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# Neoliberalism, higher education and the knowledge economy: from the free market to knowledge capitalism

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## Abstract

The ascendancy of neoliberalism and the associated discourses of 'new public management', during the 1980s and 1990s has produced a fundamental shift in the way universities and other institutions of higher education have defined and justified their institutional existence. The traditional professional culture of open intellectual enquiry and debate has been replaced with a institutional stress on performativity, as evidenced by the emergence of an emphasis on measured outputs: on strategic planning, performance indicators, quality assurance measures and academic audits. This paper traces the links between neoliberalism and globalization on the one hand, and neoliberalism and the knowledge economy on the other. It maintains that in a global neoliberal environment, the role of higher education for the economy is seen by governments as having greater importance to the extent that higher education has

become the new star ship in the policy fleet for governments around the world. Universities are seen as a key driver in the knowledge economy and as a consequence higher education institutions have been encouraged to develop links with industry and business in a series of new venture partnerships. The recognition of economic importance of higher education and the necessity for economic viability has seen initiatives to promote greater entrepreneurial skills as well as the development of new performative measures to enhance output and to establish and achieve targets. This paper attempts to document these trends at the level of both political philosophy and economic theory.

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## Notes

Hayek's earliest statement is in *The counter-revolution of science: studies in the abuse of reason* (1952) where he defends a qualitative discontinuity between methods of natural and social sciences. There were also Kantian influences on Hayek's subjectivism in that, following Kant, he rejected the idea that knowledge could be constructed from a basis of raw sensory data, seeing order that we find in the world as a product of the creative activity of the human mind but suspecting that there are inherent limitations to the possibility of full explicit knowledge, and, in particular, an impossibility of ever fully explaining a mind as complex as our own (see Hayek, [1978](#), p. 45, note 14). In addition, relatedly, Hayek denies the ontological independence of mind à la Descartes, denies the possibility of complete intellectual self-understanding, and denies any foundationalism, seeing all criticism of social life as immanent criticism, and social order itself as spontaneous creation rather than as a rational construction.

There is an extensive literature on Agency Theory including Althaus ([1997](#)), Bendor (1988), Bergman and Lane (1990), Braun (1993), Boston (1991, 1996a, b), Chan and Rosenbloom (1994), Deane (1989), Eisenhardt (1989), Heymann (1988), Jennings and Cameron (1987), Jensen and Meckling (1976), Kay (1992), Levinthal (1988), Moe (1984, 1990, 1991), Palmer (1993), Perrow (1986a, b), Petersen (1993), Pratt and Zeckhauser (1985), Rees (1985a, b), Scott and Gorringer (1989), Simon (1991), Thompson and Wright (1988), Treblicock (1995), Weingast (1984) and Wistrich (1992).

For an introduction to Transaction Cost Economics see Boston (1994), Boston et al. (1996b), Bryson and Smith-Ring (1990), Dow (1987), Perrow (1986a, b), Vining and Weimer (1990), Williamson ([1975](#), [1983](#), [1985](#), [1991](#), [1992](#)).

Bourner et al. ([2000](#)) describe Mode 1 knowledge in terms of: knowing through contemplation; knowing that; knower as spectator; propositional knowledge; theoretical knowledge; knowledge for its own sake; knowledge about the world; knowledge that is produced and tested in the academy by researchers. Mode 2 knowledge is: knowing through action; knowing how; knower as agent; knowledge as reflection on practice; practical knowledge; working knowledge; knowledge in the world; knowledge that is created and tested in action in the world by practitioners.

There is a huge literature criticizing globalization and suggesting alternatives. See, for example, Appadurai ([2001](#)), Bell ([2001](#)), Mandle (2002)

See the New School site on the Chicago School:

<http://cepa.newschool.edu/het/schools/chicago.htm>.

This is not to deny that other social sciences have contributed to the discourse on the knowledge economy and its earlier sibling concept of the knowledge society. In sociology, for instance, the notion of postindustrial society was first coined by Daniel Bell (1974) and Alain Touraine (1973) 20 years ago, and developed as the information society and the network society by Manuel Castels (2000). In management theory, knowledge capitalism has been picked up in terms of the burgeoning field of 'knowledge management'.

The emphasis on tacit knowledge is developed out of the work of Polanyi ([1958](#), [1967](#)), which is also strongly developed in terms of the concept of practice in both Heidegger and Wittgenstein. The emphasis on practice, perhaps, is a major distinguishing characteristic of much twentieth-century philosophy, sociology and cultural analysis (see Turner, [1994](#)) with a focus on the practical over the theoretical and 'background practices' against which theoretical knowledge is articulated and/or codified. The concept of practice, mostly unexamined figures largely in education and pedagogy and in the relatively new concept of 'communities of practice' that has been developed in the context of business and organizational learning.

This section on Stiglitz draws on the section 'Analytics of the knowledge economy' from my recent paper 'University, globalization and the knowledge economy' (Peters, [2002](#)).

For a recent article by Burton-Jones see the inaugural issue of the web-based new start-up journal Policy futures in education, co-edited by myself and Walter Humes and available at Triangle Publications from 2003 ([www.triangle.co.uk](http://www.triangle.co.uk)). The inaugural issue is devoted to 'Education and the knowledge economy' with contributions from Paul A. David and Dominique Forey, Gerarde Delanty, Steve Fuller and many others.

Dahlman and Aubert ([2001](#)) argue that improving education is perhaps the most critical reform for the medium and long runs.

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