

# THE MARKET IS DEAD!



## Long live the market!

•Paradoxically, at precisely the same time the free market was imploding and declared dead by governments and economists in the wake of the GFC, the market has been reinstated as master in the new VET reform agenda. •

By Damon Anderson

As the catastrophe of the Global Financial Crisis unfolds, the economic orthodoxy of the free market has come under intense criticism. Our own Prime Minister Rudd recently argued that:

The current crisis is the culmination of a 30-year domination of economic policy by a free-market ideology ... The central thrust of this ideology has been that government activity should be constrained, and ultimately replaced, by market forces.

Anyone who has been involved in VET over the past two decades will recognise the profound influence that market ideology has had on the sector. Since the early 1990s, VET has been progressively redesigned within a market framework and driven by competition and contestability policies. Yet paradoxically, at precisely the

same time the free market was imploding and declared dead by governments and economists in the wake of the GFC, the market has been reinstated as master in the new VET reform agenda.

As part of the federal government's manifesto for an "education revolution", key elements of the VET reform agenda were outlined last year in *Skilling Australia for the Future*. It promises an "ambitious agenda ... to drive productivity and workforce participation" in an effort to overcome skills shortages and promote social inclusion. Among other things, this will entail a more demand-driven approach to skills formation, an increase in the higher-level skills of the workforce and more training places for job seekers.

In its *Skills and Workforce Development* discussion paper and workplan, COAG expands this agenda by proposing to build

"sector capacity" via improvements in training packages, the VET workforce and governance arrangements. A new "investment strategy" will underwrite workforce development by increasing contributions and sharing the burden between government, business, industry and individuals. Such measures are accompanied by commitments to enhance "the development and utilisation of human capital", and improve outcomes for indigenous communities and people with disabilities. In broad terms these are welcome proposals, though the devil may yet lie in the detail.

The "key area", indeed kingpin of the COAG productivity and skills agenda, is a "market design" strategy comprising a "national partnership" between governments to extend competition and contestability across

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the whole VET sector, improve information systems, and establish national regulation and quality assurance. The overall aim is to better synchronise skills supply and demand by moving from centrally planned to decentralised, market-driven provision in VET.

The market design strategy has been put on hold temporarily, due to the escalation of the GFC and “looming recessions”. But the federal government has agreed to support market reforms by states and territories while national policy options are developed for future consideration. So it is an opportune time to pause and reflect on this core element of the VET reform package.

### Defacing the past

The recent history of VET reform is one casualty in the new reform agenda. Like the training reform agenda of the late 1980s and 1990s, the current one lays claim to novelty and contemporary relevance by erasing the policy memory and ignoring prior experience. It does so by constructing a narrative built on glib generalisations about the supposed flaws in existing arrangements and imputed failures of prior policies; in other words, by mounting a straw person argument. It connects this to a narrative of rapid and relentless change which, it suggests, necessitates a clean sweep of the policy agenda with a “new vision” for new times. The same rhetorical strategy was used in reports advocating training market reform during the 1990s.

Consider *Skilling Australia for the Future*, which states that “The new policy adopts a demand driven approach to training delivery, in contrast to past supply driven approaches”, and argues that “Australia’s training system needs to undergo a fundamental shift, from a system driven by the needs of providers, towards a system that responds to the needs of industry and the economy” (p.2). Such claims misrepresent the past by overlooking the major demand-driven and employer-led reforms introduced from the mid-1990s, including Keating’s user choice and Howard’s skills vouchers.

Equally confounding are the claims by the Labor-dominated COAG that user choice has been reviewed almost annually since its inception and that, “Most reviews recommended that governments do more to encourage greater openness and competition and increase the availability and amount of contestable funding” (p.12). First, if annual reviews of user choice have been conducted, they have not been published. Secondly, the 2000 Senate Committee Inquiry into Quality in VET found that the alleged benefits of user choice were “unproven” and that market reform had produced “significant problems ... which are affecting the quality of outcomes”. It recommended that a moratorium be placed on any extension of user choice, “until it can be demonstrated that User Choice has actually delivered net benefits to stakeholders”. Ironically, this Senate committee was dominated by Labor members and chaired by the current federal Minister for Innovation, Industry, Science and Research, Kim Carr.

### Markets by design or decree?

Competitive markets and contestable funding are presented as the panacea for the problems facing VET, as they were in the training reform agenda of the 1990s. As with previous incantations of the market mantra, the present case for more markets and competition rests on unproven claims about their efficacy. COAG argues that market competition “will produce better outcomes than centrally planned models”, including increased efficiency, flexibility, innovation and quality. Based on unspecified sources, such claims simply recycle the economic textbook theory used since the 1990 Deveson report to justify markets in VET. As Robin Ryan (2008) recently observed, “the fundamental point of the desirability of market forces in VET has almost always been resolved simply by assertion”.

Once the rhetoric of “market design” is stripped away, it becomes clear that the model COAG promotes is little more than the standard free market of neoclassical economics. The flaws in this market model are widely recognised and too numerous to rehearse here. Suffice to say, it assumes that the free market concept can be unproblematically imported into all domains of human activity, including those like VET that produce intangible ‘public goods’ such as a skilled workforce and educated populace. Accordingly, it views all VET clients as rational, self-interested actors who invest in VET for private economic gain (profit or income), while discounting their other important noneconomic roles, goals and motives. Provided customers are well-informed and free to exercise ‘choice’, so the theory goes, supply will reflect demand and quality will rise while prices fall as providers compete for custom. But does the theory reflect reality?

For some time it has been acknowledged that the



public training market is, and always will be, far removed from the ideal-type imagined by neoclassical economists. In reality, the market in VET is a 'quasi-market' that mimics some features of a free market, but is created, funded and managed by government. It differs in key respects from the privately financed training market, which is much closer to a fully fledged free market. In the public VET market, students are subsidised, government funding and fees are capped, providers and quality are regulated, and TAFEs are insulated against insolvency; all for defensible public policy reasons.

Yet our current policy makers' faith in the neoclassical market appears to have blinded them to the substantial body of theory, research and evaluation reports on quasi-markets for public services dating back to the early 1990s. This runs counter to Prime Minister Rudd's call for a "robust, evidence-based policy making process". Perhaps the architects of the reform agenda have consulted research about quasi-markets in VET and their effects and consequences. If so, perhaps the evidence they found did not fit their neoclassical paradigm, so it was ignored.

The upshot is that the current VET reform agenda presents an impoverished map of the policy terrain; one that narrows the terms of debate, ignores the flaws in neoclassical markets, and inhibits consideration of other policy options. Markets and competition are promoted as the only alternative to centralised planning and bureaucracy, disregarding the potential role of networks and cooperation as an alternate or complementary mode of organisation. Nor is there any discussion of the many issues and recommendations of the 2006 TAFE Futures Inquiry, chaired by Associate Professor Peter Kell.

As I've argued previously (Anderson 2006), there is nothing intrinsically wrong or bad about markets as a form of *economic* organisation. However markets are not necessarily appropriate for all spheres of human activity, arguably least of all those involving the production of public goods. Given its important social roles, VET should not be reduced to an appendage of the economy and labour market. Regrettably our policy makers seem to think otherwise.

Markets (including those in VET) are also humanly constructed institutions, designed as a means to achieve certain ends and to serve particular interests. As such they can be redesigned to produce different outcomes and to serve a wider range of stakeholder interests, and potentially more equitably and effectively than research on VET suggests has been the case to date. Yet the reform agenda is largely silent on key issues like social equity, community service obligations, transaction costs, thin markets in rural/regional areas and consumer protection.

### Facing the future

From a broader perspective, the current reform agenda fails to address some fundamental questions. At a time when we are confronted with serious and unprecedented economic, social and environmental challenges, what are the purposes and role of VET in general, and TAFE in particular? How can the multiple and competing interests of diverse stakeholders be reconciled? How might VET best serve the public interest? At present, productivity growth and workforce participation have been decreed as the primary objectives of VET reform. This is not to deny the validity of such goals, but rather to question their elevation over all other purposes, values and outcomes without adequate prior public debate.

As I have suggested, a lamentable feature of the VET reform agenda is the deficit of policy knowledge and imagination that

apparently lies behind its conception. Markets may be part of the solution, but in themselves are unlikely to make a real, let alone revolutionary, difference. They may well exacerbate the problems they purport to address, including skills shortages and social exclusion. A genuine commitment to policy learning through research, evaluation and public dialogue is required to ensure that VET reform is informed by the lessons of overseas and local experience, more open to alternative models and pathways, and more capable of self-criticism and adaptation.

So far there are few signs that VET will be rejuvenated, strengthened and reoriented to face the great challenges of our time. Perhaps a Bradley-like review of VET is required to formulate a genuinely new vision for VET. On present indicators, however, VET seems likely to be served up a more concentrated diet of pre-revolutionary policy fare and left to fight over the crumbs that fall from the master's table. Both the VET sector and the "working families" and unemployed Australians who rely on VET for second chance education and job prospects deserve better. ❖

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Ryan, R. (2008) Evidence-free policy, *Campus Review*, 17 November, p.11.



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