

Market design and contestable funding

Minister Julia Gillard (2008), in a speech in June last year in London, said that:

“Whether it is an Emissions Trading Scheme – a market in carbon – or a national water market capable of incentivising water savings – or the growth of renewable energy sources – or the role of the labour market in lifting social mobility and workforce participation – or the adaptation of our tertiary education sector to a new global landscape – the same issues emerge. How can we develop markets which interact productively with strong public institutions and empower users to participate successfully in them?”

This government believes in ‘market design’ for all areas of social policy. In the same speech Gillard (2008) said that:

“The next generation of reform challenges are all about how the power of the market interacts with the surrounding framework of institutions and the actions of individuals themselves.”

This government believes in a more regulated market than the previous government – that’s what Gillard means when she says that the government is “focusing on the fundamentals of market design”, and, unlike the previous government, there is not the same ideological denigration of the public sector. However, rather than focus on the public/private distinction, this government is focusing on the market as the method for allocating public resources. Instead of privileging private providers as the Howard government did, this government is ensuring that public providers become like private providers, because they will need to do so to compete for public funds. This is the essence of this government’s policy and of market design: it will use marketisation and contestability to create a market populated by private and public providers, but one in which public providers act like private providers.

It is helpful to take a step back from this or that specific policy proposal because it is easy to get waylaid and lose sight of the big picture. We need to understand the theoretical basis of the notion of ‘market design’ and think through how this would be applied in VET. In October 2008, RMIT ran a joint forum with Per Capita, which is a think-tank sympathetic to the Labor Government. Michael Cooney from Per Capita produced a paper that clearly outlined the theoretical basis of market design. It focused on the logic of market relations and the way this is being used to guide policy under the new Labor government. It also showed the gap between existing proposals and what a consistently applied market approach would look like, thereby signalling the likely direction of further policy reform. Cooney (2008: 15) argues that

“...the logic of market design thinking leads us to conclude that government and industry support for training should increasingly be mediated through direct funding to individuals to buy the training they want, while ensuring adequate supply of training to meet the emerging demand. This can be expected to deliver important new social and economic benefits.

In this presentation I want to explain why I don't agree with market design in VET. I will do so on three levels: first, through questioning the theoretical premise of market design; second, through discussing the extent to which markets can succeed in their own terms; and third, through looking at alternative approaches.

In their paper, Per Capita (Cooney 2008: 7) say this:

“Put aside the institutions and the policies for a moment and think of the training market in micro: think about one young person planning their life and career, and considering options for their own education and training, knowledge and skills.

What would you, the reader, advise this seventeen year old to do?”

This is a very good question. It gets right to the heart of what matters but the paper doesn't answer this question. Instead, it poses another question – ‘what does the *economy* advise them to do?’ A little earlier the paper explains that “In the age of human capital, everyone has become an owner of his or her own knowledge and skills.” Underpinning this is a notion of human beings and what they are like – this is the economic citizen of liberalism. The assumptions are that individuals are by *nature* rational self-interested actors who base their decisions on instrumental calculations about likely returns (and if they aren't they should be); that individuals are proprietors or owners of their persons; and that “Society consists of relations of exchange between proprietors” (Macpherson 1962: 3).

What are the implications for the 17 year old? That they had better invest wisely. The focus is on exchange values – what will get me a good job? I think this is the worst possible advice to give to a young person. I used to be a student rights officer at RMIT some years ago and my job mostly was to represent students who were failing in academic appeals committees. The first question I would ask them was ‘if you were following your heart, what would you be doing now?’ and in almost every case it was not the course they were enrolled in. They were often enrolled in courses like accounting because their parents or teachers thought it would get them a good job. My advice to young people is to follow their heart and do what they love because they will be good at it. This is more likely to get them a job than failing at a course they hate and in which they are utterly miserable.

People study and go to work because they find these activities meaningful and so they can sustain themselves and their families. They do not study and go to work because it contributes to the creation of markets. This may be the *outcome* of their activity, but it is not their purpose. The distinction is between a society supported by a market economy and a market society in which primacy is given to the economy and where markets are the means used to achieve political and social objectives and to measure whether these objectives have been met, so everything can only be measured in economic terms.

Hasn't this battle been lost? Wouldn't a pragmatic view be that we are stuck with the market society and so we had better make it work? We are living through one of the most spectacular market failures since the Depression and a better question is why would anyone think markets are the answer? In particular, where is the evidence that

markets in education work? Can anyone point to an education system that is modelled on market design and show that it has worked?

The problem is that markets in education won't work on their own terms. I will address this point by asking three questions:

- can the market contribute to social inclusion?
- is the supply side the problem?
- can markets build the capacity we need?

In their paper, Per Capita put the now common argument that class no longer determines inequality and disadvantage. The paper doesn't explain how inequality and disadvantage are produced, it just asserts that a training market will solve this problem. This is because inclusion is defined as having a job; training is needed to get a job; and a training market is best for distributing access to training.

The emphasis on social inclusion at the expense of class denies the central role of education today in helping to reproduce social inequality. Access to, participation in and outcomes from mass and universal education systems of education mediates access to jobs, but it is not equal access. Teese *et al.* (2006: 18) explain, that "achievement differences are the means through which social disadvantage is relayed." By focusing on ensuring individuals can participate in markets the emphasis is moved to their deficits – why can't they do it properly? This takes attention away from the social patterns of educational participation and outcomes: higher education is still over-represented by students from high socio-economic backgrounds, VET, and particularly lower level VET qualifications, are over-represented by students from low socio-economic backgrounds. Social inclusion is not the same as social justice and social justice is still important.

Why will markets fix this? The evidence is that markets produce *more* inequality in education, not less. The US state of Colorado introduced a student voucher for higher education in 2004. In 2005, the number of low-income students dropped by eight percent. Why? It seems they didn't have the cultural capital to know how to use it properly. Gavin Moodie's (2007) work has found that the elite universities in states like California in the United States admit one community college student for every two the state universities deliver; whereas the ancient universities in Scotland admit one further education student for every five the remaining universities admit; and in Australia the Group of Eight admit one TAFE student for every four the remaining universities admit. Student articulation and credit transfer are mandated in the formally differentiated higher education systems in many US states, whereas universities in the unified systems in Scotland and Australia compete for students. Vouchers won't get TAFE students into the University of Melbourne, but a state government mandate or Commonwealth funding requirements might.

I've been told by a couple of TAFE directors and anecdotally heard of more who have said that the funding levels in the Productivity Places are not worth it, and so they are not interested in offering those programs for disadvantaged learners. They've also said that full contestability will see them ditching their equity programs because they are too expensive. It is hard to see how this will help equity, particularly when private providers have no equity obligations.

Is the supply side the problem? The work of John Buchanan and his colleagues in Australia has shown that the supply side is a second-order issue. Patterns of demand, structures of employment, and the way labour is deployed at work are more important. Markets won't solve the problem of thin demand in particular geographic and occupational areas. If TAFEs have to operate as a business, TAFE directors will run them as a business, and there can be no complaints from skills councils that TAFEs won't run tiny programs for tiny niche areas. Moreover, what kind of market is it when all suppliers have to offer the same product? The only difference is in how they offer it. VET providers must use training packages – so knowledge and skills are non-negotiable, but everything else is. This is a framework for eliciting compliance from TAFE rather than the creation of new 'products'.

What about capacity? Per Capita's paper argues that infrastructure should be built into pricing policy rather than centralised government investment. This is what happens in higher education now; and I expect it will happen in VET. This notion of capacity is limited in two senses. The point of market design is to create a more responsive market that can, among other things, respond to skill shortages. However, if indeed we do find that we have a skills shortage (and not just an industry with huge churn of staff) it takes years before we can 'produce' people with the required skills – we first have to find them and enrol them, develop the programs, and teach them. Institutional capacity is needed, and it isn't a matter of gearing up this year and down next year.

The second sense is perhaps more important: capacity isn't just about buildings and EB agreements. The notion of a training market is premised on the idea that knowledge and skill is embodied in those we teach – this is the point of teaching. So, all you need are buildings and teachers (and perhaps not even these). This individualises knowledge and in this way enables knowledge to be commodified and privatised. However capacity is about developing, sustaining and changing bodies of knowledge and the way that knowledge and skill are applied in the workforce. As knowledge is institutionalised it undergoes codification, elaboration and development, and it changes through engagement with the workplace. We need institutions for the transmission of knowledge, but also to develop knowledge and extend it to new areas and new applications. We have to have the institutional frameworks to support this process, and this involves universities *and* TAFE.

The cost of market failure is high and the consequences won't necessarily be known for many years, long after infrastructure and capacity have been dismantled. For example, it took years to understand the impact of selling off government utilities on apprenticeship training, and this is in part contributing to skill shortages now. The lessons from the collapse of ABC Childcare are salutary; what will happen when a very big private provider that has economies of scale is able to corner a large slice of the market by cherry picking qualifications that are cheap to deliver, made cheaper by not having the same community service obligations that TAFE has?

Finally what is the alternative? I think we need a robust public sector that is funded to develop Australia's institutional capacity and to support social justice. This doesn't mean that there isn't a role for the private sector or for competition, but this should only be an aspect of education and training and not the point of education and training. We also need public policy around the design of employment so that we can develop a mature demand side, rather than as is currently the case, providing

employers with public money to support their internal staff development programs. The work by John Buchanan and his colleagues around skills ecosystems provides a good way for analysing and supporting the development of skilled labour, particularly in developing a long term perspective about skill needs. But TAFEs should be included in skills ecosystems as partners, and not supplicants.

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