

EDUCATIONAL FUTURES: RETHINKING THEORY AND PRACTICE

Neoliberalism, Higher Education and Research

Peter Roberts and Michael A. Peters



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EDUCATIONAL FUTURES
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TABLE OF CONTENTS

Acknowledgements	vii
<i>Introduction</i>	
Neoliberalism, Higher Education and Research	1
<i>Chapter 1</i>	
Neoliberalism and the Emergence of Knowledge as Intellectual Capital	9
<i>Chapter 2</i>	
Third Way Governmentality, Citizen-Consumers and the Social Market	29
<i>Chapter 3</i>	
Neoliberalism, Knowledge and Inclusiveness	41
<i>Chapter 4</i>	
Knowledge, Information and Literacy: Futures-Focused Policies and Critical Citizenship	55
<i>Chapter 5</i>	
More Than 'Outputs': A Critique of Performance-Based Research Funding	71
<i>Chapter 6</i>	
Neoliberalism, Performativity and Research	83
<i>Chapter 7</i>	
Beyond the Rhetoric of 'Quality' and 'Relevance' in Tertiary Education Policy	93
<i>Chapter 8</i>	
Intellectuals, Higher Education and Questions of Difference	105
<i>Chapter 9</i>	
Knowledge Cultures and Philosophical Futures of Education	119
Notes	129
References	135

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INTRODUCTION

NEOLIBERALISM, HIGHER EDUCATION AND RESEARCH

Postmodernity, it has often been noted, is a multifaceted condition with cultural, aesthetic, political, and economic dimensions. It is the economic element, however, that has become dominant in policy discourses. Postmodernity has witnessed the rise of policies of corporatisation, marketisation and privatisation across the globe. The encroachment of the market into almost all areas of economic and social life can be seen as a shift from modernist (industrialised, Fordist, nationalist) systems of production, circulation, control and management to new, postmodern (post-industrial, post-Fordist) forms. Some of the major features of marketisation have become etched in public consciousness. The decline of the welfare state, cuts to benefits, the removal of tariffs and subsidies, the selling of state assets, ‘flexibility’ in wages and working conditions, corporatisation and privatisation in health and education, and an emphasis on efficiency, competition and choice are all now familiar themes for social and political commentators in many Western countries. While these can be considered as defining features of a postmodern moment in socio-economic life, our recent history also has a profoundly *modern* character. The emergence of neoliberalism as a political philosophy has been one of the most stunning examples of a *metanarrative*: a framework within which all other ideas about social, institutional and cultural life are expected to operate.

Neoliberalism has become *the* ‘big story’ of our time, dominating reform agendas around the Western world. In the realm of ideas, our condition is both postmodern and modern. There has been a growing scepticism toward, or at least a questioning of, some of the legitimating narratives of the past: nationalism, Marxism, Christianity, and the feminism of the 1970s, among others. Older-style industrial action, unionisation, and political activism—based, at least in part, on the call by Marx and Engels (1967, p. 121) for workers of all countries to unite—has given way to a stronger focus on cultural difference and a heterogeneous array of new social movements. At the same time, there has been tremendous pressure to fall into line with an increasingly narrow social and economic vision: one driven by principles of competitive individualism and sustained by an aggressive programme of neoliberal policy reform. The pressures on those working in schools, universities, hospitals, welfare agencies, and a host of other institutions have often been applied quite overtly (e.g., through new requirements in employment practices and in the measurement of ‘performance indicators’) but more subtle shifts (e.g., changes in the language of everyday institutional life) have been equally effective in cementing neoliberalism as the dominant narrative.

INTRODUCTION

It has sometimes been said the neoliberal era has passed. In this book, we raise serious doubts about the alleged demise of neoliberalism. Over the years, neoliberalism has demonstrated a certain elasticity, allowing, for example, for the extremes of Thatcherism and Rogernomics on the one hand and the ‘Third Way’ (or ‘new progressivist’) politics of Blair and Clinton on the other. It is true that for many on the political left, the ethical socialism of ‘Old Labour’ has been self-consciously abandoned. Of course, there is no rigid separation between different historical eras or systems of thought. But there is nothing substantial in the policy agendas of current Labour governments (in the UK, Australia, and New Zealand, for instance) to suggest a strong commitment to socialist principles. There has been a softening of some of the ‘hard edges’ of neoliberalism, but the dominance of the market as the model for many areas of economic and social activity remains largely unquestioned. Indeed, senior political figures in contemporary Labour parties sometimes feel a need to stress that they are ‘pro-business’ and that being competitive on the world stage is a key national goal. The old socialist ideal of overthrowing capitalism appears to have disappeared, or at least to have been pushed well and truly to one side. In New Zealand, there have since 1999 been some important changes in industrial relations legislation (with the replacement of the Employment Contracts Act by the Industrial Relations Act), benefit levels have been raised somewhat, and the government has made a significant commitment to programmes of Māori development. But the overall framework within which policy decisions are made has not altered. In the United States there has been a marked swing further to the Right with the election and re-election of George W. Bush as President. Even if the Democrats regain power in the US, it hardly seems likely that old-style socialism will emerge victorious. New Labour’s long reign in the UK, first under Tony Blair and more recently under Gordon Brown, has demonstrated, as Giddens (2000) has argued, that the old labels of ‘left’ and ‘right’ have been redefined in the postmodern age. Australia’s recent election of a Labour government will no doubt see some policy shifts (e.g., on matters of defence), and Kevin Rudd may not share John Howard’s reluctance to apologise to the indigenous population, but the fundamental economic direction of the country is unlikely to change.

NEW ZEALAND AS A CASE STUDY

This book, while not ignoring broader trends in education policy, pays particular attention to changes in New Zealand. Our primary concern is with higher/tertiary education¹ and research policy, although, as will become clear from the chapters that follow, changes in these areas are closely related to wider economic and social reforms. The major features of the neoliberal restructuring process in New Zealand have become well known among policy commentators internationally. Over a period of fifteen years (1984-1999) successive Labour and National governments pursued an aggressive programme of corporatisation, marketisation and privatisation in economic and social policy. While lauded by some politicians and policy makers overseas, this programme of reform has attracted considerable criticism in

New Zealand from scholars across a range of disciplinary areas (see, for example, Boston & Dalziel, 1992; Hazledine, 1998; O'Brien & Wilkes, 1993; Kelsey, 1995; Peters & Roberts, 1999). The New Zealand variant of neoliberalism blended elements of monetarism, Human Capital Theory, Public Choice Theory, Agency Theory, and Transaction Cost Economics (Olssen, 2002). The reform process was grounded in a view of human beings as rational, self-interested choosers and consumers (Peters & Marshall, 1996). Competition between individuals, state owned enterprises, and public institutions was encouraged. Policies of 'user pays' were implemented in health, education and other sectors. 'Education' was reconfigured in this process and came increasingly to be seen as a commodity: something to be sold, traded and consumed. Students were assumed to be private beneficiaries from the investment in their education, and were thus expected to cover a greater share of their tuition costs. By the late 1990s the notion of education serving as a form of public good had all but disappeared from official policy discourse.

Faith in the models provided by the business world found expression in a number of educational policy areas, particularly at the tertiary level. Tertiary education institutions would, neoliberals believed, be better served by a 'Board of Directors' style of governance, with full competition between public and private institutions, lower government subsidies, and stronger (managerialist) accountability mechanisms. Institutions and other organisations offering higher educational qualifications became known as 'providers' and were expected to respond, in a competitive environment, to the preferences and demands of 'consumers' (students, employers and, in some cases, the government and parents). The model of the market, in New Zealand as elsewhere, provided the basis for the whole organisation of society: the ideal was one in which different individuals would strive for advantage over others in an environment of largely unfettered competition, with minimal state interference and a heavy emphasis on 'the bottom line' in all policy and decision-making processes. (See further, Peters & Roberts, 1999.)

With the election of the Labour-Alliance government in New Zealand in 1999 some of the harder edges of neoliberal policy reform have softened somewhat. Following a policy path similar to the one modelled by Tony Blair in the United Kingdom, the Labour-Alliance government adapted 'Third Way' politics to the New Zealand context. Anthony Giddens is the best known Third Way theorist, and his influence, directly and indirectly, on Tony Blair and UK policy making during the second half of the 1990s and first few years of the 21st century must be acknowledged. Giddens has explained and defended the Third Way in a number of publications (e.g., Giddens, 1998, 2000, 2001, 2003). He has taken the views of his critics seriously (see, for example, Giddens, 2000), and he has encouraged others to debate Third Way ideas (in, for instance, Giddens, 2003). Criticisms of the Third Way have persisted, and we shall contribute to this ongoing debate in a modest way in this book. We share some of the reservations expressed by theorists such as Codd (2001) and Jessop (2006, 2007), who see the Third Way as neoliberalism with a softer or human face. We have argued a similar position in our previous work and in the chapters that follow we attempt to show, among other things, how

and why this is so in New Zealand tertiary education and research policy. Our analysis suggests, however, that in some respects there has been little softening of neoliberal ideas. Competition, for example, has re-emerged in new, often 'brutal' forms in the tertiary education sector. This is particularly evident in new regimes for research funding, as we discuss below.

That New Zealand would adopt a version of Third Way politics was anticipated prior to the 1999 election and the implications of Third Way thought for several areas of policy were explored almost a decade ago (see, for example, Chatterjee, Conway, Dalziel, Eichbaum, Harris, Philpott, & Shaw, 1999). But New Zealand's approach to the Third Way has also evolved over time, within tertiary education among other policy domains. There has, over the past decade, been a strong push to develop New Zealand as a 'knowledge society and economy'. Shortly after coming to power, the Labour-Alliance government announced the formation of a Tertiary Education Advisory Commission (TEAC). The Commission went on to produce four reports, covering most of the key areas of tertiary education policy: *Shaping a Shared Vision, Shaping the System, Shaping the Strategy, and Shaping the Funding Framework* (TEAC, 2000, 2001a, 2001b, 2001c respectively). Policy documents on industry training (Ministry of Education, 2001a) and 'export' education (Ministry of Education, 2001b) were prepared. A *Tertiary Education Strategy*, detailing key government commitments for the sector over the period 2002-2007 was subsequently released in draft (Ministry of Education, 2001c) and final form (Ministry of Education, 2002). A permanent Tertiary Education Commission (TEC), with responsibility for overseeing the administration of tertiary education across the country, has now been established. Concentrations of research activity developed through Centres of Research Excellence (COREs). A number of other high-profile events from the same period, notably the 'Knowledge Wave' conference held at the University of Auckland in 2001, kept research and education issues in the news. These followed earlier government initiatives, including the 'Foresight Project' (Ministry of Research, Science and Technology, 1998) and the 'Bright Futures' programme—both launched under a National-led administration—in which the theme of 'knowledge' played a key role. In later years, a second *Tertiary Education Strategy*, similar in scope and style to the first one, would appear (Ministry of Education, 2006).

It is true that in the post-1999 period the obsession with 'consumer choice' has been reduced and greater attention has been paid to social inclusiveness and the realisation of a 'shared vision' for New Zealand's future. The distinctive needs of Māori and Pasifika communities have been given more serious consideration, and in some areas of social policy (including education) some forms of collaboration and cooperation have been encouraged. At the same time, however, the goal of enhancing New Zealand's competitiveness on the international economic stage has remained as the foundation stone for government policy. With the re-election of Labour-led governments in 2002 and 2005, it has become increasingly clear that the 'Third Way', at least in New Zealand, is still a neoliberal way. The language of neoliberalism continues to exert a strong influence on bureaucratic and political thinking. Globalisation appears to have been embraced by the New Zealand

government as an inevitable and largely desirable process. Much of the talk about a 'knowledge society' has had a largely rhetorical flavour and the extensive body of critical research and scholarship in this area appears to have had only minimal impact on government policy making. It is the economic dimension of the 'knowledge society and economy' ideal that has come to dominate over the social element, and in the post-1999 period alternatives to neoliberal global capitalism have seldom been given serious consideration (see further, Roberts, 2005a).

The commodification of knowledge and education has, in some respects, been pushed even further by the Labour-led governments of recent years than it was by National in the 1990s. While 'knowledge' occupies a central place in contemporary policy discourse, relatively little attention has been paid to fundamental epistemological questions. Some of the work conducted by the Tertiary Education Advisory Commission provides an exception (e.g., TEAC 2000) but in most policy documents 'knowledge' now appears to be barely distinguishable from skills and information and is understood and discussed principally in terms of its exchange value. In line with a new policy focus on 'export education', determined moves have been made to shore up and enhance New Zealand share of the international 'knowledge market'. Expenditure in tertiary education institutions on marketing has increased substantially. Knowledge is, more than ever, *for sale* and institutions have devoted considerable effort to its effective packaging and distribution. Carving out a distinctive niche in the domestic 'knowledge market', with slogans, images, endorsements, and other marketing ploys, has been seen by many institutional leaders as vital for their ongoing success. These developments have been accompanied by changes in the monitoring, measurement and funding of research within the tertiary education sector. The culture of performativity already established in universities in the decade preceding the election of the Labour-Alliance government in 1999 has become even more entrenched with the introduction of the Performance Based Research Fund (PBRF).

More will be said about these policy developments, and others of a related kind, in the chapters that follow. The brief remarks offered here should suffice, however, to indicate that while New Zealand's Labour-Alliance coalition government of 1999 inaugurated a new era of better-informed tertiary education policy development, key elements of the reform process have remained unchanged. Neoliberal principles, softened somewhat by moves towards greater inclusiveness, continue to guide policy decision-making. There has been plenty of talk about the need for tertiary education to contribute to a knowledge economy and society, but surprisingly little has been said about the nature of knowledge itself. It is the continuities as well as the differences in policy formation and implementation that remind us of how important it is to ask searching questions of our policy-makers, and of ourselves, as each new phase of neoliberal tertiary education reform unfolds.

In earlier work (e.g., Olssen, 2002; Peters & Marshall, 1996) detailed attention has been paid to the philosophy of neoliberalism as this relates to education, and excellent histories of neoliberal thought are available elsewhere (e.g., Harvey, 2005). While we address neoliberal philosophy to some extent in this volume,

INTRODUCTION

particularly in chapter 1, our prime focus is on the application of neoliberal ideas in policy documents and developments in tertiary/higher education. New Zealand will serve as a case study in examining aspects of contemporary higher education and research policy, but brief reference will also be made to developments in other contexts. Chapter 1 lays a theoretical foundation for later discussion and comments briefly on policy trends in Europe and the United States. Chapter 2 examines Third Way politics in the United Kingdom. The UK continues to exert an influence on New Zealand policy thinking, even if this is now rather more indirect than it was around the turn of the century. One area where a clear path of policy thought can be traced is in relation to the funding of research. The changes in research policy under New Zealand's Performance-Based Research Fund (PBRF) are similar to those enacted in the UK, and performance-based schemes for research funding can also be found in Hong Kong, Israel, Australia, and other parts of the world. New Zealand has some distinctive features (including, for example, those relating to its relatively small population, its colonial history, and its geographical isolation), but the lessons to be learned from neoliberal reforms in this country have, we believe, wider implications for other democracies in the Western world.

THE STRUCTURE AND CONTENT OF THIS BOOK

Chapter 1 traces some of the key steps in the development of neoliberalism. Several schools of economic liberalism are identified. We pay particular attention to the work of Hayek and Foucault. We consider Hayek's international influence, which extended to New Zealand not just in the 1980s and 1990s but, indirectly, much earlier with the arrival of his friend Karl Popper at the University of Canterbury in the late 1930s. We also discuss the role of the Mont Pelerin Society, and the cementing of neoliberalism in national economic and social policies in multiple Western democracies via the so-called 'Washington Consensus'. Finally, we comment briefly on the development of the 'Third Way' politics and the emergence of knowledge as intellectual capital in late neoliberal societies.

Chapter 2 provides a more detailed analysis of the Third Way, with particular reference to the UK context. We situate UK Third Way policies in their broader international contexts, observing that similar programmes of reform were adopted in other parts of Europe (notably in Germany, under Schröder) and in the US during Bill Clinton's tenure as President. The influence of Anthony Giddens in providing a theoretical basis for Third Way policy reform is acknowledged. We analyse the Third Way as a form of governmentality, drawing again on the work of Foucault. Finally, we consider the impact of Third Way thinking on questions of citizenship, arguing that individual has been reconceived as a citizen-consumer. We conclude with brief remarks about education under Third Way politics, introducing ideas that are developed more fully in subsequent chapters.

It was noted earlier in this Introduction that 'knowledge' has become a key policy buzzword. This is particularly evident in policy material on education, science and research, where references to the importance of building the 'new' knowledge society and economy abound. Chapter 3 discusses two examples of

these new knowledge discourses at work in the New Zealand context. The first is the Foresight Project, a futures-oriented policy initiative developed under a National government in the late 1990s. The second is the Labour-led *Tertiary Education Strategy*, which sets out priorities for post-compulsory education and training from 2002 to 2007. We argue that these initiatives blend narrative, technoscientific and neoliberal forms of knowledge, with the latter ultimately dominating the other two. We support the attempt to take the future seriously in policy development but maintain that these initiatives foster an illusory notion of inclusiveness and consider only a narrow range of social and economic alternatives.

Chapter 4 builds on the discussion in chapter 3. The chapter problematises the notion of the 'knowledge society' found in the Foresight Project and a major Organisation for Economic Co-operation and Development (OECD) international adult literacy survey. We support a broadening of the concept of literacy, as suggested by the OECD reports, but point to some of the limits of 'information' as the focus for such a re-definition. We argue that both the OECD investigators and the Foresight Project coordinators ignore crucial political and ethical questions in their accounts of the 'knowledge society' and the process of globalisation. We maintain, moreover, that both are wedded to a technocratic mode of policy development and planning. We see a need for further critical work on changing patterns of literate activity in the information age, and stress the importance of contemplating futures other than those driven by the imperatives of global capitalism.

Chapter 5 provides a critical analysis of New Zealand's Performance Based Research Fund (PBRF). Initiated by a Labour-led government but foreshadowed by the White Paper on tertiary education policy released under the previous National administration, the PBRF system is ostensibly designed to recognise and reward (through increased funding) those institutions performing at the highest levels in their research activities. The PBRF was introduced in 2003 following a careful review of similar schemes in the United Kingdom, Hong Kong, and other countries. The results of the first round, released in 2004, attracted considerable attention in educational communities and the popular media. A second (partial) round was completed in 2006. In this chapter, we set the PBRF in its broader policy context, detail some of the main features of the scheme, and discuss the results of the 2003 exercise.

In our evaluation of the PBRF, a number of positive points are noted. These include the comprehensiveness of the deliberations that led to the development of the scheme, the relatively high degree of openness in the policy development process, and the expressed commitment to enhancing the quality of research in tertiary education institutions in New Zealand. At the same time, we raise a number of concerns. These include the emphasis on measurement and the logic of performativity, the narrowing of our sense of what counts as worthwhile inquiry, the problematic nature of the appeal to 'quality', and the development of a competitive research culture.

Chapter 6 extends the analysis undertaken in Chapter 5, concentrating on three themes: the relationship between privatisation, competition and research performance; the standardisation of research; and motivations for research. We acknowledge the thorough work completed by the Tertiary Education Advisory Commission and other policy groups in laying the foundation for the adoption of performance based research funding in New Zealand. We argue, however, that when viewed in its larger context, the PBRF constitutes a continuation of neoliberal trends already well established in New Zealand's tertiary education system.

Chapter 7 provides an overview and critique of the New Zealand government's second *Tertiary Education Strategy* (Ministry of Education, 2006). In this chapter, we set the *Strategy* in the context of earlier policy developments in the tertiary education sector. We argue that while some important changes have been made in the post-1999 'Third Way' years in New Zealand, a number of continuities from the more nakedly neoliberal era of the 1990s are evident. Economic concerns remain dominant in policy thinking, the commodification of knowledge has intensified, new forms of competition have emerged, and the language of reform has not changed as much as might have been expected. We conclude that there is a certain narrowness of vision in the new *Strategy*, as there was in the first *Tertiary Education Strategy* (see chapter 3), and that what is needed is deeper reflection on fundamental epistemological and ethical questions.

Chapter 8 reflects on the roles and responsibilities of intellectuals in the 21st century. We argue that in theorising the possibilities for intellectual life, the notion of 'difference' is significant in at least two senses. First, work on the *politics* of difference allows us to consider the question 'For whom does the intellectual speak?' in a fresh light. Second, we can ask: 'To what extent, and in what ways, might our activities as intellectuals *make* a difference?' Thinkers such as Foucault, Kristeva, Lyotard, and Bauman (among many others) are helpful in addressing these questions. Chapter 7 sketches some of the key ideas of these thinkers and assesses their relevance for an understanding of intellectual life in contemporary tertiary education institutions.

The book concludes, in Chapter 9, with our reflections on philosophical futures for education. We begin with Brian Leiter's reassessment of the analytic-Continental divide in philosophy. Leiter's account provides a backdrop against which to consider prospects for educational inquiry and philosophy of education in particular. We suggest a need to problematise the notion of the future, and draw on the work of Friedrich Nietzsche in making a start in this direction. We set this discussion in the context of Nietzsche's stance on nihilism and his concept of the end of the future. We comment on Nietzsche's philosophers of the future and their task as 'cultural physicians'. We end the book with a brief account of the nature and significance of 'knowledge cultures' in creating educational futures.

NEOLIBERALISM AND THE EMERGENCE OF KNOWLEDGE AS INTELLECTUAL CAPITAL

INTRODUCTION

Neoliberalism is a popular label for the doctrine of political and economic liberalism and set of policies originating in the 1970s that welded together classical liberal political theory as exemplified by the Mont Pelerin Society after WWII and neoclassical economic theories that became identified with the so-called Chicago school under Milton Friedman in the 1960s. It is not a unified and coherent doctrine and it has taken on different manifestations at different times and places, sometimes with contradictory results. For an ultimately moral doctrine based on a classical account of political and economic freedom—a marriage of the ‘free market’ and the ‘open society’—neoliberalism has a violent past. Beginning with Chile in 1973, administrations and policy regimes based on the minimal state and open global market were established with force and coercion, against the rule of law and in an anti-democratic way. This imposition became commonplace during the 1980s with the ‘structural adjustment’ policies of the IMF (International Monetary Fund) and the World Bank that ‘forced’ the transitional economies of Latin America and elsewhere to liberalise trade and monetary systems, to open up their economies and to privatise state assets and cut back state welfare.

For analytical purposes, we can postulate several stages of neoliberalism: first, the development of the Austrian, Freiburg and Chicago schools in neoclassical economics; second, the ‘first globalisation’ of neoliberalism with the establishment of the Mont Pelerin Society in 1947; third, the development of the ‘Washington consensus’ during the 1970s; fourth, the Thatcher-Reagan experiment; fifth, the emergence of structural adjustment loans and institutionalisation of neoliberalism through a series of world policy agencies such as the IMF, the World Bank, the OECD (Organisation for Economic Cooperation and Development), and the WTO (World Trade Organisation); sixth, the transition to ‘knowledge economy’ and ‘knowledge for development’ in the 1990s and beyond. This chapter identifies and discusses key features of this development process.

Three Schools of Economic Liberalism

The Austrian school of neoliberal thought emerged around Carl Menger in the late nineteenth century and its subjective theory of value and political defence of laissez-faire economic policy became clearer in the hands of Friedrich Wieser and Eugene Böhm-Bawerk, and later, Ludwig von Mises and Friedrich von Hayek.²

The neoliberalism of the Chicago school first emerged around George Stigler's leadership and Friedman's monetarism in the 1960s. It was fiercely anti-Keynesian and against the concept of market failure. This school, often referred to as the 'second' Chicago school, included work on search theory (Stigler), human capital theory (Becker) and transaction cost analysis (Coarse). This then served as the basis for a series of innovations and new directions sometimes characterised as the 'third' Chicago school, including monetarism (Friedman), public choice theory (Buchanan), new classical macroeconomics (Lucas), new institutional economics (Coarse), new economic history (Fogel), new social economics (Becker), and law and economics (Posner).³

The Freiburg school or the Ordoliberal school was founded in the 1930s at the University of Freiburg in Germany by economist Walter Eucken and two jurists, Franz Böhm and Hans Großmann-Doerth. The founders of the school were united in their common concern for the question of the constitutional foundations of a free economy and society and were anti-naturalist in their conception of the market, believing it was a legal-judicial construction.

The Ordo-liberalism of the Freiburg school constituted a major part of the theoretical foundations on which the creation of the social market economy in post WWII Germany was based. The school is often subsumed under the rubric of German neo-liberalism, which also includes such authors as Alfred Müller-Armack, Wilhelm Röpke and Alexander Rüstow (Vanberg, 2000).

Vanberg (2000) points out that while these authors shared important common ground they also differed strongly over the market order, which for the Freiburg school 'is in and by itself an ethical order'. Vanberg goes on to describe the differences in the following terms:

Müller-Armack, by contrast, regards the market order as an economically most efficient order, but not as one that has inherent ethical qualities. It is a "technical instrument" that can be used by society to produce wealth, but it does not make itself for a "good" society. It has to be made "ethical" by supplementary policies, in particular "social" policies.

Foucault on Neoliberalism

In his governmentality studies in the late 1970s Foucault held a course at the Collège de France on the major forms of neoliberalism, examining the three theoretical schools of German ordoliberalism, the Austrian school characterised by Hayek, and American neoliberalism in the form of the Chicago school (see Foucault, 2008). Among Foucault's great insights in his work on governmentality was the critical link he observed in liberalism between the governance of the self and government of the state—understood as the exercise of political sovereignty over a territory and its population. Liberal modes of governing are distinguished by the ways in which they utilise the capacities of free acting subjects and, consequently, modes of government differ according to the value and definition accorded the concept of freedom. Peters (2007) discusses Foucault's approach to governmentality,

before detailing and analysing Foucault's account of German *ordoliberalism*, as a source for the 'social market economy', and the EU's 'social model'. Foucault's lectures, rather than being called 'The Birth of Biopolitics', could be called 'The Birth of Neoliberalism'. For Foucault begins with an analysis of the self-limitation of governmentalism reason, which he takes to be synonymous with liberalism, and which he suggests should be understood very broadly as:

1. Acceptance of the principle that somewhere there must be a limitation of government and that this is not just an external right.
2. Liberalism is also a practice: where exactly is the principle of the limitation of government to be found and how are the effects of this limitation to be calculated?
3. In a narrower sense, liberalism is the solution that consists in the maximum limitation of the forms and domains of government action.
4. Finally, liberalism is the organisation of specific methods of transaction for defining the limitation of government practices:
 - constitution, parliament
 - opinion, the press
 - commissions, inquiries

(Foucault, 2008, pp. 20-21)

He says liberalism, in the second half of the twentieth century, 'is a word that comes to use from Germany' (p. 22), and in later chapters he jumps ahead to understand German neoliberalism as beginning with Erhard in 1947 and to examine contemporary German governmentality: economic freedom, the source of juridical legitimacy and political consensus. What preserves liberalism in its new formation is the way in which neoliberalism picks up on the classical liberal political practice of introducing a self-limitation on governmental reason while departing from it in terms of a theory of pure competition and the question of how to model the global exercise of political power on the principles of a market economy. Ordoliberalism thus issues in a critique of the protectionist economy: Bismarck's state socialism, the setting up of a planned economy during the First World War, Keynesian interventionism, and the economic policy of National Socialism.

The innovation of American neoliberalism for Foucault is the generalisation of the model of *homo economicus* to all forms of behaviour, representing an extension of economic analysis to domains previously considered to be non-economic and the redefinition of *homo economicus* as entrepreneur of himself with an emphasis on acquired elements and the problem of the formation of human capital in education. Foucault goes on to discuss a resumption of the problem of social and economic innovation and the generalisation of the 'enterprise' form in the social field.

The Centrality of Hayek

In Foucault's analysis, there are multiple references to Hayek and to the Austrian school. Hayek was, after all, a circuit for ideas, a carrier and exporter of ideas, as well as an organiser and a social and political thinker. Hayek began his studies under Eugen von Bohm-Bawerk and von Mises, was invited to the London School

of Economics by Lionel Robbins in 1931, becoming a British subject in 1938. He took up a professorship at the University of Chicago in 1950, which he held until 1962. He won the Nobel Prize for Economics in 1974 and taught and eventually retired at the University of Freiburg in his later years.

Friedrich von Hayek (1899-1992) is probably the single most influential individual economist or political philosopher to shape what is now understood as neoliberalism, although he is best regarded, and considered himself, as a classical liberal. Hayek's own theoretical direction sprang out of the Austrian school established by Carl Menger, Eugen Boehm-Bawerk and Ludwig von Mises during first decade of the early twentieth century. What distinguished the Austrian school from the classical school of political economy pioneered by Adam Smith and David Ricardo was their 'subjective', as opposed to the 'objective', theory of value. Leon Walras (1834-1910) of the French Lausanne School presented economics as 'the calculus of pleasure and pain of the rational individual' and Carl Menger, developing the 'subjective' theory of value, launched what some have called a 'neoclassical revolution' in economics.

It was Mises' strong anti-socialism that informed the corpus and theoretical direction of Hayek's work, particularly his work on business cycles. Hayek became Director of the Institute for Business Cycle Research, which he and Mises set up, in 1927. Shortly thereafter in 1930 Hayek was invited to the London School of Economics (LSE) to lecture on trade cycles, where he was soon after appointed to a chair in economics and statistics. While at the LSE Hayek was involved in two famous debates: first, with Keynes over interventionism (and, in particular, Keynes' alleged failure to understand the role that interest rates and capital play in a market economy); and, second, with Oskar Lange and others over the nature of socialist planned economy. However, Keynes' star was on the rise during the 1930s and Hayek's criticisms were downplayed by the international economics community.

Hayek addressed himself again to the problems of the nature of the planned socialist economy in one of his most famous and populist works, *The Road to Serfdom* (1944), a book that suggested that the absence of a pricing system would prevent producers from knowing true production possibilities and costs. The book also warned about the political dangers of socialism, in particular, totalitarianism, which Hayek thought came directly from the planned nature of institutions. After the Second World War, in the year 1947, Hayek set up the very influential Mont Pelerin Society, an international organisation dedicated to restoring classical liberalism and the so-called free society, including its main institution, the free market. Hayek was concerned that even though the Allied powers had defeated the Nazis, liberal government was too welfare-oriented, a situation, he argued, that fettered the free market, consumed wealth and infringed the rights of individuals. With the Mont Pelerin Society Hayek gathered around him a number of thinkers committed to the 'free market', including his old colleague Ludwig von Mises as well as some younger American scholars who were to become prominent economists in their own right. These included Rose and Milton Friedman, James Buchanan, Gordon Tullock, and Gary Becker, economists who went on to establish the main

strands of American neoliberalism: the monetarism of the ‘third’ Chicago school (see e.g., Friedman, 1962), public choice theory (see e.g., Tullock & Buchanan, 1962), and human capital theory (e.g., Becker, 1964).

Most significantly, Hayek invited his old friend Karl Popper, who was resident at the University of Canterbury in New Zealand from 1937-45. There Popper had written his now classic two-volume work, *The Open Society and Its Enemies* (1945), which was an attack on historicism and a defence of liberal democracy as the open society. Hayek had arranged for Popper to take up a position in philosophy at the LSE and their association had gone back many years—Hayek refers, for example, to Popper’s *The Logic of Scientific Discovery* and adopts his falsificationism in his early 1937 *Economica* paper ‘Economics and Knowledge’.⁴ Both were in Vienna at the turn of the century, both were committed to forms of individualism (epistemological and methodological), and both fiercely defended notion of the free society. Hayek argued that political freedom depended on economic freedom. Together, Hayek and Popper were formidable ‘Cold War warriors’ who held that Hegel’s and Marx’s historicism were the basis of twentieth century totalitarianism. Together, Popper’s *The Open Society* and Hayek’s *The Road to Serfdom* (1949) served as polemical tracts that at one and the same time warned against going down the socialist road while extolling the virtues of the open society and its relationship with the open market.

Hayek’s liberalism was also very influential in Britain, especially with the Institute of Economic Affairs, and with Margaret Thatcher, who came to power as the leader of the British Conservative Party in 1979. We might say that neoliberalism, historically, was at its strongest during the era of the trans-Atlantic partnership between Ronald Reagan and Margaret Thatcher, during the decade of the 1980s, and its dominance in that part of the world began to wane in the 1990s. In 1950, Hayek moved to the University of Chicago, where he wrote *The Constitution of Liberty* (1960), his first systemic treatise on classical liberal political economy. In 1962, Hayek moved to the University of Freiburg where he developed his theory of spontaneous order. The market, he argued, was a spontaneously ordered institution that had culturally evolved in the same way that the institutions of language and morality had evolved. Such institutions were not the product of intelligent design; rather, like their counterparts in the physical world (crystals, snowflakes and galaxies), they had evolved as spontaneously ordered institutions. The market, then, while the result of human actions over many generations, was not the result of human design.

Hayek thus emphasised the limited nature of knowledge: the price mechanism of the ‘free’ market conveys information about supply and demand that is dispersed among many consumers and producers and cannot be coordinated. In addition, Hayek’s liberalism emphasised: methodological individualism; *homo economicus*, based on assumptions of individuality, rationality, self-interest; and the doctrine of spontaneous order.

It was during the decade of the 1980s that Hayek’s political and economic philosophy was used by Thatcher and Reagan to legitimate the neoliberal attack on ‘big government’ and the bureaucratic welfare state. Under Thatcher and Reagan,

there was a policy mix based on ‘free’ trade and the establishment of the ‘open’ economy. Changes included: economic liberalisation or rationalisation characterised by the abolition of subsidies and tariffs; the floating of exchange rates; the freeing up of controls on foreign investment; the restructuring of the state sector, including corporatisation and privatisation of state trading departments and other assets; ‘downsizing’; the attack on unions and abolition of wage bargaining in favour of employment contracts; and, finally, the dismantling of the welfare state through commercialisation, ‘contracting out’, ‘targeting’ of services, and individual ‘responsibilisation’ for health, welfare and education. On this view there is nothing distinctive or special about education or health; they are services and products like any other, to be traded in the marketplace.

These policies, sometimes referred to as ‘the Washington Consensus’, were designed to ‘restructure’ or adjust national economies to the dramatic changes to the world economy that had occurred in the last twenty years: the growing competition among nations for world markets; the emergence of world trading blocs and new ‘free trade’ agreements; an increasing globalisation of economic and cultural activities; the decline of the post-war Keynesian welfare state settlement in Western countries; the collapse of actually existing communism and the ‘opening up’ of the Eastern bloc; and the accelerated world-wide adoption and development of the new information and communications technologies.

The Mont Pelerin Society

The Mont Pelerin Society was established by Hayek to protect values of ‘the civilized world’ against the dangers of ‘the expansion of government’, especially the growth of the welfare state, ‘the power of the trade unions and business monopoly’ and ‘the continuing threat and reality of inflation’.⁵ The organisation comprised thirty-six scholars who were mostly economists, including members of the Austrian school such as Ludwig von Mises and members of the Chicago school such as Milton Friedman and Gary Becker, as well as a few philosophers and historians, such as Karl Popper. At its inaugural meeting the founding member of the Society proclaimed as part of its statement of aims:

The central values of civilization are in danger. Over large stretches of the earth’s surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even that most precious possession of Western Man, freedom of thought and expression, is threatened by the spread of creeds which, claiming the privilege of tolerance when in the position of a minority, seek only to establish a position of power in which they can suppress and obliterate all views but their own.

The Society held that these dangers amounted to an ideological movement that fostered a ‘view of history that denies all absolute moral standards’ and questioned

‘the desirability of the rule of law.’ The same ‘ideology’—clearly Hayek and others had in mind all forms of totalitarianism—had promoted ‘a decline of belief in private property and the competitive market’ while holding that ‘the diffused power and initiative associated with these institutions’ constitute the very basis of the free society.

The founding members drafted a statement of aims that indicated that the ‘ideological movement must be met by intellectual argument and the reassertion of valid ideals’, and specified the following intellectual agenda:

- The analysis and exploration of the nature of the present crisis so as to bring home to others its essential moral and economic origins.
- The redefinition of the functions of the state so as to distinguish more clearly between the totalitarian and the liberal order.
- Methods of re-establishing the rule of law and of assuring its development in such manner that individuals and groups are not in a position to encroach upon the freedom of others and private rights are not allowed to become a basis of predatory power.
- The possibility of establishing minimum standards by means not inimical to initiative and functioning of the market.
- Methods of combating the misuse of history for the furtherance of creeds hostile liberty.
- The problem of the creation of an international order conducive to the safeguarding of peace and liberty and permitting the establishment of harmonious international economic relations.

Neoliberalism received its definitive statement by John Williamson, who coined the term ‘Washington Consensus’ in 1990 to refer to a set of policies addressed to Latin American countries by Washington-based institutions. These policies essentially involved an attack on ‘big’ government, a shift in control and resources from the public to the private sector, and the substitution of the market or market-like arrangements for the state. The Washington Consensus advocated the privatisation of state assets, economic deregulation, and redirection of public expenditure priorities toward fields offering high economic returns. It strongly encouraged trade liberalisation, the liberalisation of interest rates and rules for foreign direct investment, and the floating of the exchange rate. Finally, it proposed tax reform (to lower marginal rates and broaden the tax base) together with enforcement of property rights and the encouragement of greater fiscal discipline. Williamson himself, reflecting on these policies a decade later, suggests the three big ideas are ‘macroeconomic discipline, a market economy, and openness to the world (at least in respect of trade and FDI)’.

By the 1980s neoliberalism, both as a political philosophy and policy mix, had taken deep root and was applied forcefully and manipulatively, as in the case of New Zealand, by a Labour government against the interests of its traditional affiliated trade union party and against the sustained democratic protests of a generation of New Zealanders. During that decade many governments around the world supported the modernising reforms thrust of neoliberalism, particularly the exposure of the state sector to competition and the opportunity to pay off large and

accumulating national debts. By contrast, many developing countries had ‘structural adjustments policies’ imposed upon them as loans conditions from the IMF and World Bank. The reforming zeal soon ideologised the public sector *per se* and ended by damaging key national services (including health, education and telecommunications). By the late 1990s, the wheel had turned again, this time towards a realisation that the dogmatism of the neoliberal right had become a serious treat to social justice, to national cohesion, and to democracy itself. Large sections of populations had become structurally disadvantaged, working and living on the margins of the labour market; rapidly growing social inequalities had become more evident as the rich had become richer and the poor poorer; companies were failing and underperforming; public services had been ‘stripped down’ and were unable to deliver even the most basic of services; many communities had become split and endangered by the rise of racism, crime, unemployment and social exclusion. National governments throughout the world looked to a new philosophy and policy mix—one that preserved some of the efficiency and competition gains but did not result in the forms of social splitting and social exclusions.

One model advocated by British Prime Minister Tony Blair and US President Bill Clinton, sometimes termed ‘new progressivism’ but more commonly known as the ‘Third Way’, aimed to revitalise the concern for social justice and democracy while moving away from traditional policies of redistribution. This approach was to define freedom in terms of autonomy of action, demanding the involvement and participation of the wider social community. Some commentators have seen nothing new in the ‘Third Way’, regarding it as a return to the ethical socialism of ‘old Labour’. Other critics see it as a cover for the wholesale adoption of Conservative policies of privatisation and the continued dismantling of the welfare state. Still others suggest that the ‘Third Way’ is nothing more than a spin-doctoring exercise designed to brand a political product as different from what went before.

Sloganised as ‘market economy but not market society’, advocates of the ‘Third Way’ see it as uniting the two streams of left-of-centre thought: democratic socialism and classical liberalism, where the former is said to promote social justice with the state as its main agent and the latter said to assert the primacy of individual liberty in the market economy. Understood in this way, the ‘Third Way’ is a continuance of classical liberalism, born of the same political strategy of integrating two streams as the New Right (neoliberalism and neoconservatism) but this time the ‘other’ stream is social democracy rather than conservatism.

While in the UK and Europe the Third Way came to power, in the US, beginning with Ronald Reagan and lasting through the Bush dynasty until 2008, neoliberalism as an economic doctrine was married with a neoconservatism that, rhetorically, spoke to moral concerns and the reassertion of American values and identity as the basis of US foreign policy. This neoconservatism underpinned the ‘War on Terror’ and the doctrine of the pre-emptive strike while simultaneously ‘opening’ up Iraq and its oilfields to neoliberal reconstruction.

THE EMERGENCE OF KNOWLEDGE AS THE NEW FORM OF INTELLECTUAL CAPITAL

The most significant material change underpinning neoliberalism in the 21st century is the rise in the importance of knowledge as intellectual capital. This change, more than any other, propels the neoliberal project of globalisation. This project is an outcome of the Washington Consensus and is modelled by world policy agencies such as the IMF and the World Bank. It has predominated in world policy forums at the expense of alternative accounts of globalisation. It is an account that universalises policies and obscures country and regional differences. It also denies the capacity of local traditions, institutions and cultural values to mediate, negotiate, reinterpret and transmute the dominant model of globalisation and the emergent form of knowledge capitalism on which it is based. Yet voices of criticism, even from mainstream economists, have been raised against this monolithic and homogenising model of globalisation.

For example, Joseph Stiglitz, as former Chief Economist of the World Bank, has criticised the policy decisions of the IMF as 'a curious blend of ideology and bad economics'. In particular, he argues that the IMF's structural adjustment policies, imposed on developing countries, have led to hunger and riots in many countries and precipitated crises that have led to greater poverty and international inequalities. Elsewhere, however, Stiglitz identifies the new global 'knowledge economy' as one that differs from the traditional industrial economy in terms of the scarcity-defying characteristics of ideas. He suggests 'movement to the knowledge economy necessitates a rethinking of economic fundamentals'. Knowledge, he maintains, is different from other goods in that it shares many of the properties of a global public good. This implies a key role for governments in protecting intellectual property rights in a global economy marked by greater potential monopolies than those of the industrial age (Stiglitz, 1999; see also Peters, 2000a, 2000b, 2001a, 2002a).

Yet at the heart of Joseph Stiglitz's (2002) analysis of globalisation and its discontents is an approach based on the economics of information—in particular, asymmetries of information—and its role in challenging standard economic models of the market that assumed perfect information. Information economics provides better foundations for theories of labour and financial markets. Stiglitz's work on the role of information in economics evolved into an analysis of the role of information in political institutions, where he emphasised:

... the necessity for increased transparency, improving the information that citizens have about what these institutions do, allowing those who are affected by the policies to have a greater say in their formulation. (Stiglitz, 2002, p. xii)

The transformation of knowledge production and its legitimation, as Stiglitz indicates, are central to an understanding of neoliberal globalisation and its effects on education policy. If transformation in knowledge production entails a rethinking of economic fundamentals, the shift to a knowledge economy also requires a

profound rethinking of education as emerging forms of knowledge capitalism, involving knowledge creation, acquisition, transmission and organisation.

The term ‘knowledge capitalism’ emerged only recently to describe the transition to the so-called ‘knowledge economy’, which can be characterised in terms of the economics of abundance, the annihilation of distance, the de-territorialisation of the state, and investment in human capital (see Figure 1 below). As the business development and policy advocate Burton-Jones (1999, p. vi) puts it, ‘knowledge is fast becoming the most important form of global capital—hence “knowledge capitalism”’. Burton-Jones views knowledge as a new generic form of capitalism as opposed simply to another regional model or variation. For Burton-Jones and analysts of world policy agencies such as the World Bank and OECD, the shift to a knowledge economy involves a fundamental rethinking of the traditional relationships between education, learning and work, focusing on the need for a new coalition between education and industry.

‘Knowledge capitalism’ and ‘knowledge economy’ are twin terms that can be traced at the level of public policy to a series of reports that emerged in the late 1990s by the OECD (1996) and the World Bank (1998, 1999), before they were taken up as a policy template by world governments in the late 1990s (see, e.g., Peters, 2001a, 2002a, 2002b, 2002c, 2002d). In terms of these reports, education is reconfigured as a massively undervalued form of knowledge capital that will determine the future of work, the organisation of knowledge institutions, and the shape of society in the years to come.

Figure 1: *Characteristics of the Knowledge Economy*

The knowledge economy differs from the traditional economy in several key respects:

1. The economics is not of scarcity, but rather of abundance. Unlike most resources that deplete when used, information and knowledge can be shared, and actually grow through application.
2. The effect of location is diminished. Using appropriate technology and methods, virtual marketplaces and virtual organizations can be created that offer benefits of speed and agility, of round the clock operation and of global reach.
3. Laws, barriers and taxes are difficult to apply on solely a national basis. Knowledge and information ‘leak’ to where demand is highest and the barriers are lowest.
4. Knowledge enhanced products or services can command price premiums over comparable products with low embedded knowledge or knowledge intensity.

5. Pricing and value depends heavily on context. Thus the same information or knowledge can have vastly different value to different people at different times.

6. Knowledge when locked into systems or processes has higher inherent value than when it can 'walk out of the door' in people's heads.

7. ...[C]ompetencies ... are a key component of value in a knowledge-based company, yet few companies report competency levels in annual reports. In contrast, downsizing is often seen as a positive 'cost cutting' measure.

Source: David Skyrme Associates Home Page
<http://www.skyrme.com/insights/21gke.htm>

The public policy focus on science and technology, in part, reflects a growing consensus in the macroeconomics of 'new growth' or 'endogenous growth theory', based on the work of Solow (1956, 1994), Lucas (1988) and Romer (1986, 1990, 1994), that the driving force behind economic growth is technological change (i.e., improvements in knowledge about how we transform inputs into outputs in the production process). On this model technological change is endogenous, 'being determined by the deliberate activities of economic agents acting largely in response to financial incentive' (Snowdon & Vane, 1999, p. 79). The neoclassical growth model developed by Solow assumed technology to be exogenous and therefore available without limitation across the globe. Romer's endogenous growth model, by contrast, demonstrates that technology is not a pure public good for while ideas are non-rivalrous they are also partially excludable through the legal system and patents. The policy implication is twofold: knowledge about technology and levels of information flow is critical for economic development and can account for differential growth patterns. Knowledge gaps and information deficiencies can retard growth prospects of poor countries, while technology transfer policies can greatly enhance long-term growth rates and living standards. Let us now turn to three accounts of 'knowledge capitalism' that represent a new orthodoxy in policy thinking.

THE KNOWLEDGE ECONOMY: REPORTS OF WORLD POLICY AGENCIES

The OECD and New Growth Theory

The OECD report *The Knowledge-Based Economy* (1996a) begins with the following statement:

OECD analysis is increasingly directed to understanding the dynamics of the knowledge-based economy and its relationship to traditional economics, as reflected in "new growth theory". The growing codification of knowledge and its transmission through communications and computer networks has led to the emerging "information society". The need for workers to acquire a

range of skills and to continuously adapt these skills underlies the “learning economy”. The importance of knowledge and technology diffusion requires better understanding of knowledge networks and “national innovation systems”.

The report is divided into three sections, focusing on: trends and implications of the knowledge-based economy; the role of the science system in the knowledge-based economy; and indicators, essentially a section dealing with the question of measurement (see also OECD, 1996b, 1996c, 1997; Foray & Lundvall, 1996). In the Summary, the OECD report discusses knowledge distribution (as well as knowledge investments) through formal and informal networks as being essential to economic performance and hypothesises the increasingly codification of knowledge in the emerging ‘information society’. In the knowledge-based economy ‘innovation is driven by the interaction of producers and users in the exchange of both codified and tacit knowledge’. The report points to an interactive model of innovation (replacing the old linear model), which consists of knowledge flows and relationships among industry, government and academia in the development of science and technology. With increasing demand for more highly skilled knowledge workers the OECD indicates:

Governments will need more stress on upgrading human capital through promoting access to a range of skills, and especially the capacity to learn; enhancing the knowledge distribution power of the economy through collaborative networks and the diffusion of technology; and providing the enabling conditions for organisational change at the firm level to maximise the benefits of technology for productivity. (p. 7)

The science system—public research laboratories and institutions of higher education—is seen as one of the key components of the knowledge economy, and the report identifies the major challenge as one of reconciling traditional functions of knowledge production and training of scientists with its newer role of collaborating with industry in the transfer of knowledge and technology.

In their analysis of the knowledge-based economy in one of the earliest reports to use the concept, the OECD observes that economies are more strongly dependent on knowledge production, distribution and use than ever before and that knowledge-intensive service sectors (especially education, communications and information) are the faster growing parts of western economies, which, in turn, are attracting high levels of public and private investment (spending on research reached an average of 2.3 % of GDP and education accounted for 12 % of GDP, in the early 1990s). The report indicates how knowledge and technology have always been considered external influences on production and that now new approaches are being developed so that knowledge can be included more directly. (The report mentions Friedrich List on knowledge infrastructure and institutions; Schumpeter, Galbraith, Goodwin and Hirschman on innovation; and Romer and Grossman on new growth theory). New growth theory, in particular, demonstrates that investment in knowledge is characterised by increasing rather than decreasing

returns, a finding which modifies the neo-classical production function that argues returns diminish as more capital is added to the economy. Knowledge also has spill-over functions from one industry or firm to another, yet types of knowledge vary: some kinds can be easily reproduced and distributed at low cost, while others cannot be easily transferred from one organisation to another or between individuals. Thus, knowledge (as a much broader concept than information) can be considered in terms of ‘know-what’ and ‘know-why’, broadly what philosophers call propositional knowledge (‘knowledge that’) embracing both factual knowledge and scientific knowledge, both of which come closest to being market commodities or economic resources that can be fitted into production functions. Other types of knowledge, what the OECD identify as ‘know-how’ and ‘know-who’ are forms of tacit knowledge (after Polanyi, 1967; see also Polanyi, 1958) which are more difficult to codify and measure. The OECD report indicates that ‘Tacit knowledge in the form of skills needed to handle codified knowledge is more important than ever in labour markets’ (OECD, 1996a, p. 13). ‘Education’, the report continues, ‘will be the centre of the knowledge-based economy, and learning the tool of individual and organisational advancement’ (p. 14), where ‘learning-by-doing’ is paramount.

Stiglitz and the World Bank: ‘Knowledge for Development’

The World Development Report: Knowledge for Development (The World Bank, 1998/99), as its then President James D. Wolfensohn summarises, ‘examines the role of knowledge in advancing economic and social well being’. He indicates, ‘It [the report] begins with the realization that economics are built not merely through the accumulation of physical and human skill, but on the foundation of information, learning, and adaptation’.

The World Development Report is significant in that it proposes that we look at the problems of development in a new way—from the perspective of knowledge. Indeed, Joseph Stiglitz, ex-Chief Economist of the World Bank, who resigned over ideological issues, ascribed a new role for the World Bank. He draws an interesting connection between knowledge and development with the strong implication that universities as traditional knowledge institutions have become the leading future service industries and need to be more fully integrated into the prevailing mode of production—a fact not missed by countries like China who are busy restructuring their university systems for the knowledge economy. He asserts that the World Bank has shifted from being a bank for infrastructure finance to being what he calls a ‘Knowledge Bank’. He writes: ‘We now see economic development as less like the construction business and more like education in the broad and comprehensive sense that covers knowledge, institutions, and culture’ (Stiglitz, 1999, p. 2). Stiglitz argues that the ‘movement to the knowledge economy necessitates a rethinking of economic fundamentals’ because, he maintains, knowledge is different from other goods in that it shares many of the properties of a global public good. This means, among other things, a key role for governments in protecting intellectual property rights, although appropriate definitions of such rights are not clear or straightforward.

It signals also dangers of monopolisation, which, Stiglitz suggests, may be even greater for knowledge economies than for industrial economies.

The *World Development Report: Knowledge for Development* focuses on two types of knowledge and two problems that are critical for developing countries—knowledge about technology (that is, technical knowledge or simply ‘know-how’ such as nutrition, birth control or software engineering) and knowledge about attributes such as the quality of a product or the diligence of a worker. Developing countries typically have less ‘know-how’ than advanced countries. The World Bank report calls these differences knowledge gaps. Often also developing countries suffer from incomplete knowledge of attributes which the report calls information problems. Development, thus, is radically altered in this conceptualisation where it becomes a matter of narrowing knowledge gaps through national policies and strategies for acquiring, absorbing and communicating knowledge, and addressing information problems through national policies designed to process the economy’s financial information, increase knowledge of the environment and address information problems that hurt the poor.

The actual details are less important than the way in which Hayekian views have inserted themselves in the World Bank’s changed picture of development economics, an economics now centrally motivated by questions of knowledge and information.

Let us briefly note the importance of education in this development recipe. Acquiring knowledge not only involves using and adapting knowledge available elsewhere in the world—best acquired, so the *World Development Report: Knowledge for Development* argues, through an open trading regime, foreign investment, and licensing agreements, but also via local knowledge creation through research and development and building upon indigenous knowledge. Absorbing knowledge is the set of national policies that centrally concerns education, including universal basic education (with special emphasis on extending education for girls and other disadvantaged groups), creating opportunities for lifelong learning, and supporting tertiary education, especially science and engineering. Communicating knowledge involves taking advantage of new information and communications technology, as the report would have it, through increased competition, private sector provision and appropriate regulation. Arguably, without delving further into this substantial report, the World Bank maintains its neoliberal orientation with an emphasis on open trade and privatisation, although it is recast in terms of the perspective of knowledge.

Stiglitz deviates more from the Washington Consensus. In a series of related papers delivered in his role as Chief Economist for the World Bank he (Stiglitz, 1999a) argues that knowledge is a public good because it is non-rivalrous. That is, knowledge once discovered and made public, operates expansively to defy the normal ‘law’ of scarcity that governs most commodity markets. Knowledge in its immaterial or conceptual forms—ideas, information, concepts, functions and abstract objects of thought—is purely non-rivalrous; that is, there are essentially zero marginal costs to adding more users. Yet once materially embodied or encoded, such as in learning or in applications or processes, knowledge becomes costly in

time and resources. The pure non-rivalrousness of knowledge can be differentiated from the low cost of its dissemination, resulting from improvements in electronic media and technology, although there may be congestion effects and waiting time (to reserve a book, or download from the Internet). Stiglitz (1999a) delivered his influential paper 'Public Policy for a Knowledge Economy' to the United Kingdom's Department for Trade and Industry and Center for Economic Policy Research on the eve of the release of the UK White Paper, *Our Competitive Future: Building the Knowledge Driven Economy*⁶, which subsequently became a template for education policy in England and Scotland (see Peters, 2001a). The paper also provides a useful guide for understanding some of the analytics of the knowledge economy (see Figure 2).

While non-rivalrous, knowledge can be excluded (the other property of a pure public good) from certain users. The private provision of knowledge normally requires some form of legal protection, otherwise firms would have no incentive to produce it. Yet knowledge is not an ordinary property right. Typically, basic ideas, such as mathematical theorems, on which other research depends, are not patentable and, hence, a strong intellectual property right regime might actually inhibit the pace of innovation. Even though knowledge is not a pure public good, there are extensive externalities (spillovers) associated with innovations. As Stiglitz notes, the full benefits of the transistor, microchip or laser did not accrue to those who contributed to those innovations.

While competition is necessary for a successful knowledge economy, Stiglitz maintains, knowledge gives rise to a form of increasing returns to scale, which may undermine competition. For with large network externalities, forms of monopoly knowledge capitalism (e.g., Microsoft) become a possible danger at the international level. New technologies provide greater scope for the suppression of competition and, if creativity is essential for the knowledge economy, then small enterprises may provide a better base for innovation than large bureaucracies. Significantly, Stiglitz provides some grounds for government funding of universities as competitive knowledge corporations within the knowledge economy and for government regulation of knowledge or information monopolies, especially those multinational companies that provide the so-called information infrastructure.

On the basis of this analysis Stiglitz provides a number of pertinent observations on the organisational dimensions of knowledge. He maintains that just as knowledge differs from other commodities, so too knowledge markets differ from other markets. If each piece of information differs from every other piece, then information cannot satisfy the essential market property of homogeneity. Knowledge market transactions for non-patented knowledge require that we disclose something and thus risk losing property. Thus, in practice, markets for knowledge and information depend critically on reputation, on repeated interactions, and, also significantly, on trust.

On the supply side, knowledge transactions within firms and organisations require trust and reciprocity if knowledge workers are to share knowledge and codify their tacit knowledge. Hoarding creates a vicious circle of knowledge restriction, whereas trust and reciprocity can create a culture based on a virtuous circle of knowledge sharing. On the demand side, learning cultures (our construction) will artificially

limit demand for knowledge if they denigrate any requests for knowledge as an admission of ignorance.

Stiglitz argues that these knowledge principles carry over to knowledge institutions and countries as a whole. If basic intellectual property rights are routinely violated, the supply of knowledge will be diminished. Where trust relationships have been flagrantly violated learning opportunities will vanish. Experimentation is another type of openness, which cannot take place in closed societies or institutions hostile to change. Finally, Stiglitz maintains that changes in economic institutions have counterparts in the political sphere, demanding institutions of the open society such as a free press, transparent government, pluralism, checks and balances, toleration, freedom of thought, and open public debate. This political openness is essential for the success of the transformation towards a knowledge economy.

Figure 2: Analytics of the Knowledge Economy

It is argued that the knowledge economy is different from the traditional industrial economy because knowledge is fundamentally different from other commodities, and that these differences, consequently, have fundamental implications both for public policy and for the mode of organisation of a knowledge economy.

The scarcity-defying characteristics of ideas

- (i) Non-rivalry
- (ii) Conceptual vs. material knowledge

Intellectual property rights

- (i) Excludability
- (ii) Externalities
- (iii) Competition

Organisational dimensions of knowledge

- (i) Knowledge markets
- (ii) Knowledge transactions within firms
- (iii) Openness and knowledge transfer
- (iv) Experimentation

The marketplace of ideas

- (i) Pluralism in project selection
- (ii) Robustness
- (iii) The failure of central planning
- (iii) Decentralisation and participation within firms
- (iv) Openness in the political process

Source: Adapted from Joseph Stiglitz (1999) 'Public Policy for a Knowledge Economy'. Remarks at the Department for Trade and Industry and Center

for Economic Policy research, London, UK, January 27. Available at: <http://www.worldbank.org/html/extdr/extme/jssp012799a.htm>

Burton-Jones and Knowledge Capitalism

Perhaps the most developed ‘model’ of knowledge capitalism, together with the most worked out implications for education, comes from a book of that title, i.e., *Knowledge Capitalism: Business, Work, and Learning in the New Economy* by Alan Burton-Jones (1999). Burton-Jones states his thesis in the following way:

The fundamental proposition of the book is that among the various factors currently causing change in the economy, none is more important than the changing role of knowledge... As the title of the book suggests, knowledge is fast becoming the most important form of global capital—hence ‘knowledge capitalism’. Paradoxically, knowledge is probably the least understood and most undervalued of all economic resources. The central theme of this book is, therefore, the nature and value of knowledge and how it is fundamentally altering the basis of economic activity, thus business, employment, and all of our futures. The central message is that we need to reappraise many of our industrial era notions of business organization, business ownership, work arrangements, business strategy, and the links between education, learning and work.

He argues that the distinctions between managers and workers, learning and working, are becoming blurred so that we all become owners of our own intellectual capital; all knowledge capitalists—at least in the western advanced economies. And he goes on to chart the shift to the knowledge economy, new models of knowledge-centred organisation, the imperatives of knowledge supply (as opposed to labour supply), the decline in traditional forms of employment and the knowledge characteristics of work. He argues that ‘economic demand for an increasingly skilled workforce will necessitate a move to lifelong learning’ (p. vii) based upon the learning imperative, including the use of learning technologies, that will lead to the development of a global learning industry and to profound ‘changes to the relationships involving learners, educators and firms’ (p. vii). Burton-Jones addresses himself to the question of how governments might assist in the transition to the knowledge economy by focusing on knowledge acquisition (education, learning, skills formation) and knowledge development (research, innovation) policies, suggesting that while most of the changes have occurred as a spontaneous response to the demands of the market rather than through state intervention, the state has an important role to play. He is less enthusiastic than Stiglitz or Thurow about the proposition that the increasing importance of knowledge in the economy, might lead to a reversal of current trends leading to an increasing role for the state.

CONCLUSION

Our speculative hypothesis, not investigated at any length in this chapter, is that knowledge capitalism will exhibit different patterns of production, ownership and innovation according to five basic regional models of capitalism. These five regional models, in part, based on different cultural understandings of knowledge and learning, not only represent cultural differences over the meaning and value of knowledge but also will provide a major index for regional differences in education policy.

We can talk of Anglo-American capitalism, European social market capitalism, French state capitalism and the Japanese model. Clearly, one might also talk of an emergent fifth model based on China's market socialism. A World Bank study, for instance, has suggested that the Chinese government must take on the new role of architect of appropriate institutions and provider of incentives to promote and regulate a new socialist market economy based on knowledge (see Dahlman and Aubert, 2001).

Yet the notion of the knowledge economy also represents something of an anomaly. With the massive sweep of neoliberal reforms restructuring and privatising the state sector, national education systems remain overwhelmingly part of the public sector, both state-owned and state-controlled. This is despite the wave of reforms in education emphasising choice and diversity through forms of privatisation or joint public-private funding partnerships, such as the Private Finance Initiative (PFI) in the UK. Moreover, the state provision of an increasingly 'massified' system of formal education is still the dominant form of the organisation of knowledge. Advocates of knowledge capitalism argue that state systems are struggling to release themselves from older predominantly industrial organisational forms to take advantage of more flexible and customised forms of delivery, underwritten by developments in ICT and based on notions of 'choice' and 'diversity' (e.g., Burton-Jones). Paradoxically, at a point historically when the interventionist state has been rolled back and when world governments have successfully eased themselves out of the market, often substituting market mechanisms for the allocation of scarce public goods and services, governments find themselves as the major owners and controllers of the means of knowledge production in the new knowledge economy. While some economists and policy analysts have argued that there are new grounds for reappraising the role for the state in the knowledge economy (Stiglitz, 1999; Thurow, 1996), most governments have pursued policies that have followed a process of incremental and parallel privatisation designed to blur the boundaries between the public and the private, learning and work.

In the age of knowledge capitalism, we can expect governments in the West to further ease themselves out of the public provision of education as they begin in earnest to privatise the means of knowledge production and experiment with new ways of designing and promoting a permeable interface between knowledge businesses and public education at all levels. In the last decade educationists have witnessed the effects of the Hayekian revolution in the economics of knowledge

and information, and we have experienced the attack on 'big government' and reductions of state provision, funding and regulation. In the age of knowledge capitalism the next great struggle after the 'culture wars' of the 1990s will be the 'education wars', a struggle not only over the meaning and value of knowledge both internationally and locally, but also over the public means of knowledge production.

THIRD WAY GOVERNMENTALITY, CITIZEN-CONSUMERS AND THE SOCIAL MARKET

INTRODUCTION

The world of politics is rarely stable or predictable, even within democratic systems, and elections easily make fools of even the most prudent social scientists. In the May 2005 British parliamentary elections Tony Blair became the first Labour leader to secure a consecutive third term—if by a much slimmer majority⁷—and only the second leader of any British party to do so since 1900. When he led Labour to power in 1997 he became the youngest prime minister since William Pitt the younger in 1783. By contrast, Gerhard Schröder, German Chancellor from 1998 to 2005 and perhaps the strongest European Third Way ally of Blair, failed to win an outright majority in the 2005 September elections, and eventually agreed to cede the chancellorship to Angela Merkel, who as chairwoman of the CDU became the first woman to lead Germany since it became a modern nation state in 1871. These events indicated a shift in the centre of political gravity away from the prospect of social democratic politics in Europe once again towards a new conservatism.

Looking back on a hundred years of European socialism after the founding of the Second International, Donald Sassoon (1997, p. 733) in his kaleidoscopic survey describes ‘the new revisionism’ that took hold after the end of the first experiment in ‘actually existing socialism’ as one that depended upon the idea that ‘capitalism would not be destroyed by a self-generated crisis, or by a revolution, or by the steady expansion of public property’. Rather the new revisionism came to accept that ‘[c]apitalism was not a transitory in the historical development of humanity, but a mode of production which was subject to political (i.e., non-market) regulation’ (p. 734). Sassoon goes on to analyse neo-revisionism in terms that acknowledge capitalism as a quasi-permanent mode of production. Sassoon suggests that capitalism may be regulated in the service of social justice but at the same time implies the end of a traditional affiliation to the working class and the national politics it entailed:

It implies that markets should be regulated by legislation and not through state ownership. It means accepting that the object of socialism is not the abolition of capitalism, but its co-existence with social justice; that the regulation of the market will increasingly be a goal achieved by supra-national means; that national—and hence parliamentary—sovereignty is a limited concept; that the concept of national roads to socialism should be abandoned. It means that the historic link with the working class, however

defined, is no longer of primary importance, and that the trade unions are to be regarded as representing workers' interests with no a priori claim to have a greater say in politics than other interest groups. It means giving a far greater priority than in the past to the concern of consumers. Neo-revisionism entails accepting important aspects of the conservative critique of socialism—including the association between collective provision and bureaucratic inertia. (pp. 734-5)

Sassoon's description of what he calls neo-revisionism and what we would more likely call nowadays 'New Labour', 'the self-styled modernisers' or even simply 'Third Way', is still one of the clearest expositions of the social democratic progressivism that dislocated 'genuine' socialism after the fall of the Berlin Wall in 1989. Sassoon documents the modernisation of social democracy and the resulting shift in agenda, beginning with *Looking to the Future*, a modernising blueprint adopted by the British Labour Party in 1990 that suggested more than simply a co-habitation arrangement with the market. It declared both that 'Britain's deficiencies were not the inevitable result of capitalist rule' and that 'what distinguished Labour Party from its Conservative opponents was a strategy to make the British economy more competitive' (p. 737), on the understanding that the determining issue was not acceptance or not of the market but rather the recognition of its *limits*. Sassoon points out that the 1988 Labour Party document *Democratic Socialist Aims and Values* dressed up its aims with talk of the creation of a genuine free society, one based on individual liberty that nevertheless defined freedom in terms of the 'material ability' to make choices where the role of the state was to ensure a minimum level of material ability for everyone. This recasting of traditional principles in terms of individualism and community, social ownership and social justice signalled the replacement of Clause Four in April 1995: no longer the common ownership of the means of production, distribution and exchange but now a community in which 'power, wealth and opportunity' would be 'in the hands of the many not the few' (cited in Sassoon, 1997, p. 739). This historical trade-off, combined with a new strategy of competitiveness, defined the ground on which New Labour stood when it came to power in 1997.

The pressing question for the British Labour Party in the third term—at least for questions of domestic policy—is whether it can go beyond its perceived neo-liberal and loaded definitions of freedom in consumer terms to revitalise, and perhaps redefine, elements of traditional social democracy: participation and active engagement, access and equality, collective identity and mobilisation, and social justice.

THE EMERGENCE AND DEMISE OF THE THIRD WAY

In the 1990s, we witnessed the rise of the so-called Third Way. The European Left seemed to be in the ascendancy once more. Eleven out of fifteen EU nations were governed by social democratic governments or coalitions and the revitalisation of European social democracy seemed assured. The Third Way as 'modernised social democracy' seemed triumphant and destined to become the most important reform discourse in the European party landscape. Bill Clinton was in the White House

and together with Blair and Schröder they distinguished themselves by breaking with their parties' pasts to establish the Third Way—what Schröder called the 'Neue Mitte' reform agenda. While Schröder took his inspiration from Blair, the latter's conception of the Third Way also found an easy fit and reception because of Germany's historical commitment to the 'social market economy' which had been the distinctive ethos of post-war German reconstruction under Adenauer and Erhart. In 1997 Blair began by energetically implementing a program that reduced his party's reliance on the British State to resolve social problems through a process of *governing by and through the market* with an accent on the reform of public services, investment in human capital and the creation of 'citizen-consumers'. Commentators from both the Left and Right were quick to point out that there was little that was distinctive of the Third Way: the Left called it 'neoliberalism with a human face' whereas the Right accused New Labour of stealing Thatcher's market reform agenda.

Giddens (1998), in his highly influential characterisation of the Third Way at the end of the 1990s, contrasted it with both 'classical social democracy' and with 'Thatcherism' or the 'New Right' by emphasising what he called 'the new democratic state', 'the renewal of civil society' and 'the democratic family'. More recently, while still holding to 'the renewal of social democracy', the subtitle of his first book, Giddens (2003) has outlined a new agenda for social democracy in terms of what he calls 'the embedded market', 'the ensuring state' and 'the civil economy'. The language has become increasing a hybrid discourse insinuating the economic into the democratic or vice versa. The embedded market is one where the state and market are necessarily intertwined; where the state, reformed by the principles of New Public Management (NPM), is 'reinvented' in terms of quasi-markets, flattened hierarchies and local autonomy, yet still geared to social purposes within a democratic framework that regulates the conditions under which autonomy is exercised. Hence 'the ensuring state' provides resources, enables local autonomy and responsibility for budgets and at the same time offers performance guarantees. Giddens (2003, p. 16) charts the accompanying change in the concept of citizenship:

The notion of the ensuring state ...presumes a different concept of citizenship from that formerly involved with third way thinking. The third way emphasizes the active citizen—summed up in the principle 'no rights without responsibilities'. It was a crucial innovation, but we need to specify where the responsibilities come from. Do they come from the individual or are they set by the state? ... We should speak of shared responsibilities, or what some have called the co-production of public goods. That is to say, there should be collaboration between the state and the citizen in the production of socially desirable outcomes.

Such *co-production* is clear in the example of recycling which makes an environmental policy the responsibility of everyone. It may be that such co-production is also evident in policy areas such as health and education that require the motivation, knowledge and participation of the individual in the provision of the service, as well as the opportunity and level of access provided by the state.

Giddens (2003) suggests that the enhancement of *choice* is always in principle desirable for a social democrat because of its conceptual and practical connection with the promotion of autonomy and freedom. Where consumer choice is a mechanism of quality and trust in the market context it must be defined in relation to rights and responsibilities in the context of public services. He goes on to argue:

In the market sphere ... the individual functions as a *consumer-citizen*. In market-provided goods and services, there is open competition and high product diversity. The consumer regularly makes choices, although neither producer nor consumer acts as a pure market agent, since all market transactions relate to, and are affected by, wider aspects of the civic and regulatory environment. In the domain of public services, by contrast, the individual is more of a citizen-consumer. Greater choice and diversity have to be introduced into public services, but in the context of clearly defined public purposes. (Giddens, 2003, p. 18)

In part, the notion of the civil economy is precisely the framework of agencies and institutions that are designed to monitor business activity. There is no doubt that the issue of 'the social market', which might be taken to imply a socialisation of the market or more broadly the ways that markets can be made to be compatible with the demands of social democracy, is a critical question not only for the Third Way but for all governments irrespective of their professed political persuasions. The dialectic of the *consumer-citizen* and *citizen-consumer* is just one more symbolic and policy-related means of spelling out a new interdependence and renegotiation of the traditional politics surrounding the relationships between state, market and individual.

As Blair prepared for introducing his new raft of 44 new bills to Parliament during 2006, with a focus on social order and creating 'a culture of respect', he was accused of stealing the Conservative's agenda and yet he described it as quintessentially New Labour.⁸ The reform and 'renewal' of public services, with education as a top priority, was clearly at the heart of his third term and the strategy was to put the *parent* and *patient* first, widening consumer choice, improving the quality of service and speed of delivery, and jettisoning the concept of the welfare state as 'one size fits all'. The 2006 Education Bill was designed to make the school system more responsive to parents by providing greater consumer choice and encouraging parents, community groups and other providers to open their own schools. The bill also promised more individualised learning and enhanced powers of intervention for local authorities and watchdogs. Under The Five-Year Strategy for Children and Learners, secondary schools were encouraged to adopt foundation status and take control of their own land, buildings and other assets and employ their own staff.

In the second half of the first decade of the 21st century, with a strong neo-conservative Republican government in power in the US and EU governments dominated by the Right, it seems appropriate to consider whether the Third Way has a distinctive legacy. In 2003 Giddens asked whether the Third Way then was a 'dead duck'. In his answer he adamantly defended the Third Way project, arguing:

The main outlines of the third way remain as relevant as they ever were: the restructuring of the state and government to make them more democratic and accountable; a shake-up in welfare systems to bring them more into line with the main risks people face today; a stress upon high levels of job creation, coupled to labour market reform; a commitment to fiscal discipline; investment in public services (but only where conjoined to thorough-going reform); investment in human capital as crucial to success in the knowledge economy; and the balancing of rights and responsibilities of citizens. (<http://politics.guardian.co.uk/progressive/comment/0,13255,943358,00.html>)

Giddens denied that neo-conservatism had a philosophy (falsely in our opinion⁹) and was to make these comments before the strong Euro-scepticism of both the Left and the Right derailed the ratification process of EU constitution and stole votes from centre-Left governments. The question of progressive social government and the future of the European social model is, of course, an important issue. It is important to the EU's identity, to Europe's 'social model' and vision of the governance of globalisation. It is also crucial to Europe's conception of social policy, not least the emerging shape of EU educational policy through the Bologna processes.

THIRD WAY GOVERNMENTALITY

This is an ideal time to revisit the impact of the Third Way and to give an account of its legacy and future, especially in relation to education policy. We are probably still too close to recent political events to be able to give a full account. The aim of this section, building on previous work (e.g., Peters, 2005, 2006) and our discussion in chapter 1, is to investigate *Third Way governmentality* in terms of its techniques of governing focusing on the construction of the citizen-consumer, the social market, and the reform of public services, especially in the context of Tony Blair's administration.

It is tempting to guess what Michel Foucault would have said about Third Way politics were he still alive. No doubt he would have examined the multiple meanings and genealogy of 'modernized social democracy' and the complex intersections, continuities, differences and breaks of Third Way politics as a set of governmental techniques with neoliberalism, on the one hand, and with neo-conservatism, on the other. We very much doubt whether he would have described or analysed a distinctive mentality so much as emphasised historical links with earlier discourses of the 'social market' that arose with German neoliberalism in the period of post-war reconstruction and with historical forms of liberalism. In analysing the practices and techniques of government as they have been formulated in Third Way policies, Foucault would have stressed the importance of *Ordnung*—translated as 'order' as in the English expression 'law and order'—as a concept which played an importance conceptual role in the '*soziale Marktwirtschaft*', or 'social market economy' (a term coined by Alfred Müller-Armack) signalling a phobia of state control (after the Nazi experiment) *and* an active distancing from 'socialism'.

Ordoliberalism, based on the central concept of *Ordnung* (order), is a school based on the theoretical conjunction of economics and law. The concept of *order* is central to the 'Freiburg School of Law and Economics', founded by Walter Eucken (1891-1950), Franz Böhm (1895-1977) and Hans Großmann-Doerth (1894-1944) in the 1930s.¹⁰ The Freiburg school addressed itself to the central question of the constitutional foundations of the free economic and social order.¹¹ Eucken himself tried to organise German universities to stand against Hitler and struggled against Heidegger as Rector at Freiburg, delivering a diatribe against Nazi ideology in 1936. He also devoted himself to the new order of society after the fall of National Socialism. It is reported that Ludwig Erhard relied on him as 'the leading advocate of the social market economy', prompting Peter Oberender (1989) to conclude that 'the concept of *Soziale Marktwirtschaft*, which has shaped German policy decisions, is to a large extent identical with Eucken's concept' (Oswalt-Eucken, 1994).

As mentioned above, Eucken's concept of a *funktionsfähige und menschenwürdige Ordnung* (functional and humane order) was a result of analysing the historical form of economic systems. Eucken maintained that the centrally administered economy is incapable of allocating investments rationally and fails to respond to technological change. What is more, he argued that the Rule of Law, democracy and the parliamentary system are incompatible with the central control of the economic process. However, he also provided a trenchant critique of laissez-faire capitalism, where, in theory, prices are considered to solve the allocation problem in a competitive order that developed spontaneously. Eucken refuted the notion of spontaneous order characteristic of Hayek's work through attention to detailed historical case studies. He held that while economic freedoms (such as freedom of contract and free trade) were responsible for industrialisation, new constraints on freedom quickly emerged in the form of monopolies and syndicates. Eucken differed from Hayek in that he understood that freedom of contract could be used to destroy freedom and by contrast did not believe that the economic order could be left to evolutionary processes. When he talked of *Die Wettbewerbsordnung* (the order of competition) he maintained that the state is responsible for the structures in which the economic process works and had to establish and sustain the conditions for competition. Eucken argued that constitutive and regulative principles (private property, freedom of contract, open markets, antitrust policy, monetary and income policy, etc.) were necessary for establishing an order of competition. Thus, the order of competition corresponds to the rule of law and parliamentary constitution.

This is a highly influential position that views the market as developing contingently and historically within a judicial-legal framework. For these German *Ordoliberals* in the post-war era the economy is thus based on a concept of the Rule of Law, firmly anchored in a notion of individual rights, property rights and contractual freedom that constitutes, in effect, an economic constitution (closely related to the constitutional economics developed in the U.S. by James Buchanan¹²). German neoliberal economists (including Müller-Armack, Röpke, Rüstow) invented the term 'social market economy' which shared certain features with the Freiburg model of law and economics but also differed from it in terms of the 'ethics' of the market. This formulation of the 'social market economy' proved

significant not only in terms of the post-war reconstruction of the (West) German economy but, through Erhard as Minister and Chancellor, was a significant influence on the EEC's (and later the EU's) 'social model'. This has served, at least in the past, to 'protect' education as an aspect of social policy from the forces of pure competition.

As we noted in the previous chapter, Foucault's (2004) prescient analysis in 1979 of German neoliberalism focused strongly on the Freiburg school of *ordoliberalism* as an innovation in the rationality of government by devising a conception of the market order based squarely on the Rule of Law. This conception, and its related versions in both German neoliberalism (after Müller-Armack and others) and Austrian economics going back to Mises and Hayek, was responsible for a form of constitutional economics that invented 'social market economics' and shaped *Gesellschaftspolitik* or 'social policy', as an ethical exception to the rules of the market game. In *Naissance de la Biopolitique* (2004), Foucault examines how the birth of economics as a scientific discipline—a regime of truth (and falsity)—makes it possible for political economy to take the role of arbiter of governmentality where government intervention can now be assessed in terms of its economic efficacy, rather than justice. As Francesco Guala (2005) puts it in his review of Foucault:

To claim an objective knowledge of the functioning of markets effects a reversal in the traditional hierarchy between what is and what ought to be. In the old regime, the relation between markets and government is framed primarily in moral and legal terms: the government (the monarch, usually) is in charge of supervising and guaranteeing justice in the market place, by making sure, for example, that market prices are not fraudulent. Under the new savoir, the mechanism of price generation (the market) becomes the arbiter and measure of the adequacy of government. The positive theory of markets will tell us whether the government is 'right'—where this term loses its juridical connotation to acquire the utilitarian sense of 'efficacious'. Liberal political economy shifts the attention from the problem of the origins and legitimacy of government, to the issue of its effects or efficacy. There are things that a government cannot and should not do, not because it doesn't have the right to do them, but because it lacks the means and the power. There are intrinsic limitations to governmentality, which stem from the market mechanism and come to light via its scientific study.

As Guala (2005) points out, 'For Foucault's neoliberals, political discourse stems from social science rather than moral philosophy. By framing the rise of neoliberalism historically the way he does, Foucault implicitly introduces a deep wedge between the 'juridical' traditions of contractarian and natural rights philosophy, and the form of (neo)liberalism he is interested in'. This, however, may not be the entire story. While the shift from classical political economy of Smith (and Marx) to neoclassical economics revolved around subjective theories of value rather than 'substance' theories (implying that value inhered in the object) and assumptions of the individual rational utility maximiser making choices on the

basis of available information (later giving way to supply and demand), it is clear that Hayek and the Mont Pelerin Society were responsible for re-moralising and re-politicising economics in a spirited defence of liberal democracy and free market capitalism against socialism in the immediate post-war period when ‘state phobia’ was at its highest point.¹³

Foucault shifts his attention to the Chicago school: to the *economisation of everyday life* and the ‘economic imperialism’ of Stigler and Becker who on the basis of the hypothesis of *homo economicus* proceed to apply economics to the whole of life. Yet what is important, and Foucault takes this on board from the *ordoliberals*, is that markets require a social and constitutional context in which to function, which is, in part, provided by the concept of ‘civil society’. For this conception he returns to Adam Ferguson and the genealogy of *homo economicus*. While it is the case that he presents liberalism as a critique of state reason, via Ferguson, he is also interested in the question of the way civil society underwrites liberal governmentality even if it is focused on the question of *how much* market, and in its advanced states, the interlacing and rethreading of market-state relations. For Third Way politics the question becomes how social democracy can be modernised when the value of efficiency in delivery of welfare services presides over all others. Third Way politics, therefore, is still very much an experimentation within the problematic of liberal government. It utilises consumerism in the remaking of the state-citizen relationship through the creation of citizen-consumers and introduces the concept of the marketplace democracy.

‘CITIZEN-CONSUMERS’ AND THIRD WAY GOVERNMENTALITY

On coming to government and throughout his three terms Tony Blair in a series of speeches referred to the way the social foundations on which Beveridge’s welfare state was built have changed dramatically. In particular, Blair drew attention to changes in the nature of family composition and structure with the growth of lone parent families and the number of women with children in paid work. In his policy prescriptions for the preservation of the welfare state he emphasised ‘choice’ and ‘flexibility’, arguing that the relationship between the citizen and state needed to be recast in terms of a ‘partnership’ that avoids dependency and abandonment. For Blair, this meant replacing monolithic, ‘one-size-fits-all’ state provision with a far more flexible and adaptable system: one that encouraged innovation, finding new ways of funding social provision based on contributions from citizen and state, changes in ‘personal responsibility’, and confronting the ‘20/60/20 society’ and the creation of an underclass.¹⁴ In large measure this meant that public services in the UK have been under pressure to develop a consumer orientation that marks changes in the model of citizenship with consequent changes in funding, the private-public mix, and systems of accountability.

Gordon Brown, prior to becoming Prime Minister and in his capacity as Chancellor of the Exchequer, also made a number of speeches trying to clarify the role and limits of the state and markets. In speeches to the Social Market Foundation, an independent think-tank in the UK established in 1989,¹⁵ Brown

argued that markets are in the public interest though not to be equated with it. He made it clear that he was committed to advancing market disciplines across the economy while also addressing the issue of market failure where it was necessary to ensure that markets perform better (such as in skills and training and in science and research and development). He also suggested that ‘where there are systemic problems with the operation of markets that cannot easily be corrected, such as in healthcare and other public services, the challenge is develop efficient and equitable but non-centralist means of public provision’ (see Peters, 2004a). Summarising his argument, he stated: ‘I argued for more devolution, more local accountability, more flexibility and more choice—more diversity of supply—in the delivery of services’. And he claimed that through the concept of ‘information asymmetries’ evident in professional and care relationships it is possible to empower patients and student/parents by providing the necessary information to the consumer to enable the best choice. Attending to the information deficit, together with greater personalisation of services, would, Brown believed, enhance efficiency, increase equity and encourage greater investment.¹⁶ Note here that the notion of ‘power’ in health and education is linked to a concept of the exercise of consumer freedom based on choice; it is a prime example of what we can call *governing by and through the market*.

Needham (2003, p. 6) has referred to this new relationship between citizen and state as ‘Labor’s new marketplace democracy’. It is a democracy remodelled along consumerist lines. She argues:

To claim that citizens are being treated as consumers is to say that the government-citizen relationship is replicating patterns of choice and power found in the private economy. The consumer is primarily self-regarding, forms preferences without reference to others, and acts through a series of instrumental, temporary bilateral relationships. Accountability is secured by competition and complaint, and power exercised through aggregate signalling.

The ‘consumerisation’ of citizenship, Needham contends, is presented as a response to a set of social and cultural changes. The UK government’s line of argument suggests that in a ‘consumer age’ people demand more and have become used to services that are characterised by greater flexibility, choice and responsiveness. The argument as stated is very thin but might be better filled out by an understanding of a new logic of consumption in a service-based economy, represented by a shift from the metaphysics of production to the metaphysics of consumption where identity formation and politics becomes consumer-led (Scammel, n.d.; Trentman, 2006).¹⁷

Needham wants to question the collapse of the citizen-political and consumer-market distinction and raises the question of whether in fact citizenship as a contested term can be properly understood in terms of the market. The market entails a commodification of social rights and advances the private sector model of the consumer as the basis for citizenship. Needham advocates the model of the participatory citizen (see Figure 3).

Figure 3: Two models of citizenship

<i>The citizen-consumer</i>	<i>The participatory citizen</i>
Self-regarding	Community-regarding
Market accountability	Preferences shaped by deliberation
Voice as complaint	Voice as discussion
Loyalty to the political community based on common citizenship	Loyalty to the political community secured through promotional advertising
Instrumental attitude to politics: political activity as a means	Non-instrumental attitude to politics: political activity as an end

(Source: Needham, 2003, p. 15)

Needham’s stance might be regarded as traditional social democratic. Others have taken a more empirical view, asking: if consumer involvement and representation are paramount then what forms could they take, how do they fit with older models, and is there is a clash between public service production and consumption? Does the promotion of a consumerist ethos in the public service provide a basis for a participatory model?¹⁸ Certainly, it is the case that we need a better empirical base to understand changing patterns of consumption, transnational elements, and whether services that are aimed at specific age/sex, class and ethnic groups vary,¹⁹ yet it is also necessary to examine the changing political economy of welfare state regimes and their shifting assumptions. Here the question centres on whether the Third Way represents a new and distinctive approach to governance of the welfare state. Powell (2000) suggests that ‘it appears to be neither distinctive nor new, leaning to the right rather than the centre or centre-left, and having some roots in the New Poor Law and the mixed economy of welfare of Beveridge’. He plots dimensions of the Third Way in this table:

Figure 4: Dimensions of the Third Way

<i>Dimension</i>	<i>Old Left</i>	<i>Third Way</i>	<i>New Right</i>
Approach	Leveller	Investor	Deregulator
Outcome	Equality	Inclusion	Inequality
Citizenship	Rights	Both	Responsibilities
Mixed economy of welfare	State	Public/private civil society	Private
Mode	Command and control	Co-operation / partnership	Competition
Accountability	Central state / upwards / national	Both?	Market / downwards / local
Social expenditure	High	Pragmatic	Low

(Source: Powell, 2000)

Yet Powell may be premature in his analysis, especially when the approach is considered from a governmentality perspective. Such a perspective might emphasise the relation of Third Way to classical liberalism as a doctrine about the self-limiting state based upon the constitution of freedom in market terms, but it may also admit that both Third Way and neoliberalism represent new ways of governing by and through the market, albeit with different emphases: the former, perhaps as a variation of the latter, focusing on the ‘modernisation of social democracy’ through the creation of citizen-consumers where consumer participation becomes a ‘technology of government’,²⁰ and the latter through a generalisation of the figure of the entrepreneurial self to all forms of conduct. The Third Way also promulgates ‘the localisation of the social’ through renewal and empowerment of local communities (see Amin, 2004; Barnett, 2002).

EDUCATION, POWER AND FREEDOM

Among Foucault’s great insights in his work on governmentality was the critical link he observed in liberalism between the governance of the self and government by the state—understood as the exercise of political sovereignty over a territory and its population. He focused on government as a set of *practices* legitimated by specific rationalities and he clearly saw that Hayek (as well as members of the Freiburg school) was highly influential as instigator and *conduit* in both redefining liberalism as mode of government based on a permanent critique of the state and in inspiring contemporary forms of neoliberalism that became a set of techniques for governing the self by and through the market. The Third Way has participated in the extension of this critique of the state, driven as much by the exigencies of globalisation as the commitment to classical liberal principles, and has attempted to resolve it through a modernisation of democracy pursued through creating and empowering the citizen-consumer in the marketplace.

Liberal modes of governing (and the consequent exercise of legitimate government power), Foucault tells us, are distinguished in general by the ways in which they utilise the capacities and consent of *free acting subjects* and, consequently, modes of government differ according to the value and definition accorded the concept of freedom. These different *mentalities* of rule thus depend on whether freedom is seen as a *natural* attribute (as with the philosophers of the Scottish Enlightenment or philosophers of natural right), a product of *rational choice-making* (as with rational choice theorists), a *civilisational artefact* (as with Hayek, who theorized freedom as both negative and anti-naturalist), or, a *legal-judicial construction* that creates the market (as with the law and economics Freiburg school). Each concept of freedom carries a different view of the individual, of state-individual relation and of the market-state relation. We can pursue this Foucauldian point further through a brief consideration of Hayek’s treatment of ‘freedom’.²¹

Hayek’s conception of freedom characterises the market as neither natural nor artificial but rather the product of a spontaneous social order governed by rules selected in a process of cultural evolution. This process is to be contrasted with

Eucken's view which denaturalises the market to emphasise its active juridical constitution. Both views have strong consequences for a conception of public services in education and health considered in market terms. For instance, Hayek's (1960) conception of freedom as he outlines it in *The Constitution of Liberty* is defined, as Hamowy (1978, p. 287) notes, 'in a manner consistent with nineteenth-century English liberal theory'. Hayek (1960, p. 11) writes of individual or personal freedom as 'the state in which a man is not subject to coercion by the arbitrary will of another or others'. But this negative view of freedom as the absence of coercion only occurs 'when no one else manipulates my environment in such a way that my action (or actions) benefits him' (Hamowy, 1978, p. 288).²²

Third Way governance now depends on a notion of legitimate government power that in the tradition of classical liberalism utilises the consent and active capacities of the free subject to govern by and through the market. In terms of government, Foucault would say that in the course of the development of liberalism as a set of practices there has been a shift from coercive practices to practices of self-formation of the subject. Third Way politics and the 'modernisation of democracy' extend this set of techniques, governing by and through the market, promoting the efficiency of market-like arrangements in the delivery of public services, and 'empowering' the consumer through the creation of citizen-consumers. Increasingly freedom is defined through a set of commodified social rights based on individualised 'choice' that also attempts to redress the asymmetries of information in the market.

The problem with these formulations is that education is not just another public service. Rather, it is integral to the ethos that defines the 'public' in the sense that schooling and higher education are themselves inherently involved in the tasks of nation-building through the construction of citizenship and its social cohesion 'externalities'. To redefine education in terms of the citizen-consumer is to commodify citizenship and any ascription of rights associated with it. It is also to prejudge the form that the future 'citizen' can take, emphasising its market construction based on constitutional forms of economics built around the Rule of Law and juridical-legal construction of the individual consumer—even though it might favour some formulation of 'freedom of choice' rather than 'freedom from state interference'. We develop these points further, with policy case studies from New Zealand, elsewhere in this book.