

# The limits of market reform in higher education

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presented at RIHE, Monday 17 August 2009

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## Abstract

*In the last two national governments have implanted new public management (NPM) control systems based on modelling higher education as a business. The principal template guiding reform is that of higher education and research as capitalist markets. However while NPM systems have been implemented and the roles of competition and private funding have increased, the market model has failed. First degree education of citizens remains non commercial in all nations; in the WTO-GATS negotiations the goal of an open trading market was undermined by the near universal use of national treatment provisions; and the commercialisation of university research has remained secondary and is now being partly superseded by policy emphasis on open science. The paper argues that the failure of economic market reform reflects not simply political capture or the absence of governmental will but the intrinsic character of higher education and research. The public good nature of knowledge is irreducible. The primary economic (and social) contributions of higher education institutions are indirect and conditional rather than quantifiable as products. Status competition in elite institutions operates with a different logic to conventional product markets. National market-system models cannot comprehend the increasing globalization of research universities.*

## 1. Introduction

This paper re-examines the imagined framework used by nation-states, including Japan and Australia, in national system management in higher education. This framework is that of a market of competing institutions. 'Market' is understood as an economic market. The first instinct of most policy makers in education and the economic departments of government, many trained in the economics of the capitalist firm, is to imagine higher education in these terms. In the last two decades the main thrust of system reform has been to install the forms of economic markets, or something resembling them: not deregulated free markets but government steered quasi-markets operating on the basis of the new public management (hereafter NPM). The underlying assumption is that the closer is higher education to the textbook business model the more efficient and productive it becomes and the larger the contribution of teaching and research to national capitalism. This framework for system management and policy is tagged 'neo-liberal'. Its philosophical roots are in F.H. Hayek, the

reform blueprint in education was first conceived by Milton Friedman, and the techniques of government and management first emerged in the 1980s Thatcher governments in the UK.<sup>1</sup>

In 1997 my book *Markets in Education*<sup>2</sup> described this policy framework, its history and antecedents in political economy and political philosophy, and mapped effects and limits, using Australia as the empirical study. The book was the summation of my doctoral thesis that began in 1988 when neo-liberal reforms were being installed in Australian higher education. The conclusion of *Markets in Education* foresaw that the economic market framework would continue to roll out around the world. It had too much momentum to be blocked or evaded. The road to a better approach lay through it and beyond it. This paper again takes stock of this policy framework after another 12 years, two decades after it was first introduced in the UK.

Two disclaimers. First, this is my own take on the political economy (informed by social theory and global sociology). The paper does not use an orthodox neo-classical economic analysis and is critical of that approach. Second, the neo-liberal policy framework is a *national* policy framework. It was developed prior to the communicative globalization triggered by the Internet and the growth of global knowledge flows and networks and the global referencing and ranking that has followed, transforming the sector.<sup>3</sup> This framework cannot fully grasp the global dimension of higher education and research, which in any case cannot be regulated from one nation-state. Inevitably, this nation-boundedness also limits the critique. I cannot do full justice to the national/global interface in a paper focused on national system management and policy. However, I return back to the global dimension in a later part of the paper.

## 2. The NPM and economic markets

We should distinguish between the new public management (NPM), and the notion of higher education as a market of competing institutions. Both are sustained by a fundamentalist belief in the virtues of competition, and the economic market notion provides ideological support for the idea of the university as firm on which the NPM rests. But it is possible to have the NPM without the forms or even ideology of a capitalist economic market. In fact this paper argues that at present those forms are partly absent. Despite the economic language of the NPM it is a government and management control system rather than an economic system as such.

Under the NPM the operations of competition are determined less by the interaction of supply and demand - though this can enter the picture in proxy form at some point - but by government. In this regulated system-competition, both the policy imaginary, and the rules and techniques are important. In the policy imaginary, as noted, institutions operate in business terms. They have marketing, clients, prices and revenues, bottom lines, performance indicators, efficiency incentives, stakeholders (proxy for shareholders and business partners), contracts, quality assurance, accountability, audit, and in some countries SWOT analysis (the modelling of strengths, weaknesses, opportunities and threats), market share, product diversification, leveraging of reputation, and risk-taking. The rules and techniques include competition for at least some public and private funds; corporatization of institutions; entrepreneurial managers with some control over resources; more scope for private income raising; and enhanced accountability and output-related controls through a combination of national planning, prospective contracts, financial accountability measures, quality assurance

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<sup>1</sup> Hayek, 1960; Friedman, 1962.

<sup>2</sup> Marginson, 1997. Although the book has been unavailable for at least seven years Google Scholar citations continue to climb (413 as of 16 August 2009). This is a mystery.

<sup>3</sup> See among others Held, et al. 1999; Castells, 2000; Marginson and van der Wende, 2007; Peters, et al., 2009.

and other audit techniques. In many national systems it is associated with augmentation of the role of private institutions. The NPM also involves devolution of responsibility for outcomes downwards from government to managers and through them to the staff of institutions and its separated units. Nikolas Rose calls this 'responsibilization'.<sup>4</sup> Through performance and output modelling, the complex real world activities of higher education institutions become de-bundled as quasi-market commodities, distinct products with their own clients, lines of accountability and efficiency measures. Larger aggregated outcomes, such as the contribution of liberal education to citizen formation, or the long term effects of basic research are left out.

As numerous scholars have pointed out the NPM era means less reliance on direct bureaucratic controls and more system management though 'steering from a distance' using a mix of competitive system incentives, planning and audit mechanisms, goal and output specifications. As many scholars have gone on to state the NPM is also associated with more effective central government control, though the mix of mechanisms and the coherence of NPM systems varies from country to country.<sup>5</sup> Arguably, in Japan higher education is controlled more closely than in the English-speaking countries, given the level of detail embodied in national planning and quality audit, though the Japanese system has something in common with the UK and Australian systems, including the constraints on public expenditure. Strong central government is common to all reformed East and Southeast Asian systems, and distinguishes them from higher education in the United States and Canada, but when public spending is climbing as in China and Singapore, NPM systems always appear more liberal.

### **Constituents of an economic market**

In the ultimate neo-liberal vision higher education and research are imagined as market commodities that are bought and sold by economic consumers, like televisions or washing powder. What does it mean for policy makers to construct higher education as an economic market? A functioning capitalist market incorporates the following features:

- a defined field of production (whether defined geographically as national, regional, city-based or global; or in terms of institutions, products or clients);
- protocols governing entry/exit of producers in the market;
- the production of scarce and individualized commodities, i.e. goods or benefits that are private goods in the economic sense (I expand on this below);
- monetary exchange, and price-based coordination of production and distribution;
- the generation of revenues surplus to costs, that is, the category of profit;
- competition between autonomous producers for revenues, and market share;
- deregulation of direct policy controls and ideally, a shift from public institutions to privately owned institutions;
- human behaviours appropriate to the economic logic of markets such as entrepreneurship, the drive to extend and expand production, the drive to reduce unit costs of production, consumer shopping between alternatives, etc.

In a neo-liberal policy framework, any and every move towards such an economic market system is favoured in principle (except deregulation of policy controls). Such moves include growth in student fee-charging and the role of private institutions; commercial business

<sup>4</sup> Rose, 1999. See also Marginson, 2008a.

<sup>5</sup> e.g. Teixeira, et al., 2005; de Boer, et al., 2009; Mok, 2009; etc..

activity in research, vocational education and international education; all forms of economic competition for resources; the use of product formats; the remodeling of institutions as autonomous corporations. In the last two decades most reform blueprints have embodied some of these elements. Until the current wave of investment in R&D spread from Asia to Europe in the last half decade, there was no alternate policy model with broad international standing.

Mostly higher education markets are conceived of as national. The WTO-GATS process of trade liberalization in education<sup>6</sup> conceives a worldwide market in which not only the education of cross-border students would be deregulated but foreign producer firms or institutions could enter different national markets. As each national market became deregulated education would start to look more like a set of global product markets. Strategies for encouraging global trade in intellectual property imagine research in similar terms.

### **It has not happened**

But when actual higher education systems are examined, it is evident that the expectations of 1980s neo-liberal reformers are nowhere near being met. NPM business modelling, output formats and competition are in place and look robust. On the other hand, no higher education system fits the market template. First, reformed systems take the form not of economic markets as such but government controlled 'quasi-markets' in which only some features of a profit-making commodity market such as competition between producers, and the use of product formats, are apparent. Second, government steering is a strong element almost everywhere and is more determining overall than are buyer/seller relations. Third, the fundamental driver of a capitalist market, the autonomous profit motive, is largely absent. There are commercial markets and commercial sub-sectors in higher education but around the world they are subordinate or marginal to the main forms of higher education and research.

I take some risk making this argument in Japan, near to Korea, the two nations where the role of commercial higher education and the profit motive peak on a worldwide basis.<sup>7</sup> In Japan the stellar private institutions led by Keio and Waseda are not marginal. But we need to distinguish between 'commercial' or 'for-profit' on one hand, and 'private' on the other. The further one moves up the private sector hierarchy, the more it looks like the American non-profit private sector in which the main objective is not to generate profit for stockholders or even revenues per se, it is to secure prestige and play a social leadership role. And research activity in Japan and Korea remains largely located in the national or public institutions which are locked into competition with each other and the private sector but do not generate profit.

Consider these facts. Fact one. First-degree university education is not produced as a full market commodity in the education of citizens in any nation. In many countries there are commercial forms of teaching and credentialing services in some vocational education programs, and several countries such as Australia run commercial international education. But everywhere, the first degree education of citizens is subsidized by governments and/or private philanthropy, largely the former. In the small number of countries with high fees in public institutions<sup>8</sup> there are subsidized loans. Even in the United States few students in either public or the private institutions pay the full 'sticker price' for first degree education.<sup>9</sup> The tuition charge for in-state students in public universities is less than in many nations. It has been

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<sup>6</sup> OECD, 2004.

<sup>7</sup> OECD, 2008a

<sup>8</sup> OECD, 2008a.

<sup>9</sup> Winston, 2003.

estimated that on average the American student pays only about one third of the total cost of tuition. I do not know of any capitalist market for cars or washing machines where the average consumer pays one third of the cost of the product. In addition, in most nations the number of students in public institutions is determined not by demand and supply but by government. Prestigious private sector institutions normally do not expand to meet excess demand. It is only commercial operators that are growth driven, underlining the point that a bona fide capitalist market only gets purchase in marginal areas of the sector, either by selling credentialing services in low quality degree mills, or by cultivating sub-markets not addressed by the existing institutions which is what the University of Phoenix has done.

Fact two. During the WTO/GATS negotiations national governments have maintained national treatment. Few support open entry of foreign producer institutions into their systems, except in relation to on-line delivery which no national government is able to regulate anyway.

Fact three. In research, government funding dominates in basic research and also heavily subsidizes applied and commercializable research in many countries. Private companies fund a modest proportion of university research, not much more than prior to the neo-liberal era. The typical figure in OECD countries, including the United States, is about 5 per cent of the cost of university research. This is after two decades of neo-liberal policies, and NPM systems of management and incentives, designed to shift the funding drivers of university research from the public to the private side. As we shall see, these policies are now being questioned.

So in national systems, while the NPM is well entrenched and undergoing further mutations, there is neither a dominant capitalist economic market in teaching, nor such a market in research. The dream of a global market in educational services has hit the wall. We are stuck at best (or worst depending on your viewpoint) with government controlled 'market' simulacra with little of the consumers and producer freedoms, the unregulated information flows and the scope for product innovation held to be the glories of genuine markets.

Why has the goal of education and research as economic markets faltered?

The normal explanations are the failure of political will, the capture of the policy agenda by universities and interest groups like publicly-funded scientists, or the control impulses of nation-states, or some combination. While one would not want to completely exclude these motivations, especially the control impulses of states, the explanations share a common limitation. They all suggest the triumph of politics over economics. This is a comfortable explanation for the neo-liberal economist. It leaves the original premises about marketization unexamined and unchallenged. But the argument of this paper is that those original premises were flawed, and the limits of economic market reform are set not simply by political factors but by the *intrinsic nature* of higher education and research. These activities cannot be turned into profit-based markets in the full sense, at least not without dramatically reducing their scope, and hence reducing the economic and social value they create. This intrinsic economic limit to economic markets in higher education has shaped the so-called political failure to implement a full program of economic market reform. I will now expand on this argument.

### 3. Intrinsic limits to economic markets

In summary, there are three intrinsic limits to capitalist economic markets, to higher education as a genuine business in the full sense.

1. Knowledge is predominantly a public good not a private good, and hence both the outcomes of research, and the content of what students learn, is also predominantly a public good (though degree certificates, and the networking benefits of attendance at

- elite institutions, can be produced as private goods). Public goods are typically under-provided in commercial markets and to shift higher education and research into that mode is to drastically reduce the output of institutions
2. Further to this, a major and probably principal economic outcome of higher education and research is that they provide conditions of production in the profit-making private industries, as also in government and civil organization. These include contributions to the threshold level of social literacy, to the sensibilities of educated labour and to productivity of all who work with graduate labour, and the short-term and long-term roles of basic research in sourcing innovations and more generally, modernizations. This economic role is indirect, because it is conditional, and it is notoriously difficult to define and measure.<sup>10</sup> But it is clearly very important. Again, it is impossible to squeeze this economic function into the capitalist economic framework because of the public good character of learning (to the extent learning rests on knowledge) and of research. If educational participation and knowledge creation were largely determined by market forces then productivity and innovation would be under-provided.
  3. To the extent that degree certificates and networking benefits are private goods, these are status or positional goods.<sup>11</sup> Status production is highly competitive but competition operates in a peculiar manner. Status markets are never completely capitalist. Fully capitalist production negates the character of the status goods. For example, if an elite university expands to soak up all of the possible student demand in the manner of, say Toyota in the automobile market or Dell in the computer market,, it devalues the positional, status value of its own degrees and ceases to be an elite university.

I will now expand on these three arguments, beginning with public and private goods. Before that let me make one analytical point about public and private goods in higher education. It is necessary to distinguish between public and private *goods* (which goes to the social nature of the goods) and public and private *institutions* (which goes to legal ownership and is usually a state/non state distinction). For example, elite state sector institutions with free tuition produce private goods. Those private goods are selective and valuable degrees for students, and commercial intellectual property. At the same time all private sector institutions produce at least some public goods. For example all lift (or should lift) the literacy and productivity levels of graduates and thereby contribute to social literacy and productivity.

### **Public and private goods**

In 1954 Paul Samuelson systematized the notion of ‘public goods’. Samuelson identified public goods as economic goods that are non-rivalrous and non-excludable and tend to be un-produced or under-produced in commercial markets. Goods are non-rivalrous when they can be consumed by any number of people without being depleted, for example knowledge of a mathematical theorem. Goods are non-excludable when the benefits cannot be confined to individual buyers, such as national defence. Private goods are goods which possess neither quality, neither non-rivalrous or not excludable.<sup>12</sup> More than forty years later in the late 1990s Joseph Stiglitz, another Nobel laureate, found that knowledge is close to a pure public good.<sup>13</sup>

<sup>10</sup> For a useful discussion see McMahon 2004; 2009.

<sup>11</sup> Hirsch, 1976; Frank & Cook, 1995; Marginson, 2004.

<sup>12</sup> Samuelson, 1954.

<sup>13</sup> Stiglitz, 1999.

Except for commercial property such as copyrights and patents, the natural price of knowledge is zero. Stiglitz also noted that a large component of knowledge consists of global public goods. The mathematical theorem is useful all over the world. Its price everywhere is zero. And in the Internet age it is obvious that most knowledge can be freely accessed or low or no cost, always providing one is hooked into the communicative network, and it is created and disseminated freely. But not only does most knowledge never become a commodity; even knowledge goods in their commercial form are shaped by the logic of public goods.

Knowledge goods are naturally excludable at only one moment, creation. The original producer holds first mover advantage. Then knowledge is a temporary private good. Time advantage can be powerful in relation to knowledge. First mover advantage modifies knowledge as a public good. But the point is that it is one-sale market, unlike manufactured goods. Further, unlike consumable services, knowledge retains use value after the initial sale, as a public good. Mostly its long term life as a public good is more important than its initial life as a private good. And much of knowledge never functions as anything but a public good. In sum its public good character is dominant. This was the insight that gave Stiglitz the Nobel. It means that it is impossible to turn university research as a whole into a capitalist market.

Once the first mover advantage has disappeared and the knowledge is in circulation, any attempt to hold down commodity forms at this point is artificial. This is true also of knowledge or culture-intensive goods produced by commercial industries. The vast bulk of recorded music and film circulates in pirate form at low or zero cost. American style copyright is not just difficult to police, it is violated at every turn and impossible to enforce.

There is now a growing recognition in policy circles, led by the OECD, that the neo-liberal expectation about research was wrong. In last year's summation of the higher education sector, *Tertiary Education for the Knowledge Society*, the OECD stated that:

The idea that stronger intellectual property right (IPR) regimes for universities will strengthen commercialisation of university knowledge and research results has been in focus in OECD countries in recent years... countries have developed national guidelines on licensing, data collection systems and strong incentive structures to promote the commercialisation of public research... Even though the policy issue of stronger IPR for universities is prominent, it contains a number of problems however. The most important of these is that commercialisation requires secrecy in the interests of appropriating the benefits of knowledge, whereas universities may play a stronger role in the economy by diffusing and divulging results. It should be remembered that IPRs raise the cost of knowledge to users, while an important policy objective might be to lower the costs of knowledge use to industry. Open science, such as collaboration, informal contacts between academics and businesses, attending academic conferences and using scientific literature, can also be used to transfer knowledge from the public sector to the private sector.<sup>14</sup>

It will take time for national policy systems to acknowledge it, but this statement spells the end of the NPM and commercialisation paradigms that have dominated research policy. The illusion was that nation-states could secure economic growth benefits from their research systems by commercializing them. Research commodities would be bought and sold and drive national innovation, the cost of research to government would be reduced and the problem of 'relevance' solved. For their part universities expected to make a killing from golden patents.

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<sup>14</sup> OECD, 2008b, Vol. 2, 102-103.

All these assumptions collapsed. Most universities lose money on patents, NPM systems cannot hold the innovation benefits within the nation, and most industry will not fund research. The focus on 'open science' reflects a belated reading of how knowledge flows and innovation occurs. To lock up major discoveries as intellectual property as the market economic model would have it, retards the movement of ideas and slows the rate of innovation overall. Because the ultimate use of scientific breakthroughs cannot be anticipated at the point at which the research is funded, the fruits should be made accessible to all companies as quickly as possible. Industry rather than universities is more efficient in realizing intellectual property. The same OECD report also argues against over-reliance on product formats in research, such as limited life research projects not research programs, which cut into the capacity of researchers to sustain longer-term programs of curiosity-driven inquiry.

### **Indirect economic benefits**

The public good quality of knowledge also affects teaching and learning. The knowledge content of teaching and learning is a public good, as MIT recognized when it launched the Open Courseware initiative. The MIT website is the most visited in the university world.<sup>15</sup>

Public goods production in teaching and learning is realized in two ways. First, there are collective universal benefits that typically constitute advanced modern societies, such as common language, common cultural knowledge and the capacity to communicate. These shared qualities are foundational to stable conditions for government, economic production and consumption, and cross-border international relations. Education is essential to the continuous reproduction of these qualities. In part modernization consists in the advance of the threshold level of sociability through education and communications. Advanced literacy and advanced skills, like basic research capacity, are increasingly important in 'knowledge economies'. But for the most part these collective benefits are not rewarded in private markets and must be collectively funded. Second, there are more individualized economic 'spillover' benefits from the education of one person to others. The knowledge and skills that graduates bring to the workplace not only make the graduate more productive, they make other workers, non graduates, more productive as well. Such benefits are partly but not fully or consistently rewarded in the labour markets and thus must be subsidized by public funding of education and training. Among economists there is little disagreement about the public good character of both the collective goods and the spill-overs, though there is disagreement about their value.

One difficulty is that these indirect contributions to the economy are always conditional on other elements. The contribution of education and research to aggregate productivity, value creation, profitability and growth in all sectors is mediated by factors such as work organization and the utilization of graduates, the capacity of businesses to access research knowledge for the purposes of innovation, the state of the macro-economy, global developments, social and cultural factors. The indirect contributions of education and research cannot be predicted in advance. We can predict the private earnings of graduates and place a prospective value on the private goods produced by higher education institutions but the value of their contribution to conditions of production, joint and several, is elusive. It cannot become a marketable product.

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<sup>15</sup> webometrics, 2009.

## Private teaching goods

However teaching and learning does not consist of solely public goods. Unlike knowledge, which is solely public once the first mover advantage has passed, learning is a mix of public and private goods. The knowledge content of what students learn is a public good. General education programs, which provide universal knowledge and skills rather than specific vocational skills linked to the labour markets, predominantly produce public goods. General education (as distinct from vocational education) is never fully rewarded in the labour market (universal general education at say elementary school is not so rewarded at all). But some public goods are produced in all educational programs, both general and vocational.

On the other hand elite institutions in general, and all student places that provide entry into sought-after occupations with often superior income streams, constitute private goods. In elite institutions the private benefits are the places themselves (which provide lifetime status translatable into economic benefits), the networking benefits of attending those institutions, and the degree certificate itself which can be exchanged in the professional and occupational labour markets and has lasting private status value. Such private benefits are derived even in those elite public institutions that charge no tuition fees, as in parts of Germany. But all educational institutions that provide qualifications constitute private goods. Hence MIT is able to place its courseware on the Internet on an access basis, because it also provides private goods available only to its own enrolled students. The courseware embodies the knowledge content of its programs, the public good. MIT students receive high value credentialing and networking benefits. Despite the fact that the courseware is available without enrolling at MIT, the same number of students strive to enter as before. The value of the private goods is unimpaired by Open Courseware. Not only is MIT America's premier research institution on some measures,<sup>16</sup> the Open Courseware initiative has further expanded its status.

The fact of private goods enables a commodity market to develop in teaching. However, if teaching and learning are provided on a fully commercial basis then their other side, which is the public goods function, will tend to be neglected. Policy makers in some countries, such as the Philippines and Brazil, support the widespread provision of low quality commercial vocational education only by neglecting the public goods aspects, which are general educational preparation and spill-overs from graduate productivity. Degree mills don't bother with programs that would enhance social literacy and individual productivity.

## Status markets

As noted, to the extent degree certificates and networking benefits are private goods, these are status goods. This also sets limits on the economic character of production. Status markets have special characteristics. First, they are not only constituted by competition between producers. They are constituted by competition between consumers for access to the high value products (scarce student places in sought-after institutions). Second, as noted, elite institutions do not expand to meet all possible demand. They do not seek to maximize revenues and market share. Their core objective is not profit or shareholder value. Third, status production is highly competitive within the group of high status institutions, but this group is largely closed to outside competition. Once elite institutions become elite, they find it relatively easy to maintain this role, and to block other potential producers. University status reproduces itself. Producers of high status research and sought after student places attract

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<sup>16</sup> For example average citations per published paper in science and technology. See CWTS, 2009.

government support and high volume student applications, which maintain the resources for research and the scarcity and high value of student places, and so on. The number of high status producers is always limited in absolute terms. Fourth, when high status universities are given freedom to charge whatever fees they like, the experience of higher education in the USA suggests that the rate of tuition inflation exceeds the general rate of price inflation. In a closed market with an absolute limit on the number of producers there are no competitive efficiency pressures to keep prices down. This negates one of the claims for markets.

In sum, it is impossible to establish a fully commercial market in high status universities. Elite higher education is largely closed to new entrants, and subject to a plethora of public and private subsidies that cut across supply and demand, and market-generated efficiencies. Elite producers have a surplus of demand and in the final analysis are unmoved by the exit of dissatisfied customers.<sup>17</sup> And elite institutions do not seek profits.<sup>18</sup>

### Political factors

There are also political factors that limit the potential of markets. In part these follow from the intrinsic factors just discussed. The first political factor is the primary role taken by education in social selection in all modern societies. If social selection was determined by unregulated competition for prestige goods (with no limit on price and including most of the population) and/or by commercial markets (with no guarantee of quality and a pattern of winners and

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<sup>17</sup> Not that this happens very often. It seems poor teaching is a tolerable price for a high status degree. Research evidence indicates that when asked whether they would prefer indifferent teaching in a high status institution or excellent teaching in a medium status institution, nearly all students choose the former – for example see James, et al., 1999.

<sup>18</sup> Nevertheless education is a large sector and even peripheral commercial markets can constitute a significant business. The value of international education is now estimated at \$40-50 billion USD worldwide and seems to be largely recession proof. In Australia, which is the extreme case of the growth of this market, education export generates about \$12 billion USD per annum in student fees and spending on accommodation, transport, food and other consumption (see ABS, 2009). Education is the third largest Australian export after coal and iron ore. There are 530,000 foreign students in Australia, equivalent to 2.5 per cent of the Australian population. China is the largest importer, i.e. the largest supplier of foreign students to Australia, followed by India, Malaysia, Singapore and Indonesia. Foreign student fees provide 15 per cent of the direct revenues of Australian universities and constitute 26 per cent of all enrolled students (see DEEWR, 2009). The international education industry is fully commercial, with competitive marketing and recruitment, a service rather than product orientation, and regulation via consumer protection laws and quality assurance. International education in the UK and New Zealand are similar. At the same time the international education industry also points to the failure of the commercial approach to effectively the full range of public goods benefits. International education is a private good within both the nation of student origin and the nation of education. There is also an only partly realized potential for national and global public goods. The private good is mostly framed in terms of the nation of education. One outcome is that the very considerable global public good benefits of international programs - such as the development of cross-border sociability, and the learning of other cultures - are typically under-produced in the English-speaking nations that export education services. A typical finding of the research is that most international students from countries such as China have difficulty finding friends among local students; there is little learning by local students of the foreign student languages and cultures; and the classroom has also changed little despite the entry of large numbers of foreign students from educational traditions different to those of the country of education (see Marginson, et al., forthcoming). This also reduces the public good benefits provided by international education, both in the nations from which the foreign students come, and in the nation of education. Policy does not focus on these goods because non-citizens are of a lesser interest to government in the country of education, and it is difficult for governments of the countries from which the students have come, to shape the quality of their educational experience from afar. There are incidental public goods spill-overs from commercial international education, for example it fosters a more cosmopolitan environment, but the full potential of public goods is not realized.

losers) there would be a firmer limit to the total level of participation of school leavers in higher education. Arguably, the level of participation in the national higher education system would be too low to meet contemporary needs and the distribution of social opportunities would be more unequal than before. For both reasons governments intervene.

The second political factor is that powerful institutions and beneficiaries protect the value of status goods. In addition governments see elite institutions as both the embodiment of national traditions, and sites of modernisation and the formation of future leaders, which are all public good functions. In the last century there have been few significant attempts by governments to undermine elite universities in any country in the world. The exceptional cases include fascism in Germany and Italy, military rule in some South American countries, the Cultural Revolution in China, and the Khmer Rouge in Cambodia. Elite universities are more stable than any other major social institutions, including the government apparatus, with the possible exception of religious organizations in some (but not all) countries.

The third political factor is that for most national governments, the curriculum in higher education in part embodies national values, ethics and traditions. Again these are national public goods. This is one reason why in the WTO/GATS negotiations most governments maintained national treatment of schools and universities. Those that admit foreign providers typically require them to have local partners, and/or teach to a national curriculum.

#### 4. The global dimension

In the introduction I remarked that the neo-liberal market blueprint does not comprehend the global dimension of higher education. It does not conceive of higher education as part of a global positional competition and still less as a producer of global public goods whose benefits spill-over national borders. It sees higher education as a superstructure of the national economic base. The only neo-liberal blueprint for market reform at the global level, WTO-GATS, was premised on the withdrawal of states from all or part of regulation. It could comprehend the relationship between global and national only as a zero-sum relationship and in effect called on nation-states to vacate the terrain, which they had no intention of doing.

In modelling research universities, we need an analytical and policy framework that combines their presence in national system/competition with their presence in global system/competition. In a glonacal world<sup>19</sup> in which the local, national and global dimensions interface, these interfaces vary in time and space. The points of junction are not pre-given.<sup>20</sup> We cannot automatically determine the global system from a reading of the national system, any more than we can map the dynamics of the national system from reading the global system. But we can identify trends. And one trend is that the increasingly global nature of research universities puts them at cross-purposes with national regulation.<sup>21</sup> This creates difficulties for both government and universities, and these difficulties are likely to increase.

If national government wants to maximize the performance of 'its' universities at global level this entails building research capacity, internationalizing doctoral and academic staff populations, adopting English as universal and partly neglecting the national and local role in

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<sup>19</sup> Marginson & Rhoades, 2002.

<sup>20</sup> Appadurai, 1996; Marginson, 2008b; Marginson, 2009.

<sup>21</sup> Beerkens, 2004; King, 2007. Transnational education programs provide one example of the incomplete fit between national regulatory frameworks and the global activities of institutions. See Ziguras and McBurnie, 2006; Huang, 2007.

first degree education, as Hugo Horta notes.<sup>22</sup> The fault line between the national and global dimensions of action in higher education lies on the divide between teaching and research functions, and between first degree education and more internationalized graduate research.<sup>23</sup> On either side of this fault line we see distinct positional competitions, national or global; primary orientations, teaching and leadership formation or research; control regimes, national regulation or global deregulation; and languages of use, national language or English.<sup>24</sup> The policy and strategy imaginary in the national zone is very different from that which shapes thought and action in the global zone. (In this respect the nations of the European Union, which encourage intra-European mobility at first degree level and are affected by global competition at graduate level, can be thought of as a national rather than global space).

There is no doubt that in a general sense all nations 'need' global modernization, or rather that it is in their interests to engage closely with it. They cannot abstain without incurring economic costs in declining efficiency, cultural costs in becoming a backwater, and demographic costs through an exit of talent. The dilemma for nation-states, which always want direct outcomes from their actions, is that if they build global research power there is no guarantee that national firms and government will capture the bulk of the economic benefits from research university global success. Most national governments would like a university in the top 100, or top 50 or (if they are strong now) top ten.<sup>25</sup> Some such as Canada and parts of Western Europe fund their top research universities to be globally competitive, while leaving them freer of national NPM system controls than lesser performing institutions, on the assumption that maintenance of a strong research sector will flow back to the national interest. It is not clear that it does. I think in future, despite the OECD argument, some governments will move from building Jiao Tong-defined research strength, to renewed efforts to secure direct, measurable national policy 'bang' from the research buck with new NPM tricks. But each move to channel and control research outcomes will inhibit the free creative processes essential to both global knowledge making and the strategic forays of university executives. The dilemma will return. Nations will vacillate back and forth between globalism and control.

There *are* potential national spill-overs from global research strength, but only a minority of these are secured directly by nationally-based firms operating close to nationally-based research universities. After all firms often secure their research know-how from international knowledge, and on balance of probability, except in the USA the discoveries of local universities are more likely to be utilized first offshore. Primarily, the capacity of the nation-state to secure spill-overs from the global mission of universities rests on the ability and willingness of the nation to synchronize with global flows. At best the research university becomes a vortex for global talent and attention. This helps to foster local creative activity and entrepreneurship in many industries. Securing those benefits depend on mediating policy factors such as infrastructure investment, 'knowledge city' development, open immigration regimes that facilitate flows of knowledge workers. The national benefits of global spill-overs take time to be realized and require a measure of consensus on global openness.

Though the argument takes me beyond the scope of this paper, the strongest basis for building capacity in research universities derives not from the national interest, the national economy or nationally defined public good, but the global public good and particularly the

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<sup>22</sup> Horta, 2009.

<sup>23</sup> Enders & de Weert, 2009. In this respect the nations with large cohorts of first degree international students, such as Australia, are exceptional.

<sup>24</sup> Horta, 2009, 395-397.

<sup>25</sup> SJTUIHE, 2009; Salmi, 2009.

implications of knowledge creation and open flows of knowledge. Education and research have a growing potential contribution to global public goods. Higher education is already among the most internationalised of social sectors, particularly research. Science, social science and their dissemination provide a mutual basis for addressing common global issues. Cosmopolitan values acquired in education make contribute to global harmony in diversity.<sup>26</sup> I have addressed global public goods in a 2007 article in *Higher Education*.<sup>27</sup>

Nation-building strategies, and strategies for developing the global capacity and performance of research universities, only achieve an easy synchrony when the national strategy is defined in terms of global mission. We see this in Singapore, which sees its global role as the only way forward, a matter of national survival; and in a more insular way we see it in the USA. The American economy is so large in world terms that the nation can maintain a separated national culture and economy alongside a dominant global imperial role. (No other country is in a position to do this, and perhaps the USA will be unable to keep doing it forever. In developing its global role China will be unable to maintain this separation between the national and global dimensions). The top American universities operate rather separately in the national and the global dimensions, sharing in the imperial role.<sup>28</sup> One of the reasons for American dominance of the global knowledge economy is that by-and-large the national authorities leave the universities free to determine their own global capacity and operation. This particularly benefits universities with strong private income. In the public research sector, state government fiscal restraint and NPM performance systems constrains those research universities below top 40 level with lower levels of income from philanthropy and research than say UC Berkeley. There is downward pressure on comparative global performance.

Some national governments opt to pretend the only reference point is national. They model their leading research universities in terms of a national system ('market') and cut across or undermine their global capacity by under-funding them to drive NPM efficiency and system control for its own sake, and/or by interfering unduly in their strategic freedoms or research freedoms. All this is happening in higher education in both Japan and Australia; and the research sectors of both countries under-perform at the global level, relative to national wealth. Australia has made the major mistake of starving all but one of its leading universities to maintain a common system of incentives and outcomes, for example high export volume. Japan does better than Australia because of the historic accumulation of capacity in the Imperial group. Tokyo, Kyoto, Osaka, Tohoku and Nagoya are globally strong. But Japan should have more universities in the top 100, 200 and 500. There is no sign that comparative research performance will improve, unlike the situation in other nations in East Asia. NPM system principles have been too effective for the good of national research capability.

## 5. Summary and reflections

Let me move to draw together this argument, and in the process make a number of observations on longer standing and current policy problems:

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<sup>26</sup> Speaking personally, I have no problem with the primacy of the global above national. I feel myself to be primarily human and a life form on an embattled earth rather than primarily Australian, and as much a citizen of Melbourne as Australia despite the strengths of Australian society such as openness, freedoms and stability. But many nations have more potent traditions and habits than does the young nation of Australia.

<sup>27</sup> Marginson, 2007.

<sup>28</sup> Marginson, 2008b.

Higher education produces a mix of public and private goods. While NPM reform in many countries has increased the private goods side of the public/private balance, always policy sensitive, it has not transformed this mixed character of education. In some respects the public good component has also been enhanced in this period, for example in research, global cooperation, and the lifting of literacy thresholds. Research is predominantly a public good, as is knowledge transmission in teaching programs. Educational credentials and networking benefits in elite universities are predominantly private goods. There is a significant general education component in all higher education programs including vocational training and this is a public good. If research and the content of teaching were produced as solely private goods they would be dramatically under-provided. Hence the continuing role of state funding, regulation and to a lesser extent state provision; and the growing potential contribution of philanthropy and non market civil society to public goods in education and research.

Much if not most of the economic contribution of education and research is indirect not direct. It provides conditions of production necessary to, but not sufficient for, the creation of capitalist economic value in all industry sectors. These conditions include the contribution of higher education to general and specific productivity and the role of basic research in underpinning industry innovation. These conditions derive from the public good functions. In the last two decades an ideologically-driven emphasis on economic market forms and narrowly measurable output formats has led policy makers in many countries to neglect the role of public goods, and underplay the indirect contributions of higher education to national economies. In research policy at least, this is now changing. But a key problem with public goods in education and research; and with the indirect economic contributions of higher education; is the difficulty of tracking, computing and comparing them. Complex collective goods – to take one extreme, the contribution of research universities to national or global ‘civilization’ - can only ever be apprehended by synthetic judgement. No model is complex enough, no calculations suffice. Even for individuals, the lifetime effects of learning in all domains of life cannot be quantified comprehensively. Despite these reservations aspects of public goods *can* be measured. We can track the rollout of the Internet, a free space for global community providing conditions for other global and national public goods. We can measure the contributions of professors to policy making, in quantity of hours or quantity of papers. We can trace the consumption of books that rest on educated literacy. We can trace patterns of industry innovation and source them to fields of knowledge. More thought needs to be given to defining and monitoring public goods produced in and through education and research.

The economic policy makers’ ambition to turn education systems into functioning economic markets in the capitalist sense has failed. It had to fail. Mainstream education institutions will never behave like capitalist firms, though they can assume some features in common with for-profit businesses (they can be organized on a competitive basis, and can operate in a business-like fashion). A secondary group of institutions take the legal and economic form of for-profit businesses. But an education institution can only become a normal service business if it empties out its role in relation to knowledge and becomes just a credentialing and/or childcare agency. For research universities this is impossible.

If competition in higher education does not and cannot take the form of capitalist economic competition then we need to explain its dynamics. Perhaps we should stop using the term ‘market’ which confuses analysis because it implies a conventional economic market. I have argued that a useful starting point is the notion of positional or status competition, and that it is also essential to take into account the interacting dynamics of public goods and private goods. This also reminds us that competition is not the only system relation at work. Part of the paradoxical genius of the University, one reason for its long life, is that it combines

competition and cooperation, and combines private and public goods, in a manner in which each side of the paradox provides conditions of possibility for the other side. Until a better term is developed I prefer 'system' in place of 'market' to describe the relational space of higher education institutions, remembering also that a system does not have to be homogeneous and may be disjunctive and untidy within a common boundary.

Given that the market blueprint does not provide satisfactory analytical tools for policy making, and given that it has proved impossible to implement, why do governments persist with it? Inertia is one reason. Another is that the market blueprint is closely tied to the NPM, providing its ideological justification and much of the language. The NPM remains viable and governments are loath to deconstruct its supporting discourse. Is there a way through to a post-market policy framework that would preserve NPM style controls (or reduce them)? Or does neo-liberalism remain the only possible policy language even despite the times?

The increasingly globalization of the research university sector, marked by the obsession with global rankings, fosters a growing policy dilemma for national governments. Do they maximize the global strength of their leading research universities despite the likely leakage of much of the benefits offshore? Or do they renew their efforts to control and channel the benefits via new, post-market NPM control systems knowing that this will inhibit creativity? Do they put a range of other policies in place to make best use of the knowledge-generating capacity and global presence of the universities, or do they do what Japan and Australia does and pretend that the universities are simply national players and order them accordingly?

If we can declare an end to the neo-liberal project of marketization of higher education (though not an end to the NPM), its demise is studded with irony across the fault line between the global and national dimensions. The WTO-GATS negotiations failed to create an open global market in educational services – a one world multinational system – because national governments opted to work with the 'national treatment' provisions of GATS, allowing them to retain policy control over national systems and maintain a separation between national provision and global trade at the margins. National polity stymied the would-be global market. On the other hand, national polity control over research universities, and capacity to order them as coherent national economic markets, has been stymied in part by the public good nature of knowledge and the global character of research and knowledge dissemination. Both of these instances of over-determination, the national overturns the global, and global overturns the national, have conspired to dash the hopes of neo-liberal market reformers.

The real world has proved a more complex place than imagined by neo-liberal theory. We can be pleased about that. If we could excise this failed model of higher education systems, we could tackle the problems it has left in its wake. First, the strangling of the missions of higher education by over-controlling governments. Second, the absence of a stable policy framework that reaches across national and global operations and enhances performance in both dimensions. Third, the need to ground the missions of institutions, especially global research universities, more securely in the societies in which they are located, while also enhancing open cosmopolitanism in those societies and building cross-border global cooperation.

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