They Make a Desolation and They Call It F.A. Hayek: Australian Universities on the Brink of the Nelson Reforms

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KEYNES AND PUBLIC POLICY

In a much-quoted passage at the end of the General Theory of Employment Interest and Money (1936), John Maynard Keynes remarked, with some whimsy, on the power of policy intellectuals like himself:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves exempt from any influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared to the gradual encroachment of ideas.

Not many ‘academic scribblers’ are so powerful (for which we should perhaps be thankful), but Keynes’s ideas and his success in persuading the US to agree with them ‘ruled the world’ for almost three decades after Hitler’s defeat in 1945. It was Keynesian policy strategies of national demand management and equality of opportunity, resting on a growing role of government, financed by deficits and taxes, that underpinned the long period of economic growth, rising living standards and orderly international exchange rates in the 1950s and 1960s. Keynes, taxes and ‘big government’ made possible the secure and comfortable postwar world in which John Howard and his generation came to adulthood. The anti-Keynes was waiting to replace him. The anti-Keynesianism, at bottom, meant social consensus and global peace, though it found social and global justice more elusive. It was a philosophy that we might associate more with Bob Hawke than Howard, who oscillates between ‘comfortable and relaxed’ and ‘protecting our security’ through war. Keynesianism, at bottom, meant social consensus and global justice more elusive. Keynesianism, at bottom, meant social consensus and global peace, though it found social and global justice more elusive. But, as Keynes also remarked, ‘in the long run we are all dead’, and this was to prove a good forecast of his use-by date. After half a lifetime or so, the strategy ran out of steam.

The Anti-Keynes

When Keynes’s system broke down, the vacuum was soon filled. The anti-Keynes was waiting to replace him. The anti-Keynes, of course, was the doyen of the New Right, the founding neo-liberal and the winner of the 1974 Nobel Prize for Economics: Friedrich A. Hayek.

Hayek, an Austrian political economist, settled at the London School of Economics in 1931 while Keynes was at Cambridge. As Keynes’s star rose, Hayek waged a ceaseless polemical war against Keynesianism, governmental planning and equality of opportunity in all its forms. In 1947, just as Keynesianism was being implemented by governments around the world (Keynes had died the year before), Hayek organised a conference at Mont-Pelerin in Switzerland. It was the founding conference of what became known as the New Right. Before the conference, Hayek set down his critique and pro-
gramme. The situation, he stated, was black: government intervention everywhere was in triumph. On one hand, there was communism; on the other, Keynesian ‘socialism’ — two sides of the same coin. He wrote: ‘No organised political group anywhere is in favour of a truly free system’, by which he meant a Hayekian market order. But he urged his audience not to despair; the tide would turn. He agreed with almost nothing Keynes had said, except on one point: ‘What to the politicians are fixed limits of practicality imposed by public opinion must not be similar limits to us.’ In the long run, ‘public opinion on these matters is the work of men like ourselves, the economists and political philosophers’.

Hayek urged delegates to be patient and to work hard at the task of polemics. The Mont-Pelerin gathering included a handful of business leaders: Hayek wanted the ‘tyrants of the balance sheet’ on his side from the start. Though business leaders ‘lacked a coherent and defensible philosophy of life’, as Hayek said later in *The Constitution of Liberty* (1960), and needed the leadership of intellectuals like himself, the support of organised business was crucial.

From the beginning, the New Right was premised on company money and business interests; later, on the deployment of business leaders, and the economists and journalists close to them. The essential Hayekian political project was to detonate the managed Keynesian balance between private and public interest, and to extend competitive economic markets to every corner of social life.

Adopting Herbert Spencer’s notion of the survival of the fittest, Hayek argued that competition was the principle of social organisation. Ugly as it sometimes looked, the ceaseless war of all against all was the driving force of history. Acting on instinct in the market, people improvised and innovated, good ideas won the day and the human race inched forward. Hayek argued that there was nothing wrong with having winners and losers, or gross inequalities, providing the market was free to work. Government intervention, for example to create greater equality of opportunity or outcomes, jammed this natural machine, the motor of progress.

Hayek’s market naturalism was founded on two elements. It is worth examining these foundational assumptions, because they underpin a system of thought that now shapes state policy and financial regulation all over the world, especially in the English-speaking countries, rather more thoroughly than Keynesianism ever did. The first element was Hayek’s distinctive psychology, outlined in *The Sensory Order* (1952), where he set out to explain human behaviour in terms of responses to market-like stimuli. (Hayek was no democrat and no libertarian: the English word ‘order’ was just about his favourite term, recurring many times in the titles of his books and articles.) Hayek argued that the foundations of human perception and judgment, the sensory systems by which we understand, were physiological. This biological form was derived, genetically from the learned experiences of our ancestors and directly from the learned experiences of ourselves. These learned experiences disciplined us, patterning our brains. And in these learned experiences, we were the competitive and self-interested individuals imagined by economics. As Hayek saw it, there was no such thing as society, or altruism, nor appreciation of the other as the other: there was only the individual. ‘No one can effectively care for other people as such,’ he said. We only care for other people when they are ‘ours’. In any case, ‘to suffer disappointment, adversity and hardship is a discipline’ to which most people must submit, as he told the Economic Society of Australia in 1976.

Furthermore, said Hayek, we respond to simple repetitive stimuli, there is no essential difference between our instincts and our reflections, and we can only interpret the present in terms of the mental equipment laid down by learned experiences in the past. We cannot recognise anything genuinely new. With the device of his rather arid psychology, Hayek was able to make a giant leap to the assumption that behaviours that were market rational in the twentieth century were long formed in natural and universal human experience, and unchanging. This was the life science foundation for Hayekian market naturalism.

The second element was Hayek’s argument about the unintended consequences of human action. Hayek did not adopt Adam Smith in full, but he was entranced by the metaphor of the invisible hand, and this became the other foundation, the sociological foundation of Hayekian market naturalism. We cannot know everything, said Hayek, and the best things emerge, unplanned, from the interactions between us. These are the results of human action, but they are not of human design. These best things could never have been anticipated. So it was all-important to ensure the right kind of free exchange between people, so that these spontaneous actions would occur. Hayek meant ‘would occur’, not ‘could occur’. He believed that, if the right environment were provided, human beings would naturally evolve the market system for which their brains had been fitted by evolution, and to which all their instincts were attuned.

Hayek’s conclusion that competitive markets were the natural and universal condition of life had little support in history or anthropology. In the real world, unregulated interactions led to a very wide range of forms of social organisation, and most of these bore little resemblance to Western capitalism. Nor did they necessarily value competition. But in one important sense, this did not matter. Hayek argued that, if for some reason human beings failed to form a competitive market spontaneously, then it would be necessary to create those markets and to do so by government action, and this could be done while remaining true to liberal principles. This was the novelty of Hayekian policy. Making the market order universal was a higher principle than laissez-faire. So Hayekian liberalism developed a crusading political programme in which the state gained a new purchase on behalf of market freedom; and the autonomous machinery of the market was to be set in place by the master economist-machinists in government.

This was the essence of Thatcherism. Hayek first met Margaret Thatcher for half an hour at the Institute of Economic Affairs (IEA), when she became leader of the Conservative Party in 1975. He found that she was a fellow thinker.
After she left the building, the IEA staff gathered around for his reaction to the meeting. There was a long pause. ‘She’s so beautiful,’ was all he said.

The Thatcher government was the first and, arguably, most influential Hayekian government. It developed and implemented a detailed and much-imitated programme for extending the role of competitive markets. Its strategies for privatising, commercialising and deregulating the work of the Keynesian governmental sector were never popular, but they dominated much of the policy debate in the 1980s, they became hegemonic in English-speaking countries and they were eventually adopted to a greater or lesser degree all over the world. Twenty-five years later, market reform provides two of the principal issues for the next Australian election, in health and education. In public services such as health and education that could only be partly privatised, the Hayek–Thatcher strategy was progressively to introduce individual elements of competition, contestability and price signals so as to move towards and eventually achieve the Hayekian goal, a full-blown market order. This required a high degree of government intervention: to manage the quasi-market, to manage the political fall-out and to keep pushing reform in the desired direction.

**Friedman and the Market Order in Education**

Nowhere in the world had a Hayekian competitive market spontaneously evolved in education. Though fees were often charged to defray the cost of learning, it was an almost universal habit of humanity to treat education as other than a market good. Everywhere, the preparation of children for adulthood, the training of professionals, scientific research and the culture of scholarship, and the expansion and modernisation of education systems themselves developed primarily as a matter of collective responsibility and citizen rights — something that was simply too important to be left to the results of human action but not of human design.

The failure of something as important as education to evolve in the desired direction did not deter Hayek, but it had to be explained without jettisoning market naturalism. This was the origin of the New Right narrative about ‘producer capture’, whereby citizens had lost control over education and other services to professionals who ran those services and pursued their own interests at the expense of the client. Using this rhetorical device, the campaign for market reform in education could be reframed as a grass-roots struggle for the restoration of control; and vouchers presented as the mechanism of popular consumer empowerment. ‘Producer capture’ carried enough truth in it for this convenient strategy to work, and the demands for market reform in education became one of the central elements of neo-liberal politics after 1975.

Hayek spent much of his life in universities — he transferred to the University of Chicago in 1950 — but made few detailed remarks about education himself. Rather, he endorsed the market reform programme outlined by his fellow Chicago professor Milton Friedman in an essay on ‘The role of government in education’ (1955), later revised and widely circulated as a chapter in *Capitalism and Freedom* (1962).

Friedman argued that, in principle, government financing should be confined to basic elementary education, where the education of each individual child generated ‘neighbourhood effects’ that extended beyond the benefits received by that child. We all had an interest in common literacy and conformity with social values. Even so, it might be best to require parents to meet the costs themselves. If government financing was to continue, said Friedman, then it would be better to channel it directly to families in the form of a portable education ‘voucher’, rather than distribute the money to institutions and professional experts. Market forces would generate continuous improvements in teaching. Government should support private schools, including for-profit schools, which would broaden the choices available to parents. Ideally, all schools would be ‘denationalised’. Perhaps compulsory schooling unduly interfered with freedom, and should be abolished.

Friedman carried the same arguments through to tertiary education. Perhaps general university education generated neighbourhood effects, too, although he was a little doubtful about this. Nevertheless, if general education was to receive continued funding, it too should be distributed via vouchers; and public and private universities should be treated alike for funding purposes. In vocational courses, including professional training at universities, there should be no government funding whatsoever. These courses generated private earnings benefits for individuals, and they should pay the costs. To finance their education from general taxation was a regressive tax–spending transfer. Nevertheless, the capital market was imperfect; he pointed out that in the absence of slavery, the banks were not prepared to buy a share in the individual’s future earning capacity. The interest rate on commercial loans would be prohibitive, and potential students would under-invest in education. The solution was not state financing, but a system of tuition loans that would be repaid through the tax system.

In one paper, Friedman had created a detailed strategy for implementing the Hayekian market order in education, complete with supporting arguments. Since Friedman, almost every proposal for market reform in education, including John Hewson’s *Fightback!* in 1993, David Kemp’s stillborn reform paper of 1999, and now Brendan Nelson’s policy programme (which was amended and adopted by the Senate before Christmas) have all followed this same Friedman blueprint. And they have all drawn on exactly the same body of arguments from Hayek and Friedman.
NELSON AND HIS ANTECEDENTS

Nelson’s reform programme is due to be implemented into the university system in 2005. It establishes full fees, supported by a voucher-like income contingent loans scheme on the Friedman model, for up to thirty-five per cent of students in undergraduate courses. For the other students, it allows universities to vary their Higher Education Contribution Scheme (HECS) charges as they see fit, up to twenty-five per cent higher than the present standard HECS rates, or down to zero, so that the places would be funded by just the government grant. Thus the HECS, which was originally intended as a standard payback charge to defray costs with a minimum economic impact on the student, begins to look more like a market price. The Nelson programme also extends the new tuition loans (aptly named FEE-HELP) to universities in the private sector, which makes a private higher education sector economically viable for the first time, and which ensures that the university sector will eventually evolve to become similar to our divided secondary school system, where only the high-fee, British-style independent schools and a small number of select high schools are ‘true quality’, and government schools are drained of resources and middle-class support. The Nelson programme is titled, with unconscious irony (given the roots of Hayek–Friedman in Spencer’s mid-nineteenth-century evolutionism), Backing Australia’s Universities.

The implementation of the Nelson reforms, just after the next federal election, is a key moment. It will be the first time that the full-scale Hayek–Friedman model has been implemented into undergraduate education in Australia, and one of the first times in the world. It is a radical transformation of Australian universities, as were the Dawkins reforms. Though it does not complete the installation of a Hayekian competitive order, this will be the moment when the market order becomes the dominant mode of organisation. It is the political culmination of the Hayekian agenda.

Nevertheless, the ground has long been prepared for the Nelson package, over a period of more than fifteen years. The essence of Australian government strategy in the university sector, under both sides of politics, has been the rolling reforming method devised by the Thatcher government: destabilising the existing publicly funded system; introducing bits of the market at a time; imposing Hayekian principles of competition piecemeal on an unwilling university sector and creating the conditions for further reforms; while ensuring that no reversion or reversal, and no other line of policy development, can come onto the agenda. The individual market reforms are rarely popular, and governments often take significant political risks to secure their implementation. Treasury and the neo-liberal Industries Commission, not the department of education, call the shots. Policy makers are steeped in market reform. It is the cure for all ills in education. ‘Equality of opportunity’ once dominated government policy in education, but the expression is rarely heard today, even though, unlike market reform, equality remains electorally popular. (If Hayek had led policy in the 1950s, not the 1980s, there would have been fewer opportunities for students from government schools. It is doubtful that John Howard would have made it to the University of Sydney at all.) In the age of Hayek, market reform is the only education policy game in town.

Much of it began with the Labor Ministry of John Dawkins in 1987–92. Dawkins admired most of what Thatcher was doing in the universities. In some respects, he went further than Thatcher. Unlike the British government (still struggling with fees), Australian Labor began in 1988 with the reintroduction to the universities of user charges via the HECS, originally set at $1800 per year. Dawkins also combined the universities and college sectors into a single ‘unified national system’ of universities, stating in his 1988 White Paper that ‘institutions will be able to compete for teaching and research resources on the basis of institutional merit and capacity’.

Then followed the commercial marketing of Australian universities in Asia, as full-fee education for international students; the use of competitive tendering for projects of innovation and improvement in universities; the shift from the ongoing funding of research and scholarship into funding for limited life projects, the product format; the installation of economic measures of research ‘performance’ and direct competition for all forms of government research funding; the creation of tax concessions and funding incentives, so that universities will conduct research directly for business; the establishment of direct fee-charging and commercial marketing in vocational postgraduate education, as Friedman urged; and league tables ranking university quality and performance. All of these left their mark on the university sector and pushed it closer to the ideal forms of the Hayekian competitive order.

Since the change of government in 1996, on the whole the Howard government has been less inventive than Dawkins in education, but it has been more single-minded — it has felt none of Dawkins’s rather non-Hayekian concerns about improving access to education, expanding enrolments and lifting vocational institutions to a higher status — and it advanced the Hayekian mission in two ways prior to the Nelson reforms. First, when the additional funds for scientific research were announced in early 2001 (the package was titled Backing Australia’s Ability: this government has a fondness for going backwards in public), there was a little-noticed move to introduce Friedman tuition loans for fee-based vocational courses in postgraduate education. The Postgraduate Education Loans Scheme (PELS) began in 2002: according to the government’s annual report on the higher education system, in 2003 11,387 students (thirty-three per cent of all fee-paying postgraduate students) took out an income contingent PELS loan at an average liability of $10,076 per full-time student. It was a trouble-free pilot for the FEE-HELP scheme, which absorbs the PELS from 2005 onwards.

Note that despite Friedman’s polemic against public spending on vocational education, not all of the PELS — and not all of the FEE-HELP that is yet to come — will be paid back to the government. In a global era, some graduates work overseas and pay taxes elsewhere, while others will not earn enough in their lifetimes to trigger the repayment mechanism so as to
discharge the debt fully. The gap between loan and repayment must be met by the taxpayer. When the PELS was announced in 2001, the cost was estimated at one billion dollars a year. The cost of FEE-HELP loans, extended to up to one third of the larger field of undergraduate education, may be greater. If the fees/loans mechanism becomes general to undergraduate education, absorbing HECS, as the ultimate Hayek–Friedman programme demands, then the cost of subsidised loans will be considerable indeed, on the scale of the government’s funding of private school education (and received by much the same social group).

Second, and decisively, the Howard government raised the HECS to $3300–$5500 per year, depending on course, and remorselessly reduced the value of the direct public funding of universities — remorselessly, because there has never been an acknowledgment that this might have negative consequences, and that the government might be responsible. Though income from students via the HECS, and international and postgraduate fees now constitutes thirty-two per cent of all university income (2002), universities still depend on taxpayer funding for almost half their resources. In the 1996 budget, the government announced that the principal form of government funding, operating grants, would be reduced by five per cent over three years; and it confirmed Labor’s decision of 1995 that these government grants would no longer be indexed for rising costs. This meant an effective reduction of twelve to fifteen per cent in government grants by 1998. After that, there were no more dramatic cutbacks: cost rises did the Treasury’s work of softening the universities for upfront fees. In 2001—02 prices, government funding per unit of student load fell from $10,467 in 1996 to only $7797 in 2001. The inevitable outcome was a dramatic fall in the teaching resources available to higher education institutions. In 2001 only 37.5 per cent of university staff were engaged in teaching. The average number of students per staff member rose from 14.2 in 1993 to 20.4 in 2002 (DEST 2003).

Market revenues rose sharply in order to fill the hole left by government funding cuts. Between 1996 and 2002 the number of fee-paying international students jumped from 53,188 to 185,058 inside and outside Australia, and income from international student fees rose from $580 million to $1405 million. In terms of total incomes per student, public and private sources together, the position of universities actually improved, as the government enjoyed pointing out. Between 1996 and 2002 the average fee paid rose from $580 to $1405. In 2001 only 37.5 per cent of university staff were engaged in teaching. The average number of students per staff member rose from 14.2 in 1993 to 20.4 in 2002 (DEST 2003).

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The continued absence of indexation was crucial. It meant that even the least market-competitive universities — the newer universities with small research profiles and often located in country regions — had to chase any and every possible market dollar, and to rearrange their programmes to do this. Meanwhile, the stronger universities faced the loss of a global competitiveness that had always been dependent on public funding. Alan Gilbert, a former vice-chancellor of the University of Melbourne, made much of the fact that, with resources driven down, ‘there was no Australian university in the world’s top 100’, as an argument for charging undergraduate fees: subsequently, the claim about the top 100 was taken up by the governor of the Reserve Bank and the editor of The Australian, though the basis of the judgment was never clear.

The policy strategy has not just been to force cost efficiencies, it has been to drive universities into funding themselves as much as possible, entrenching Hayekian psychology within them, while persuading them that there was no fiscal prospect of government grants increasing in future and the only hope of a major turnaround is the introduction of the full-scale fee-paying market in undergraduate education. The culmination was in 2003, when the Australian Vice-Chancellors Committee and most of its members finally acquiesced with the Nelson package, though only a quarter of the universities stood to make clear-cut net gains from a régime of direct fees and variable HECS. (By then, the vice-chancellors were so worn down by fiscal attrition that, according to reports, they missed a prime political opportunity to engineer the reinstatement of the indexation of grants via the independents in the Senate.)

**Three Questionable Assumptions**

No one in the Treasury, the Industries Commission or anywhere else has produced a body of research showing that market reform has actually improved student satisfaction, or the community relevance of courses, or university efficiency, or the rate and the quality of innovation. The proofs do not matter. When everyone is exposed to an idea for long enough, it seeps into the collective consciousness. It seems to be sustained by common sense. The Hayek–Friedman discourse gains its ‘dynamism’ from repetition and familiarity. It is a Hayekian ‘sensory order’ that shapes the imagination, an endlessly repeated commercial, with ever-fecund variations and applications. Over the years, the possible examples multiply, and abstract policy imaginings — vouchers, private benefits, taxpayer interest — populate the world of policy images and become familiar. The policy discourse about markets and private education becomes layered and thick. Though we might quarrel with the actual policies, we use the terminology and recycle the assumptions on which the reform programme depends. The public interest in universities now translates into ‘stakeholders’. Students have been turned into ‘consumers’, though few of the ‘choosers’ would adopt that label.
for themselves. They are also part of the university’s ‘market share’, which creates fewer burdens than ‘community’. We start to take it for granted that the tougher the competition, the higher the standard. We start to believe that what always drives people is money, not intrinsic interest.

In particular, the Nelson reforms rest on three crucial assumptions, props of the Hayekian order, that deserve to be challenged: that the primary benefits of higher education are private economic benefits; that a university is a self-serving business whose bottom line is its own interest; and that economic competition in education is the motor of progress.

**Private Economic Benefit: Empty Security**

Canberra talks about the collective benefits of higher education in vague terms, but the individual benefits are made clear for all to see. Graduates earn more than other people. Graduates have lower rates of unemployment. Graduates are privileged: university confers on them significant private benefits. With this line of emphasis, any and every increase in private charges can be justified. The Hayekian line of reasoning readily fits with the utilitarian strain in the culture, not to mention the popular anti-intellectualism that the prime minister knows so very well.

The damage done by this assumption is larger than the rhetorical support it provides for the replacement of public access with the price mechanism. First, it lowers our expectation about universities. It deflects our attention from the role of universities in creating common goods from which we all draw benefits: the sustaining and advancing of the intellectual disciplines; the concentration of scientific expertise, and a pool of experts who can be drawn on for a great range of private and public purposes; custody of the development of the professions; the conduct of a varied range of cultural activities, and the stewardship of cultural and scientific resources, such as galleries, museums and collections; knowledge of a diverse range of cultures; the conduct of a multitude of networks and relationships with individuals and institutions.

There are also the common benefits we draw as the threshold of literacy and vocational skill is lifted; the open-ended potential created by a basic research infrastructure that spans all fields of study; the role of universities in the pastoral care of students, and their indispensable function in the formation of personality, and as sites of social and cultural experience. These are not benefits captured by one individual to the exclusion of another, the kind of benefit that is bought and sold in a market. The language of exclusively private benefit — for that is what the reform agenda implies — excludes these common benefits. If they are not recognised, then they will not be funded, and they will wither. (Some people would say it is happening already.)

Second, this language of individual benefit creates a corrosive cynicism about teaching and learning. Governments give prizes for the best university teachers, and institutions pour money into the quality assurance of teaching, because in a market era that is what you have to be seen to do; but, in reality, resources are being shifted out of teaching and into marketing. In a competitive market, this is more cost effective. When their student–staff ratios rise from 14.6 to 20.4 in only seven years, universities cannot teach better, but they can market themselves better.

In this framework for the student, what matters is not the content of learning, or whether university has deep effects, but the piece of paper at the end, and the probability of employment that it signifies. These, it seems, are the only real benefits that graduates take into the labour market. Here, knowledge for its own sake becomes a delusion, being educated to ‘find yourself’ is a waste of time, and a business degree offers vocational security, while an arts degree does not. The market framework is a utilitarian one that fosters the delusion that we can plan our lives on the basis of uniform probability distributions. In reality, no one can predict what will happen to themselves; arts graduates can end up almost anywhere, and their employment ratios are much the same as those for generic business graduates. But a degree programme in which cultural and intellectual formation is uppermost runs against the grain. At the same time, when university education is seen as a competitive market in the provision of individual benefits, then not only many programmes of study but whole universities are devalued. After all, it is not what you know, or how well you were taught, but where you were enrolled (everyone knows that a ‘sandstone’ degree has more clout in the labour market). So student consumption becomes Hayek-ordered, in a hierarchy of value, the high-value market choices become the privilege of the few who can pay, and everyone is caught in the empty security of the utilitarian trap.

Third, research is ordered on the same utilitarian basis. It is determined not by the scholars themselves but by those who pay for the costs of research, government and the commercial clients. It must consist of visible products: not open-ended programmes but projects with a limited life, and outcomes that the funding authority, however expert or inexpert in the relevant field of study, can imagine. Its outcomes can be ordered in a hierarchy and the excellence of its practitioners can be given a meaningful numerical rank. Above all, it is assumed that all forms of research share a common measurable value, and that a research system can be modelled as an economy. In Australia, the government distributes a specific fund, Institutional Research Grants, on the basis of each university’s competitive ‘performance’ in three areas: the volume of research grants; the number of research stu-
students educated; and the number of publications produced by the academic staff. A performance régime along these lines has been in place since the late 1980s. As a result, according to a study by research policy specialist Linda Butler, the quantity of publications outputs has grown but the unit quality of publications has deteriorated. Between 1988 and 1998 Australia’s share of publications in the Science Citation Index increased by twenty-five per cent, but its share of citations declined from sixth in a ranking of eleven OECD countries in 1988, to tenth place by 1993. One reason is that more Australians are publishing in lower-status journals, which provide the same levels of government funding as prestige journals, and are easier to access.

**The Fetish of the Firm**

In legal terms, state government legislation determines the character of the universities and provides for them a range of public obligations, befitting their multiple character as teaching and research institutions, pastoral guardians of students, repositories of culture and sciences, nodes of technology, cogs of the economy, and efficient and financially accountable entities. However, the federal government has used its funding power to maintain the dominant policy role in relation to higher education, and it has constructed the role of university more narrowly so as to be consistent with the Hayek–Friedman model. Since Dawkins, the universities have been shaped as autonomous corporations, managed by professional executives, producing products in a competitive market for consumers — essentially as just another business, whose bottom line is not knowledge or the public interest but the competitive position of the university, its prestige and revenues, as an end in itself.

Given the legal position, it is still something of a fiction. Universities do not have shareholders, they retain a broader responsibility than the fetish of the firm suggests, and by no means can all of their activities be fitted into the product format. Nevertheless, the notion of university as self-serving business has steadily taken hold inside and outside the campus. Governing councils are reformed not to strengthen links to the community, but to increase the number of business leaders, to incorporate prudential expertise so as to improve the supervision of the university’s commercial ventures, and to shrink the size of the council closer to that of conventional corporate boards.

The formal dominance of the executive is expressed in the authority of budget managers over academic boards and senates; in the size of the cluster of deputies under the vice-chancellor and in the salaries they are paid; and in the honorific ‘president’ that many vice-chancellors now apply to themselves. Sociologically and culturally, in most Australian universities we can detect a decline in the authority of the academic disciplines — especially the core formative disciplines in the sciences, social sciences and the humanities — even in matters of teaching and research. In many institutions, discipline-based departments have been merged in larger schools for the purposes of teaching generic degrees, and in some newer universities academics must work in cross-disciplinary programmes if they want to access research funds. Interdisciplinary work itself is compatible with academic freedom; intellectual formations that are dictated from above, from a product perspective are not. The soul of the university is at risk, and this, not bankruptcy or uncompetitiveness, is the real threat. In the final analysis, why should society fund the university if there is nothing distinctive about its cultures and it is just another business? (There must be more efficient ways to provide minimalist vocational training and commercial research!)

**Competition Drives Progress: Slather and Whack**

The notion that competition is indispensable to evolutionary progress has an obvious downside in the university. By forcing scholars and researchers to pursue the interests of their own university against all others, it works against the potential for trans-institutional collaboration, which now must be conducted surreptitiously. More fundamentally, the intensification of competition — and particularly, the translation of the traditional competition between the universities for prestige, into an economic market — is likely to produce the opposite of what reformers want. In an economic market, with price signals, the élite universities in the ‘group of 8’ (Melbourne, Monash, Sydney, NSW, Queensland, Adelaide, WA, ANU) will become stronger but will be under less competitive pressure than before. Among those institutions in a weak competitive position, they are more likely to cut their quality than to improve it. This is because of the way in which a market in ‘positional goods’ such as education tends to function, a problem that the Hayek–Friedman agenda does not comprehend.

‘Positional goods’ produced in higher education are scarce educational opportunities seen to confer on students potential or actual social advantages. A positional market in higher education is a dual competition in which institutions compete for the most preferred customers, while consumers compete for entry to the most preferred institutions. Prestige sustains competition for entry into the most sought-after institutions, and this generates high student entry scores. Wealth follows prestige: wealthy families invest in education so as to maintain their positions of social leadership. These dynamics of positional competition shape the potential and outcomes of Hayekian market reforms. There is an absolute limit on the number of positional goods of high value. These cannot be expanded without reducing their unit value. (When an exclusive education becomes broadly available, it is no longer exclusive!) Elite institutions do not expand production to meet the full possible demand, like capitalist businesses. It is only at the lower levels that positional competition operates more like a textbook economic market. Weaker institutions market hard to attract students to fill their places and secure revenues.

A positional market is never freely competitive. Universities with élite status have a limited number of high-value competitors, and their very status maintains student custom
and resources. Providing they sustain that prestige, their market value is unassailable. The more intense the competition for entry into the élite institutions, the less those institutions have to court the consumer in the conventional manner by dropping prices or providing more and better services. (After all, for every dissatisfied ‘customer’ there are ten more to take his or her place.) So when the competition is intensified, or the price of places rises — both are consequences of the Nelson reforms — this strengthens the status, bargaining position and resources of the top-tier institutions. As the demand for élite universities expands and their prestige spirals upwards, they raise tuition again and spend not on better teaching but on more research; for research is where élite universities gain their prestige.

Lower- and middle-level institutions find it difficult to gain general recognition for their best programmes, because in a positional market, quality is equated with élite status. However competitive the system, they find it almost impossible to move into the top group of institutions — except perhaps over a long period, as the size of the system expands. The middle-level producers cluster as ‘second choice’ status choices, or as specialists, competing more with each other than with the top group. At the bottom end, universities are forced to market themselves harder or to cut their price. On average, the consumer spends more, but gains less.

**Outcomes of Nelson**

The Nelson reforms bring Australian cost levels and structures closer to those of the US. (One effect of increasing the domestic price of prestige Australian degrees will be to encourage investment in US degrees.) The Nelson reforms largely close the cost gap between an Australian HECS place and a US state university public place. In the longer term, full-fee places supported by FEE-HELP allow prestige Australian universities to charge US private sector level fees. A Sydney or Melbourne Law degree at $30,000 per year will exceed production costs, but no doubt some students will pay this for the positional value of the degree. Thus the market argument becomes self-fulfilling. Instead of the benefits of a university degree being largely private, determining the method of production (the market), it is market production that reshapes the product into a largely private benefit.

Drawing new private investments from those affluent families already accustomed to investing in fee-paying secondary education, the leading universities will lift their research resources and their competitive rating, perhaps becoming stronger at the global level. But, like the American Ivy League, they will squander some of the new market-generated resources in inflated salaries at the top end of the pay scale, prestige building and executive toys. By strengthening the competitive position of the sandstone universities, and comforting them with extra resources, the Nelson reforms actually reduce pressures for efficiency, responsiveness and fast-footed innovation. Ivy League institutions can afford to be conservative (which suits the world view of their main users). The rising cost of HECS, fees and income contingent loans will stream low-income families away from high-cost places.

Meanwhile, at the lower levels of the hierarchy, there will be a ‘race to the bottom’ as institutions struggle to fill their classes. Some may charge zero HECS, creating grossly under-resourced free places, in a kind of caricature of Whitlamism. Both strategic options facing the lower-tier institutions — varying HECS down, and investing more resources in marketing — tend to reduce the available resources for teaching and learning, and to thin out their already inadequate research capacity.

The outcome of the Nelson reforms will be a more hierarchical higher education system, with fewer institutions of high quality. The market will be more closed than before, and the leading institutions will have less threat of competition from below. Perhaps the only cloud on their horizon will be the long-run potential of the emerging private universities, backed by FEE-HELP, to draw some of the leading families. If some sandstone universities become stronger in resource terms, the secular trend overall will be to depress quality, and this will translate into complacency at the top and mediocrity below. In the new system, certain of the research universities positioned just below the sandstone universities, and some of the universities founded by Dawkins, will lose out. The variation in prices will create a more differentiated set of economic choices for students, matched by steeper variations in educational quality. Rising private costs means that, at a constant level of quality, access will decline.

If these are the outcomes of extending the market order to the university sector, then much of the blame can be sheeted home to one person. It is not Brendan Nelson (alas, but a cipher of mightier forces): it is Friedrich A. Hayek. Hayek would probably be uncomfortable about the downward pressures on research in the Australian universities, and he would be curious about the fact that the main pressure for efficiencies comes not from competition but from cutbacks in government funds. He would note that this mechanism has a limited life (the driver for efficiency disappears when there are no more government funds to cut). Nevertheless, he would be more than comfortable to see a state-directed, self-regulating economic market in place; and, as a conservative who liked hierarchy and wanted markets to confirm the established social order, he would approve of this outcome.

The anti-Keynes is securely dead, but, like that of Keynes, Hayek’s work lives after him, though perhaps not forever. His worldwide policy influence has lasted about thirty years, which is almost as long as that of Keynes. Though the state of the world is in some respects less happy than it was under Keynes, Hayek’s influence shows no sign of diminishing.

Keynesianism fell when it could no longer deliver the high rates of economic growth, simultaneous around the world, that it promised. Hayek has diminished our expectations. His is a more brutal, more Hobbesian world. What more would it take to demonstrate the limits and failures of Hayek’s system? And what would come after? Is there an anti-Hayek waiting in the wings?