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**Knaves or Knights, Pawns or Queens? An Evaluation of  
Australian Higher Education Reform Policy**

by

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# **Knives or Knights, Pawns or Queens? An Evaluation of Australian Higher Education Reform Policy**

Brian Dollery, David Murray and Lin Crase \*\*

## **Abstract**

Since the watershed Dawkins reform policies in 1987, Australian higher education has undergone a fundamental transformation from a traditional public service provider to a market-driven commercial enterprise. These reforms have been driven in part by a change in the assumptions that policy makers hold regarding the motivations of academics, administrators and students. Drawing on Julian Le Grand's (2003) conceptual model of the interaction between human motivation and policy formulation and implementation, this paper examines how motivational endogeneity in the academy has distorted policy outcomes in Australian universities. After a brief review of the Le Grand model, the paper outlines the evolution of higher education policy, and then considers some of its unintended results in the light of Le Grand's model of motivation.

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## **1. INTRODUCTION**

Australian universities appear to be in the vortex of a gathering crisis. A regular stream of media exposés over the recent past attests to the fact that all is not well in the academy. Newspaper headlines seem to encapsulate an apt synoptic description of the broad range of problems afflicting contemporary Australian universities: “Fraud investigated at Victoria University” (Maslen, 2004); “CQU’s budget deficit under review” (Healy, 2004a); “South African campus financial loss adds to pressure on Monash” (Perry and Bachelard, 2004); “Law school’s out of touch” (O’Keefe, 2004); and “UQ stoush with AMA hots up” (Healy, 2004b) all convey something of the flavour of the deepening crisis in Australian higher education. Along analogous lines, where once terminology such as “collegiality”, “freedom of thought and expression” and “the pursuit of truth” reflected common values in universities, now “accountability”, “efficiency” and “quality” operate as more decriptive of the Australian university environment.

Where universities may have once been considered insular in nature with emphasis on learning and research, policy dictates have transformed them into commercial enterprises operating in an environment that has undergone significant metamorphosis over recent years. Still displaying many of the obvious attributes of public agencies through their continued (if rapidly diminishing) reliance on

Commonwealth funding, universities must now operate as if they were in competitive teaching and research markets.

The literature on policy reform has grown apace over the past decade and offers various illuminating insights into real-world policy processes (Rodrick, 1996). In general, this literature has adopted the standard *homo economicus* behavioural postulate and examined policy reform programs under conditions of uncertainty *ex ante* and *ex poste*. In a significant departure from this tradition, in his *Motivation, Agency and Public Policy* Julian Le Grand (2003) has argued that recent shifts in the behavioural assumptions held by policy makers concerning human motivation have led to fundamental changes in actual public policy formulation and implementation. This paper seeks to apply the conceptual framework developed by Le Grand to the evolution of higher education policy in Australia from the time of the so-called Dawkins reforms in 1987 onwards.

The paper itself is divided into three main sections. Section two provides a brief synoptic outline of the analytical model developed by Le Grand (2003). Section three contains a review of Australian higher education policy since the demise of the binary system interpreted in the light of the Le Grand (2003) framework. The paper ends in section four by considering how the higher education reform program has jeopardized teaching quality in universities as an unintended outcome, with heavy-handed government intervention in the form of

the Australian University Quality Agency a forlorn attempt to bolster falling quality.

## **2. LE GRAND'S CONCEPTUAL FRAMEWORK**

In his *Motivation, Agency and Public Policy*, Le Grand (2003, p.x) argued that in the development of the public sector after World War Two, policy makers implicitly assumed that “public service professionals and other workers were in fact public-spirited altruists” rather than self-interested welfare maximisers, and the beneficiaries of public services were “passive recipients of services and benefits, supposed to accept what they were offered by public service knights without demur”. However, for various reasons, not least the emergence of public choice economics and the associated development of New Public Management (NPM) (Wallis and Dollery, 1999), these perceptions underwent a revolutionary change from the early 1980s. Public sector employees were no longer regarded as altruistically motivated and recipients of public goods and services now no longer viewed merely as inert beneficiaries. In other words, “there were changes in policy-makers beliefs about *motivation* – what motivated those working in the public sector – and *agency* – the capacity of individuals, especially the beneficiaries of welfare, to engage in independent or autonomous actions” (Le Grand, 2003, p.x) (original emphasis). As a consequence, rather than relying

exclusively on the provision of public services through centrally funded monolithic public bureaux, public service provision focused on the creation of “competitive markets” or “quasi-markets” through “independent” service producers.

Le Grand (2003, p.39) has summarised this transformation in public policy making as follows:

“There has been a gradual erosion of confidence in the reliability of the public service ethic as a motivational drive and a growing conviction that self-interest is the principal force motivating those in the public services. Since the market is the quintessential mechanism for corralling self-interest to serve the public good, this in turn has led policy-makers to develop the use of quasi-market mechanisms in the delivery of public services”.

In his conceptual framework for the transformation of the perceptions of policy makers concerning the motivation of individual producers and consumers of public goods and services, Le Grand (2003) has adopted the language of the chessboard. In the eyes of policy makers, public employees have metamorphosed from the altruistic “knights” of the immediate post-War era to the “knaves” of the post-1980 conversion. Similarly, consumers of public services have ceased to be passive “pawns” of the Beveridge consensus to become the active “queens” of the

contemporary milieu. A knave is defined as “an individual whose principal concern is to further his or her self-interest” (Le Grand, 2003, p.25). Although this conception of human motivation comes close to the conventional economic assumption of *homo economicus*, Le Grand stresses that it should not be too narrowly interpreted. Self-interest has “a wide variety of elements that contribute to it”, including material wealth, but also “security, autonomy, status and power”, as well as “pleasure, the avoidance of pain, liberty, glory, the possession of certain objects, fame, health, longevity, self-respect, self-development, self-assertion, reputation, honour, and affection” (Le Grand, 2003, p.26). By contrast, knights are “individuals who are motivated to help others for no private reward, and indeed may undertake such activities to the detriment of their own private interests” (Le Grand, 2003, p.27).

A corollary of the distinction made between knights and knaves in terms of human *motivation* also holds for human *agency*; that is, assumptions by policy makers concerning the capacity of people for autonomous action. On the one hand, “individuals are largely or wholly the product of their environment”, with “individual behaviour best understood by focussing on the constraints under which individuals operate”. Accordingly, recipients of public services are thus passive and inactive “pawns” wholly “at the mercy of structural forces over which they have no control” (Le Grand, 2003, p.13-14). Even if people did not entirely

correspond with the simplified pawn model of agency, then it was presumed that they would react benevolently as knights rather than knaves in the face of perverse incentives. For instance, given easily evaded or avoided means tests for social security, individuals would still not accept benefits.

On the other hand, an increasing number of policy analysts rejected this view in favour of human agency being more accurately characterised as “queens”. According to this view, individuals are perceived not “as victims of unavoidable circumstance but as autonomous beings who did have a measure of control over, and responsibility for, their own lives”. Put differently, people are “not pawns but queens” (Le Grand, 2003, p.14).

The policy implications flowing from policy maker’s perceptions of human agency are similar to those stemming from the motivational assumption underlying the conception of knaves. If people are indeed queens, then market mechanisms that facilitate active choice making and provide incentives for socially desirable conduct should supplant the dead hand of state bureaucracy. In sum, “systems run by knights for pawns were to be replaced by ones run by knaves in the service of queens” (Le Grand, 2003, p.3).

Le Grand (2003) argues that in the social sciences generally, and in economics specifically, it is generally assumed that human motivation exists independently of policy programs themselves; that is, motivation is *exogenously*



determined independently of policy change. Human motivation itself is not affected by policy change, but instead behaviour adapts to the new policy environment. However, if motivation is *endogenously* determined and critically influenced by the nature of policy changes, then this will have a decisive impact on the effects of policy reform. In other words, “what if policy reforms, whether in a market-orientated or a state-orientated direction, affect the balance of motivation” (Le Grand, 2003, p.40). What if the balance of human motivation in public service provision between knightly and knavely behaviour is dependent on the nature of policy formulation?

In order to answer this question, Le Grand (2003) departs from the highly simplified behavioural dichotomy between knights and knaves implicitly adopted by policy makers and distinguishes between two different kinds of knightly motivation; the “act-irrelevant” knight and the “act-relevant” knight. Act-irrelevant knights are altruistically motivated to help people, but are content if the person in question requiring aid is assisted by someone else in the organization. They are thus satisfied to “free-ride” on the actions of colleagues. By contrast, act-relevant knights are motivated to assist personally by a sense of duty and a desire to avoid feelings of guilt. This distinction has been referred to elsewhere in the literature as the difference between “pure” and “impure” altruism (Andreoni,

1990). On the basis of existing empirical evidence, Le Grand contends that most people in the public sector possess the characteristics of act-relevant knights.

The benefits act-relevant knights derive from performing altruistic deeds depends on various factors, including the assistance they can offer, the help their assistance avails the recipient, and the degree of social approval involved. However, the inclination towards altruism critically hinges on the extent of personal sacrifice entailed by the act. Le Grand (2003, p.51) describes this as the opportunity cost of altruism; “the cost to the individual concerned of other opportunities for personal benefit that have to be forgone because he or she has chosen to undertake that act”.

Drawing on Frey’s (2000) theory of motivation, based on the distinction between “intrinsic” motivation (that embody factors within the individual, like enjoyment of work for its own sake) and “extrinsic” motivation (that derive from the external environment, such as wages and promotion prospects), Le Grand (2003) develops a model of public sector motivation by considering how incentives influence act-relevant knights involved in public service delivery. The essential argument runs as follows (Le Grand, 2003, p.52):

“The relationship between the benefit derived from an altruistic act and its opportunity cost will be complex. If the cost is too little, the benefit from making the sacrifice will also be relatively little and

the individual's motivation to perform the act will be correspondingly reduced.... Too great a cost, on the other hand, will also demotivate them; they will feel that there is a limit to the amount of sacrifice of their interests they are prepared to make for the sake of others, and they will therefore feel less inclined to undertake the activity. In other words, there are cost thresholds such that, if the cost falls below the lower threshold or rises above the higher one, people are less likely to perform the activity than if the cost falls in between”.

Frey (2000) advanced two concepts that can explain this mechanism. Firstly, a “crowding-out effect” takes place when an extrinsic incentive is offered for a task because it undermines the intrinsic motivation to perform the task. For example, if an academic is offered a small payment to read a student dissertation chapter, then this might reduce the intrinsic willingness to assist because of the crowding out effect of the payment. Secondly, “relative price effect” depends on the opportunity cost of performing the task. For instance, if the academic is offered a large payment to read a student dissertation chapter, then this might increase the opportunity cost of not reading the chapter and so act in the opposite direction and overwhelm the crowding out effect. Accordingly, the effort elicited from the

academic will be maximised at the lowest possible cost along the “threshold” where the two forces counteract each other.

The implications of Le Grand’s (2003, p. 55) theory of motivation for public service provision differ substantially from his much more simplified model depicting the perceptions of policy makers. In essence, it suggests that in a public service environment, like a university, “market payments can be made to good effect but they need to be employed with care”. If financial incentives are small, then the crowding out effect can complement rather than “crowd out” altruism. Alternatively, if market payments are too great, then they “may well erode people’s sense of sacrifice and thereby reduce their intrinsic motivation” and the resulting supply of effort. Moreover, since the crowding out effect and the relative price effect keep counterbalancing each other as financial rewards rise, where demand for an activity is high, then high payments can be justified and *vice versa*.

### **3. RECENT AUSTRALIAN HIGHER EDUCATION POLICY**

Prior to 1987, Australia had a binary system of federally funded higher education containing both universities and colleges of advanced education (CAE’s). These institutions operated on an autonomous basis with supervision from the Commonwealth Tertiary Education Commission (Anderson *et al.*, 2002, p. 2) as traditional public service providers, with high a degree of autonomy for individual

academics and very prescriptive degree programs for students. In the higher education context, the underlying motivational assumptions seem to correspond to Le Grand's (2003) notions of knights and pawns.

In 1987, John Dawkins (then Minister for Employment, Education and Training) proposed and implemented a new policy classifying CAE's as universities, removing the former binary system (thus greatly increasing the number of universities in Australia), and seeking to dramatically boost the number of university graduates each year (Dawkins, 1987, p.13). In essence, the Dawkins higher education policy sought to provide greater institutional control and flexibility with regard to course offerings and resource allocation, whilst simultaneously reducing the extent of government intervention within the system in the form of funding and management (Dawkins, 1987, p.27/8). However, with the termination of the binary system, funding was based on agreements between the relevant institution(s) and the Commonwealth government, consequently generating greater ministerial and departmental control over individual universities (Encel, 1990, p.2).

With an emphasis on efficiency and quality (Dawkins, 1987, p.78), Dawkins re-introduced tuition fees (previously abolished under the Whitlam Government (Anderson *et al.*, 2002, p.1)) with students now meeting part of the cost of their education through the Higher Education Contribution Scheme

(HECS) (Anderson *et al.*, 2002, p.2). Moreover, universities were expected to contribute to economic growth (Dawkins, 1987, p.8), with Dawkins stressing the potential revenues available to universities from international students (Dawkins, 1987, p.81), along with increased funds that could be generated for institutions through commercial activities (Dawkins, 1987, p.83).

In structural terms, the Dawkins *White Paper* introduced substantial changes in university management; vice-chancellors became more like “corporate executives” in their management of universities, effectively destroying the previous collegial governance structures that had been in place (Encel, 1990, p.2). According to Anderson *et al.* (2002, p.2), “universities became ‘industries’ and academics ‘workers’ or ‘employees’ as industrial laws came to regulate academic work.” However, Karmel (2001, p.132) has argued that, despite many “regressive” outcomes from the Dawkins era, increased emphasis had been placed on institutional efficiency, effectiveness and outcomes. In any event, policy makers seem to have transformed knights into knaves and pawns into queens.

The 1998 West Review of higher education made various recommendations on higher education financing and policy in Australia (Marginson, 1998, p.157). This Report provided the basis for a new Commonwealth policy prepared by (then) federal education Minister Kemp which failed to be implemented due to a lack of support in the Senate and an adverse

public reaction following its leakage to the media (Chipman, 2000, p.11). In effect, the West Review proposed a further decentralisation and deregulation of higher education with a greater allowable dictation of market supply and demand in determining university offerings (Marginson, 1998, p.158), thus attempting to use competitive market forces in lieu of government provision for a service which is limited in quantity (Hunt, 1998, p.88), along with the removal of entry barriers for new institutions (Clarke, 2000, pp.83-84). It was argued that competitive market forces would increase diversity and quality, whilst restraining institutions from exorbitant fee increases (Hunt, 1998, pp.77-78). However, the West Review failed to address the potential for an oversupply of graduates in attractive, high-income professions that might result in damage to both higher education and the professions themselves (Hunt, 1998, p.74). Moreover, the West Review argued that programs would become more “student-centred” thus allowing students to become more informed on subject selection through regulating for a greater transparency of course information, with increased consumer protection from the establishment of an ombudsman (Clarke, 2000, p.79).

The West Review further proposed that universities should be structured along the lines of profit-seeking corporations, with a centralised administration removing complexities in the decision-making process. Clarke (2000, p.87) argued

that this would further erode the tradition of collegial decision making, with academics unable to effectively contribute to policy making.

The West Review also proposed radical changes in the funding arrangements of universities (Marginson, 1998, p.158). These proposals can be summarised as follows: Allowing institutions to set their own fee levels, capping fees on government-funded, income contingent loans for students to cover educational costs and any fee gap; extending government subsidies to private universities; institutional funding would be determined by real student demand for that institution; and an entitlement for all new students, regardless of age, to government funding, exchangeable at any place of higher education (Marginson, 1998, pp.158-159).

The Report viewed the fee structure of tertiary institutions as an instrument through which universities would become competitive (Marginson, 1998, p.163); it was argued that the absence of such competition “stifles incentives for staff and management to achieve cost efficiency” (West, 1998, pp.83-84). There was also a strong focus on low-cost educational options, with increased uptake of the internet seen as an effective method of course delivery. However, Hunt (1998, p.80) contended that “it is not likely to produce educational opportunities that are more than partially substitutable for internal study”.



The next significant contribution to the debate on higher education policy making in Australia came from the Labor Party as part of their campaign in the 2001 federal election. The ALP created a “Knowledge Nation Taskforce” to investigate and make recommendations for possible education policy formulation (Jones *et al.*, 2001, p.iv). The resultant report entitled *An Agenda for the Knowledge Nation* was published in July 2001.

The Report provided a complicated list of policy recommendations, including that the Prime Minister work actively in changing the culture and image of Australia to that of a “Knowledge Nation”. That is, for the purpose of future policy formation, a national inventory of available resources and capacities for higher education be created; that any detrimental impediments to the commercialisation of Australian research be investigated, and, where necessary, targeted to maximise the benefits of investment in research; the targeting of higher education as an export industry, through the increased uptake of online education, with such courses taught at least equal in quality to those taught traditionally, providing investment in the creation of these courses, with incentives for students to study online, and the creation of an Australian Online University; the strengthening of intellectual property to bestow benefits upon academics and institutions. It was argued that tertiary education required a “reinvestment and modernisation strategy”, including, through publicly funded investment, increasing

student numbers to meet industry demands; improving staff development within universities; providing universities with the capacity to identify and develop their own priorities and specialities; and incentives for the study of mathematics and science, along with a review of HECS to ensure that no student is disadvantaged in the pursuit of education (Jones *et al.*, 2001, p.5).

A further official review of higher education, entitled *Higher Education at the Crossroads*, was conducted in 2002 (DEST, 2002e), with a reform package being developed, tabled and subsequently passed by Parliament into law in December 2003 (Nelson, 2003b). It was argued that the higher education sector had undergone considerable change regarding the operational structure of universities and that new challenges faced this sector in the future (DEST, 2002c, p.1). The major challenges identified can be summarised as follows: Increased pressures to operate more efficiently despite such efficiencies being difficult to measure (DEST, 2002c, p.27); Government's desire for increasing public accountability of universities due to the level of funding provided by the taxpayer (DEST, 2002c, p.8); Changes in the roles of university councils and governing bodies as a result of the changing operational environment of universities (DEST, 2002c, p.17); Institutional control of income is limited due to present inflexible funding arrangements, despite differences in cost structures, thus restricting resource allocation to meet changing community needs (DEST, 2002a, p.19); That,

despite marginal funding from government for over-enrolments (DEST, 2002a, p.20), there remains considerable unmet demand for undergraduate courses due to limitations on government funding, (DEST, 2002a, p.21). The review stressed that many university traditions will evolve (DEST, 2002b, p.1), with universities catering to a much larger potential student base through the advent and uptake of information and communication technologies (DEST, 2002b, p.6), and that a diversified learning experience was part of the Australian higher education system (DEST, 2002d, p.3), whilst simultaneously questioning whether selective specialisation of fields would be beneficial (DEST, 2002d, p.8).

The amended higher education reform package passed by the Senate in December 2003 has led to the following significant changes in tertiary education policy: A lifting of the HECS repayment threshold from \$25,348 (ATO) to \$35,000 (Nelson, 2003b); universities will be able to set their own HECS charges for courses from zero to a maximum of 25% above current rates (Nelson, 2003a); universities may accept Australian fee-paying students to a maximum of 35% of total course, once all HECS places have been filled; the replacement of marginally funded places with 25,000 fully funded places (Nelson, 2003b); funding to support workplace productivity, teaching and learning, regional universities, equity, and structural reforms (Nelson, 2003b); and specific funding and places for teaching, nursing and medicine (Nelson, 2003b). However, the Commonwealth government

was defeated in their attempt to link increased funding to reforms within the university workplace (NTEU, 2003).

Over the time period encompassed by our synoptic review of the evolution of Australian higher education policy, the concepts of “quality” and “quality assurance” have become a central focus of government policy (Candy and Maconachie, 1999, p.3) and university conduct (Anderson *et al.*, 2000, p.5), resulting in changing cultures and structures within the universities themselves (Anderson *et al.*, 2000, p.15). The term “quality” is defined as the ability to fit or suit the purpose, with regard to the mission, goals, objectives and specifications, for both students and the broader community, thus ensuring that an institution meets its objectives (AUQA, 2004a); “quality assurance” refers to the procedural systems and policies, along with the cultural attitudes and actions that are needed to ensure that quality, as defined, meets and exceeds expectations (AUQA, 2004a).

Dawkins (1987, p.17) argued that Australia had “a deserved reputation for offering high quality courses, producing quality graduates and undertaking quality research”. The demise of the binary system, along with the introduction of competition into funding arrangements, brought concerns regarding the quality of the system (Wilson, 1995, p.154), which resulted in the establishment of the Committee for Quality Assurance in Higher Education that graded universities with regard to quality assessment, quality assurance and outcomes. Reports from

these findings resulted in universities receiving financial rewards (Wilson, 1995, p.154), which have contributed to the changing pace of the “quality culture” in Australian universities (Wilson, 1995, p.155).

Policy changes have brought about changes in the external auditing authority, with the Australian Universities Quality Agency being established in 2000 (AUQA, 2004b), whose mission was to provide the public with information on assurance in quality in the higher education system and institutions as a result of quality audits, and to assist in the improvement of academic quality within the institutions themselves (AUQA, 2004b). These external quality audits examine the institution as a whole body (Wilson, 1995, p.155), covering the activities of the university, reporting on the processes and procedures of institutions; accreditation of new institutional criteria; the relative standards of higher education and its quality assurance processes; and any impact on program quality from state and territory accreditation processes (Martin, 2003, p.33).

Internal quality audits of specific programs and course results are conducted by faculties and overseen by Academic Boards and Councils (Anderson *et al.*, 2000, p.24). Following systemic changes, a greater emphasis was placed upon internal auditing and evaluation of quality procedures, with institutions themselves identifying their own specific quality outcomes (Candy and Maconachie, 1999, p.17).

Despite the extensive cultural change that the quality debate has wrought on Australian universities, Candy and Maconachie (1999, p.20) contend that the effectiveness of the quality enhancement program will still depend on the way it affects the actual quality of the traditional areas of teaching, research, community service, and management. They further maintain (Candy and Maconachie, 1999, p.20) that it does not enjoy the broad support of university staff, where its long-term success or failure surely lies.

#### **4. UNINTENDED OUTCOMES**

It seems clear from the preceding review of the evolution of higher education policy in Australia since 1987 that policymakers have adopted an instrumental model of the contemporary Australian university and implicitly moved from a perception of “academics as knights” to “academics as knaves” and a view of “students as pawns” to “students as queens”, following Le Grand’s (2003) stylised model. As a consequence, the university milieu has been transformed from a traditional public service provider to a partly deregulated commercial enterprise able to use market incentives to change the behaviour of students, but not academics to any great degree. For instance, academics are now routinely obliged to perform additional revenue-raising tasks, such as undertaking additional teaching, like summer semester courses, short teaching assignments at satellite

campuses abroad and additional post-graduate supervision, typically with little or no financial reward. However, the university sector has been able to employ some non-pecuniary additional incentives for academics, but at a cost in terms of traditional research expertise. Thus, academic promotion processes now place considerable weight on success in attracting large research grants (which generate matching government subsidies) and other “entrepreneurial” activity and fundraising rather than on the conventional criteria of scholarship. Moreover, research offices at Australian universities offer small financial inducements to academics to seek external research grants and engage in profitable consulting and patenting activities.

The notion of students as informed consumers of the “products” of Australian higher education derives from the analogous shift in behavioural assumption from passive “pawns” to active “queens”. A corresponding mantra of choice has replaced traditional conceptions of a paternal mentoring relationship between teacher and student to a model of the academic as service provider and the student as a service consumer. Not only are students now thought to be thoroughly informed regarding the nature and content of specific degrees, but also knowledgeable with respect to individual disciplines. Degree programs are tailored to suit perceived “market conditions” and “priced” accordingly within the confines of the amended higher education reform package adopted in December 2003. On

the basis of the “market signals” sent out by individual Australian universities, which present price/quality tradeoffs strongly reminiscent of standard consumer product markets, rational choice is supposed to prevail, even though a large number of new students are very young, naïve and straight out of high school.

From a purely commercial perspective, this sea change in the assumptions held by policy makers from both sides of Australian politics concerning motivation and agency in the higher education sector has enjoyed some notable successes. Dependence on Commonwealth government funding has reduced considerably, the private sector injects significant finance into universities, substantial international student income has made the tertiary education sector a major “export” industry, and hundreds of thousands of additional Australian students now participate in higher education. The emergence of the “corporate” university in Australia has thus achieved much.

However, severe problems and tensions have arisen. At the most fundamental level, “if the ‘corporate university’ is hardly distinguishable from a business corporation, one has to ask: upon what basis should universities exist?” (Nilsen, 2004, p.29). No less disturbing have been the effects of the new assumptions about motivation and agency, as we would expect from Le Grand’s (2003) theory. Indeed, we argue that the introduction of quality assurance



mechanisms represents a belated recognition by policy makers themselves that the corporate model has failed in some significant respects.

Following the Le Grand (2003) model, the transformation of the contemporary Australian university to an institution peopled by knavish academic producers supplying knowledge to student queens could only have occurred successfully if the rising demand for additional “output” of the same quality could have been met by extra pecuniary rewards to academics to allow the relative price effect to dominate the crowding out effect. In this way, the tertiary sector could produce increasing numbers of graduates of good quality without the need to hire too many more academics. However, dominance of the National Tertiary Education Union (NTEU) (with the tacit acquiescence of university administrations) in wage determination has meant a continuation of a traditional public service remuneration system of defined salary structures (under the presumption that academics are knights) that could have been expected to run into trouble given the extreme difficulties of measuring quality in university education. Le Grand (2003, p.56) has put the problem thus: Knights “will feel exploited themselves and perhaps start behaving more knavishly”. Accordingly, “knights will turn into knaves” and “this process may be cumulative” since “as more convert to knavishness the incentives for the remaining knights to do likewise become even more intense”. Knavish behaviour by academics can be manifest in

many different ways, but a reduction in teaching effort seems to be particularly pertinent in the university milieu since quality is difficult to measure.

Le Grand (2003, p.57) has identified two main methods of dealing with the quality problem. In the first place, the profession itself can develop and enforce a code of ethics. However, this option is obviously not within the gift of Australian higher education policy makers and the NTEU have powerful incentives to deny any increase in knavish behaviour by their members. Secondly, “a government-appointed regulator or monitor” could be introduced to oversee the maintenance of quality. The creation of the Australian Universities Quality Agency in 2000 represents a quintessential example of the second option. However, quite aside from the serious problems involved in the measurement of quality in the university environment, this is unlikely to solve or even ameliorate the problem since regulation itself can exacerbate the metamorphosis of knights into knaves because “if people feel they are not trusted to provide a quality service and, moreover, are forced to undertake elaborate activities to prove they are in fact doing a good job (such as filling out forms, writing reports, and so forth), they can become either demoralised and demotivated or else motivated to behave in a more self-protective manner”. In sum, “regulation and trust are difficult to reconcile” (Le Grand, 2003, p.57).

The inevitable failure of the AUQA to stem the decline in standards in Australian universities is highlighted by the 2004 scandal involving the “cover up” by the University administration of widespread student plagiarism at the University of Newcastle and the subsequent NSW Independent Commission Against Corruption (ICAC) public inquiry (Smith, 2004). Further incidents of this kind are likely to generate a further and even more draconian policy response. While fervently denying that educational quality is in fact decreasing, and graduates are consequently less skilled, the Commonwealth government may well use the AUQA to introduce and operate a system of compulsory public examinations mandatory for all final-year students in all disciplines, along the lines of the current state and territory high school matriculation examination process. If this policy response does indeed eventuate, then it will surely represent the crowning irony of extreme government intervention in an ostensibly deregulated university system.

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