# University Research: where Gift and Market Economics Meet.

**Keith Rankin, School of Accounting, Law and Finance, Unitec**

Universities, in the broadest sense of the word, are central to both the public knowledge society and the private capitalist economy. Academic institutions inject private knowledge ('human capital'), through their teaching function, and produce public knowledge both through both their research function and their consciousness-raising role as a "critic and conscience" to society.

These different functions are so different that they cannot be funded by a single funding model. Where the accumulation of human capital leads to professional employment and high lifetime incomes, then a form of market model is appropriate. Hence, it is appropriate that a higher proportion of funding for say law or architecture schools should be market determined than for say schools of science or humanities. Having noted that, the research function of all schools is less amenable to the market model, because university research is public good research.

The creation of a monopsonistic pseudo-market with the government as the sole buyer of public good research does not achieve an efficient allocation of resources. It simply reflects a conservative bureaucratic view of what kind of public knowledge is good for the New Zealand economy.

Some research has very specific economic objectives. Such research is demand driven; there is a buyer who is distinctly separate from the researcher or supplier. There is nothing wrong with such research, and there is no reason why the government cannot be a buyer of such research. However there is much research that cannot be funded this way. The outputs of research are unknown. People cannot buy what they cannot imagine.

Our historical experience suggests that the most important research is supply-driven and has only vague economic goals, if any. It is motivated by the particular passions of the individual researchers. Such research is understood better as belonging to the gift economy than to the market economy.

Despite the fact that this second kind of research has no economic objective, it has almost certainly had a greater economic impact. Capitalism owes a huge debt to the gift economy, in particular to the gifts of knowledge and ideas. Indeed capitalism cannot be understood without an understanding of the way the passions of the gift economy energise the market economy, much as the sun energises the biosphere.

Knowledge is important to capitalism in three ways.

First, it can be used as a bargaining chip. Private knowledge – knowledge that I have and you do not have – can give me an economic advantage over you. This is the kind of knowledge that drives some of the calls for a knowledge economy. (In the *New Zealand Herald* of 24 August 1999, Kay Sowerby eulogised about knowledge in this vein, while I stated the case for a public knowledge economy.) For example, it is seen as good for a country to have working in it a large proportion of those "symbolic analysts" (Reich) who are blessed with this kind of private knowledge.

It is not clear that this kind of knowledge does much to advance the world economy, or even the national economy. Rather it creates a divided society and a knowledge deficit amongst the excluded.

To understand the other two forms of knowledge it helps to note the distinction between invention and innovation first made by Joseph Schumpeter 90 years ago in his *Theory of Economic Development*. Innovation is the adoption of knowledge into the productive process. Innovation is a market activity, but is not automatic in the static market economies of our textbooks. One of the most ubiquitous mottos of business is: "if it ain't broke, don't fix it". Innovation happens more in a market economy plagued with problems; in an economy where imaginative fixes are required. Survival prompts more innovation than does high profits. Necessity is the mother of innovation, not invention.

Innovation is not the business of universities; it's the business of business. Innovation works best, however, when there is a smorgasbord of new knowledge for business to draw on. Just imagine the West Coast wild foods festival. The tables are full of foods that most onlookers have never tried before.

The third form of knowledge is invention and discovery. Inventors are primary knowledge workers. Passion and

imagination are the mothers of invention. Increasingly, though, finance is the handmaiden of invention. Getting your idea onto that smorgasbord table in an economically useful or culturally interesting form requires financial support, facilities (like sophisticated libraries) and colleagues who you can bounce your ideas off and who can play devil's advocate. Most of all, it requires time; freedom from the immediate economic needs of finding food and shelter and entertainment for one's family.

300 years ago you probably had to be a member of the leisured land-owning class before you could make any substantial contribution of knowledge through the gift economy. 800 years ago maybe a monastery was the best place to be. Today, the best place for primary knowledge workers to be is a university.

If, however, we fetter the ability of universities to gift new knowledge and ideas, then the primary knowledge 'industry' must whither. If we allow only research that is purchased (or that satisfies some bureaucrat's sense of political correctness) to proceed then the smorgasbord of new ideas and macroinventions will dry up. (Macroinventions are the big new ideas that changed the world; see Joel Mokyr's interpretation of Schumpeter's economic history: *The Lever of Riches*.) The intellectual gifts that enlightened the world will be in short supply. The passionate and the imaginative will eschew the time-consuming process of applying for research funding which, even if received, may not be enough to see through a project with an indeterminate end point. Tenured academics will retreat into the comfort zone of undergraduate teaching and early retirement.

The irony is that primary knowledge workers never asked for much. Especially in New Zealand. They don't want huge salaries; just enough to function professionally and without being subject to relative poverty in their private lives. New Zealand is rare in that it can attract or keep good primary knowledge workers – good artists (e.g., people with arts degrees) and scientists - for remuneration less than half of what they might expect to get in London or Boston.

Creating an environment conducive to substantial collective research outcomes need not cost a public fortune. Further, primary knowledge workers create substantial backward and forward linkages (Hirschman, 1986) into the economies which host them.

The present government's policy is to promote 'science' and provide less financial support for training 'lawyers and accountants'. One problem at present is that there are not nearly as many employment opportunities for scientists as there are for lawyers. Training more scientists will not solve the problem. We solve the problem by employing more scientists and other primary knowledge workers. Then more people will want to train to be knowledge workers.

The university is the central institution of a knowledge society. Universities are communities of three kinds of people: undergraduate students, postgraduate students cum junior academics, and academic leaders ('professors' for want of a better word).

It's the middle group - postgraduate students cum research assistants cum junior academics - that has to be fostered to create a dynamic research environment. Their financial support can come from a mixture of salaries, fellowships, scholarships, allowances, social dividends, tax credits and loans. It needs to be an inclusive environment, a place of both intense intellectual challenge, and of constructive leisure for those who would otherwise be underemployed. Student loans need to be able to be serviced in ways that are flexible, and do not inhibit young adults from forming families and buying homes.

It's not really a question of funding universities or of funding research. It's a question of funding people, empowering them to participate in knowledge communities that enable them to give something back, to perpetuate the cycle of give and take that drives the public side of our economy forward.

It is not appropriate for the government to discourage students from studying particular subjects, or to discourage university staff from the areas of research for which they have a passion. The government may buy research, in competition with the private sector, from universities. But it should not do so by inhibiting researcher-led research. The government needs to encourage people of all ages to participate in post-graduate research-rich programmes. And, if it wants to pick favoured areas of study, the government should do so by providing jobs for the graduates of the favoured programmes.

By all means let the government buy research from our universities, but not by creating a model by which all research must have a buyer. Economic and social development depends on the smorgasbord of new knowledge that makes innovation possible.

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**Author's contact details**

Keith Rankin
School of Accountancy, Law & Finance
UNITEC
Private Bag 92025
Auckland
Email: krankin@unitec.ac.nz