: 17). Applications will be assessed in terms of (1) the demonstrated quality and capacity of researchers; (2) the quality of the proposed research (including purpose, skills, methods); (3) its strategic focus or relevance in relation to New Zealand; and (4) its cost-effectiveness.

A further change related to a proposal to adapt the EFTS scheme to introduce a new regime of tuition subsidies where undergraduate, postgraduate and higher research degrees would be funded at different rates. It was based upon an analysis of the different proposed levels of funding that the NZVCC maintained that postgraduate research would be reduced (Boston, 1999: 109).

This move to separate university teaching and research carries with it a number of concerns: firstly, it enables the state to main control over what is researched; secondly, it potentially restricts academics who do not win contestable grants to teaching; thirdly, it supports a casualisation of academic labour whereby academics contract for different components of their salaries from different sources; and fourthly, it suggests the worrying possibility that research projects that are not authorised through the contestable process should not be considered *as research* at all.

Bryan Gould (1999) has commented upon the last concern in relation to the possible effects of a teaching/research split, when speaking on New Zealand National Radio on the Kim Hill Show. As he notes, such a conception of research carries with it very real dangers:

I think it's very easy to see a direct connection between particular research projects and development and growth, and therefore governments tend to be very keen to fund those research projects which tend to be science based ... What they don't fully understand is that the real contribution which the university sector in particular makes is across the board in an undirected way because that is the whole nature of the development of knowledge - that you go into unchartered territory. You are not seeking answers in every case to particular problems. Much of the progress we've made is because scholars have gone off on little jaunts of their own and have come up with things - answers to questions - that people haven't even asked yet. And if we cut off all that type of research and scholarship then I think we begin to do very real damage to the economy. The problem for the politician however is that it's much more difficult for them to demonstrate to their electorate that they are getting value for money, that they are getting an output for the expenditure they are making. (Gould, 1999)

The movement to separate teaching and research was first mooted in the Hawke Report (1988) and was one of the issues which concerned Auckland and Canterbury Universities in their legal challenge. Within the neo-liberal agenda the principle of contestability is seen to improve

accountability and efficiency. It does this by increasing uncertainty and competition. As the Green Paper (1997: 32) puts it in its justification statement, for instance: "contestable funding offers less ongoing certainty of resourcing, and there is always a risk that some providers will miss out on resourcing for research if the quality and standards of applicants is high".

As far as academics are concerned, to demarcate teaching and research in this way has few positive features. Not only are the compliance costs for external applications enormously time-consuming but success will depend on factors such as prioritisation accorded particular subject areas, the limitation of funds, the replication of types of research, as well as prioritisation for particular methodologies. Moreover, universities have traditionally seen research as an integral part of good teaching. Thus the New Zealand Vice Chancellors' Committee (NZVCC) made representations in opposition to such a separation in response to the Hawke Report (Butterworth and Tarling, 1994: 141) and again in their submission on the Tertiary Green Paper (NZVCC, 1997b). Their position has been consistently to oppose such moves because teaching and research are interdependent and mutually reinforcing. Full contestability would depend more on the skills of 'research bidding' than research itself. Further, they argued, it would strain the existing practice wherein staff research and teaching duties are mixed; it will disadvantage non-university providers; and it will cause a range of administrative blocks and bottlenecks, as New Zealand is not well geared to run such a scheme. The NZVCC has consistently argued that a non-contestable approach is preferable for New Zealand universities and that accountability and efficiency can be assured through other ways (see NZVCC, 1997a, 1997b; Peters, 1997; Butterworth and Tarling, 1994).

Monitoring and accountability

State-centrism was also encouraged in both the Green and White Papers in relation to ownership, monitoring and accountability. Because the Crown considered itself obligated for universities to maintain financial viability, it maintained that government control over governance and accountability regimes should be strengthened in line with other Crown institutions. Yet, although the Crown bears a substantial ownership risk, these documents argued that the government had little ability to influence decision making in universities. Under the Universities Act 1961, universities had been established as "free and separate ... with commensurate status, privileges, duties and responsibilities" (Peters, 1997b: 20). Now it was being proposed, building upon and intensifying Hawke's recommendations, that TEIs must be properly accountable for their use of public funds. In line with this, it was argued that there should be a more direct relationship between the governing boards of TEIs and the Crown. Further, that the large size of university councils impairs their performance; that universities should be required to pay a capital charge for the use of public resources on the grounds of both fairness and efficiency; and that financial reporting and external monitoring regimes for universities should be strengthened. These proposals were directly linked to corporatisation, whereby TEIs would be given greater autonomy and flexibility over ownership matters including greater control over assets and their deployment⁹ enabling TEIs to adapt more easily to labour market demands. It was for this reason that it was initially proposed in the Green Paper that universities be established as Crown Companies.

In both the Green and White Papers, financial performance was seen as a crucial indicator of financial viability which drove the recommendations on monitoring and accountability. Central to the proposed accountability regime was the fact that the TWP (1998: section 3. 5) linked accountability to ownership risk. To do this it proposed placing all TEIs on the 6th schedule of the Public Finance Act 1989. Under this schedule each TEI would prepare a Statement of Intent (SOI) in consultation with the minister which set out the strategic directions and performance targets, and report against them through regular reports and financial statements which would be subject to assessment by the Tertiary Ownership Monitoring Unit (TOMU). Under conditions that the financial viability constituted a risk to the Crown, there was a provision for graduated political interventions. In summary, the TWP (1998) endorsed a principal-agent type contractual model of accountability

between universities and the government where "the component parts are held together by a set of objectives and performance is rewarded or punished according to the achievement of these" (State Services Commission, 1992: 14).

There can be little doubt that such a stringent accountability regime would substantially threaten the institutional autonomy that universities have traditionally maintained. The emphasis on quantifiable outputs, the imposition of capital charging, and the need for consultation under the SOI would all increase the power of the state. This would make autonomy conditional upon the provision of outputs, and on financial reporting, which constitutes a significant revision of the concept of autonomy. As Martin Trow (1994, 1996) has noted, increased calls for accountability signal decreased trust in universities by the state. And just as market pressure may elevate the entrepreneurial over the truth-telling role of the university, so by structuring accountability as the need for constant reporting also serves to compromise its "truth-telling" role:

When information flowing up the line powerfully effects the reputation and resources flowing down from the centre, then ... these reports become less and less exercises in discovery or truth telling, and more and more public relations documents which are ... parsimonious with truth, especially of awkward truths that reveal problems or shortcomings in the reporting institutions. (Trow, 1996: 314)

The proposal on quality assurance and monitoring which operates presently by a system internal to the universities, under the Academic Audit Unit, established by the NZVCC, should operate externally and be responsible for reviewing programmes and qualifications, as well as ensuring that providers are well organised and accountable. The TWP proposed the establishment of a new supra regulatory authority, the Quality Assurance Authority of New Zealand. Rather than approve qualifications or accredit providers itself, it will oversee and grant recognition to those bodies that already function as quality validation agencies. In this way it will manage a comprehensive quality assurance system to ensure the quality of teaching, qualifications and research, to implement and enforce recognised quality validation processes, as well as police accreditation and compliance.

University governance

State-centrist policies are also evident in the new system of governance for TEIs recommended by both the Green Paper of 1997 and White Paper of 1998. As these documents recommended, new proposals would effectively replace the semi-representative system of governance established in Section 171 of the Education Act 1990 with a new system of ministerial appointees. In addition, councils would be smaller and representation would be drawn more from the private sector.

The central feature of such proposals was to be a change in the basis of selection or composition of the ruling bodies - the councils - of tertiary institutions from a system based on representatives or stakeholder groups to one based upon the appointment of council members by the government. To have councils that are too large or too representative makes accountability difficult and is an obstacle to the Crown's ability to influence governance decision making. Sound governance means establishing governing bodies answerable to the responsible minister and parliament. What was advocated was a new system of management and control of tertiary institutions similar to forms of governance that operated in business. What this would entail would be a reduction of the size of university councils from between 12-20, as had been the case up until this time, to something much smaller (7-12). Although the Green Paper advocated removing the tertiary institution's chief executive from the council, the White paper stated that the chief executive officer of each TEI could continue to be a member of the board. The White Paper also recommended, following the recommendations of the SSC (1992), and the VUW (1997), that internal stakeholders' (staff and students) representation on councils be reduced and that the majority of members and the chair of councils be comprised of members drawn from outside the TEI¹⁰. These reforms would create a more streamlined governance structure" whereby the roles and responsibilities of TEI councils would be

more clearly defined. According to the White Paper, the responsibilities of the governing boards included appointing the CEO, negotiating the charter with the MOE, establishing the objectives and determining how to achieve the goals in the charter, negotiating accountability and performance reports, the effective performance and management of the TEI, as well as writing the mission statement and establishing the strategic direction.

Hawke had made broadly similar proposals regarding university councils in 1988. As Butterworth and Tarling (1994: 136) tell the story, Hawke was critical of the governance of existing universities:

With property management devolved to them, it was "even more important that Councils recognise their obligations to the state. It should be possible for the government to dismiss the chairperson of a council or whole council, although we anticipate that such a power would rarely be used." Their principal responsibility was "to ensure that the assets and funds of the institutions are used to best advantage in pursuit of the statutory objectives of the institution as elaborated in charters negotiated with the Ministry of Education". Councils were currently too large: 12 members would be sufficient.

The justification of the governance changes proposed in the Green and White Papers of 1997/8 is essentially the same as that given for increased accountability and relates to the Crown's ownership risk. If the market vulnerability of TEIs is increased, so too is the financial risk that the Crown faces. Because of this, ownership should be vested in the Crown along the lines of CHEs or CRIs and they should be managed by boards or councils constituted of Crown-appointed experts. Such a system, it is claimed, will avoid the dangers of 'provider-capture', inefficiency and 'rent-seeking behaviour', which is characteristic of representative systems.

Reorganising the spaces of liberalism

As well as being state-centrist, what neo-liberal technologies effect, I wish to argue, is a new form of power which systematically undoes and reconstructs the spaces which are sacrosanct in the older view of a liberal society. In that qualities such as 'freedom', 'autonomy', 'professionalism' and 'rights' are, in Foucauldian terms, complex assignments of power which are historically constituted in a net-like web, a rearticulation of the model reorganises the spaces and reconstitutes subjects in terms of them.

This reorganisation of space occurs in relation to the proposed governance of TEIs, for instance, in that the neo-liberal proposals, considered above, simply ignore the *raison d'être* of representative institutions. These advantages, as codified by writers like de Tocqueville and J. S. Mill, are:

- checking the power of central state authority;
- creating active citizen participation and community involvement;
- allowing for and fostering patterns of institutional autonomy and diversity;
- proving to be more open and accountable in any meaningful democratic sense of governance than are alternative forms;
- improving the consultative process and ensuring greater responsiveness to the needs and interests of the communities they serve;
- improving the transparency and the perceived legitimacy of the decision-making process;
- providing a wider and more representative range of viewpoints and expertise.

What the system of ministerial appointments to university councils ignores is the rather important principle, central to the formulation of representative systems of institutional governance, that stakeholders have a *right* to be represented and their interests to be taken account of, whatever the rival interests or imperatives of state planning happen to be. In fact, to privilege the imperatives of state planning over subgroup aspirations and interests within the wider community was one key

characteristic of certain non-democratic forms of governance as they developed in Europe in the early decades of this century.

To maintain, as writers like Scott and Smelt (1995) and Evans and Quigley (1996) do, that representative governance results in forms of 'capture' or 'rent-seeking' behaviour, not only fails to acknowledge the importance of representation to the democratic process but also is blind to the fact that conflicts of interest and bias also afflict the neo-liberal paradigm. As Jonathon Boston notes, for instance:

Conflicts of interest occur in all walks of life ... that they can arise for the representatives of internal stakeholders on tertiary councils is not a reason for abandoning the principle of representation ... the simple solution is for the individuals in question to openly acknowledge their predicament and, where appropriate, absent themselves from participation in the relevant decision. (Boston, 1996c: 21)

It would be a cause for serious concern, of course, if the system of representative governance led repeatedly to wrong decisions. However, this is not obvious, and abandoning such a system may not be the best way to deal with such a possibility, even if it was so. It may be preferable to let representatives recognise their own errors and negotiate a path forward, deciding democratically to implement better solutions. As David Copp (1993:114-115) says, we value democracy on similar grounds to which we value autonomy:

We value autonomy for reasons that have to do with what autonomy is, and because we think that an autonomous life is the best overall... In a similar way ... we value democracy because we think democracy will have the best consequences for society, all things considered, and because of the kind of governance it is. We do not value it because we believe its nature is such as to lead to correct decisions about social problems. By its nature government by those with political expertise would obviously be more successful at identifying the correct solutions to social problems. Yet for all that, if democracy has the best consequences overall, then government by those with expertise would not be an overall improvement.

One of the most famous defenders of representative systems of governance for public institutions was the 19th century English philosopher John Stuart Mill. In his book *Representative Government* (1910), Mill argues that too much central control constitutes a form of 'elective tyranny' which, while it may well be efficient, neglects to give the citizenry a stake in public affairs or to allow opportunities for political education. Only with participatory institutions, says Mill, will active, public-spirited character of the society be fostered, for there is a relationship, he maintains, between the nature of the political institutions of a society and the psychological characteristics of its citizens. In this sense, Mill argues that one function of representative democracy is to allow forms of participation in public affairs that are *educative*. In addition to this, representative democracy at the level of institutions helps protect society against the dangers of centralisation. As he says in the *Political Economy*, "a democratic constitution not supported by democratic institutions in detail, but confined to the central government, not only is not political freedom, but often creates a spirit precisely the reverse" (Mill, 1965: 944).

In his review of de Tocqueville's *Democracy in America*, Mill argues that it is pointless having universal participation in national politics if individuals are unable to participate at the local level, for it is at this latter level that democracy is 'learnt'.

Representative institutions also ensure the *accountability* of the power-holders to the people, says Mill. In this sense they ensure a democratic check on the power of central government by ensuring that ruling elites are accountable for their actions, something Mill believed to be one of the most difficult things to sustain in democratic societies. Central to Mill's view here is the assumption that human beings as well as the community prosper and flourish only in conditions of active participation and involvement in public affairs. As he put it, "let a person have nothing to do for his country and he will not care for it" (1910: 204). Representative democracy for Mill, then, played a socially integrative role and also performed the politically vital role of checking the power of

central government, whether elected politician or appointed administrator. Ultimately, the representativeness of our institutions was all that saved us from living in an 'elective dictatorship'.

Ministerial appointments to the governing councils of tertiary education institutions which form the basis of a new system of governance for universities thus will erode the independence of these institutions and their capacity to act as watchdog of government or 'critic and conscience' of society. Such reforms also fly in the face of the separation and autonomy of universities from the state which has prevailed since the establishment of the first universities in Bologna in the 9th century, Paris in the 12th century, and at Oxford and Cambridge in the 13th centuries. It was Max Weber who argued for the independence of universities from the state because it served an important political function in that it ensured the separation of knowledge and its production from those who exercised political rule. In this sense the 'separation of universities' was similar to the 'separation of powers' as formulated by John Locke and de Montesquieu in the 17th and 18th centuries. This doctrine of the 'separation of powers' was based on the idea of a desirability of keeping the various estates of society - legislature, judiciary, executive - apart from each other in order to ensure countervailing checks and to safeguard people against the possible corruption of their rulers. Most people today would also argue that the mass media should also be separate from political control in order to ensure the independence of news production. It is in this sense, then, that Mill accepts that power should be dispersed throughout the institutions of society for the very purpose of effecting a system of 'checks and balances' so that no one group can exploit their power.

This matter is especially important in a country like New Zealand where the safeguards of democratic practice are not as numerous as in some other countries and where there are few representative institutions which enjoy some measure of genuine autonomy from the state or from other powerful interests in the society.

Deprofessionalisation and the erosion of academic freedom

Neo-liberal technologies' effect is a new form of power which systematically undoes and reconstructs the spaces of classical liberalism. This occurs in relation to all those areas where the autonomy of universities from the state has been compromised, as discussed above.

Neo-liberalism cuts across the spaces of classical liberalism in other ways as well. The institutionalisation of models of principal-agent chains of line management inserts a hierarchical mode of authority by which the market and state pressures are instituted. For academic staff this carries with it the effect of *de-professionalisation*, involving:

- a shift from collegial or democratic governance in flat structures, to hierarchical models based on dictated management *specifications* of job performance in principal-agent chains of command;
- the implementation of restructuring initiatives in response to market and state demands involves increasing *specifications* by management over workloads and course content by management. Such hierarchically imposed *specifications* erode traditional conceptions of *professional autonomy* over work in relation to both teaching and research. Neo-liberalism systematically deconstructs the space in terms of which professional autonomy is exercised;
- traditional conceptions of *professionalism* involved an ascription of rights and powers over work in line with classical liberal notions of freedom of the individual. Market pressures increasingly encroach and redesign their traditional understandings of rights, as TEIs must adapt to market trends (for example, just as individual departments and academics are being told of the necessity for acquiring external research grants, so they are also being told they must teach summer schools).

The essence of contractual models involves a *specification*, which is fundamentally at odds with the notion of *professionalism*. *Professionalism* conveys the idea of a subject-directed power based

upon the liberal conceptions of rights, freedom and autonomy. It conveys the idea of a power given to the subject, and of the subject's ability to make decisions in the workplace. No professional, whether doctor, lawyer or teacher, has traditionally wanted to have the terms of their practice and conduct dictated by anyone else but their peers, or determined by groups or structural levers that are outside of their control. As a particular patterning of power, then, professionalism is systematically at odds with neo-liberalism, for neo-liberals see the professions as self-interested groups who indulge in rent-seeking behaviour. In neoliberalism the patterning of power is established on contract, which in turn is premised upon a need for compliance, monitoring, and accountability organised in a management line and established through a purchase contract based upon measurable outputs.

Such neo-liberal contractual accountabilities now run life in New Zealand. Universities are organised through chains of accountability, involving contractual relationships between principals and agents, where a purchase contract specifies outputs, where the principal is the purchaser of outputs and enforcer of the contract, and where monitoring and reporting procedures are attached to every purchase agreement.

Notwithstanding the fact that the TWP (1998) was not implemented, the neo-liberal restructuring of power that has affected tertiary education in New Zealand in the 1990s means that the traditional liberal academic conception of the university, regulated by discipline-based professional norms and characterised by the idea of disinterested research, is no longer a performative idea.

Even without the implementation of the TWP (1998) there has been a significant redefining of tertiary education as a market, where market forces themselves are seen as the primary driving means of tertiary reform.

Competitive neutrality

Increased competition represents improved quality within neo-liberalism. While the TWP would have heightened moves to increase the competitiveness of tertiary education institutions, the restructuring of the early 1990s already seriously alters the operations of universities in giving serious weight to market forces.

One of the major objectives of the reforms in tertiary education was to install relations of competition as a way of increasing productivity, accountability and control. As Marginson (1997: 5) points out:

Increased competition is meant to increase responsiveness, flexibility and rates of innovation ... increase diversity of what is produced and can be chosen ... enhance productive and allocative efficiency ... improve the quality and volume of production ... as well as strengthen accountability to students, employers, and government.

More indirect advantages are "internationalisation ... fiscal reduction ... and university-business links". There is, he says "an imagined line of causation from competition to consumer sovereignty to better efficiency and quality that is the virtuous ideal glowing at the core of micro-economic reform in higher education" (Marginson, 1997: 5).

In New Zealand, the EFTS-based funding regime is the key mechanism through which universities and other tertiary institutions are directly linked with the market order. Reforms introduced "across the portfolio" were essentially a means of maximising the competitive context in terms of which funding pressures would operate. In an environment of competitive neutrality, what it means for universities is firstly:

- that user-pays is made to serve as a mechanism for choice for students. This exerts a conservative pressure on course selection by students, as well as on course and programme

- development by universities. Such schemes constitute a governmental technology for constituting students as self-reliant consumers and for disestablishing education as a 'right';
- an "across the portfolio approach" whereby NZQA is enabled to allow a wide variety of TEIs to award qualifications and degrees under the Education Amendment Act (1990);
 - that EFTS funding ensures that funding follows the students; i.e., institutions get higher student fees and higher government funding, or lower fees and lower government funding;
 - that TEIs will compete with each other for students. This would have been intensified under the TWP (1998) which proposed that private training establishments would receive the same subsidies on the same basis as public institutions;
 - that internal to each TEI, departments, schools, and divisions will compete with each other for students as well, as the introduction of accrual accounting methods mean that each element in the system must demonstrate its viability.
 - that TEIs can set their own fee levels, allowing each to compete with each other for students in relation to cost and service;
 - the increasing importance of contestable research as a potential additional source of funding, with the simultaneous reduction in the university bulk grant, as has occurred in the 1990s, is likely to make contestable research funding an increasing source of financial support to universities. In tum, TEIs are likely to pressure staff to apply for such funds.

What such a competitive ordering results in is a new type of approach to academia which, with the addition of a particular funding model, conflicts with and interferes with traditional notions of professional academic autonomy and freedom. Within the academy, the consequences are already well known. What such a competitive context requires is academics who are skilled entrepreneurs, who can plan courses and programmes that can attract students away from their colleagues' courses or, in simple terms, who can compete in the academic market place. In this process the values of disinterested inquiry and respect for the integrity of the subject matter compete' with a new set of pressures to 'dumb' courses down, as well as to demonstrate their relevance to labour market conditions and prospects.

According to neo-liberal rationality, a commitment to student-focused funding would give yet more say to the consumers of tertiary education (i.e., students) whose choices would be determined in the context of market competition between TEIs. In this context, the proposals of the Green and White Papers would therefore increase competition and lower costs in tertiary education. This was a quite explicit strategy of course. As the "leaked" memorandum which preceded the release of the Green Paper announced, "increased competition would improve the level of innovation and responsiveness to student needs and place a downward pressure on prices" (Ministry of Education, 1997a: 5). Competition is also promoted through the Green Paper endorsement of the policy to break the universities' autonomy in the granting of degrees under the impetus of NZQA. Increased competition represents improved quality within neo-liberal economic rationality because self-interested choosers are able to choose between competing alternatives. Thus a greater role for student choice in the funding allocation process in line with NPM, PCT, AT, TCE and other neoliberal theories is one way of enhancing competition between TEIs, and also a way of making TEIs responsive to the interests and demands of students. Such competitive pressures will also lead to increased quality in tertiary education.

Possible negative consequences of increasing the competition between TEIs is that it allows for a proliferation of the numbers of TEIs, as well as a proliferation of programmes between institutions. That there are distinct limits to the numbers of TEIs that are needed in New Zealand was not considered by the Green or White Papers, nor by the Hawke Report, or *Learning for Life*. Within neo-liberal discourses, although it is acknowledged that markets can function imperfectly, competition is invariably seen in purely positive terms as a means of increasing efficiency and effectiveness. Within the tertiary education sector, however, there are any number of potential negative effects that policies of competitive neutrality can produce. Amongst the most important are that:

- they contribute an in-built pressure which encourages unplanned expansion of tertiary education, resulting in the establishment of PTEs that lack educational viability;
- they result in the needless (and costly) duplication of courses and programmes, as well as the siphoning off of the educational areas easily marketed by the private sector;
- they are inefficient and ineffective in the use of scarce resources and distort the overall availability of courses of study, leading to the potential loss of some areas altogether that cannot be sustained in market terms;
- they lead to a 'dumbing down' of tertiary qualifications as TEIs compromise standards and genuine educational quality in their attempts to position themselves in order to attract maximum student dollars;
- they compromise traditional academic values which govern professional conduct and research as each academic must now be primarily sensitive to the market appeal that their courses and research can attract.

In that competitive neutrality is a state-engineered 'market-driven' programme, it must be considered as a series of supply-side levers introduced to increase responsiveness of the universities to the market order and to market interests of their customers. It also must be considered an imperfect programme for, as Marginson (1997: 8) points out, the elite tertiary institutions can rely on their reputations "obtained ... in a long slow accumulation of social investment", and in this sense, the top segment of the tertiary education market is not contestable:

As competitiveness is ratcheted upwards, the seller's market is enhanced. The leading schools and university faculties have long waiting lists. These institutions choose the student-consumer, more than the student choosing them. They do not need to become cheaper, more efficient, or more responsive to gain support, and to expand would be to reduce their positional value. (Marginson, 1997: 7-8)

In that marketisation is a state programme, markets are being used as a means of control. That they have transformed the environment in which universities operate cannot be doubted. In this sense, while the implementation of the TWP (1998) would have intensified the neo-liberal agenda, its failure to be implemented has not significantly eroded its effects. For example, a certain amount of research is at present assessed and funded on a contestable basis by authorities external to universities. While the research/teaching split as envisaged by the TWP may not have come to pass, and while research is still funded through the EFTS grant, the financial resources provided by the external funding bodies is funding on which universities are increasingly attracted to. Existing authorities such as the Foundation for Research, Science and Technology (FoRST - which administrates funding grants such as the Public Good Science Fund), the Health Council of New Zealand, or the Royal Society (which administrates the Marsden Fund) have already made their presence felt, and, in the context of over-all reductions to the university bulk grant, such implications have staggering and immediate effects: not only is pressure being put on academics to drop what they are doing (or what they might be interested in) but the entire research culture of the university is being significantly transformed. The management wings of the academy, sensitive not to academic concerns but to policy developments as they impact on funding, now seek to mobilise the university to be able to respond and comply: application processes are streamlined; academics are kept informed of timelines; research centres and centres for research excellence are formed as part of the public relations accommodation to the anticipation of financial success. At various times, of course, the excitement has brimmed over and academics have been 'forced' into teams; Departments and Schools have been told on occasions that 'due to budget shortfalls' there is a need that they seek external funding in order to contribute to their own economic survival; and on occasions, too, there are cases where academics have been told that they can continue with their own research after 'the important core work' has been done.

Marginson (1999) has observed that various organisational changes have accompanied these changes in Australian and New Zealand universities under the period of neo-liberal restructuring. In a major study of 'management practices in higher education' prepared for publication as *The*

Enterprise University: Governance, strategy, reinvention (Marginson and Considine, 2000), management practices were examined in some 17 Australian universities. Summarising some of the findings from this study, Marginson (1999: 7-8) notes the following elements as they affect the organisational form of universities:

- the emergence of a new kind of leadership in universities. In this model, the vice-chancellor is a "strategic director and change agent". Universities are now run as corporations according to "formulae, incentives, targets and plans";
- the appointment of vice-chancellors who are 'outsiders', and who are not organically linked to the institution. This practice is in turn supported by a growing apparatus of DVCs and PVCs, AVCs, executive deans, etc., with loyalty to the centre rather than to disciplines or faculties;
- the partial transformation of governing councils into corporate boards and the sidelining of academic boards;
- the rise of flexible executive-directed systems for internal university consultation and communication, from internal market research to vice-chancellors' advisory groups;
- the rise of new property structures concerning international education, intellectual property, relations with industry, and work-based training;
- the removal from collegial view of key decisions regarding governance;
- the partial breakdown of traditional disciplinary structures in the creation of schools (rather than departments) for teaching purposes;
- the creation of limited life areas of research or research centres, sponsored from above for research funding purposes;
- research management is subject to homogenising systems for assessing performance;
- a diminishment of the role of peer input into decisions about research;
- an increasing irrelevance of the disciplinary organisation of research;
- a prioritisation of research in terms of *quantity of research income* rather than in terms of *numbers of publications* produced or in terms of *quality of scholarship*.

A further consequence of marketisation has been the increased emphasis on performance and accountability assessment, with the accompanying use of mission statements and performance indicators. The State Services Commission (1992) analysis of governance in tertiary institutions list four types of accountability:

- bureaucratic accountability, is ex-ante, where rules and regulations are specified in advance and accountability is measured in terms of process;
- professional accountability, formulated in terms of standards, based on expertise of those who work in a particular area;
- consumer accountability, associated with market systems, based on price;
- managerial accountability, which works in terms of contracts "in which the component parts are held together by a set of collective objectives and performance is rewarded or punished according to the achievement of these" (SSC, 1992: 14).

Although theoretically distinct, for my purposes I will collapse the four categories to make two. Under the neo-liberal period of tertiary restructuring there has been a shift from 'bureaucratic-professional' forms of accountability to 'consumer- managerial' accountability models. Under consumer-managerial forms of accountability, "the assumption is that academics must demonstrate their utility to society by placing themselves in an open market and accordingly competing for students who provide the bulk of core funding through tuition fees. If academic research has value, it can stand up to the rigours of competition for limited funds" (SSC, 1992: 15). From the neo-liberal

perspective, however, professionalism is distrusted in that it generates the conditions for opportunism, sets self-serving standards, and is prone to provider capture.

An ideal-type model of the internal governance of universities which indicates the conflict between neo-liberal managerial and liberal professional cultures, as I am distinguishing those terms here, is presented in Figure 2 below:

Figure 1
Ideal-Type Model of Internal Governance of Universities

	Neo-Liberal	Liberal
Mode of control	'hard' managerialism; contractual specification between principal-agent; autocratic control	'soft' managerialism; collegial-democratic voting; professional consensus; diffuse control
Management function	managers; line-management; cost centres	leaders; community of scholars; professions; faculty
Goals	maximise outputs; financial profit; efficiency; massification; privatisation	knowledge; research; inquiry; truth; reason; elitist; not-for-profit
Work relations	competitive; hierarchical; workload indexed to market	trust; virtue ethics; professional norms
Accountability	audit; monitoring; consumer-managerial;	'soft' managerialism; professional-bureaucratic;

	performance indicators; output based (ex post)	peer review and facilitation; rule based (ex ante)
Pedagogy	semesterisation; slenderisation of courses; modularisation; distance learning; summer schools	full year courses; traditional academic methods and course assessment methods
Marketing	centres of excellence; competition; corporate image; public relations	reason; specialisation; communication; truth

Academics' response to restructured administrative environment has not been one of resounding protest and opposition. Buchbinder's (1993: 346) observation in England "that many academics are silent and even complacent" would not be entirely misplaced in New Zealand, and nor would Miller's (1995) note that most academics have adapted to "a brand of metallic new entrepreneurialism" go completely astray. Many no doubt see the new competitive culture as a new form of career advancement, and it is they who argue that to bluntly defend collegial styles of democratic management based on an ethos of professionalism is to live in the past. To use Trow's (1994: 21) concept, collegial management is a form of 'soft managerialism' whereas hierarchically imposed principal-agent specifications are a form of 'hard' managerialism, a form which, as I have argued, undermines the space within which professional authority is exercised and maintained.

Academic freedom

That neo-liberalism also systematically reconstructs the meaning of academic freedom is evident in relation to two reports on academic freedom in New Zealand that have recently been completed.

The first, released in March 2000 and entitled *Universities as Critic and Conscience of Society: The Role of Academic Freedom*, by D. Gareth Jones, Keny Galvin and David Woodhouse (Academic Audit Unit, 2000), comprises an analysis of the various possible meanings of the concept of academic freedom. While much of the discussion is useful in terms of avoiding conceptual confusion and for being clear of the different senses in which we use the term, there is a marked absence of discussions of managerialism or neo-liberalism, or even of the changes in the context or environment as they have affected universities over the last decade.

In relation to *teaching*, the view of academic freedom is conservative and narrow. In relation to teaching, they claim that "academic freedom only operates within the boundaries of accepted standards as laid down by the relevant discipline grouping or by professional expectations" (Jones, Galvin and Woodhouse, 2000: 12). One useful observation in relation to academic freedom and teaching is that the introduction within many universities of new professional programmes, encouraged under the marketisation of universities, interferes with the traditional activities of research and teaching. They note that the content of courses in professional programmes may prevent academics teaching what they like, and note that such course content is "now subject to greater determination by outside bodies and government agencies" (2000: 12). There is a marked lack of suggestion as to what should be done in response to such developments.

In relation to *students*, they note that staff should not coerce students to accept their views, but see the issue in relation to undergraduate students as "more of a grey area" (2000: 15), for the immaturity of such students means that they are deserving of only a "certain degree of academic freedom".

In relation to *research and publication*, they ask whether the constraints imposed by external funding bodies challenge our traditional ideas of academic freedom. It notes that various pressures may operate from either internal or external sources. While it sees pressures deriving from a competitive environment, it represents competition as a normal and natural feature of the environment rather than a feature which itself has historically altered under the influence of new forms of governmental reason.

Focusing on the *external* impediments to academic freedom, their report reinforces the need to protect academic research from groups such as funding bodies or external financial backers (e.g. drug companies) who may have a vested interest in research findings being published, or unpublished, as the case may be. In relation to pressures *internal* to the organisation of the university, it mentions things such as protecting younger researchers from older, more senior, and more powerful academics, or protecting minority and sometimes unpopular viewpoints from dominant conceptions and established ways of doing things, within an individual department or in the wider university.

While much in the document is in this sense useful, there is almost no consideration of the changing nature of universities in relation to the market reforms of the past 15 years or in relation to the neo-liberal revolution in management and administration. While they cite Jane Kelsey (1988) to the effect that "the nature and function of a university changes so that it becomes a surrogate commercial business ..." (2000: 20), they ask (and then beg) the question, "does managerialism at senior management level necessarily infringe the academic freedom of individual staff as greatly as suggested here?" Further, they ask, "if infringements of academic freedom occur in universities, to what degree can these be put down to managerialism per se, rather than to other, possibly related factors?" (2000: 20-21). That these questions are largely rhetorical is indicated by the fact that no more is heard of managerialism with the exception that answers to such questions would need to "assess the impact of managerialism on the output of academic staff far more precisely than has been done up to now" (2000: 20).

The real problem with this report, certainly its danger, and possibly the real reason that it was written, relates to the definition of academic freedom that it accepts and advocates. The report advocates for a specifically narrow conception of academic freedom that accords with neo-liberal

restructuring and is consistent with the imposition of new managerial models. It is a conception which, to cite the authors themselves, academic freedom "can only be exercised within staff members' own discipline(s), where they possess what may be unchallenged expertise" (2000: 21). In this model:

The entitlement of individual academics to academic freedom is a freedom within bounds, determined principally by the scope of their expertise. This is based on the premise that, if academics show competency in certain fields, their opinion within these fields is worthy of protection ... Conversely, whenever academics speak out on issues in which they have no academic grounding, they cannot expect to hide behind the shield of academic freedom [T]here are clearly defined boundaries to the notion of academic freedom It only applies to academics or scholars, and even then only in one's own field of authority or expertise. (2000: 8)

Under this definition, academic freedom is important because "to allow experts to challenge received wisdom is a major engine of progress" (2000: 8). Academic freedom then is linked to the furtherance of knowledge. What is important here, however, is that this conception of academic freedom does not accord with traditional definitions of the concept. Furthermore, it does not accord with the definition as embodied in law. The Education Amendment Act 1990, no. 60, part XIV, section 161 (2) (a) defines academic freedom as:

The freedom of academic staff and students, within the law, to question and test received wisdom, to put forward new ideas and to state controversial or unpopular opinions.

In addition the view argued for by Jones, Galvin, and Woodhouse does not accord with the UNESCO definition as published in its *Recommendations Concerning the Status of Higher Education Teaching Personnel* (1997). This view is a broader definition which reads:

The right without constriction by prescribed doctrine, to freedom of teaching and discussion, freedom to express freely their opinion about the institution or system in which they work, freedom from institutional censorship and freedom to participate in professional or representative academic bodies. (cited in Jones, Galvin and Woodhouse, 2000: 5)

The view of Jones, Galvin and Woodhouse does not accord, either, with the conception embodied in British law, which is similar to the New Zealand law conception, and which is essentially based upon the views expressed by Lord Jenkins, the Chancellor of Oxford University. Essentially, the view of Jones, Galvin and Woodhouse is *idiosyncratic*. It tries to narrow the conception of academic freedom to link it more directly with an academic's area of expertise, and in order to do this they seek initially to link it to a particular conception of the "advancement of knowledge". To achieve this narrowing, they cite Tight (1988):

Academic freedom refers to the freedom of individual academics to study, teach, research and publish without being subject to or causing undue interference. Academic freedom is granted in the belief that it enhances the pursuit and application of worthwhile knowledge, and as such is supported by society through the funding of academics and their institutions. Academic freedom embodies an acceptance by academics of the need to encourage openness and flexibility in academic work, and of their accountability to each other and to society in general (Tight, 1988, cited in Jones, Galvin and Woodhouse, 2000: 6-7)

Also completed in 2000 is the report on academic freedom by Dr Donald Savage, a Canadian Higher Education consultant, commissioned by the Association of Academic Staff (AUS). Titled *Academic Freedom and Institutional Autonomy in New Zealand Universities*, the *Executive Summary* (ES) and *Summary of Recommendations* (SR) state a much broader definition of academic freedom than that considered above. For Savage, academic freedom relates to teaching, research, publication of results without censorship, the right to be a critic and conscience of society without retaliation by the university or by the government; the right to publicly criticise one's own university, as well as freedom to participate in professional organisations and unions (ES: 1). University autonomy "is the institutional form of academic freedom. Autonomy is that degree of self-governance necessary for effective local decision-making consistent with a respect for public accountability, a commitment

to academic freedom and human rights" (ES: 1). The definition of academic freedom given above is supplemented by various subsidiary notions. Thus Mr Justice Frankfurter's "four essential freedoms of a university" given in the Supreme Court of the United States, are added to the list - to determine for itself on academic grounds who may teach, what may be taught, how it should be taught, and who may be admitted to study.

One of the essential suggestions of the report is that:

... in the thirteen years from 1987 to 1990 New Zealand saw "an unprecedented invasion of university autonomy and attack on academic freedom by the central government. Although the university community resisted these attacks with varying degrees of success, the consequent warfare has been debilitating, has eroded morale, and has undermined academic freedom and institutional autonomy. (ES: 2)

In a consideration of these trends, Savage lists a number of factors:

- due to maximum commercialisation of public sector institutions, including universities, operating under conditions of competitive neutrality (ES: 2);
- due to a desire to see universities become private institutions funded by student fees and research contracts, rather than central government.
- a downplaying of the collegial structures in favour of managerial approach as used by private corporations;
- which in fact became programmes for enormously increased bureaucratic control by the central government because the programme relied on the central government to carry it out;
- the Ministry of Education believed that it could without compromising academic freedom micro-manage higher education so that it would reflect the presuppositions of the new political agenda.

Against this trend, the New Zealand Vice Chancellors' Committee (NZVCC) sought a degree of 'home rule' creating the Committee for University Academic Programmes (CUAP) and the Academic Audit Unit (AAU) in an attempt to escape the prospects of external control over academic processes. What is encouraging about the Savage Report is that it recommends a range of structural safeguards to fight the neo-liberal and managerial advance. These include:

- that any agency created to monitor academic units (CUAP, AAU) should be independent of government;
- that NZQA should not be given authority over universities (to prevent imposed uniformity, homogenisation, etc.);
- TEAC should be independent of the MOE and of the universities - a think tank or permanent royal commission;
- that the government should not claim ownership of the universities. Hence, the justification for Capital Charging disappears;
- that universities should not be teaching-only institutions and that there should be no continuation of the separation of teaching and research;
- that contestable research funding authorities should be properly funded;
- that the government should not have the right to veto the plans of a financially viable university but should have the right to intervene in cases of financial irresponsibility or failure;
- that a number of reforms be instituted in the Security Intelligence Service and its relationship to universities. These include wider representation of SIS membership; making the SIS as independent as possible from the Government (requiring that the appointment of the Inspector General have the consent of the Opposition); improved communication between SIS and universities; training of SIS officials in the subjects of academic freedom and university institutional autonomy.

In addition, the Savage Report recommends some important proposals regarding the internal structure of universities. These include:

- governance procedures that promote academic freedom;
- the emphasis on quantifiable output measures of accountability such as performance indicators are challenged in that they compromise institutional autonomy;
- the approach by universities to develop speech codes or codes of ethics as devices to control the public behaviour of their employees is rejected in that they compromise open and free discussion;
- anti-discrimination policies on sex, race, age, and disability are supported;
- collegial self-government as an operational element of academic freedom is supported;
- that academic boards or senates should be predominantly composed of academic staff rather than management who should review, discuss, and vote on all major issues within the university;
- academic boards or senates should be chaired by an independent speaker;
- that the Education Act gives too much power to the vice-chancellor as the sole employer of staff. Such a function should be transferred to the governing council.

Savage distinguishes between the *legislative* and *executive* functions within the university. Referring to the recent Waikato legal decision (AUS vs Gould), he proposes that the VC and management can only propose new ideas "within the parameters set by the governing bodies" (ES: 6). This has radical implications for university governance and academic freedom, as Savage appreciates. In what are perhaps his most insightful and far-reaching proposals, he maintains that the following structures are important to academic freedom:

- adequate grievance procedures readily accessible;
- adequate labour legislation;
- tenure of employment for academic staff is, he says, "an essential ingredient" for one cannot be free to be the critic and conscience of society if one is subject to summary dismissal by ones employer. UNESCO supports this provision he says.

In a paper presented at the AUS-sponsored Managerialism and Restructuring Conference held in Wellington in July 1999, I also made the point that, irrespective as to what the courts outside the universities may decree, tenure is an essential internal issue for universities which has not as yet in New Zealand been adjudicated upon within the "parameters set by the governing bodies".

Following the recommendations of the Savage report would go a long way to restoring academic freedom in New Zealand universities as well as insulating and protecting the university from the incursion of the neo-liberal advance. In addition, it would reclaim university governance for the professoriate who are the rightful custodians of its heritage.

Conclusion

This paper has analysed neo-liberalism as a positive form of state power. In opposition to those who see it as a strategy designed "to wind down the nation-building project" (Marginson, 1999), I have represented it as introducing new forms of control and of re-organising and systematically dismantling the protected spaces of classical liberalism. If liberalism is a discourse that enlarges the space in which freedom can be practiced, as occurred from the 17th century with the bourgeois revolution, then it correlates with a wealth-generating phase of capitalism. Likewise, if neo-liberalism contracts the space of freedom and rights, then it has emerged in a period in which wealth is being conserved and redistributed, a period in which it has been seen as necessary to consolidate the gains made by certain groups and to reorganise for the future by dismantling the welfare state.

Central to the difference between liberalism and neo-liberalism is not just the fact that they are separated in historical time. While they share much that is common, I have represented neo-

liberalism as a positive form of state power resting on a distinction between the market as a natural order and the market as engineered through the positive aim of state power. Even more important is an extension of the role of markets to traditionally non-market contexts to seeing market exchange dynamics as characterising *all processes of voluntary exchange amongst persons*. Hence, the representation of all social relations as relations of exchange is the central feature of neo-liberalism. In addition, as Peters (1999) has noted, neo-liberalism has involved the emergence of a new ethos of management, a 'degovernmentalisation of the state', a new relation between government and self-government', the promotion of a new relation between government and knowledge, based on 'new forms of social accounting' and a 'new actuarial rationality', and the establishment of a new 'enterprise rationality' in the domain of the social.

In relation to education, it has been able to effect its changes through new *indirect forms of control via the use of markets* and through various other new *techniques of government*. It involves a reorganisation of the spaces in terms of which freedom can be practised and in terms of which rights can be exercised. Because it refuses to extend power or authority to groups of people who claim professionalism by virtue of a shared competence, but represents such groups solely as aggregates of self-interested individuals, it replaces networks of delegated power which characterises the professional mode of organisation, with hierarchical chains-of-line management which disempowers and 'de-authorises' the labour of the intellectual, effecting a proletarianisation of academic labour in the neo-liberal state.

There are possibly a large number of techniques of government and new forms of technology that have made such changes possible, ranging from developments in information technology to techniques of national incomes accounting introduced after World War II.¹¹ A further technique of government concerns the invention of markets and the invention of new models for the use of markets as mechanisms by which state power can be indirectly exercised thus relieving the need for direct state action which were developed during the first half of the 20th century and especially from the 1940s. The market has been used in the post-colonial era to effect and ensure the emergence of appropriate civilised attitudes and as a device to effect control. If liberalism involves a tension between freedom and control (in the sense that the space in which freedom is practiced itself depends upon law-abiding conduct), then neo-liberalism constitutes a constriction of the space whereby freedom is practised and an enlargement of the area of control. It is a new regime of adapting each individual to the whole.

Neo-liberalism's emphasis upon control parallels earlier concerns in the Austrian Empire which constituted the backdrop to the emergence of Austrian economics. As Hennings (1997) notes, central to the imperial rescript of 1782, the Austrian academic tradition was intended for the production of civil servants rather than scholars, and the real question concerning the contribution of economics was to what extent it could contribute to the preservation of the empire. Hennings (1997) sees the Austrian Empire as a police state, and sees the advice of Menger concerning *laissez-faire* as interested ultimately in the question of control, its focus of fear and its enemy being the French Revolution and the 'Sozialfrage'.

In that it comprises a variety of techniques for supply-side toning of the population, for academics and universities it constitutes a new strategy for the nation-building project which depends upon competitively mobilising all of the 'stand-alone' units that reside within its borders in a frenzy of competition in the context of a new global order. It is in this sense that neo-liberalism propels the strategy of the knowledge economy via commodification. That is, it engineers a market mechanism which both propels and governs participation of all within an international arena. In this arena it commodifies everything including knowledge and cultural identity. Government strategy over tertiary policy is to engineer individuals using market strategies to adapt the population to the needs of the state. But the state itself operates increasingly within an *international market order* dominated by capital. Such internationalisation is made possible by new production techniques (robotised production lines, variable geometry, and 'lean' management techniques, etc.), new

information and communications technologies, and new flexible auditing and accounting techniques (Cerny, 1999: 10). Now knowledge and identity will be branded and packaged in order to maximise its market potential trading on its distinctive features for the purpose of selling knowledge and truth within the corporate strategy of the nationstate and the global economy. Everything is brandable within this context, even Maori culture. As the recent report on *The Knowledge Economy* (JTAG, 1999: 21) states:

Maori culture as a whole brands New Zealand as a distinctive South Pacific nation with a unique indigenous tradition. In global economies, and in Internet commerce, nation-based brand distinctiveness is a significant asset.

As a technology of rule, neo-liberalism confronts education as governable through local autonomy via markets, thereby diminishing the scope for education as a service to be provided based on need as determined by truth. The Kantian idea of reason gives way to the neo-liberal idea of excellence which can be more easily adapted to the marketisation context. Displacing education as a service provided on the basis of need has costs, of course. On the one hand, neo-liberalism seeks state retreat from intervention in order to let the consumer decide with all of the difficulties and injustices that result. On the other, government is forced to intervene in a more and more direct and aggressive way to ensure the academic system functions as intended and that the required outcomes are produced.

What is the function of universities under neo-liberalism? Unlike liberalism, which used the technology of the profession, neo-liberalism seeks to contractualise tertiary education by programming it to operate in terms of the rules of the market so that it can be self-governing. In that this involves de-professionalisation, it also means of course that the positive political function that professionals exercised as counters to the central state, which constituted a democratic safeguard for the nation-state, exists if at all in a much weaker form.

Notes

- * NB. (Author's and Editors' comment). This was written before the final publication of the Savage Report and is based upon a summary only.
- 1. In bracketing various neo-liberal writers together, I am not wishing to deny that there are important differences between their theories. This is especially so in respect to the libertarian political philosophy of Nozick. Yet it is claimed that the common features that their works stress (anti-statism, individualism, priority on liberty, priority on the market) have generally contributed to the ascendancy of a neo-liberal hegemony, and in this respect their common features become germane to understanding the decline of the welfare state. Having said this, specific analysis will focus principally on Hayek's formulations.
- 2. Hayek's earliest statement is in *The Counter-Revolution of Science: Studies in the Abuse of Reason* (1952) where he defends a qualitative discontinuity between methods of natural and social sciences. There were also Kantian influences on Hayek's subjectivism in that, following Kant, he rejected the idea that knowledge could be constructed from a basis of raw sensory data, seeing order that we find in the world as a product of the creative activity of the human mind but suspecting that there are inherent limitations to the possibility of full explicit knowledge, and, in particular, an impossibility of ever fully explaining a mind as complex as our own (see *New Studies in Philosophy, Politics, Economics and the Study of Ideas*, London: Routledge, 1978, p. 45, note 14). In addition, relatedly, Hayek denies the ontological independence of mind à la Descartes, denies the possibility of complete intellectual self-understanding, and denies any foundationalism, seeing all criticism of social life as immanent criticism, and social order itself as spontaneous creation rather than as a rational construction.
- 3. Although this was the general position, some monetarists recommended a return to the gold standard. See W. Rees-Mogg *The Reigning Illusion*, Hamish Hamilton, London, 1974.

4. There is an extensive literature on Agency Theory including Althaus (1997); Bendor (1988); Bergman and Lane (1990); Braun (1993); Boston (1991, 1996a, 1996b); Chan and Rosenbloom (1994); Deane (1989); Eisenhardt (1989); Heymann (1988); Jennings and Cameron (1987); Jensen and Meckling (1976); Kay (1992); Levinthal (1988); Moe (1984, 1990, 1991); Palmer (1993); Perrow (1986a, 1986b); Petersen (1993); Pratt and Zeckhauser (1985); Rees (1985a, 1985b); Scott and Gorringer (1989); Simon (1991); Thompson and Wright (1988); Treblicock (1995); Weingast (1984); wistrich (1992).
5. For an introduction to Transaction Cost Economics see, Boston (1994), Boston et al. (1996b), Bryson and Smith-Ring (1990), Dow (1987), Perrow (1986a, 1986b), Vining and Weimer (1990), Williamson (1975, 1983, 1985, 1991, 1992).
6. Amongst works on the restructuring programme as it concerns education are: Middleton, et al. (1990), Lauder and Wylie (1990), Kelsey (1993, 1995), Olssen and Morris Matthews (1997) and Boston et al. (1999a).
7. Auckland and Canterbury Universities initiated legal proceedings due to their concerns about the Hawke recommendations. See Butterworth and Tarling (1994: chp. 7) for a detailed summary of this of the issues involved.
8. See Boston (1996c, 1997a, 1997b, 1999b); Fitzsimons (1995); Kelsey (1997); Peters (1997a, 1997b, 1998, 1999); Peters and Roberts (1998, 1999). Boston (1997b) maintains that the Green Paper exposed some real existing deficiencies in the funding system which included a lack of transparency in relation to resource flows, ad hoc EFTS cost categories, weak monitoring of institutional performance, inadequate treatment of private providers, and a poorly focused system of accountability. While this may well be correct, it would seem to me that it can only be assessed as correct given certain assumptions about the ideal level of autonomy of universities from the state, and of the ideal levels of accountability for public funding. What I am arguing, however, is not that there were not problems that needed addressing but that the policy prescriptions that were adopted reflect a consistent form of state reason.
9. Formerly there was a need for universities to obtain approval for borrowing, issuing debentures, disposing of assets, granting leases in relation to land or buildings, etc., from the Secretary of Education. In addition, the SSC needed to be consulted by universities over changes to pay and conditions. Hence, while the Green and White Papers saw the need for greater autonomy in relation to commercial operations, as the Crown considered itself the owner of TEIs on behalf of New Zealanders, it also saw a need for strengthened monitoring and accountability, especially financial accountability, in order to limit the Crown's risk, and ensure the efficiency of TEIs. It was because these accountability relations between the Crown and TEIs were seen as weak that new structures in relation to accountability, financial reporting, organisational form, governance, and incentive structures were needed. Essentially, incentives were needed which would heighten ownership performance and ensure TEIs efficiency in market terms.
10. A number of influential reports and studies were drawn on by the authors of the Green and White Papers in their recommendations regarding the composition and structure of tertiary governing councils. The State Services Commission's *Governance of Tertiary Institutions*, a paper submitted to the Taskforce on Capital Charging of Tertiary Institutions (1992: 35) had concluded that governance structures were best served by non-representative structures and that 'internal agents' on councils were counter-productive. One study that the SSC drew on, which supported their conclusions, was that of McCormick and Meiners (1988). In addition, the Report of the VUW Working Party on Governance (1997), although it ended by recommending different possible options, tended to agree that governance of TEIs could be improved, that 'internal' stakeholders should be reduced, that accountability mechanisms should be strengthened, and that the Minister should be given increased powers of intervention. Such reforms would better serve the Crown's ownership, purchasing, and financial risk interests.
11. I am indebted for this point to Barry Hindess who made several comments relevant to this paper at the symposium on Liberal Government, Auckland University, June 8th, 2000.

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