

COMPETITION IN THE TRAINING MARKET

EDITORS

TOM KARMEL, FRANCESCA BEDDIE, SUSAN DAWE

*Papers from the Competition in the Training Market Round Table
March 2009*



Australian Government

Department of Education, Employment
and Workplace Relations

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Editors

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The views and opinions expressed in this document are those of the author/project team
and do not necessarily reflect the views of the Australian Government,
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This work has been produced by the National Centre for Vocational Education Research (NCVER) under the National Vocational Education and Training Research and Evaluation (NVETRE) Program, which is coordinated and managed by NCVER on behalf of the Australian Government and state and territory governments. Funding is provided through the Department of Education, Employment and Workplace Relations. Apart from any use permitted under the *Copyright Act 1968*, no part of this publication may be reproduced by any process without written permission. Requests should be made to NCVER.

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ISBN 978 1 921413 20 9 print edition
978 1 921413 21 6 web edition

TD/TNC 96.04

Published by NCVER
ABN 87 007 967 311

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<<http://www.ncver.edu.au/publications/2150.html>>

About the research



Competition in the training market

Editors: Tom Karmel, Francesca Beddie and Susan Dawe, NCVER

'Competition' and 'contestability' are now part of the vocational education and training (VET) lexicon. But do we know what they mean? Do choice and competition lead to better outcomes? Does a less-than-perfect training market justify the intervention of central planners? What do students and employers need to make sensible decisions about training? What rules and institutions give the best outcomes; that is, what should the 'market design' look like?

These are important questions but, despite the fact that the fifth of the current five national research priorities is *Enabling VET providers to compete effectively: by identifying the barriers VET providers face to operating effectively in a competitive environment*, the specific issue of competition did not whet the appetite of researchers bidding for grants funded by the National VET Research and Evaluation Program. Perhaps this is because market design in VET is an area still shrouded in fog.

To assist in lifting the fog, in late 2008, NCVER commissioned six people to write essays about competition in the Australian training market. Most were from outside the VET sector. In order to ensure their ideas were tied into current concerns within VET, NCVER went on to invite six insiders to respond to the essays. The results from both groups are contained in this volume.

The participants in this exercise do not entirely agree with each other. But there is general acknowledgement that the risks associated with the state determining the supply and demand for training mean that governments cannot retreat from the training market. However, the role of the state, relative to that of individuals and employers, is contentious.

A leitmotif in this volume is the critical role of information. Irrespective of whether we believe in planning, training supply or allowing the consumers (individuals and businesses) to dictate provision, high-quality information is needed.

I hope these essays and the responses to them make a useful contribution to the debate about market design in the VET sector.

Tom Karmel
Managing Director, NCVER

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Contributors

Editors

Tom Karmel took up the position of Managing Director, National Centre for Vocational Education Research in August 2002. Prior to this position he held senior appointments in the federal government areas of education, employment and labour market research and in the Bureau of Statistics. His research interests have centred on the labour market and the economics of education and he has a particular interest in performance indicators, in both higher education and vocational education and training.

Francesca Beddie is General Manager, Research at NCVER. She is a graduate in history from the Australian National University and has been a diplomat and senior official in the Australian Agency for International Development. She speaks German, Indonesian and Russian. She has a particular interest in the nexus between policy and research, as well as in the media, and has served on the ABC Advisory Council and the Australian Press Council.

Susan Dawe is a senior research fellow in the Research and Consultancy Branch at the National Centre for Vocational Education Research. In this role she has worked on a wide range of research projects. With experience in evaluation, teaching and scientific research, Susan joined NCVER in 1992 to pilot the national VET surveys. Two recent publications include *Education and training that meets the needs of small business: A systematic review of research* and *Vocational education and training for adult prisoners and offenders in Australia: Research readings*.

Authors

Mark Burford is a public policy consultant. In 2006 and 2007 Mark Burford held the post of Executive Director in the Office of Water in the Victorian Department of Sustainability and Environment. Between 2003 and 2006 he was Executive Director in the Victorian Department of Premier and Cabinet. There he established the Policy and Strategy and Implementation units and led work on Commonwealth–state relations and national economic reform. During 2008 Mark Burford advised the Deputy Prime Minister on tertiary education policy.

Richard Denniss is Executive Director of the Australia Institute, an independent public policy research centre. He is an economist with a particular interest in the role of regulation. Previously, he was an associate professor at the Crawford School of Economics and Government at the Australian National University. Richard Denniss has also worked as strategy adviser and chief of staff for federal politicians. He has published extensively in academic journals, contributed articles to national newspapers and co-authored several books.

Dr Nicholas Gruen is Chief Executive Officer of Lateral Economics. He is an economist with an impressive record of achievement and experience in the public sector, business groups and academia. He has published widely in national media and in trade and academic journals on a broad range of issues, from tariff reform to competition policy, intellectual property and macroeconomic policy. Dr Gruen has been an economic policy adviser to two federal government ministers—former Treasurer John Dawkins and former Industry Minister John Button.

Dr Tom Karmel (see editors)

Andrew Norton is a research fellow at the Centre for Independent Studies, an independent public policy ‘think tank’ within Australasia. In the late 1990s he was higher education adviser to Dr David Kemp, federal Minister for Education, Training and Youth Affairs. He is the author of *The unchained university* (2002), which sets out the case for a more market-driven higher education system. He is a regular contributor to newspapers on higher education issues.

Professor Terri Seddon, from Monash University, conducts research in the field of education (lifelong learning) and work, with a special focus on policies and politics of teachers’ work. Her work is cross-sectoral in orientation, looking at schools, vocational and higher education, and workplace and community learning contexts, in order to understand learning, work practices and organisational and decision-making processes in diverse learning spaces. She has strong European research networks and is actively engaged in local and transnational partnership work.

Professor Lynn Meek is Director, LH Martin Institute for Higher Education Leadership and Management at the University of Melbourne. Professor Meek was trained in the sociology of higher education at the University of Cambridge and his specific research interests include governance and management, research management, diversification of higher education institutions and systems, institutional amalgamations, organisational change, and comparative study of higher education systems. Professor Meek has published 30 books and monographs and numerous scholarly articles and book chapters.

Discussants

Gerald Burke was until recently Executive Director of the Centre for the Economics of Education and Training at Monash University and is now an adjunct professor. He is a member of Skills Australia, a seven-member independent body established in 2008 to provide advice to the Deputy Prime Minister on Australia’s emerging and future workforce development and skill needs. He is also a member of the Victorian Registration and Qualifications Authority. He has written extensively on the finance of education and training and on education and employment.

Pat Forward is Federal TAFE Secretary, Australian Education Union (AEU), having been elected to this position in January 2004. She previously held the position of Federal TAFE President for six years and was at the same time Vice President TAFE in the Victorian Branch of AEU. She has taught in Victorian TAFE colleges, at university and in schools.

Dr Michael Keating AC is member of the Boards of Skills Australia and the South Australian Training and Skills Commission. He is also a Fellow of the Academy of Social Sciences of Australia and Chairman of the Independent Pricing and Regulatory Tribunal in New South Wales. Previously Dr Keating was Head of the Australian Public Service and Secretary to the Department of Prime Minister and Cabinet (1991–96). In his career Dr Keating has advised state and Commonwealth governments extensively on employment and training issues.

Megan Kirchner is the Assistant Director of National Reform in the Victorian Department of Premier and Cabinet. She was one of the architects of the Victorian reforms, Securing Jobs for Youth Future, and managed the Council of Australian Governments’ reform agenda on skills and workforce development during 2008.

Leslie Loble is Deputy Director-General, Strategic Planning and Regulation with the NSW Department of Education and Training. She manages the department’s policy formulation, program development, strategic planning and intergovernmental relations activities across the schools, VET and higher education sectors. She also oversees purchasing and regulation aspects of the NSW VET system. Prior to coming to Australia in 1998, Leslie Loble served in President

Bill Clinton's Administration for five years as part of the top management team at the US Department of Labor.

Dr Robyn Tudor is Director of Education at JMC Academy, a private higher education provider and registered training organisation with campuses in Sydney, Melbourne and Brisbane. She has worked for both public and private education providers and was appointed to the Board of NCVER in 2008. Robyn has been active in research and writing and has a special interest in the pedagogy of creativity as a higher-order capability. She has ongoing consultation and committee work with the Australian Council for Private Education and Training (ACPET), as well as interaction with various industry skills councils, industry training advisory boards and specialist industry associations.

Overview

TOM KARMEL
NCVER

For many years now there has been a strong policy push in public administration to turn to market or market-like solutions to the way services are delivered. We saw the competition policy reforms of the Hawke–Keating Governments, including the establishment of the Australian National Training Authority with the specific intention of its taking the lead in establishing a competitive training market, and continuing initiatives under the Howard Government. It is not so long ago that the Commonwealth Employment Service was an institution that seemed to be without threat, yet now its functions are tendered out to a wide range of private and community sector organisations on the basis that the uniform services of the Commonwealth Employment Service were not able to respond to the individual needs of the most disadvantaged people. And we have seen reforms in the distribution of electricity, water and other services, once deemed the exclusive realm of governments.

So it is not surprising that the rhetoric of competition has emerged in relation to training markets. Indeed, training ministers included it as one of the research priorities for 2008–10.¹ While we have had a number of research rounds inviting proposals to address the priorities, researchers have not been keen to take up the challenge of looking at how VET providers operate in a competitive environment. To help clarify the parameters of the contemporary discussion about the training market, NCVER organised a policy round table involving people from both inside and outside the training world to present essays on a range of issues. This chapter introduces the essays and the responses to them presented at that event. An appendix is also attached to provide some contextual information; it contains data on the flow of public funding to private providers, along with figures detailing fee-for-service monies acquired by public providers.

When embarking on this introduction I thought it would be useful to define what competition means. A short period of reflection made it clear to me that I was not at all sure that I clearly understood what was meant by competition in the context of education and training. I decided that it would assist my thinking to stand back from the complexities of education and training services and first think about competition in the context of a very simple commodity. For want of anything better I have chosen bananas.

Typically, competition is associated with markets. If we take the market for bananas, for example, there is a large number of buyers and sellers. The former will buy a certain number of bananas, depending on the price (and quality). If the price goes up, the number of buyers decreases or individual buyers buy fewer. If the price goes down, more buyers enter the market and individual buyers buy more. Similarly, sellers enter or leave the market, depending on the prevailing price. If the price goes down, high-cost producers withdraw from the market. If the price goes up, it becomes profitable to grow more bananas. In this type of market, the price is determined by the numbers of buyers and sellers and their individual preferences (buyers) and costs of production (sellers). The market clears, with the demand equalling the supply. At the market price everybody is happy in the sense that, at that price, there are no unsatisfied buyers or sellers. Of course, happiness

is contingent on the price. Buyers would be happier if the price were lower, and sellers would be happier if the price were higher. We should also note that competition occurs in both price and quality, with different prices for different types of bananas, for bananas which have been grown organically, and for bananas that are getting close to becoming soft rather than firm, and so on.

In such a market there is competition between sellers and buyers. Buyers can buy bananas from many shops. Similarly, there is competition between buyers; buyers prepared to pay more will have more choice.

The market mechanism allocates the resources spent on growing and consuming bananas. It clearly is not the only way of achieving an allocation. For example, the government could nationalise the banana industry, taking over all roles, from growing to distribution, with the industry to be administered by a statutory authority (say, the Australian Banana Supply Authority). The authority would be staffed by public servants who would be knowledgeable about growing and selling bananas and who would decide how many bananas would be produced (at the publicly owned plantations). It would choose to produce what it considered to be the optimal social supply of bananas. Its bananas could be sold at a market, in which case the preferences of consumers would determine the market clearing price. Or it could choose to sell at a fixed price, and no doubt it would choose what it thought to be the socially optimal price.

This solution to the allocation problem is clearly not a free market. But it could be highly rational, and democratic. For example, we could set up an advisory council to the Australian Banana Supply Authority, which might have representatives of the publicly owned plantations, consumer bodies, the unions, industry groups and so on. The views of the advisory council could play an important part in determining the parameters of the banana market.

We could now assume that the government of the day has taken the view that the Australian Banana Supply Authority has been ‘captured’ by the banana bureaucrats. It therefore decides that competition is the way to go. So it dissolves the authority and sets up the Australian Banana Corporation. The role of this organisation would be to determine the banana needs of the Australian public, and then purchase the bananas from growers. It could purchase the bananas at a fixed price from the existing public growers. Or it could make the banana market ‘contestable’ by allowing the entry of private growers, and allow all growers to produce as many bananas as they wished at that price. If this resulted in a glut, the corporation would then need some mechanism to ration the numbers that it bought, perhaps by favouring growers whose fruit quality was the best. Alternatively, it could put out to tender the required number of bananas and therefore get them at the lowest price. The bananas would then be distributed to consumers either free, or with a co-payment, or at the full average price, or at a profit. Here again there are elements of competition, but a different sort of competition from a free market. The motivation behind this type of model is for consumers to benefit from the strength of the purchaser. Surely, it can get a better deal than the ordinary consumer?

So we have three models: a totally free market, a centrally planned and controlled market and a purchaser/provider market. Could such models be translated into the training market? The answer is clearly yes. Substitute training for bananas and each of the models makes logical sense, although there are obvious differences between bananas and training. One obvious difference is that it is relatively easy to judge the quality of a banana; it is much more difficult to assess the quality of education, particularly before it has been undertaken. Therefore, one might expect that education and training markets would need to be regulated so that a potential consumer could be assured that the qualification they wish to acquire would be of good quality—an argument for the accreditation of providers and qualifications. But even here, the differences between bananas and education and training is a matter of degree—the banana consumer is unable to tell whether a banana has an acceptable level of chemical residues, and thus even in a free market there is a role for government in setting and policing standards for growing bananas. In addition, we know that there is a thriving free market in unaccredited training in which governments play no regulatory role; the large-scale

development of the international student market is direct evidence of how relatively free education and training markets can work.

Those who favour free markets take the view that markets achieve better outcomes than those achieved through administrative fiat. This view goes back to Adam Smith and is primarily based on the following series of value judgements and economic propositions:

- ✧ Individuals are the best judge of their own wellbeing, so that an individual is better off if he or she can choose between A and B.
- ✧ A resource allocation is preferable if it makes everyone better off (or at least no one worse off). This is the so-called Pareto criterion.
- ✧ Under certain conditions the equilibrium resource allocation obtained by a competitive market economy is a Pareto optimum. That is, the resource allocation achieved by buyers and sellers individually following their own self-interest is optimal (in the Pareto sense).

This last point is important. Each of our three models will achieve an allocation, but only the free market has any pretence to optimality. The task of the central planner in finding an optimal allocation is very difficult, if not impossible.

However, the simplicity of the above is somewhat illusory. The conditions under which optimality is achieved are quite restrictive, and the optimality of the equilibrium breaks down if:

- ✧ Buyers and sellers are not price takers (that is, they have some market power, which will influence the price).
- ✧ There are externalities, by which we mean that outcomes of an economic activity affect others—there are obvious positive externalities in education and training.
- ✧ The good in question is a public good—something which if consumed by one person is still available to another. The acquisition of skills is clearly a public good.

Other factors are also relevant. First, societies may not view the Pareto criterion as valid; redistribution is often an aim of government policy. Secondly, uncertainty and information asymmetries also affect optimality. Similarly, if there is a wedge between the price paid by the buyer and the cost of production (as is the case with government subsidies), the analysis breaks down. And, as pointed out by Bruce Chapman (see, for example, Chapman, Rodrigues & Ryan 2007), there is a failure in the capital market because students cannot mortgage their souls and therefore cannot borrow from banks to invest in human capital in the likelihood of future higher incomes.

The conclusion therefore, and this is the whole thrust of Richard Denniss's essay, is that a free market is highly unlikely to lead to an optimal allocation of training.

Denniss argues:

In relation to VET, the most significant market failures are associated with the combination of imperfect information, interdependent preferences, the inter-temporal mismatch between decision-makers and the operation of the price and profit signals.

and concludes:

The Australian VET system currently contains elements of market competition, which exist on a foundation of government provision and government regulation. While the nature and extent of the 'market mechanisms' at work may alter over time, it is unlikely that any move towards a 'free market' in VET would deliver significant long-term benefits to the sector or the economy as a whole. The nature and extent of market failures in the VET system are too great to create an informed, equitable and stable competition.

However, the existence of market failure does not in itself justify the activities of governments and central planners, and Denniss's conclusion reflects his view rather than definitive proof. Denniss's

discussant Megan Kirchner agrees that a free market is ‘not the right approach’, but notes that such a conclusion ‘does not preclude the possibility of introducing some market mechanisms, even if they need to be accompanied by safeguards to ensure benefits flow’. This view underpins the recent Victorian VET reforms, which stress the role of student choice and open the market to more providers.

We need to remember the problem of efficient resource allocation is exceedingly difficult. The fact that market equilibrium is not optimal does not logically imply that a bureaucratic solution provides a superior outcome. That is, there is the possibility of failure, with government intervention causing a more inefficient allocation of goods than would have occurred without the intervention. In the particular case of the training market there is the difficulty of balancing the interest of individuals (for example, students), who tend not to have a collective presence, with those of producers and other interest groups who have a strong presence at the political level. ‘Rent seeking’, by which we mean shoring up market power, is also not unknown.

The conclusion from this very rudimentary discussion is that free competitive markets in training will not produce optimal outcomes (and do not operate, in practice); nor can we assume that government intervention will automatically make things better. Therefore the challenge is to come up with a set of arrangements—this is called market design—that will stand the best chance of delivering good outcomes.

To show the difficulty of the challenge, I give three examples of possible pitfalls. The first illustrates what can happen when student interests do not align with those of industry. The second shows what can happen when special interests lobby government for special action. The third illustrates the perils of manpower planning.

- ✧ In arts and media professional courses, the output far exceeds the demands of the labour market. Only 15% of graduates from publicly funded vocational education and training (VET) courses for arts and media professionals find a job where the training matches their job, and relatively few of the remainder judge their training to be relevant to their employment (Karmel, Mlotkowski & Awodeyi 2008). Here, students on average are getting a poor financial return on the investment (which consists of their time, fees and the public subsidy) in their courses. While the students may well be satisfied with their courses and may have benefited personally from the course, and some will pick up useful generic skills, it is difficult to argue that the courses are aligned to the needs of industry. The implication is that a system led by student demand may lead to outcomes which reflect interests and aspirations of individuals more than industry demand for skills. Whether you think this is a good thing or not depends on your views on the importance of individual fulfilment relative to labour market outcomes.
- ✧ Prior to the burst of the dot.com bubble there was a call from industry for government to intervene to expand information technology (IT) training. The government of the day acceded to the request, despite advice that the labour market would sort out the immediate shortage. Of course, the shortages evaporated when the bubble burst. Particular industries have vested interests and their advice is not disinterested.
- ✧ We don’t have to go back far to find government reports recommending a contraction of the health workforce. Over some years the output of nurses and doctors was consciously reduced as a direct result of government policy. But the central planners got it completely wrong, as Andrew Norton discusses in his essay in relation to doctors.

It is also useful to keep in mind that there is a very large and relatively free market in the delivery of unaccredited training, in which the consumer pays the full cost of the education and training.² Here also the conditions for the market outcomes to be optimal do not hold; however, the market appears to work pretty well and it is by no means clear that government intervention would improve outcomes.

We should therefore not assume that public servants will find it easy to come up with allocations that ‘get it right’. So we are right back where we started in attempting to design mechanisms that give good outcomes, and there is no reason to remove market mechanisms from our armoury or to believe unconditionally in the wisdom and skill of central planners and public producers.

My point is: to be wary of market solutions in which prices are not allowed to do their job of reconciling the interests of consumers and producers, to be wary of the motivations behind the lobbying of interest groups, and to be wary of the ability of planners to anticipate what labour markets will require.

However, in tackling the issue of market design we need to recognise that it is an issue of ‘political economy’, not textbook economics. A sensible approach would be to agree on what we are trying to achieve, and then analyse possible solutions. The difficulty with this is that different groups and individuals have very different starting points, and it is unlikely that there will be a consensus on what is the desired outcome, let alone the way of achieving it.

There are those whose starting point is that ‘choice and competition are inherently good’. This is Mark Burford’s view. He argues:

The focus should be on letting demand take precedence, expressed by client choice and the requirement for personalised/customised education and training services. Opening the supply side and enabling competition between providers follows as a logical conclusion.

and

The pro-choice position takes the view that the many clients in vocational training have a multitude of needs and requirements that must be met with flexible and diverse supply. In this arrangement, there is no place for a single view of training need or delivery established by a government department, a political party’s election platform or an industry committee.

The second position I characterise as the conservative position, in the sense that its advocates argue that the current system is working well and therefore any change should be evolutionary, not radical. Pat Forward argues this case in her commentary on Burford’s essay, noting that, according to the Productivity Commission:

- ✧ The VET system is, on accepted measures, an efficient system
- ✧ It experiences high levels of students and employer satisfaction.

Rather than a ‘market design’ approach, Forward advocates that:

... the funding and organisation of TAFE and the VET sector would be based on a number of things, including:

- ✧ the principle that studying in the sector should be about people preparing themselves for work and life
- ✧ the right of the citizens to access the highest quality and most immediately relevant vocational education that society has to offer
- ✧ the responsibility of governments to resource such training in an effective, efficient and responsive public sector.

Her view is that market design is a tool intended to discipline TAFE (technical and further education, the public provider), and that student entitlements (a tool which promotes choice) are a market mechanism that characterises a ‘low trust’ system. She contrasts this with the ‘high trust’ systems of northern Europe, based on dialogue and cooperation between the social partners.

This high trust world of consultation and negotiated positions is very different from market mechanisms that emphasise individual preference and choice.

A second point the essays bring home is that there are many elements to ‘competition in the training market’. Two that are picked up are the centrality of information and the governance of public institutions. There are others that were not covered—notably regulation and a rationale for the distribution of public funding.

In relation to the first of these, Andrew Norton is concerned with mechanisms that act to determine the profile of student places and reflects on the issue from the perspective of higher education experience. The central planning approach suffers from the problem that forecasts of future need have, at best, modest reliability, despite the resources available to central planners. Further, a centrally controlled system is not particularly responsive, because in practice coordination relies heavily on new places being available—it has proved unpalatable for the politicians to wear the fall-out of moving places between universities. He also argues that decentralised systems, whether market-based or not, have the advantage of spreading risk.

In contrast to planning approaches, Norton argues that: ‘the strength of markets is their mechanisms for continual adjustment in the light of the available information, including information about student preferences normally neglected by central planners.’ In this respect he observes that the pattern of higher education applicants suggests that potential students have acquired relevant labour market information, and he gives examples of the current experience where there has recently been demand for places in engineering and health, but not information technology, reflecting the state of the labour market. Norton’s approach would steer the system away from a supply-led approach, in which governments promote certain training, despite lack of demand, by creating places in the ‘desirable’ courses. The obvious example of this is the support given to science places in the face of low student demand. Norton warns, however, that a potential oversupply can occur in a demand-driven system unless price signals are allowed to function. An obvious example here is the one I raised earlier. The oversupply of arts and media professionals has occurred in part because the students pay a very small proportion of the course cost.

Leslie Loble responds to these problems by arguing for a more central role for planners—as people needing to provide guidance about the outcomes from public investment in skills development, while withdrawing from prescribing how to deliver training.

Nicholas Gruen takes it as read that there are potential benefits from moving towards a more decentralised and competitive model of VET provision. However, to harness these benefits, he argues that: ‘it is essential that “consumers”—most particularly students, but also to some extent employers—are well informed about the quality of VET services being offered.’ Essentially, markets rely on reputation as signalling quality and value. In his essay he provides his thoughts on how good information can be generated and by whom and explores the strengths and weaknesses of a number of approaches, including private ratings systems such as <www.ratemyprofessors.com> and the British Universities National Student Survey (see <www.unistats.com>). In Australia, the VET Student Outcomes Survey is a large-scale survey that he thinks could be harnessed. But, as Gerald Burke notes, while the survey currently provides information on aggregate levels of outcomes and satisfaction, data protocols prevent its being used to publish individual TAFE data. ‘Changing this’, Burke says, ‘would be a small but important step.’ Gruen is also enthusiastic about the potential of web 2.0 technologies to scale up ‘word of mouth’ information and collaboration.

Terri Seddon extends this discussion of information to the ‘information asymmetries’ that exist because the consumers have precise information about the price of training but not of its quality. In this situation, it may be rational to buy cheaper training products because there are no guarantees that spending more will necessarily return better outcomes. Such behaviour could undercut the capacity of providers to supply higher quality (and therefore more expensive) training products and services. Seddon argues that this risk can be offset by ‘quality signals’ that enable prospective students (or their employers) to weigh price against quality.

By quality signals, Seddon is referring to the ‘cultural artefacts’ that represent and communicate value propositions; statements about the worth of something which are embedded in communities. What counts as information about quality is relative to particular user groups and their purposes. The signals need to accurately represent the quality of a good and be accurately read by choosers. The challenge is to find a ‘currency’ that can communicate between suppliers and users. Seddon notes that quality frameworks in Australian vocational education and training have tended to emphasise information for control and continuous improvement, rather than supplying a ‘currency’ of quality. Recognising that quality signals and frameworks are for particular purposes, she suggests features of a quality framework that build on existing practice within the Australian training market.

The last of our essays is focused on another element of a market, the providers. Even under the most radical formulation of a training market, a market without TAFE institutes is inconceivable. Therefore the question of TAFE governance is an important one. If markets are to play a more important part in VET, then Lynn Meek presumes that there will be a shift to greater autonomy for TAFE institutes, and therefore a need for a stronger approach to self-governance. Meek is particularly interested in the impact that likely changes will have on the diversity of institutes. He argues that there is a risk, based on his observation of experience in the higher education sector following the end of the so-called binary system in the late 1980s: ‘that more independent, autonomous TAFE institutions may influence the behaviour of their members in such a way that they pursue the goals and ambitions of research-intensive universities, shedding in the process a commitment to a truly differentiated tertiary education sector.’

Michael Keating in his commentary is rather more sanguine. He argues that TAFE institutes need greater autonomy to survive in a more competitive training market, but believes that the very different nature of the VET system, its institutional history and its students by comparison with the university sector suggest that a move to greater institutional autonomy is not a threat to its values. He acknowledges, however, that VET could risk being subsumed and therefore become a more uniform university system if it had to compete for those students who might in future choose to take a university diploma. I would not be so sure, and Robyn Tudor’s comments (in relation to Terri Seddon’s essay on quality signals) also give food for thought. She observes that many private providers operate in niche areas (her college specialises in high-end audio work) at the high-skill end of the spectrum. Because some of the VET structures are not friendly to this part of the market, there has been a move away from VET provision towards higher education. The relative labour market position of diplomas and degrees is likely to exacerbate that trend (there is evidence to show that the diploma graduates are losing out), so I suspect that VET’s distinctiveness does not provide protection against a dilution of its character.

Some current work by NCVER (Misko & Halliday-Wynes forthcoming) is also pertinent to institutional governance. Misko and Halliday-Wynes looked at the planning processes of a number of TAFE institutes with varying degrees of legal autonomy. Their finding is that what determines most behaviour is the funding regime, not the governance structures. Thus dual-sector institutions behave similarly to the stand-alone TAFE institutes because both types of institutions have the same agreements with the state training authorities when it comes to public funding. Autonomy is all very well, but what really counts is how the public funds are allocated.

The six essays and accompanying commentaries only scratch the surface of the topic of market design. If we are happy with the current system, then fine, and we can let that system evolve at the margin. However, I would argue that the current VET public system has grown up in an historical and incremental manner, and the outcomes are not very coherent. For example, we see some students obtain very large public subsidies because they undertake courses offered in the public VET sector, while other students pay full fees because TAFE institutes have been slow to move into emerging areas. Gaming is an example. Is this sensible?

The reforms in Victoria referred to earlier indicate that not all governments are happy with the status quo. But the material in this volume points to the need for nuanced policies and systems, and

therefore we have to be careful to understand the implications of what changes we make. No one is arguing the desirability of unfettered markets.

In thinking about market design we need to be clear about what we are trying to do, and the relative interests and skills of various players: the officials, policy-makers, industry groups (including unions), individual providers (including TAFE institutes), practitioners, and individual learners, who probably have the least influence on the design of the system.

I would argue for a careful and coherent approach, covering:

- ✧ *Clear goals*: is VET about meeting the needs of individuals or employers? What should be the balance between general education and more narrowly vocational education?
- ✧ *Planning*: what is the place of planning? How can this be effective, given our limited ability to forecast skills needs? Should it therefore focus on ensuring that students and employers have adequate information on which to make sound choices about training, rather than determining how many student places should be provided in particular courses?
- ✧ *A clear basis for government subsidy*: for example, why should mature people be subsidised exactly the same as young people? Here, we need to be more explicit about how we allocate funds between the early, middle and later stages of people's lives.
- ✧ *A consideration of the role of public providers*: should they be treated any differently from private providers, and if so, why?
- ✧ *A clear basis for regulation*: quality assurance is particularly important because of the nature of training. You can't feel the quality and width of training before purchasing, and reputation is not very useful where there are many small players.
- ✧ *Public support for the provision of information about courses and providers*: I would impose obligations on accredited providers (noting that providers are free to operate in the unaccredited part of the training market if they wish) to provide data to potential students and national data systems. We should also end the preciousness about not divulging institution-level data from national data systems.
- ✧ *A careful analysis of market-like mechanisms*: those that governments have used in the past or might use in the future.

In relation to the last of these points, one of the themes running through the discussion is the lack of empirical evidence on the effectiveness of markets in training. That lack of evidence is used by those who support the current model. They ask the question: 'where is the evidence to indicate markets will improve matters?' The difficulty is that in Australia, at least, there are relatively few market initiatives to analyse. Those that come to mind are 'user choice' funding, the Productivity Places Program (and its predecessor) and the Victorian student entitlement model which is about to be introduced. Some states have also used competitive tendering to purchase places.

User choice funding allows employers to send their apprentices and trainees to any provider who has been allocated this funding. Thus this program widens the number of providers who are eligible for public subsidy. Before user choice funding, employers could pick the TAFE institute of their choice. Now they can pick any provider on the list. The scheme has also been subject to the policies of state training authorities, who have decided which apprenticeships and traineeships are entitled to user choice funding and specified the providers who can access the funds.

The Productivity Places Program has similarities to user choice funding. The Commonwealth specifies the courses covered by the program and the rules for eligibility and sets the level of funding. Any registered provider delivering the specific courses and willing to do so at the price set by the Commonwealth can get on the list of Productivity Places Program providers. Providers will be attracted to the program if their cost of delivery is below the fixed price, but will not wish to access the program if their cost of delivery is above the price. The Commonwealth is using its purchasing

power to potentially extract a lower price—‘value for money’—but it is not using a tendering process to drive the price to the lowest possible level. An element of choice is available to the clients of this program; they can choose any provider on the designated list. The high take-up of the program by private providers certainly means that students have wider choice of providers for which they can access public funding.

The Victorian reforms are more radical. The main element is the entitlement, which can be exercised at any registered provider (the reforms also include the free provision of training needs analysis to small and medium-size enterprises). This provides a coherent method of defining who and what courses can access public funding and also centres the provision around the individual consumer. The freedom of choice of provider is wide, covering both course and provider, but not total, because the funding that goes with an entitlement is fixed, and the fees that the provider can charge are also fixed. So, while the reform stresses choice, it does not include what is usually an important element of markets—namely, price flexibility.

It is still early days when it comes to competition in training markets. I trust this volume will provoke further thought and discussion.

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MARKETS AND CENTRAL PLANNING IN MEETING LABOUR MARKET NEEDS: LESSONS FROM HIGHER EDUCATION

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CENTRE FOR INDEPENDENT STUDIES

Introduction

In recent years, a tight labour market has put skills shortages on the policy agenda. The Victorian Government's VET reform white paper says that skills shortages exist across a wide range of industries, limiting growth and competitiveness (Victorian Government 2008). Labor's 2007 federal election statement on skills claims that 'debilitating skills shortages in critical areas' constrain output and put upward pressure on inflation (Australian Labor Party 2007). Skills shortages are a mismatched labour market as experienced from the employer side.

Government responses to employer complaints about their difficulties in finding suitable workers differ around the country, but all plan to increase the number of people with formal post-secondary qualifications, particularly vocational qualifications. While this is likely to benefit many individuals, over-qualification is already widespread in the Australian labour market. This exists when workers have formal qualifications in excess of what is required for their jobs. For example, the Australian Bureau of Statistics (ABS) Education and Work survey finds that 26% of university graduates hold jobs for which degrees are not typically required (ABS 2008b).³ On a more subjective measure, 10–15% of workers disagree that they use their skills and abilities in their job (Watson 2008, p.11). Over-education or unused skills constitute a mismatched labour market as experienced from the employee side.

Some mismatch between what employers want and what potential employees can offer is inevitable. The demand for skills is affected by technological innovation, by structural shifts in the economy, and by the business cycle. None of these can easily be predicted with precision. Unanticipated skills shortages are most likely during periods of rapid growth, as seen in the mining sector in recent years. In recessions, skilled workers have more trouble finding appropriate employment (see Norton 2007, figure 1, p.4). Gearing the skills supply to match boom demands means that some human capital will normally be underutilised. While for employers this is better than boom-time shortages, it is not self-evidently the right policy goal. Skills acquisition has costs to both individuals and taxpayers.

The supply of skilled labour also varies, and in ways that can only be partly predicted by those responsible for education and training. Many people work in occupations other than those exactly matching their formal qualifications. While the government can control the flow of skilled immigrants, it has much less control over temporary and permanent emigration by skilled Australians. As the skilled labour pool has feminised, it has become more difficult to calculate how many hours of work can be expected from each qualified person. Women are more likely than men to move in and out of the labour market and between full- and part-time work.

Although a labour-market perfect match is not possible, trying to improve the match is a reasonable policy goal, given the co-existence of skills shortages in the labour force and skills surpluses among some workers. This paper will look at the relative merits of central planning and markets in delivering workers with formal qualifications to the labour market. In particular, it will examine whether there are lessons—positive or negative—from the higher education sector for the vocational education sector.

Competing models

In the current Australian debate around post-secondary education funding, there are two broadly competing models for allocating students and funding between education providers: central allocation and market distribution. With central allocation, a government agency (or agencies, in vocational education) determines workforce needs and then allocates education and training places accordingly. Students are not coerced into taking these places, but central planners steer their choices by limiting the available options or by creating incentives to take particular courses. Under market distribution, the interaction of education providers and students determines how education and training places are allocated. Voucher systems combine elements of both models, with the public subsidy element altering price signals to influence education providers and students, while leaving markets as the institutional setting in which final allocative decisions are made.

The two broad models have been supported or opposed, based on issues of access by disadvantaged groups, other community obligations performed by education providers, and course quality. This paper leaves these considerations to one side to focus on each system's strengths and weaknesses in providing the right mix of suitably qualified workers. This is a debate about information and coordination. Which set of institutions can gather the most relevant and useful information and then use that information to guide allocative decisions?

Central allocation agencies can use a wide range of data-gathering techniques to build a picture of likely workforce needs. These can include census and survey research on the skills available in the current workforce, consultations with employers about their short-to-medium-term requirements, and computer modelling of long-term economic trends. Although students' interests in finding work are important in central planning, their actual personal course and career preferences are not necessarily collected or considered in the planning process. Using the information it has collected, a central planner can then coordinate the relevant education and training. The mechanism for doing this varies and can include both direct allocation and quasi-market mechanisms (discussed further below). Ideally, this mix of information-gathering and coordination minimises the under- or oversupply that may result if higher education providers and students act with imperfect knowledge of the labour market and of each other's decisions.

Under a market system, education providers can also analyse economic and demographic trends affecting their business and use this analysis to guide which courses they offer students. Only larger providers are likely to be able to afford this research if it is not publicly available. The most important source of information for market-oriented institutions is what they learn in the market itself. From their routine interactions, education providers acquire knowledge of local business conditions and of particular clients, when they are employers. From applications they receive and contracts they sign with corporate clients, education providers learn about demand for their courses. This knowledge, which may not be formally collected or analysed even at the provider level, is hard for central planners to collect and use.

Employers as customers of education and training providers are likely to supply high-quality information, since often they will be filling known skills deficiencies within their firms. However, students seeking to enter the labour force or to change careers may have only a limited understanding of labour market trends. This is one potential problem with market systems to be discussed later in the paper. However, students know their own interests and aptitudes better than either higher education providers or central planners. Ignoring this information can lead to students not taking up offers, dropping out of courses, or not continuing with the career intended by central planners. Market systems, by contrast, regard students' preferences as important sources of information.

Coordinated systems in the marketplace result from high levels of institutional autonomy and flexibility, combined with strong incentives to act on the information they receive. These incentives come in the form of losing or gaining students and income. Undersupply is signalled by strong

demand for places; oversupply by the reverse. Coordination is achieved by continual readjustment in the light of market information, rather than by regional or national plans setting out in advance what will be taught, and when and where it will be taught.

Allocative mechanisms in higher education

In higher education, government-funded places are distributed centrally to public universities and a small number of other institutions offering 'national priority' courses, mostly in teaching and nursing. There is no formal procedure for gaining access to Commonwealth-supported places. Institutions are added to the system on an ad hoc basis after lobbying the federal government. Dozens of institutions, other than the public universities, including TAFE institutes, offer higher education courses on a full-fee basis. However, at the undergraduate level Commonwealth central allocation is the dominant steering mechanism determining how many places are allocated to each institution and field of study. Including the full-fee domestic undergraduate places at public universities, which are to be phased out from 2009, only 7% of undergraduate places were allocated by market forces in 2007.⁴

The federal government uses 'funding agreements' with higher education providers to distribute its places. These agreements set out the total number of Commonwealth-supported places to be provided and they determine which 'funding cluster' these places will be in. Funding clusters correspond to fields of study; some clusters are unique to one field of study, while others cover several fields.⁵ Universities can generally freely move places within clusters. For example, they could switch places between law and accounting, between computing and social studies, or between dentistry and veterinary science.⁶ Places can be moved between clusters, but requirements for minimum total enrolments and maximum Commonwealth expenditure make this difficult.⁷ Before 2005, universities had more flexibility to move places between disciplines, while still meeting overall target enrolments.⁸ New places are allocated particularly prescriptively, with specific courses and campuses usually set, rather than just funding clusters and institutions.

Although in recent years labour market shortages have influenced the distribution of these new places, there is no general central planning of the higher education sector. So, while the funding agreement mechanism could steer the higher education system according to demographic and workforce projections, in practice this has not happened. Instead, there have been ad hoc responses to existing demands for more workers in particular occupations. In the absence of new places, each year the same institutions tend to get roughly the same number of places in the same fields of study.

Market forces have a much greater role in allocating postgraduate places. In 2007, approximately 70% of domestic places were provided on a market basis, with higher education providers setting both quantity and price. Most of the centrally allocated postgraduate places are in the funding clusters used for teaching, nursing and allied health-related courses, and outside these fields the federal government has little direct influence on what universities offer at the postgraduate level. Markets are the only significant influence on what places are offered to international students, although demand is influenced by government decisions on migration criteria.

Market-based alternatives to distributing Commonwealth-supported undergraduate places have been suggested on a number of occasions, but to date without success. In 1998, a federal government policy review recommended a system driven by student demand, but a 1999 cabinet submission intended to implement such a scheme was rejected.⁹ The higher education sector, with the exception of a few individual vice-chancellors, opposed the submission's policy thrust.¹⁰ In more recent times, the Group of Eight, a lobby group of the major research universities, has advocated allocating places via scholarships given to individual students (Group of Eight 2007). This view is shared by Macquarie University Vice-Chancellor Steven Schwartz, private higher education providers (see Schwartz 2008, pp. 14–18),¹¹ and myself.¹² In December 2008, a review of higher education policy

commissioned by federal education minister Julia Gillard recommended a voucher scheme for higher education (Department of Education, Employment and Workplace Relations 2008b). The review's report—the Bradley Review—proposed extending the voucher scheme to include private providers of higher education and TAFE institutes for their diploma and above qualifications.

Allocative mechanisms in vocational education

In vocational education, there is a more complex mix of market and non-market allocative mechanisms than is the case in higher education. Although it is difficult to accurately quantify its size and activities, there is a large private sector delivering vocational education courses. An NCVER report identified over 3000 private registered training organisations in 2003, with 2.2 million students during the year (Harris, Symons & McCarthy 2006, pp.7–10). Although many of the courses offered at these institutions are short (a statement of attainment was the qualification offered by the largest number of institutions in the survey), more people have contact with the private vocational sector than with the public vocational sector, which reports around 1.7 million students a year (NCVER 2008, table 4). Thirty-seven per cent of the institutions surveyed for the NCVER report received no government funding, and around 25% of students undertake unaccredited courses. A significant amount of vocational education appears to be largely or entirely free of government steering on fields of study, industry, qualifications or students.

In the public vocational sector, centralised data-gathering helps steer the system. An NCVER-commissioned study of VET planning processes around Australia identified use of econometric modelling, industry advice, industry studies, area studies, demographic projections and skilled migration research (Keating 2008, pp.17–24). The federal government is following this approach with the establishment of Skills Australia. Its functions include analysing current and emerging skills needs, distributing results of its research to businesses and workers to inform their training and employment decisions, advising government on skills needs, ongoing reforms to education and training, and working with the relevant state bodies to align priorities and responses to skills needs (Skills Australia 2008). A Skills Australia discussion paper raises the possibility of its taking a dominant role in advising governments on skills needs, including a national pooling of all public funds. However, it also sees a role for 'increased devolution of purchasing decisions to industry and consumers' (Skills Australia 2008, p.11). This latter path is being followed by the Victorian Government which, with some restrictions on student eligibility, will let providers, including TAFE institutes, deliver 'government subsidised training in response to demand rather than by fixed allocation' (Victorian Government 2008, p.23). If the Bradley Review recommendations on the inclusion of all diploma courses in a voucher scheme were adopted, outside Victoria it could mean quite different allocative mechanisms for diplomas and certificate IV and below courses.

Although, as in higher education, the use of greater market mechanisms for distributing public funding is a possibility, recent practice is closer to the central planning model. The annual VET plans agreed between the Commonwealth and the states set out the annual number of contact hours to be delivered, along with other generic cross-industry skills such as 'business and clerical' and 'computing'. In skill shortage areas, the plans include target New Apprentice commencements at the two- or three-digit Australian Standard Classification of Occupations (ASCO) level,¹³ and other numerical targets at an industry or qualification level. Victoria's agreement nominates industries (for example, 'health'), while New South Wales's agreement nominates more specific qualifications (for example, 'Cert III Irrigation'). On top of these industry and course-related requirements, specific types of students are targeted: VET in Schools students, Indigenous students, 15 to 19-year-olds, 20 to 24-year-olds, mature-age students, and people with a disability.

At the state level, these plans are implemented through direct allocation to TAFE institutes and through some 'user choice' funding. The VET plans require the states to work with TAFE institutes to increase flexibility to meet 'local industry and community needs', although 'within the

context of the national requirements of the Skilling Australia's Workforce Agreement'. The autonomy of individual TAFE institutes in meeting those local needs varies around the country, with most negotiating agreements with state authorities (Keating 2008, pp.19, 17–24). The views of individual TAFE institutes on local needs are taken into account, but are not necessarily decisive. As in higher education, in practice, history appears to be an important allocative principle. While flexibility exists, the starting point in negotiations with TAFE institutes is what they did in the previous year.

Under user choice funding, employers and their apprentices and trainees can choose the registered training organisation that receives their government assistance. This may be a TAFE institute or a private provider. This is an example of governments working to mimic markets or using quasi-markets, reflecting concerns about unresponsiveness in the TAFE sector. This may have benefits in fine-tuning course content and improving customer service. However, it is less clear that it constitutes market steering of the system as a whole. Governments still set the broad categories of what it is to be provided, while being neutral on who provides it.

The federal government's Productivity Places Program is open to private providers to act as suppliers of publicly funded vocational education places. There does not appear to be any bias towards TAFE institutes. However, as with the efforts to include the private sector via state plans, private sector delivery does not constitute market steering of the system. The 'priority occupations and qualifications' list used to distribute places in 2008 limits them to precise occupations (at the four-digit level) and qualifications, steering public and private sectors towards courses that satisfy these criteria. There are specific numbers of places allocated to job seekers and existing workers, with program guidelines setting out in more detail who is eligible to receive a place. Although the large number of potential courses funded under the Productivity Places Program makes it more flexible than new places programs in higher education, the demand side is more regulated, as higher education institutions may give Commonwealth-supported places to any Australian applicant they choose.

Predicting labour force needs

Designing education provision around forecast skill needs sounds like common sense; however, such predictions have only a modest chance of being right. In Sue Richardson and Yan Tan's examination of the MONASH economic forecasting model over the 1995 to 2003 period, they found that it underestimated total employment by 400 000 people. In only one of the five specific vocational occupations they examined did Richardson and Tan find that the MONASH model's projections came close to predicting actual employment. Growth rates also fluctuated year to year in ways not forecast by the model (Richardson & Tan 2007, pp.26–30). Access Economics estimates of demand for vocational education from 2003 onwards appear to have been out by more than 5% in two of the four subsequent years for which actual demand can be inferred (Access Economics 2007).¹⁴ This is not necessarily a criticism of the MONASH model or Access Economics. Given the complexity of the task, economic forecasting is an imprecise business (see Kirchner 1998, pp.231–4; Richardson 2001).

Given the mixed record of economic and labour market forecasting, the more centralised model of workforce advice suggested by Skills Australia may not be the best option. The current federal system, or, more radically, a decentralised market model, allows multiple 'bets' to be placed on what actual employment patterns will look like. Rather like the companies the vocational education sector is intended to serve, the various suppliers of vocational education would be making educated guesses about which services will be in demand. This can include, as in business, entrepreneurial ventures: that if a new product or service is put into the market, it will find customers. It is the micro-level version of the argument that a generally well-educated population will attract employers that need

high-skill workforces. A decentralised approach avoids the dangers, and the missed opportunities, that come when one agency has too much influence over which courses are made available.

The clearest historical example of these risks being realised is the medical workforce. On the assumption that doctors were generating their own demand for Medicare-funded services, in the 1990s the number of Commonwealth-funded commencing medical student places was decreased (see Schwartz 2009). As full-fee places for Australian students were not available in any of the institutions offering medical courses, this meant a decline in the number of places for medical students. Australian graduations from medical schools went into a slump from which they only recovered in the mid-2000s, after government officials realised around the turn of the century that a major error had been made.¹⁵ If it had not been for significant migration of doctors to Australia, the decision to reduce medical student numbers could have had catastrophic consequences for the health of many Australians.¹⁶ If universities had remained a state responsibility, it is unlikely that all states would have simultaneously made such a decision.

It is worth noting too that predicting the medical workforce needs is relatively—and that ‘relatively’ should be stressed—easy. Demand for medical services is not highly sensitive to fluctuating local business conditions. Demographic factors known to affect demand for medical services, such as population ageing, are known well in advance. Most people with medical qualifications work as medical practitioners.¹⁷ Yet the Commonwealth’s attempt to manage this workforce went spectacularly wrong.

For short-to-medium-term workforce needs, the consultation with employers included in current central planning systems is likely to yield good information about labour market trends. Where provider capacity can be easily expanded, courses are short, and inexperienced workers satisfactory, this is likely to help deal quickly with shortages of workers experienced by particular industries or employers. However, it is not clear that central planners have any particular strength in collecting this kind of information compared with providers in the market. Knowing what your customers want is a basic requirement of any business. That more than half of private vocational education providers delivered training on the job or in company training rooms suggests a close relationship with their client businesses (Harris, Simons & McCarthy 2006, p. 35).¹⁸ This is likely to yield more accurate and nuanced knowledge of the firm’s skills need than is a summary of industry needs given to a central coordinating agency.

The record of the vocational education sector in meeting skills needs

Business leaders and politicians, as noted in the introduction, take the idea of skills shortages seriously. While moving in different policy directions at this point, the federal and Victorian governments have announced major initiatives to help deal with skills shortages and limit their re-occurrence by creating new places in vocational education and training institutions. The academic literature on skills shortages is, however, much more sceptical in its analysis of the issue (see for example, Richardson 2007; Coelli & Wilkins 2008). This literature does not dispute that employers sometimes find it difficult to find suitable workers to fill their job vacancies. There are, however, possible reasons for recruitment difficulties other than there being too few people with the relevant qualifications. For example, the pay and conditions on offer may be unattractive to people with those skills, given their other options. Studies of exits from the trades workforce, a key area of claimed skills shortages, suggest that wage levels, the physical demands of the work, and shift and outdoor work are all major factors explaining why people with trades skills leave trades jobs (Huntly Consulting 2008, p.24). Particularly where vacancies cannot be easily filled by newly qualified workers, the vocational education sector cannot be blamed for the problem. Workers may also possess formal qualifications, but employers remain reluctant to employ them because they

lack other personal attributes, such as good social skills. However, there are clearly major issues with very high apprenticeship attrition rates, which means that the long-term labour supply of tradespeople is much lower than the number of apprentices at any one time might suggest (Huntly Consulting 2008, pp.26–30).

The difficulty in quantifying skills shortages, particularly for the recently qualified workers the vocational education sector can provide, makes it hard to judge the sector's overall performance. One indicative way of assessing performance is to compare student outcome statistics with student enrolment statistics. The idea is to see whether courses showing strong labour markets for recent graduates also show rising enrolments, and whether courses related to occupations with weak labour markets for recent graduates show declining enrolments.

In tables 1 and 2, the 'intended occupation' is based on the occupation assigned to a training package using the Australian and New Zealand Standard Classification of Occupations (ANZSCO). 'Match at major group' indicates whether the job is in the broad ANZSCO category related to the intended occupation. In the case of table 1, it indicates whether the job is in the 'technicians and trade workers' category. A 'sub-major' group is likely to show an exact match between intended and destination occupations. The 'parent training package' in table 1 indicates the industry of the training package related to the intended occupation. For intended occupations that are less industry-specific, in table 2 I have used 'field of study'.

Tables 1 and 2 show apparent vocational education sector reactions to employment outcomes. Table 1 shows three occupations where, within six months of completing their courses, the vast majority of students found work which matched the training they had undertaken specifically for employment-related reasons. Jobs relating to these three occupational categories also appear on skills shortages lists (for example, 'Skills in demand lists: States and territories – 2006' compiled by the then Department of Employment and Workplace Relations). In all three, significant increases in enrolments in the relevant parent training package had occurred over recent years. Table 2 shows three intended occupations in which only a minority of destination occupations were a match at either the major or sub-major level. In these fields of study, enrolments have been falling in recent years.

Table 1 Good vocational outcomes and enrolment change 2003–07

Intended occupation	Match at major group	Match at sub-major group	Parent training package	Increase in enrolments (%)
Electrotechnology and telecommunications trades workers	92.2	85.8	Electrocomms and energy utilities	114
Construction trades workers	86.3	80.9	Construction and property services	55
Automotive and engineering trades workers	83.5	74.8	Automotive	35

Sources: Karmel, Mlotkowski and Awodeyi (2008, table 2); NCVER (2008).

Table 2 Poor vocational outcomes and enrolment change 2003–07

Intended occupation	Match at major group	Match at sub-major group	Field of study	Increase in enrolments (%)
Business, human resource and marketing professionals	20.6	18.3	Management and commerce	-9
Arts and media professionals	20.7	5.6	Society and culture Creative arts	-12 -25
ICT professionals	30.6	15.4	Information technology	-50

Sources: Karmel, Mlotkowski and Awodeyi (2008, table 2); NCVER (2008).

At the margins at least, the vocational education sector responds to labour market movements, steering resources away from courses leading to poor vocational outcomes and towards those leading to good vocational outcomes. It is not clear, however, to what extent enrolment patterns are driven by central planning agencies—with supply decisions steering which courses students can take by limiting their options—and to what extent they are driven by student or employer demand. Even where student preferences are regarded by supply-side decision-makers as irrelevant or secondary—as is at least impliedly the case in a centrally controlled system—these can still influence enrolment patterns. Without outright coercion of students, their preferences still matter when funded places simply cannot be filled. Excess demand can be ignored much more easily than insufficient demand. To some extent, TAFE institutes may already be responding to demand deficiencies by reallocating their teaching resources.

More cannot be said about this because we lack detailed information on demand for vocational education. There are no national data on employer demand. The major, although limited in detail, source for student demand is the annual ABS *Education and work* publication. Its survey asks respondents whether they have been unable to gain a TAFE place on application. In 2008, only 29 000 persons had been unable to gain a place, a small number in the context of annual enrolments of around 1.7 million in recent years (ABS 2008a, table 21). However, low overall unmet demand can conceal much higher unmet demand for particular courses or institutions, with applicants taking less-preferred study options rather than not studying at all. In Victoria, centralised applications for TAFE diploma courses indicate that 39% of those who eventually enrolled or deferred did so in a course that was their second or lower preference (Victorian Tertiary Admissions Centre 2008, section E3). Though we cannot assume that supply should always meet demand—education providers need to make decisions about the suitability of applicants—this number suggests that supply-side factors influence which courses students take. (We cannot tell from the published data whether applicants missed out entirely on their preferred course, or enrolled in it, but at a second-preference institution.)

Demand in higher education

Because centralised admissions agencies handle most applications for undergraduate higher education courses, we have a much better understanding of demand in this sector. This helps us to see what might happen if, as recommended by the Bradley Review, a demand-driven system replaced the current system of allocating higher education places centrally.¹⁹ Table 3 shows trends in undergraduate applications by broad field of study between 2001 and 2007 as a percentage of all applications for each year. Generalist courses such as science and arts are quite stable in their share of applications over time, with movement occurring mostly in the vocationally oriented courses. Year-to-year volatility is low, with movements in application share rarely exceeding 1% up or down. However, more significant trends become evident over a number of years. The big shifts since 2001 have been declining applications for courses in information technology and management and commerce, and increasing applications for courses leading to the health professions.

Table 3 Applications for undergraduate places, 2001–07 (% of total)

Year	Natural & physical sciences	Information technology	Engineering & related technologies	Architecture & building	Agriculture, environmental & related studies	Health	Education	Management & commerce	Society & culture, Creative arts
2001	6.79	6.98	5.75	2.68	2.25	16.76	9.46	17.86	31.47
2002	6.80	5.85	5.51	2.60	2.20	17.17	10.14	16.86	32.87
2003	6.70	4.50	5.38	2.74	2.23	18.69	10.53	16.22	33.01
2004	6.86	3.56	5.41	3.00	2.14	19.66	10.87	16.01	32.50
2005	6.78	3.08	5.50	3.04	1.88	20.47	11.43	15.94	31.88
2006	6.54	2.57	5.71	3.28	1.78	21.71	11.16	15.11	32.13
2007	6.24	2.36	5.99	3.38	1.70	23.89	10.48	14.71	31.26
2001 to 2007	-0.55	-4.62	0.24	0.70	-0.55	7.13	1.02	-3.15	-0.21

Note: Converted to Australian Standard Classification of Education (ASCED) categories to enable comparison with enrolments. Creative arts is combined with Society and culture as it is combined in applications data.

Source: Adapted from Department of Education, Employment and Workplace Relations, Undergraduate applications offers and acceptances 2008.

The major applications trends match labour market trends. For many years there have been labour shortages across the health professions. Over a shorter time period, the labour market for engineers has shown signs of shortages. These became evident as a national problem in the skills shortages surveys in 2003 and, for civil and mining engineers, very tight labour markets for graduates from 2004.²⁰ After a dip in engineering applications in the early 2000s, the recovery from 2003 suggests that positive employment information was flowing through to demand for engineering courses.

Falling applications for information technology courses is also consistent with employment prospects. The dot-com crash of 2000–01 may have triggered the initial decline in applications, but the lasting problem was oversupply of potential IT workers rather than declining demand for them. ABS employment statistics on computing professionals and technicians show increases in every year except one between 1999 and 2006 (ABS 2005–06). However, the ABS Education and Work survey found that the number of people qualified in information technology increased by 107 000 between 2001 and 2006, clearly well in excess of net job growth of 25 000 between 2001 and 2002 and 2005 and 2006 (ABS various years). The scale of the mismatch is due partly to the migration points system conferring benefits on IT qualifications (Birrell 2003, pp.36–45).²¹ The proportion of computer science graduates finding full-time work dropped from 88% in 2000 to 68% in 2003, well below the 80% average for all graduates (Graduate Careers Australia 2008, pp.24–5).

Application ‘bubbles’

In higher education, broad field of study level applications have moved in line with labour market trends. Although a positive in reducing the risk of skills shortages if a demand-driven system was introduced, this can be turned into a criticism. Without regulatory constraints on student numbers, demand-driven student funding systems have the potential to ‘over-react’ to labour market trends, pushing markets from undersupply to oversupply, or vice versa. It is possible that this happened in IT, although university IT applications were not reported separately prior to 2001. However, in the late 1990s there were no unusual movements in the broad applications category of ‘science’, in which it used to be included.²² Applications for health courses increased by nearly half between 2001 and 2007, although as yet there is no negative feedback from the labour market suggesting that this was an over-reaction.²³ Analysis is hampered by classification changes and by reporting at broad field of study level, but the large drop in IT applications and large increase in health applications seen in table 3 appear to be the only major shifts in applications data going back to 1993. Applications for education courses dropped by about a fifth between 1993 and 1994, in response to poor employment outcomes. But from there, there was no downward spiral as has occurred for IT this decade.

The record of the last 15 years suggests that large swings in applications are rare. One reason is that the role of interests and aptitudes in course choices moderates application shifts. While most students hope for improved vocational outcomes from their studies, research suggests that their interests and aptitudes are the main influence on the fields of study they consider (see Harvey-Beavis & Elsworth 1998; James, Baldwin & McInnes 1999).²⁴ Improved information for applicants may also assist in moderating application swings. For its voucher scheme, the Bradley Review recommended that information on courses and their outcomes be made more easily available to applicants and students (Department of Education, Employment and Workplace Relations 2008b, p.80). (The vocational sector is already well advanced on these ideas through its Job Explorer, Job Outlook and SkillsInfo websites.²⁵) More timely and/or comprehensive release of applications and enrolment data would also help both students and providers adjust their behaviour in light of recent information. While monthly summaries of international student enrolments are released by Australian Education International, 2009 applications and places decisions are being made without any release of 2008 domestic student enrolment statistics.

On the supply side, the effects of swings in demand are likely to be moderated by capacity constraints. Especially when the demand pressure comes from a strong labour market, the people who would teach the new students have good alternative job prospects and may not find teaching work attractive. In market settings, academic salaries would increase in response, but this would have flow-on effects into higher fees, which may moderate demand.

In the vocational education sector, poorly informed demand is less likely to be a problem than in the higher education sector. For bachelor degrees, most enrolments are for prospective careers in which the student does not yet have any guaranteed entry. Applicants are therefore making judgements about demand for their qualifications, and for themselves in particular, three or more years in the future. In vocational education, many students are adding skills for jobs they already have or for employers who have already hired them. For example, for students enrolled for vocational reasons in certificate III/IV courses in 2005, 43% gave as their main reason that the course was a requirement for their job or to gain extra skills for their job. For bachelor degree students, only 6% of students gave these reasons (ABS 2006, from table 4). Of those who engaged over 2006–07 for job-related reasons in structured non-formal learning not leading to a qualification, all but 5% are currently employed (ABS 2007, from table 14). While the vocational education sector does offer courses to school leavers, career shifters, and people trying to re-enter the workforce, much of what it teaches is related to existing, rather than speculative, employment.

The record of the higher education sector in meeting skills needs

As in the vocational sector, in the mid-2000s the publicly funded higher education sector did respond to labour market movements. Table 4 shows the movements in enrolment shares over the period 2001–07. In the 2005–07 period, approximately 4000 commencing places in health fields were allocated to universities.²⁶ With the ‘pipeline’ effect—students continuing on after first year—around 7000 of the 10 000 additional health places added over the period 2005–07 can be attributed to active steering of the system from the centre. The other 3000 appear to have come from institutional decisions. Perhaps fortunately, collapsing demand for information technology courses freed up places in the same funding cluster as allied health. Universities must either reallocate places internally or return them to the central pool.²⁷

Table 4 Distribution of Commonwealth-supported places (CSPs) between fields of study, 2001–07 (%)

Year	Natural & physical sciences	Information technology	Engineering & related technologies	Architecture & building	Agriculture, environmental & related studies	Health	Education	Management & commerce	Society & culture, Creative arts
2001	13.36	6.57	5.67	2.00	1.61	9.84	10.01	13.06	37.85
2002	13.15	6.38	5.49	2.01	1.53	10.02	10.28	13.02	38.08
2003	13.19	5.82	5.50	2.03	1.56	10.41	10.44	12.95	38.07
2004	13.45	5.21	5.44	2.17	1.60	10.89	10.63	12.76	37.81
2005	13.76	4.52	5.38	2.28	1.43	11.29	10.86	12.80	37.51
2006	13.79	3.93	5.50	2.35	1.45	12.02	11.18	12.74	36.87
2007	13.82	3.54	5.67	2.45	1.38	12.92	11.00	12.52	36.50
2001 to 2007	0.47	-3.03	0.00	0.45	-0.23	3.08	0.99	-0.54	-1.35

Notes: HECS-liable places 2001–04, CSPs 2005–07.

Minor fields of study removed.

Society and culture combined with Creative arts to enable comparison with applications statistics.

Source: Adapted from Department of Education, Science and Training and Department of Education, Employment and Workplace Relations, *Students: Selected higher education statistics*, various years.

Although it is less obvious from table 4, there was also an eventual response to shortages of engineers. Starting with modest increases in 2005 and 2006, more than 500 new places were offered for each of 2007 and 2008.²⁸ The rising enrolment share of engineering in 2006 and 2007 shows the new places starting to have an effect. While health and engineering were the only major areas of skill need relating to higher education in this time period, in all fields of study except the natural and physical sciences there were enrolment shifts in the same direction as the application shifts in table 3.

This reaction to labour market shortages, however, was not from a system designed to produce a response. There are no institutions within the higher education bureaucracy dedicated to ensuring that the system as a whole responds to employer needs. Instead, it was the result of a fortunate but ad hoc change of policy. Up until 2004, labour market considerations were a secondary concern in allocating new student places. The top priority was the equalisation of higher education participation rates between the states (Department of Education, Science and Training 2003).²⁹ In more recent application rounds for new places, the ‘present and future skills needs of the nation, employment opportunities, and employer needs’ were the top priorities.³⁰ There is no legislative requirement that this be the case; it is a ministerial decision and so very much dependent on the minister’s policy views.

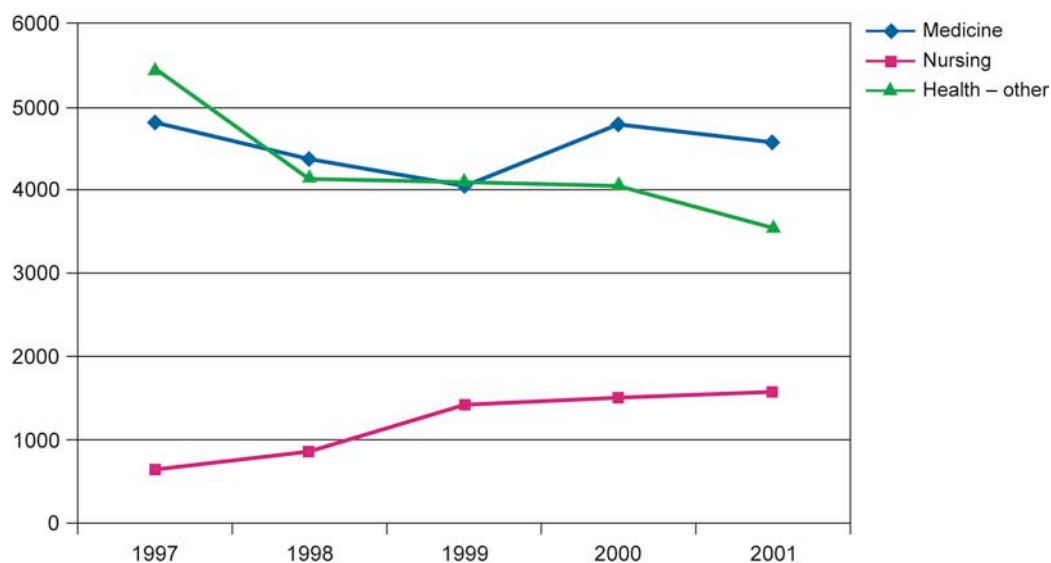
Since the federal government rarely steers via reallocating existing places, even an in-principle policy of giving priority in new places to disciplines related to labour market shortages will be meaningless unless there are new places to allocate. In the second half of the 1990s, the federal government reduced the number of ‘fully funded’ Higher Education Contribution Scheme (HECS) places to bring the federal budget back into balance. Between 1997 and 2000, the number of fully funded HECS places fell by nearly 5000.³¹ Postgraduate non-research places were targeted for cuts, but apart from that the system was in drift. Neither market forces nor a central planner was giving it direction. Table 5 indicates that only one broad field of study showed a shift in enrolment share of more than 1% over the 1997 to 2000 period.

Table 5 Distribution of HECS places between fields of study, 1997–2000 (%)

Year	Humanities	Social studies	Education	Sciences	Mathematics, computing	Visual/ performing arts	Engineering, processing	Health sciences	Administration, business, economics, law	Built environment	Agriculture, renewable resources
1997	11.46	13.33	9.12	11.12	10.49	5.53	5.06	8.32	21.65	2.46	1.46
1998	11.32	12.82	9.20	11.29	10.40	5.61	5.17	8.37	21.91	2.46	1.45
1999	11.09	12.53	9.29	10.99	10.28	5.62	5.42	8.91	21.93	2.48	1.45
2000	11.00	12.31	9.73	10.71	10.48	5.63	5.48	9.19	21.63	2.45	1.39
1997 to 2000	-0.46	-1.02	0.61	-0.40	-0.01	0.09	0.43	0.87	-0.02	-0.02	-0.07

Source: Adapted from Department of Education, Training and Youth Affairs and Department of Education, Science and Training, *Students: Selected higher education statistics* (various years).

It was in this period that labour force shortages in the health professions needed to be addressed. Yet as described above, the number of commencing medical places was reduced instead of increased. While other health occupations did gain some places, there was only a small re-adjustment of the system as a whole towards health-related courses. Applications statistics suggest that, especially for medicine and allied health occupations, there was significant unmet demand for university places (figure 1). But with limited capacity to respond to either student or labour market demand without steering from the centre, the university sector delivered a weak response.

Figure 1 Eligible applicants not receiving offers, health courses 1997–2001

Note: Eligibility is defined across the system; an unknown number of applicants would have been rejected on academic grounds.

Source: Adapted from Australian Vice-Chancellors Committee (now Universities Australia), unmet demand statistics.

Supply floods

While application bubbles face no regulatory constraints in market-oriented systems, for vocational courses these will self-correct. Demand for education courses in the early 1990s and IT courses in the early 2000s show clear reactions to negative labour market trends. In centrally controlled systems, over-capacity can persist for as long as places can be filled, albeit on a second or lower-preference basis. In higher education, the natural and physical sciences consistently have offer rates in excess of 100%, meaning that there are more offers made than there are first-preference applicants. There is a similar pattern observed for agriculture (Department of Education,

Employment and Workplace Relations 2008c, table A-4.2). Some students accepting places in science courses are hoping to later transfer to one of the health disciplines.

The oversupply of science places has no basis in labour market needs. Graduate employment surveys consistently show that science graduates have below-average employment outcomes, and often significantly below average (Graduate Careers Australia 2008, pp.24–5). While employment outcomes improve to the more typical, of approximately three-quarters of graduates in professional or managerial jobs, the 2006 census suggests that many of these occupations do not require science degrees. About 18% of males whose main field of study in their highest qualification was science are employed as ‘natural and physical science professionals’. Another 8% are employed as school or university teachers, presumably mostly of science. The rest are spread across a very wide range of occupations, many of which would more obviously draw on qualifications other than science.³²

Although the government’s own commissioned analysis of the science workforce confirmed that ‘demand is not expected to exceed total supply of science graduates’, this advice appears to have been ignored (Department of Education, Science and Training 2006, pp.31–3). Despite a small decline in applications share (table 3) for the natural and physical sciences, the enrolment share (table 4) increased over the 2001–07 period. To try to boost demand, the Rudd Government cut student contribution amounts for science and maths, beginning in January 2009. However, the available employment evidence suggests that it is the applicants who have made the correct judgement about science compared with other courses, and it is the central planner who is mistaken.

Conclusion

Skills shortages caused by too few qualified workers are likely to be unusual under either market-based or centrally controlled systems. Even the long period of economic growth from the early 1990s left large numbers of workers overqualified for their jobs. The price of skills mismatch in Australia is paid by low returns, for some people, on public and private investment in their education, rather than by employers being unable to fill vacancies. With 700 000 places over five years in the federal government’s Productivity Places Program, many people will complete their qualifications in an economic downturn and add to those not using their skills at work. However, unless price signals are used to control demand, this oversupply is likely to occur in demand-driven as well as centrally controlled systems. Since students cannot be coerced into taking courses, we know that aggregate demand in vocational education was at least the number of enrolments, with the Education and Work survey suggesting that each year there are a few tens of thousands of people missing out on TAFE courses.

The choice between central planning and market models comes down to their fine-tuning mechanisms—how they gather and act on information about the labour market to improve the matching of workers’ qualifications and skills with the available jobs.

Central planners have the resources to collect large amounts of information for forecasting future needs, but such forecasts have, at best, modest reliability. To the extent that this information is useful, it can also be made available for participants in a market system. In the vocational sector particularly, a great deal of this information is already made generally available. In the Review of Australian Higher Education (Department of Education, Employment and Workplace Relations 2008b) proposal for a higher education voucher scheme, more information for applicants and students is included. Though the information provided to higher education applicants is currently limited, the applications data show that by various means they must have acquired the relevant labour market information, with appropriate responses to good labour markets for engineers and health professionals, and a poor labour market for IT professionals. As many people undertaking vocational courses are already in work, their information sources are better than for higher education students.

The informational advantage of market systems is that the preferences of students and client employers are central. Until recently, higher education policy regarded these preferences as largely irrelevant. It was assumed that applicants would take what was offered. While the vocational education sector does incorporate the views of employers, it has weak or non-existent mechanisms for tracking student demand at a state or national level. Some students' course preferences may be based on misapprehensions or misjudgements about career potential and options, but limiting their choices to courses they don't want to take, a key mechanism of central planning, is unlikely to be a successful approach. Influencing student preferences rather than controlling supply of places may produce better labour market results. This is a marketing exercise that does not need bureaucratic control over education providers to work. With thousands of registered training organisations, many with profit motives, demand at the right price would trigger a supply response.

The major lesson from higher education for vocational education is that central control involves two major risks, from wrong analysis and from a reliance on political processes. If there is a single agency controlling the supply of qualified workers, mistaken predictions of demand for those qualifications could have serious consequences. This has been the case for the medical workforce in higher education. In more decentralised systems, whether federal or market-based, risk is spread. National coordination of advice on publicly funded vocational education places through Skills Australia is unlikely to be a good idea.

The other risk is political. As happened for a long period of time in higher education, neglectful government processes can leave the system without steering mechanisms. A system can be centrally controlled without being centrally planned. In vocational education, the direct involvement of influential employer groups in training makes this a lower risk than in higher education, but political paralysis is a danger for both sectors. Political caution is also a potential problem. Because moving places between institutions or between fields of study or training packages is difficult without negotiated agreement, in practice coordination in centrally planned systems relies heavily on new places being available. This in turn requires new funding, which in tight budgetary conditions is unlikely to be forthcoming.

The comparative strength of markets is not that they will always lead to outcomes that seem desirable in retrospect. Rather, the strength of markets lies in their mechanisms for continual adjustment in the light of the available information, including information about student preferences normally neglected by central planners. Competition between providers for students and income provides the incentive to react appropriately to market signals, with no need to wait for governments to act. In the long term, systems for both vocational and higher education driven by student demand are likely to better meet labour market needs.

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Introduction

We've entered an era where there's near-universal agreement that unfettered markets lead to unintended—sometimes even disastrous—consequences.

World leaders are racing to restore fiscal health and buck up the catastrophically low confidence levels strangling the world's economies since the global financial crisis. Not one has failed to include firm regulatory frameworks in their designs for getting the economy on a more even keel.

Markets are the backbone of our modern economies. Free movement of capital and ideas have delivered enormous benefits—economic growth, rising standards of living, rapid and significant innovation, new products and services and so on.

But there's been a cost too. Poverty remains entrenched. The divide between wealth and wanting has expanded. Environmental degradation, particularly through climate change, has accelerated dangerously.

Governments have always had an obligation to ensure markets operate fairly and within reasonable boundaries. The policy pendulum may swing from time to time but it doesn't usually swing all that far, despite rhetorical flourishes. Free markets rarely operate with complete abandon, nor do sensible regulatory policies ever seek absolute conformity.

So the construct of market versus central planning divides the debate too sharply, as Andrew Norton acknowledges in his paper. As he suggests, neither one nor the other alone can adequately address education needs; rather, fine-tuning of both may make greater sense.

The Norton paper suggests the major lesson from higher education for vocational education and training is that trying to out-plan student and business preferences is a loser's bet. Central control is just as likely—perhaps even more likely—to get it wrong as right. That's because the planner faces daunting risks: econometric and other analytical methods may not accurately predict skill needs; and political interference may distort available options and investment. The paper argues that it can end up quite ruinous when it goes wrong; for example, with the 1990s decision to cut medical places.

On the other hand, the paper claims that while markets sometimes may deliver sub-optimal outcomes, they are better than planning. There's no guarantee that students' choices will be any better informed than the planners'. But the market will react faster to circumstances and self-correct, given that training providers—especially if subject to greater competition—have a powerful incentive to respond. In the end, therefore, markets will better deliver on the critical test for training systems—matching skill supply and demand.

Response

Markets liberate the power of choice. And when it comes to getting the skills we need for sustainable careers or productive companies, no one doubts the need for flexibility. The economy moves too fast for straightjackets on firms and individuals getting what they need, when they need it.

But education is also the classic example of market failure. Governments invest because, left to themselves, people and companies on the whole do not. Horizons are too short, immediate gain too compelling to see an investment that may not pay off for a decade or two as worthwhile.

Maintaining quality education and training is also a costly exercise. Good teachers, modern facilities and good-quality research need resources. Although the return eventually dwarfs the expense, many people and firms don't have the capacity now to pay full cost.

There's also the central concept of greater good. Education makes better economies and better societies. There can be no genuine embrace of equal opportunity, let alone equitable outcomes, without education.

So governments must invest in education. The market, even with widespread recognition that knowledge and skills are today's infrastructure, still does not invest enough to sustain the knowledge capital that's needed to power a global economy.

Public investment typically targets priority areas, whether skill shortages, qualification levels, economic sectors or geographic locations. The recent Council of Australian Governments (COAG) agreement and the related Productivity Places Program outline specific constraints on the use of funds. Training investment is tipped toward higher-level qualifications (consistent with the overall COAG targets), industry areas with existing skill shortages and individuals without jobs.

Why these priorities? Because skills overall, and higher-level qualifications in particular, boost productivity and raise income levels. It's simply prudent to ensure taxpayer investment supports initiatives with the greatest likelihood of growing the economy and opportunity.

Certainly it's possible that pure market mechanisms—with excellent consumer information and perfect competition amongst training organisations—might similarly fill these gaps ... but unlikely.

Instead, public investment floated on an unregulated training market without priorities could end up displacing private investment (why spend one's own money when the government provides it free?), or risk too much investment in areas with less valuable economic return (for example, lower-level qualifications). In New South Wales, for example, 12% of traineeship funding—which is demand-driven—went to certificate II, where students have only a 30.6% completion rate. Misguided training ends up reducing labour market efficiency—people can't compete for new jobs, employers can't fill vacancies.

Training sector differs from other education

The training sector uniquely combines education and the economy as neither schooling nor higher education does. While the sector offers broad knowledge courses, its bread and butter are the vocational offerings. Employers and students largely turn to TAFE and private providers for specific training needs, not general preparatory education. It's no surprise, then, that in 2007 some 101 000 students came to VET after completing a degree, compared with 46 000 moving in the other direction. These students know that a vocational qualification can powerfully top up knowledge, giving them added juice in an increasingly turbo-charged job market.

But that unique role places stress on getting it right; that is, ensuring a good match between skills and jobs. Schooling provides broad, foundational knowledge. University probes knowledge more deeply and delivers constructs for analysis and critical thinking. Training may embrace these but they are embedded in the 'doing'. Competencies are the coinage of the training realm, with specific skills based on current technology and systems. There's less 'flex' in either the demand for these skills or in the content of these competencies.

So if a student makes a bad choice in training there are more immediate consequences. The IT boom is a case in point. Students flooded the training sector seeking skills as IT jobs went begging and salaries soared. Through both planning and the market, the sector responded. And then the bubble burst. Many students found themselves with greatly devalued credentials. A very specific investment, aimed at a very specific labour market demand, was now wasted.

The close relationship between the economy and learning in VET means there's less time to earn back a bad choice. Indeed, short time horizons are actually designed into the system. Policy and market incentives drive training providers to be 'short and sharp', in one of the more clichéd terms used frequently in training.

This matters even more, considering the relative wealth of VET and university students. The proportion of VET students from low socioeconomic origins is 28%, compared with 15% of undergraduate higher education enrolments. Nearly four in ten VET students rely on government benefits for their principal income, compared with fewer than a quarter of university students. Bad choices have a big impact when your family or personal resources are so stretched.

Employers face less risk, of course, when training is narrow and focused. Specific training often is exactly what they want and they push the training system to become as customised as possible. Employers typically view more general skills, or more future-oriented technological training, as increasing the chance that their investment will be wasted (for example, as employees leave for other jobs) or won't deliver an immediate return (for example, expertise in technology not actually used by the company).

Training and strategic interests

The training sector performs well in meeting narrow labour market demands. Where it fails is in the more strategic areas with fewer early returns but potentially significant long-term gains.

The former head of a TAFE system once characterised it as 'mass customisation', meaning TAFE does extremely well in providing large numbers of people, within a relatively short period of time, with the specific skills they seek. In any given year, for instance, TAFE NSW trains some 500 000 people, awards nearly 90 000 qualifications or statements of attainment, and works with thousands of firms. That's what we reward them for.

Niche and emerging markets, or new technologies on the horizon, but not on every shop floor or computer, struggle to get a foothold in the training sector. Demand for these skills is patchy and may be limited to only a handful of firms, or only one or two occupational components.

A training provider needs a fat research and development budget, a big stake stashed in some savings account or a tolerant governing board to be able to afford the high, upfront cost of developing a new training course and finding the teachers expert in the new areas. These investments potentially won't deliver returns for years. Unlike higher education, the VET sector is not funded for innovation or development, and niche market employers can't really generate significant private demand.

Take green skills, for instance.

Collectively, we spend a minor fortune on econometric advice to help guide public decision-making. But predicting the direction of the economy is enormously difficult (only the rare exception saw the financial crash happening in late 2008).

There's one economic force that's virtually certain, however, and that's climate change. We know it will affect every single economic sector, from agriculture to tourism, to manufacturing, to the built environment. And it will mean both new green jobs in renewable energy and new green skills in traditional occupations.

This has been evident for years, and in fact some three years ago the New South Wales Board of Vocational Education and Training began developing policy guidance, but it's only now that the discussion of green skills has emerged on the national radar screen, let alone become embedded in the training system.

That means innovative firms can't find the skilled workers they need, despite growing domestic and international markets. The risk grows that our intellectual property will go offshore (as happened with solar technology to China, for example) and that we'll have stagnant jobs growth, despite expanding global markets.

This pattern afflicts more than the green sector, of course. Vocational education and training is too often locked out of the emerging, growing parts of the economy, because public policy fails to provide the right incentives and because the training market undervalues the dynamics of emergent innovation. The market signals are too faint for purely market-based responses.

Similar challenges emerge when considering job outcomes. Training system incentives encourage production of skills but they're often not well matched with real job outcomes. There can be excessive churning, as students collect courses and qualifications, but fail to gain a sustainable career. Our policies are almost entirely supply-focused, despite claims of an industry-driven system. Is it any surprise that providers concentrate more on outputs than outcomes?

Overall, then, there's a complex and delicate balance of needs facing the training sector. The issue is not whether markets or planning is the preferred model, but where and how best to deploy markets and what incentives should be built into planning systems. The challenge is to liberate the market benefits of better sensitivity and responsiveness, without sacrificing strategic and longer-term gains.

Alternatives for better outcomes

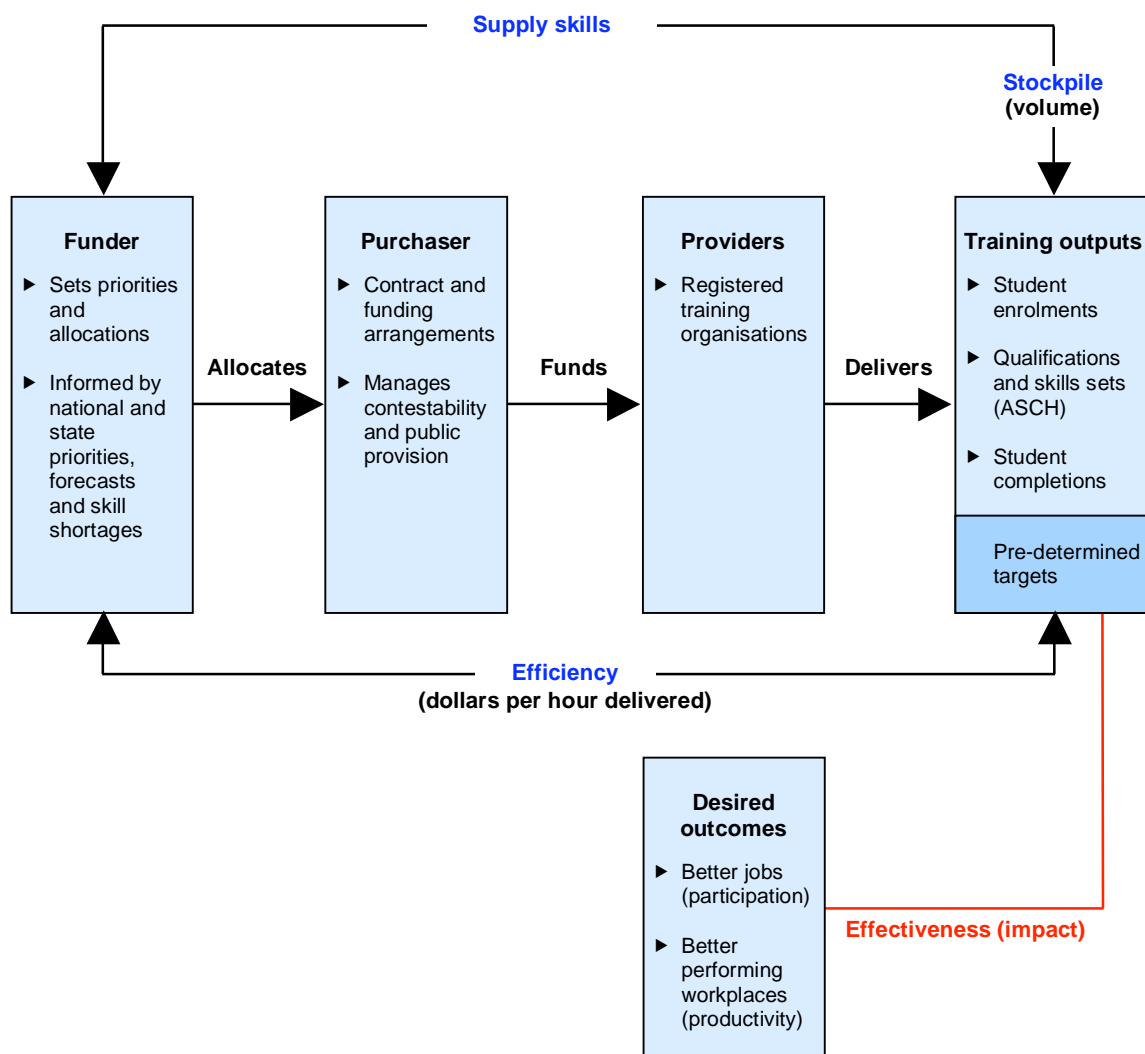
Market versus central planning limits the debate to a fairly narrow slice of the training system. Victoria is the latest model held up as market exemplar. But, while making entitlements clearer and putting more choice in the hands of consumers, Victoria certainly hasn't given up its capacity to direct public investment. It shades more toward market mechanisms, but the eligibility criteria and other requirements resemble many similar conditions across the states and territories.

We're still consumed by inputs and outputs. How much publicly supported training should be directly purchased by government through TAFE and how much should be placed on the market? Is a voucher better at driving competition or will that only serve to further advantage the larger, better resourced providers that can successfully market themselves? Should we pour more funding into skills generally or should we narrow the focus to certain shortages or qualifications? And so on.

Lost in this debate is the recognition that what counts for business is productivity and profitability, while for individuals it's access to better jobs and sustainable earnings.

The traditional approach to funding and purchasing training is a supply-side model. We direct policy, purchasing and programs toward producing more competencies, skills and qualifications without a meaningful focus on results or even the demand side of the equation. Figure 1 displays the core elements of skill purchasing across Australia.

Figure 1 Traditional model of purchasing skills in Australia



Under this supply model, governments select output targets like student enrolments, qualifications and completions. In most cases a ‘funder’—the arm of government that determines or communicates overall priorities—will allocate spending broadly across purchasers, who in turn buy outputs from individual providers. The outputs invariably concentrate on stockpiling the largest volume of skills at the lowest cost.

This model too often can reduce real economic impact to a wish and a prayer. We know that over time and, overall, greater skills will boost economic outcomes. We hope that the specific skills purchased will deliver results. But we don’t have very precise or compelling mechanisms to enhance our chances.

A new funding and purchasing model—applying the concept of ‘whole services’—would achieve better outcomes both for businesses and for individuals.

Whole-services approaches are used in diverse settings. Elements can be found in the latest major reform proposals for health care (see National Health and Hospitals Reform Commission 2008). There’s extensive history in fields with case management, such as youth and family services, mental health, disability and the like.

These whole-services models often end up with better outcomes because they acknowledge that complex and substantial challenges require multiple, not single, responses.

In the training sector, those challenges can range from skills and jobs for the disadvantaged, to the introduction of new technologies and production systems for firms. A host of multi-dimensional scenarios confront employers and students. But it is difficult to find multi-dimensional responses.

The following are some examples of where the training sector is gaining traction in the challenge.

- ✧ The *Redfern Waterloo Project* in Sydney combines training in certificate II and III construction qualifications with mentoring and job brokerage to secure jobs for Indigenous people in the government's revitalisation project for the Redfern Waterloo area.
- ✧ The *South Australia Works* program links training and employment services for people out of work and at risk of dropping out of the labour market entirely.
- ✧ The remote civil construction program run by *Myuma Pty Ltd* in Western Queensland trains and places Indigenous people in work by embedding training in a functioning, self-managed enterprise. The training integrates specific skills with broader life skills, along with workplace learning.
- ✧ Countries such as Ireland, Wales and Scotland have implemented strategies to expand the capacity of employers to adopt packages of work practices associated with innovation. The packages incorporate workforce development, business development and specific skills training.
- ✧ New South Wales's *Skill Ecosystem* projects specifically target combinations of skill supply and demand; for example, dealing with the work practices that cause excessive levels of employee turnover, not just continuing to train people to fill ever-expanding numbers of vacancies. Employers report significant productivity and efficiency gains.

New governance model

There's growing evidence that these broader, more integrated approaches produce the outcomes that policy-makers seek. It's timely, therefore, to consider how we might consolidate these lessons into new governance approaches.

Figure 2 outlines a possible new model that creates a stronger link between funding priorities, the types of interventions and services provided, and the outcomes. Importantly, it strengthens the role of the funder—to set clear priorities and measure outcomes—but leaves providers freer to more creatively package training and services to compete in the market.

Competition therefore becomes focused on quality as much as price. Innovation in delivery becomes eligible for reward not punishment.

New ways to measure effectiveness would be an important component of new governance. It's easy to track enrolments, completions or other supply-side indicators. If we want traction on better outcomes, we'll have to genuinely measure and reward them.

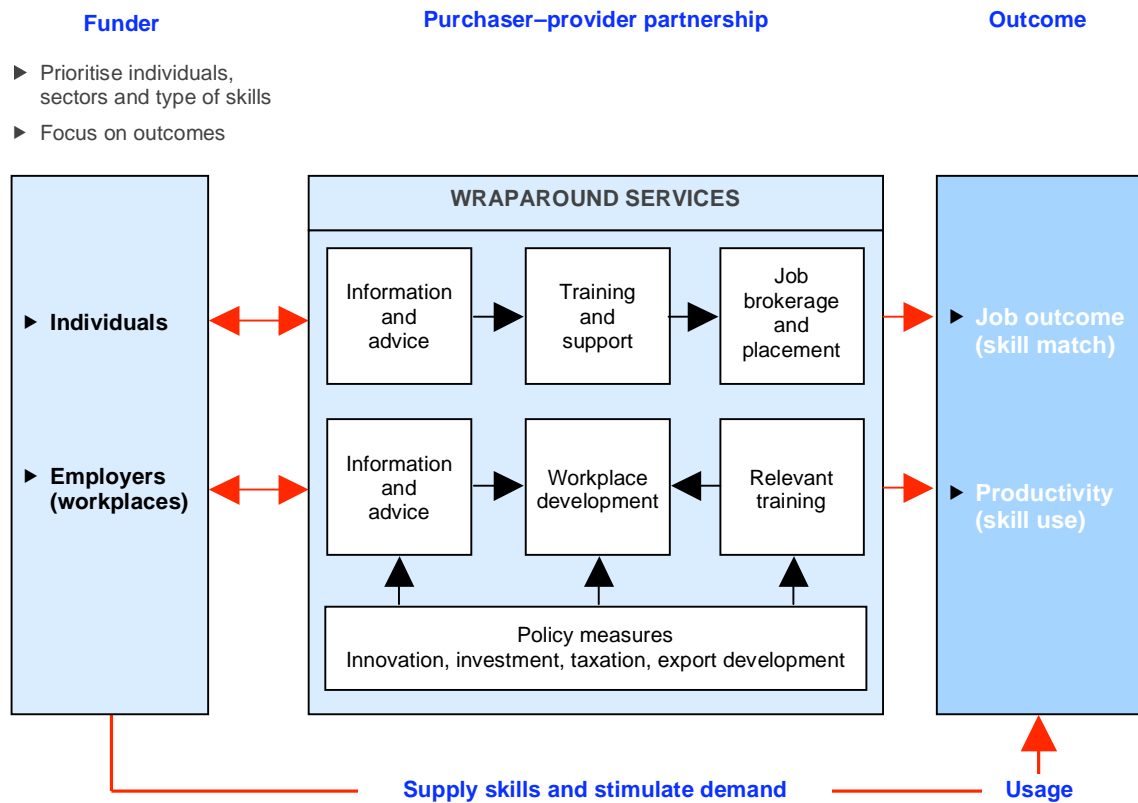
Consider these possibilities:

- ✧ job seekers—gain a job following training or career advancement
- ✧ new entrants—secure an entry-level job, apprenticeship or traineeship
- ✧ existing workers—move to a higher-skill job
- ✧ industry—improved productivity
- ✧ employers—reduced wastage or inefficiency, increased profitability or new market access.

With the supply-side model, we avoid the worst failings of an unregulated system. However, the vision of the VET system doing what it is designed to do—turning skills into industrial productivity and job satisfaction—hovers frustratingly within our reach but out of our grasp.

To adapt a phrase from the green movement, VET works best globally where it acts locally. When providers can forge productive partnerships with employers on the ground and deliver skills that feed directly into real jobs, the pay-off for the government in terms of industry productivity and economic benefit is no longer theoretical. A different approach to governance, one that rewards the outcomes government wants and encourages the local creativity to deliver them, may be the best mechanism for VET to fully realise the benefits it offers to industry, students and the country as a whole.

Figure 2 A possible new model with focus on outcomes



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A market for vocational education and training in the Australian Federation

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Introduction

Markets have been an issue in vocational education policy for some time. It is worth going over just a little history. Not to say ‘I told you so’, but mostly to acknowledge the history of the policy and to see if there are lessons that can be learned from its stalled implementation.

Something resembling a market in vocational education and training services has long operated in Australia. It is just that it has not always been seen that way. In policy terms a ‘system’ that was more than publicly funded TAFE was probably first explicitly recognised in this way around 1990 (although those involved in apprenticeships understood this long before). At this time, Victoria was a few years into reforms that moved from a TAFE system to a more broadly conceived ‘training system’. While the term ‘vocational education and training’ took another year or two to be coined, when it happened, it was an explicit effort to make the point that training was not just about provision by public TAFE providers and that the clients of the system were not only individual students but included business and industry as major interests.

At the national level the 1990 Training Costs Review Committee, chaired by Ivan Deveson,³³ acknowledged and embraced the wider system. Consultants to the review, Pappas, Carter, Evans and Koop (1990),³⁴ looking at the demand side, referred to a much wider market in training than public sector focused policy-makers had thus far considered. They pointed out that workforce training was ‘funded from three sources: government, industry and consumers (individuals)’ and that ‘this market is of similar magnitude to the recent budget of the TAFE system’. The Deveson Review also included a brief discussion of a ‘training market’ and called for ‘clarification of the appropriate role of market processes in the overall training industry’ (Training Costs Review Committee 1990, vol.1, p.11). This analysis was taken further in the early years of the now-defunct Australian National Training Authority (ANTA) in a landmark study by Dr Vince Fitzgerald and others of the Allen Consulting Group (1994). That study, *Successful reform*, set out a picture of a significant volume of training conducted across the economy in both the public and private sectors.

Successful reform provided the policy framework for the most significant round of ANTA-driven national reforms to vocational education and training (VET as it was by then called). These reforms were conceived in market-like terms and included:

- ❖ ‘implementation of reforms [to be] refocussed on the demand side’
- ❖ on the *demand* side, user choice of training provider and program for both employers and their apprentices, and the concept of the government as a funder and a ‘purchaser’, with governance arrangements providing a clear separation between purchase and operation functions
- ❖ on the *supply* side, opening up provision to the private sector by explicitly recognising a wider range of private and industry training providers

- ✧ in order to better define the product and provision of training services, the refreshment of national standards and recognition arrangements, with a strong emphasis on just a few broad standards, with significant flexibility for provider customisation.

Successful reform is one of a few documents that should be compulsory reading for today's education and training reformers. It sets out almost all the key elements for reform needed today. While not directly linked to or required by the then major policy reform push of National Competition Policy, this concept was in the background as a reform objective for the wider economy.

These reforms largely remain in place and, imperfect implementation notwithstanding, are accepted as part of the normal order of things in VET. Important are: consistent and nationally recognised qualifications through the Australian Qualifications Framework (AQF); nationally recognised training through standards for programs (training packages); registration of providers with the promise, although in many cases not the delivery, of national recognition through mutual recognition between jurisdictions; and delivery of (some) public programs through the private sector; 'purchase' of training by state training authorities; and user choice for apprenticeship programs. In all areas reform is still needed, with only a semblance of supply-side choice and demand-side competition existing. The current arrangements fall a long way short of thoughtful market design, but the main elements of a framework for choice and competition are there.

Despite successes—notably early on with standards and national recognition arrangements³⁵—the package of ANTA reforms lost its way under the multiple forces of protective state governments, prescriptive and inflexible over-regulation driven by conservative industry groups and unions, the narrowly ideological Howard Government (which, after the promise of the Kemp period seemed to have simple promotion of private providers, not the development of a system to promote effective choice and competition as its key aim) and the consequent failure of ANTA as a federal institution. States and territories did not embrace the collaborative potential of the ANTA arrangements, preferring to luxuriate in their own mediocrity, and the Commonwealth pulled back, itself preferring to concentrate on its private sector and the 'new' apprenticeships agenda. No one mourned ANTA's passing at the time. Without leadership and with little commitment to federalism from any government, ANTA had passed its use-by date. Now it seems like a wasted opportunity leading to years of no-reform inertia.³⁶

The 2008 Boston Consulting Group report to the Ministerial Council for Vocational and Technical Education (MCVTE)³⁷ sets out the state of play now, along with a framework for practical reform in a federation, based around a national market for vocational education and training, with a strong, nationally focused, cross-border operating network of TAFE providers at its core, and private and industry-based providers. The report advocates governance reform in state and territory VET systems, especially to separate funding or purchase from provision. This report is part of the essential reading for reformers.

In the 2008 negotiations sponsored by the Council of Australian Governments (COAG) the Commonwealth proposed a 'market reform' national partnership payment associated with the overhaul of intergovernmental financial support for vocational education. The market reform proposals restated most of the key elements of reform proposed and partially implemented during the past 18 years or so—nothing was controversial. Although still on the table for debate, this has so far foundered under the weight of opposition (again) from protectionist states and conservative unions, combined with the failure of proponents to convincingly argue the case for reform.

Which brings us to today. But before we get to that, what are the lessons we can take from this history? What can we learn from the mixed progress with reform over the years, especially in the context of federalism?

First, reform often came from initiative and innovation in the states and territories, often Victoria, but not only there. Second, reform that may have emerged in one or two jurisdictions needed

national leadership and collaboration to progress. Third, reform foundered on the failure of collaboration and the loss of national leadership. National leadership absolutely required the Commonwealth Minister but it could not be driven or achieved by the Commonwealth alone. Ongoing reform needed a national, federal agreement and arrangements that reflected this. We do not currently have these things. We have a range of post-ANTA compromises and now a new Commonwealth Minister's body, Skills Australia. Fourth, while organised industry (unions and employers) has at crucial times demanded change and at times helped to shape change, equally, at other crucial times it has been a conservative force.

Shaping and taking part in markets: Role for governments nationally and locally

The development of an effective Australian market in vocational education and training services—the provision of vocational education and training by a variety of providers offering quality choice to a diverse range of individual, company and organisational clients in many settings around the country—will require governments to act carefully to frame and facilitate such a market. The rest of this paper draws from the idea of choice and competition and then concentrates on the implications for governments under federalism of training market reform. Some concluding remarks comment on the Victorian initiative with this type of reform.

Operating under a more market-like set of arrangements will demand that governments act differently from the ways of the past—focusing more on market regulation, clarity of public purpose and consequent public investment. Such a focus will enable private investment (by both individuals and organisations), facilitate information flow for accountability purposes and decision-making, and ensure the presence of a robust provider network.

Some government functions are best carried through nationally, others will lend themselves to more regional and local focus. Clearer roles and responsibilities for Commonwealth and state/territory governments follow.

In summary, market shaping, market regulation and overall information provision are best done nationally, with the Commonwealth taking a strong lead in collaboration with states and territories. Independent national regulation and information institutions should be established for these tasks. They will be institutions of governance, best established by a decision of all governments, but resting on national authority (and preferably based on national legislation). Quality and consumer protection regulation of both providers (public and private) and offerings (accredited courses and training packages, sometimes called products in the jargon) is critical to ensure that choices can be made with clarity and confidence. Mechanisms such as income support and income-contingent loans should be extended by the Commonwealth to the vocational education and training system to assist student participation and investment, as is occurring in partnership with Victoria.

The state and territory focus should be on ensuring the presence of high-quality, diverse, flexible and accessible training provision. States/territories should legislate for and build TAFE.³⁸ Public investment should facilitate and follow client choice and can come from either level of government, preferably both. This way funds flow in the form of an 'entitlement' or public contribution to the client, which is combined with individual investment (through fees that may or may not be supported by an employer) to meet the charge for provision. As the Boston Consulting Group pointed out in its report, dual funding will inevitably require coordination between governments and a clear division of funding responsibility across the VET qualifications spectrum. In my view the downside of this potential complexity is more than outweighed by the upside of having investment and commitment coming from both levels of government. Both government players have 'skin in the game'.

Focus on client choice and customised, responsive provision

The focus should be on letting demand take precedence, expressed by client choice and the requirement for personalised/customised education and training services. Opening the supply side and enabling competition between providers follow as a logical consequence. If the focus is on choice first, not the semantics of markets and competition that backs people into ideological corners, progress can be made. Demand, choice and diversity are hard to oppose, especially if they are backed up by adequate public investment (as they must be in the case of education and training). Nevertheless, it is hard to escape the conclusion that this is a market, or at least a ‘quasi-market’. Market structure and market regulation from other industries or sectors could be instructive as we design the new institutions for the vocational education and training market.

The point of difference in this debate is not and should not be about who supports the public sector and TAFE the most, although that is the caricature that the debate has become. The point of the difference is about attitudes to monopoly and whether we are prepared to trust students to make intelligent decisions on their own behalf. The pro-choice position takes the view that the many clients in vocational training have a multitude of needs and requirements that must be met with flexible and diverse supply. In this arrangement there is no place for a single view of training need or delivery established by a government department, a political party’s election platform or an industry committee (although all of these things are useful and have their place). In this world clients are trusted to signal and act upon their needs and preferences (provided that they are given the tools). Providers (subject to the right regulation) are trusted to work flexibly to meet these needs and preferences.

People and firms require training services to gain the skills and capabilities required in the labour market—both broad skills and those needed to carry out specific tasks. This is the basis for training demand—the requirement for knowledge, skills and capabilities. On the supply side we need to arrange and guarantee provision. Private provision is not always going to be there, giving rise to the need for public sector provision and investment. Demand will be thin in some regions and in many skills areas. Yet for equity and broad public interest reasons a provision response to thin demand is important. And this requires investment.

As with any system of service provision or in any market, there is a need to ensure the integrity and quality of the service provider and the product they are supplying. This is the basis for public sector regulation in the public interest.

A national (maybe international) market in *tertiary* education services

There is a national (indeed international) market for education and training services. It addresses a national (and international) labour market for people with skills. Individuals who carry with them skills and qualifications gained through what we would commonly describe as VET providers and higher education providers move into and compete in the labour market. The important feature is less one of what institution is involved than one of what skill and qualification have been attained. The AQF and the various offerings that enable attainment of a qualification or some other form of recognised knowledge and skill are what are important.

The recent Review of Australian Higher Education, the Bradley Review, has argued the case for a broader sense of tertiary education (Department of Education, Employment and Workplace Relations 2008). The Bradley Review is the final piece on my list of essential reading for reformers.

These factors, together with the need for the regulator to have scale and capability lead to the argument that high-quality regulation of this market should be done nationally. This is currently not the case. Regulation of the system relies upon state and territory legislative power and regulatory authorities. It does not work effectively or efficiently, despite attempts at harmonisation. It is now time to honestly face that failure and embrace a national approach.

Role of government to shape conditions for choice, competition and supply: Key features of arrangements

In this context governments must plan for, ensure investment in, arrange and regulate the provision of, tertiary education and training to clients. The focus is on public interest, the economy and equity. There are strong national interests involved, but also important regional interests. Alongside the Commonwealth, state and territory governments acting on behalf of their citizens also have significant and legitimate interests, given the local and regional dimensions of our economy and communities.

Roles for government fall under two broad headings—facilitating the market and intervening in the market—under which are several tasks.

Facilitate and shape market operations

This can be achieved by:

- ✧ regulation to establish ‘common currency’ of skills through qualifications and standards setting
- ✧ regulation for quality through provider recognition
- ✧ information for accountability and to inform investment (by government, providers and clients) and choice.

Respond to market failures and promote equity

Recognising that this is, in reality, at best a quasi-market requiring intervention, this can be achieved through participation and investment to:

- ✧ ensure, arrange and fund provision
- ✧ ensure equitable provision of training, for example, in regions, for disadvantaged groups
- ✧ ensure provision of education and training for a national skills pool and in areas or disciplines that are judged ‘key’ for national, regional, industry or community development
- ✧ ensure investment in the public interest
- ✧ facilitate mechanisms to enable and encourage investment—funding mechanisms and income-contingent loans
- ✧ facilitate intermediary organisations to assist market participants in their choices and investments.

It is also worth considering where and how an overall system-wide or market ‘planning’ or ‘management’ authority might be established to oversee market conditions, delivery issues and skills needs. Market planning and regulatory bodies from other industry sectors (such as energy, telecommunications and water, where national institutions have been set up by governments) may be instructive here.

To make all this work under federalism (something that is do-able with good will and collaboration), there needs to be a serious allocation of roles and responsibilities.

Sharing tasks in a federation: Focus on national market-shaping and local delivery

It is clear that there is a shared interest here between levels of government. High-quality VET is a national issue but it plays out at a local and regional level. Many of the tasks described above require a level of national collaboration, independence and expertise that means they cannot and

should not be carried out by a traditional single government department. Collaborative functions such as joint funding by sovereign governments require a collaborative forum—in this case, a ministerial council. The investment of public funds needs to be administered and accounted for. This is a traditional and proper function for a government department. Responsible ministers have their departments to do this. Each minister also requires the capacity for policy advice from their department. Public sector provision can be arranged through a department but is best done through independent public institutions with a legislated base. There are various models for organising this, from independent legislated institutions, as is the case with universities, to a single statewide authority, as is the case for TAFE NSW. Any model can work in a market or quasi-market environment, providing there is a clear separation of purchase/funding from operation/provision. Considerable operational autonomy at the institutional level is highly desirable to enable agile responses to local and client needs.

National policy reform and leadership is a shared responsibility too. The agenda for national reform has to embrace federalism in Australia rather than push against it. The Commonwealth Minister and his/her supporting department have a high level of responsibility that springs from operating in a national government. Policy innovation can nevertheless spring from states and territories. Like most areas of public policy, this is not an area where one level of government can get it all right. States and territories have the interests of their citizens to consider.

These reforms will require change to the current institutional arrangements in VET. There is almost universal agreement that the VET policy and regulatory system is overly cluttered. Yet, equally, there seems to be universal inability to do anything sensible to rationalise it. Together these institutions carry out many of the needed national tasks and are filled with good people. There is a crying need to rationalise them and build on their strengths. Table 1 sets out a possible shared approach to VET, given the key roles for governments in shaping and facilitating choice and competition.

Table 1 Possible shared approach to vocational education and training in Australia

Task/function	Level of responsibility	Regulatory framework	Institutional/governance arrangement	Reform to current arrangements
Recognition of providers	National and shared	Australian Quality Training Framework (AQTF)	National tertiary sector regulator (NTSR) established by all governments on independent legislated base either through Commonwealth legislation or referral of powers from states and territories	State regulators wound down with function moved to NTSR. National regulator established with (at least for early period) distinct but linked VET and higher education regulation. Regulator also takes on functions of state higher education regulation and the audit role of AUQA
Consumer protection	State and territory	Consumer protection legislation	State and territory consumer protection arrangements	No change
Regulation of qualifications	National and shared	Australian Qualifications Framework	Australian Qualifications Framework Council (AQFC), part of or linked to NTSR. Council should be independent of governments and providers, and based on expertise	Current AQFC should become part of NTSR. Insofar as it has a role in relation to senior secondary, this could be on delegation from or in collaboration with states and territories
Regulation of standards and course accreditation	National and shared	AQTF	NTSR	Current National Quality Council and associated standards arrangements (industry skills committee advice on training packages etc.) should be part of NTSR. Program development and course accreditation should be highly customised and transition to devolution to self-accrediting providers
Public funding	Shared Commonwealth and state/territory	Public accountability for program expenditure	Relevant government department and possibly training authority. Bilateral Commonwealth/state-territory agreement to coordinate the management of funding. Funding could be pooled or funding streams could be separate. Pooled funding and agreement are preferred	Identify at each level of government the public funding authority and department. Separation of funding and delivery essential
Training provision	Local, regional, state, territory and national	Providers regulated through NTSR	Independent public and private providers	Public providers given full independence at provider level
TAFE institutes	State/territory	Accountable through state and territory legislation	State/territory owned and legislated	Reform to TAFE systems to build strong independent providers
Student income support, including income-contingent loan facility	National and Commonwealth	Commonwealth legislation	Commonwealth departments and agencies	Extended to support students in VET
Private investment facilitation and incentives	Shared, reflecting and linked to arrangements for public funding		Government programs	Review and reform range of incentives, including apprenticeship incentives

Task/function	Level of responsibility	Regulatory framework	Institutional/governance arrangement	Reform to current arrangements
Policy, planning and review	Shared, both national and regional/state to reflect economy, community and funding accountability	National through ministerial council. State and territory through ministers and advisory structures	National policy and strategic directions agreed by all ministers through ministerial council	National forward plan/strategic directions for vocational education and tertiary education—led by Skills Australia and NTSR
Information to inform choice, and data and information for accountability	National and shared	Nationally through ministerial council. State and territory through ministers		National functions taken up by enhanced NCVER, in partnership with or potentially incorporated in NTSR. NCVER could take on broader tertiary sector role

These arrangements could be agreed through a ministerial council, but would best be cemented by the authority of heads of government through COAG. Key elements (such as the establishment of a national quality regulation and registration arrangements) would require a legislative base. The full package of reforms should be agreed by governments and be subject to independent review in (say) three years. In particular the shared elements of the package should be subject to searching analysis. It should be flagged now that an independent assessment of the arrangements will take place and that failure in the federal or shared approach will lead to consolidation of functions with one level of government, most likely the Commonwealth. Funding should be the priority issue for examination here. In principle, shared funding can work. It is certainly in the interests of a state or territory to invest in vocational education and training and it is in the national interest for such investment to take place.

Public investment—its level and its source—is central to enabling VET in Australia to make its contribution. Whether this funding comes from one source, as is now pretty much the case with higher education and as recommended for tertiary-sector VET by the Bradley Review, or from both states and the Commonwealth, is a threshold question. From the point of view of clarity and simplicity, there is little doubt that a single source of government funding makes sense. It would make funding arrangements through an entitlement and accountability of providers much more straightforward. Despite all the difficulties that exist in higher education, at least this aspect is clear. In the case of higher education, it is worth noting that the states and territories have for the most part abandoned investment there. It could be expected that much the same would happen in VET, should a funding shift take place. It is not clear that this is in either regional or national interests.

My choice at this stage would be to retain shared funding despite the difficulties, for the following reasons:

- ✧ *Pragmatism*: the states and territories fund around 57% of VET operating funding and most Commonwealth funding is channelled through them. They are geared operationally to carry out this function and are unlikely to agree to vacate the field.
- ✧ *Legitimate interests*: the states have significant public-interest reasons to invest in the skills and capability of their citizens. It makes good policy sense to invest. This logic follows for higher education too and states and territories should reconsider their minor involvement in funding this sector.

Public investment in VET and the importance of TAFE

Having a system driven by client choice with a diversity of providers to choose from does *not* amount to privatisation or an abandonment of the *public* commitment to education and training. Public investment and the operation of a strong network of TAFE and community providers are critical responses to needs that are unlikely to be met by a market with no government involvement. Moreover, TAFE can grow strong under competition. As one TAFE institute director told the Boston Consulting group: ‘Development of a competitive market is really important; it will make us stronger. It takes us out of our comfort zone to drive efficiency, effectiveness and good practice. It is not just about cost, it is about delivering to the market’ (2007, p.34). TAFE institutes should operate with a high degree of independence and operational freedom, consistent with good public management principles. These are potentially the most important roles for the states and territories in the federation if they are prepared and willing to invest and meet the challenge. Lynn Meek’s essay in this series discusses institutional autonomy in greater detail.

The Victorian entitlement, choice and competition initiative

The Commonwealth and the states/territories have decided not to proceed with market reform through the National Partnership payment at this stage, leaving Victoria the only jurisdiction pursuing a more thorough choice-driven approach, although it suffers in one important respect—that fees remain highly regulated. Over time this is likely to encourage distortions in demand and provision. The higher education arrangements proposed by the Bradley Review also suffer in this respect. The review panel argued persuasively in my view that there is no general case to increase the student payment in higher education, putting the investment pressure back on to government. The longer-term question is whether this will provide a sustainable investment base for institutions. In both cases the explicit challenge is now for governments to properly fund the public side of the entitlement or run the risk that the combination of inadequate public funding combined with constrained co-payments will result in chronic underfunding. In the medium term liberalisation of fee-charging arrangements should be considered. The experience with poorly funded case mix in the hospital system could be illustrative.

While other jurisdictions may pursue elements of reform, it is probably a good thing to focus effort for such major reform in one state. Consistent with the great promise of Australia’s federation—that innovation can spring from different approaches—important lessons will come from the Victorian experiment. Many will be watching closely.

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DISCUSSANT: PAT FORWARD AUSTRALIAN EDUCATION UNION

In his paper Mark Burford claims that market reform has been occurring within Australian VET for almost 18 years and that the drive for early reform came from the need to make vocational education and training about more than merely provision by public TAFE providers; it needed to expand its 'clients' to include business and industry, as well as individual students. He believes a focus on 'choice' is desirable, because 'demand, choice and diversity are hard to oppose, especially if they are backed up by adequate public investment'.

Burford considers what we can learn from the mixed progress with reform about the development of an effective Australian market in vocational education and training services in the context of federalism. What he *doesn't* explain is why he thinks that imposing market-style reform on the sector is a good thing, because he assumes, but does not explain why his particular version of a demand-driven system will result in a better outcome, and why this inevitably leads to entitlements, markets and competition. These are just givens. Nor does he provide any evidence of the success of market reform of the type he is advocating in any education sector in any nation. He doesn't say why he thinks that market design will assist the sector to play a role in the development of decent work. He does say that industry needed to become one of the focuses of TAFE in the early days (implying that it wasn't), but he makes no connection between making industry a 'client' and the creation of decent work, or an effective training system. He also doesn't explain why industry was left out, given that the reforms he approvingly cites were predicated on industry leadership and industry specification of the outcomes of training.

I would argue that the 'market design approach' is generally sloppy in three fundamental ways: its proponents do not always make clear what problems need fixing; scant evidence is provided for the virtues of imposing market design principles on the sector; and it is presented by its proponents as being the only way to achieve such outcomes as choice and effectiveness. This essay is no exception.

In a recent article in *Campus Review*, Robin Ryan, a contributor to the Deveson Report (Training Costs Review Committee 1990), says: 'Enthusiasm for market solutions ran ahead of development of the conceptual infrastructure that is essential for rational policy development and effective implementation' (Ryan 2008).

Not much has changed since that time.

Ryan described how the few paragraphs on market forces in VET found their way into the Deveson Report. They were added late one night after most of the report was finished:

Committee member Barry Hughes commented that the draft contained no comment whatever on market forces and surely we should say something. He sent out for pizzas and, with the secretariat, drafted the essence of what now appears. It was perfectly sensible stuff, but it has zero research content and we never troubled the other committee members for their views. (Ryan 2008)

Ryan cites Damon Anderson's work on markets in VET, in which he set out to discover the role and objectives of market-based policies. Anderson concluded that, while they were touted as a universal solution 'the issues they were resolving were seldom articulated'.

As Ryan also says: 'Ideological fervour still seems a stronger driving impulse than research and testing [in VET policy development].'

This is particularly ironic, given the current rhetoric from the federal government about the need for 'evidence-based policy', which, if it were genuine, would mean public policy informed by

rigorously established objective evidence. I think this a serious flaw both in Burford's article, and in the overall approach of market design proponents.

Many of Burford's proposals relating to ongoing VET reform focus on the respective roles of different levels of government and the principle of student entitlement. Burford says he wants to refocus the debate on 'choice' not 'ideological markets'. Within his proposed student entitlement model, competition is not 'ideological'; rather a 'natural' consequence of providing students with individual entitlement, and then with access to information so that they can choose both their course, and their provider.³⁹

Burford's students are 'clients', the economic citizens of liberalism. He is 'naturalising' an ideologically loaded concept of human behaviour. As Leesa Wheelahan has said: '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 of their persons ...' (Wheelahan 2009a).

Burford misunderstands the motives of people undertaking vocational education. Says Wheelahan again:

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. (Wheelahan 2009b)

Burford's model of student entitlement and choice ignores the fact that systems of abstracted information rely on cultural capital achieved through successful schooling, and deny many working-class and socially disadvantaged students. This problem is not overcome by the development of mechanisms to provide individuals with information about courses available from a plethora of providers; nor is it overcome by freeing up the market to allow providers to compete on quality and costs. This assumes a basis of knowledge and capacity to make meaning from the information provided, which many young working-class students simply do not have.

I just want to turn for a moment to the recently released Productivity Commission *Report on government services, 2009*. The role of the annual review by the Productivity Commission is to collect and publish objective data that will enable ongoing comparisons of the efficiency and effectiveness of Commonwealth and state government services. It is worth looking closely therefore at their conclusions about the efficiency of the VET system, both in terms of accepted measures of expenditure, and in terms of student and employer satisfaction.

The 2009 report shows that:

- ✧ Government real recurrent expenditure per annual hour of government-funded VET programs in 2007 was \$13.03 nationally, a decrease from \$14.23 in 2003.⁴⁰
- ✧ Government real expenditure per load pass hour of government-funded VET programs in 2007 was \$16.90 nationally, a decrease from \$19.52 in 2003.⁴¹
- ✧ Nationally, 88.3% of TAFE graduates surveyed (by NCVER) indicated that they were either in employment and/or pursuing further study after completing a VET course in 2007, compared with 86.7% in 2006.
- ✧ Of those TAFE graduates who continued on to further study, 63.1% pursued their further study within the TAFE system, while 21.2% went on to further study at universities and 15.7% went on to further study at private providers or other registered providers.

- ✧ 61.6% of all TAFE graduates in 2007 indicated they had improved their employment circumstances after completing their course, an increase of 7.7 percentage points from 2003 (53.9%).
- ✧ 85.4% of TAFE graduates surveyed nationally indicated that their course helped (71.3%) or partly helped (14.1%) them achieve their main reason for doing the course—slightly higher than the 77.8% total reported in 2003.
- ✧ 89.0% of TAFE graduates surveyed nationally indicated that they were satisfied with the quality of their completed training. The satisfaction levels across students undertaking training with different objectives were very similar—students seeking employment-related outcomes (88.7%), seeking further study outcomes (88.7%), and seeking personal development outcomes (89.9%).

I highlight the Productivity Commission's findings to make the following points:

- ✧ The VET system is, on accepted measures, an efficient system.
- ✧ It experiences high levels of student and employer satisfaction.

This would appear to be in spite of, not because of, the preoccupation of governments and bureaucrats with imposing continuous market reform on the sector, and claims by people like Burford that the reforms have been 'imperfectly implemented', presumably to legitimise the need for more reform. Even if we say that there is room for improvement in the sector, it is still a long way short of being a basket case, despite the wide acknowledgement that it is, and has long been, an underfunded sector.

A more legitimate approach than the 'market design' approach advocated by Burford and others to the funding and organisation of TAFE and the VET sector would be based on a number of things, including:

- ✧ the principle that studying in the sector should be about people preparing themselves for work and life
- ✧ the right of citizens to access the highest quality and most immediately relevant vocational education that society has to offer
- ✧ the responsibility of governments to resource such training in an effective, efficient and responsive public sector.

It would take into account the great diversity of TAFE students. In a recent article in *Campus Review*, Pam Christie (2009) claims that, of the almost 500 000 enrolments in TAFE NSW in 2007, 29.6% were unemployed, 15% were in part-time employment, 25.5% were in full-time employment, 47.2% were from regional and remote areas, 40.1% had not completed Year 12 at school, and 32.3% were classed as disadvantaged—mainly Commonwealth benefit holders.

It would also be useful to heed what Gavin Moodie, in a recent presentation to the Australian Education Union's annual general meeting (2009), described as the 'democratic deficit' in VET policy as evidenced by the development of the COAG Reform Agenda in VET during 2008. And indeed the entire development of the original National Training Reform Agenda. Moodie lists the more than five public reviews of the university sector which have been conducted by federal governments since the early 1970s and makes the point that no Australian Government has conducted a comprehensive public review of vocational education and training since Kangan. Moodie outlines the benefits of engaging citizens in debate around major policy changes. The debate:

- ✧ builds the legitimacy of government policy
- ✧ improves the quality of policy by exposing ideas to public debate and contribution.

Furthermore, by involving early in the debate those who implement the policy, implementation will be facilitated.

In *Creating markets or decent jobs?* Buchanan and Evesson (2004) pinpoint the frustration many feel when confronted by the ongoing obsession of contemporary VET bureaucrats and policy-makers with imposing further ‘market reforms’ on the VET sector, when they argue for ‘... moving beyond the market fetish that dominates much policy debate in general and training policy in particular. Instead of endeavouring to make markets run better, the chief debate should be about what kinds of jobs we want to nurture in the future.’

Surely the purpose of the VET system is not the creation of a market, but the vocational education of a country’s citizens to enable them to participate in society in a productive and meaningful way.

It is unclear why Burford wants to impose market design as a tool to discipline TAFE. It is simply not sufficient to say markets exist, and therefore we must make them work better. Markets are not neutral, and market design presupposes both a particular view of human beings and a particular approach to organisation, and, specifically, funding distribution. Student entitlements are a market mechanism. It is characteristic of a ‘low trust’ system, which uses the market to discipline providers. In contrast, the systems in Northern Europe are ‘high trust’ systems based on cooperation between the social partners.

All players in the VET system share a view that the objective of TAFE and VET should be the provision of a broad and relevant vocational education experience for students. If they don’t, they should. TAFE is public provision of vocational education and it provides a space where such an experience can occur. It should be subject to the interests of individual students, employers, the community and teachers—as well as governments, as proxy for the society which funds provision. The development of policy for the sector should be the object of constant scrutiny and debate, but it should be public debate between all the players in the system, not secret discussions. When large sums are expended on vocational education, as they should be, then the sector should be accountable, and the work done in it, the object of open review. If this is not sufficiently the case at the moment, then engaging the sector as a whole in addressing any shortcomings is the surest way to ensure that it is.

In only a few short months, the purpose of the sector has been dramatically changed from solving skills shortages in a boom economy to overseeing what some have described as the end of capitalism, a situation which has been caused by subordinating everything to markets. This is an irony which seems lost on proponents of market reform. Nothing should drive home more poignantly the importance of focusing the work of TAFE and VET on the future of work for citizens in a world where the only certainty is the uncertainty of market economies and the threat of ecological disaster.

Terry Moran said in 2002:

I would argue that community attitudes are reflecting a reaction to our enthrallment with the market as the guiding principle behind public policy over the last twenty years. People have been told that markets will make things better. Their experiences tell them that this promise has not always been fulfilled. They query whether the benefits of change driven by markets have accrued to some, not the many, in our society. Some people have been led to the view that the market and the economy are smokescreens, allowing Government to abdicate responsibility to govern for all citizens, to meet the complex range of their needs and preferences and to plan and provide for their common future. Interestingly, the Government’s research into public expectations for Growing Victoria Together found that there was no greater turn off for ordinary people than the word, ‘economy’.

In other words, the decline in confidence does not necessarily express a simple distrust in government, as such, but ordinary people’s concern that Governments have, by handing the wheel to the market, not always been doing the job expected of them. When other data on the ‘crisis in democracy’ are looked at carefully, a similar view of the problem appears (Moran 2002).

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Competition policy and the VET sector

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Introduction

Vocational education and training is an important element of the Australian education system. It plays a critical role in determining the skills required by:

- ✧ Australian employers
- ✧ Australians seeking additional training
- ✧ governments wishing to
 - ◆ increase economic growth
 - ◆ reduce labour-force bottlenecks
 - ◆ overcome regional or demographic labour market problems.

A well-functioning VET system needs to have answered the following questions:

- 1 What courses should be taught?
- 2 How should those courses be taught?
- 3 Where should those courses be taught?
- 4 To whom should those courses be taught?

These questions fit snugly into the framework of standard economic theory, which suggests that the role of economics is predicated on the issues of what to produce, how to produce and for whom to produce.⁴²

It is widely believed among the authors of economics textbooks and, in turn, by policy-makers that, in the absence of government regulation or ‘market failure’, the most efficient way to answer the questions of what, how and for whom to produce is to allow the ‘free market’ to allocate resources.

This paper seeks to explore the question: if markets are so good at allocating resources, are market mechanisms an effective way of allocating resources within the VET sector? In order to do so, the paper considers the main features of the sector and then analyses the suitability of relying on market mechanisms to address these issues within the sector.

Why markets work well

Adam Smith, considered by many to be the father of modern economics, in 1776 stated:

It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest.

Butchers, brewers and bakers are seeking to make a profit, so they have an incentive to deliver high-quality goods at low prices. If they fail to do so, consumers will either substitute the bread of one baker for the bread of another, or substitute more meat for less bread.

It is essential for policy purposes, however, to understand the particular circumstances under which the self-interest of suppliers results in, and the individual preferences of consumers delivers, the most socially desirable outcomes. While it is often asserted that ‘free markets’ deliver the most efficient outcomes, the underlying conditions required for a market to be considered ‘free’ are less widely discussed.

The conditions required to ensure that market exchange will deliver efficient outcomes include:

- ✧ There is a large number of buyers for a product.
- ✧ There is a large number of sellers for a product (that is, no monopolies).
- ✧ Everyone has free and complete access to information about all products (that is, there is no need for any advertising).
- ✧ The production or consumption of a product has no external, or spillover, costs that affect other citizens (for example, no products produce harmful pollution or provide benefits to others).
- ✧ No economies of scale operate (that is, mass production delivers no benefits).
- ✧ Nothing prevails to prevent new competition from emerging (that is, there are no patents, copyrights, trade secrets, or regulatory restrictions that prevent new firms from entering a market).
- ✧ The preferences of each individual are independent of the actions and desires of others.

When all these requirements are met, a market is said to be ‘perfectly competitive’ and Smith’s conclusion that individual self-interest will deliver benefits for consumers will hold. However, unless *all* of the above conditions are met, market failure is said to exist, and economic theory suggests there may be a case for government intervention to improve efficiency and equity.

Why markets don’t always work well

Market failure can take many forms. The most relevant of these for the analysis of the VET market are discussed briefly, followed by a consideration of the nature and extent of their applicability to the objective of providing vocational education and training in Australia.

Externalities

Economists believe that individual firms will make efficient decisions because they have to pay for the costs of production and, therefore, will try as hard as possible to reduce waste. While private companies might not be as determined to fight waste as economists usually assume, the bigger problem occurs when firms use resources in their production process that they do not fully pay for.

Externalities arise because the rights of ownership (what economists call property rights) of some resources are poorly defined. The law is quite clear about who owns cars, who owns land and who owns the food in a shop and it is also quite clear on the ways by which such property can be transferred. However, this is not the case for other resources, including water moving down a river, fish swimming in the ocean or knowledge about how a firm uses its IT system to deal with customer complaints.

The economic solution to externalities is relatively straightforward: if a scarce resource has poorly defined property rights, these should be clarified in law. But the reality of this problem is much

more difficult to resolve, especially when it involves intangible ‘products’ such as the knowledge accumulated by employees while they are working for a company.

Public goods

A public good is both ‘non-rivalrous’ and ‘non-excludable’. The discovery that washing hands before tending a wound or delivering a baby has literally saved millions of lives but, unlike a commuter occupying a seat on a crowded bus, one person’s use of this knowledge does not diminish the capacity for anyone else to use it as well. When one person’s enjoyment of something does not diminish the capacity of others to benefit similarly, the product is labelled ‘non-rivalrous in consumption’.

‘Non-excludable’ refers to the impossibility of preventing someone benefiting from a product, even in the face of concerted efforts to do so. An example of non-excludability is the idea of relying on the internet to distribute course materials to students. Once such an idea is formed, it is virtually impossible to prevent other institutions from replicating the approach.

There are many features of the education system in general, and the VET system in particular, that share the characteristics of a public good. For example, the dissemination of information about the most effective way of teaching a particular course is neither easily excludable nor significantly rivalrous. The production of new textbooks, on the other hand, creates a resource that is both excludable and rivalrous; it is, therefore, much easier to sell a new textbook for a profit than a new teaching method or class exercise.

Research into which teaching practices are the most effective may help students, employers and the economy more generally, but unless these results can be restricted and provided only to those who are willing to pay for them, there is little incentive for a self-interested individual or organisation to conduct such research. The opposite is true, however, for those who develop new software tools, human resources systems and other ‘excludable’ teaching resources.

Natural monopoly

The advantage of multiple suppliers is that competition can force them to be innovative and responsive to customer demand and also to keep their prices low. Sometimes, however, having more than one supplier actually leads to higher rather than lower costs.

Consider, for example, the provision of a railway line between Sydney and Melbourne. If there is only one rail company involved, it will be able to charge excessive prices. But, in order to provide competition, a second company will need to build another railway line thus duplicating the steel, concrete, land and labour at enormous cost.

When it is cheaper to have just one supplier in order to avoid duplicating costs, a market is defined as a ‘natural monopoly’. In such circumstances, it might be necessary to ensure that the monopoly is owned by the government, or it might be possible to separate the business in such a way that just the railway tracks are owned by the government and the use of those tracks is open to competition.

The size of a capital city almost certainly means that there are sufficient ‘customers’ to justify multiple VET providers, but this is not likely to be the case in smaller population centres. Furthermore, although a major advantage of competition is that it provides customers with greater choice, it is possible that in the education sector the existence of multiple small providers might actually reduce choice for students once they have begun their course as ‘switching costs’ are significantly increased.

Imperfect information

In order for markets to allocate resources efficiently, it is essential that individuals have complete and free information about the respective attributes and prices of all the relevant products. Under such circumstances, the purchasing decisions of individuals ensure that firms providing the desired combination of attributes, including quality and price, will remain in business, while firms charging high prices relative to the quality of their product will not.

When it is difficult or expensive to accumulate good information about the relative performance and the relative costs of different products, any attempt to rely on market forces to allocate resources will result in sub-optimal outcomes. Consider, for example, a situation in which a student is trying to decide on a course provider and is faced with the following choices:

- ✧ enrol with the provider with the best reputation according to the opinions of a small number of ex-students
- ✧ enrol with the provider with the best performance in the previous year according to a published league table
- ✧ enrol with the provider who, unknown to the student, has just employed the teacher who was responsible for coordinating the course for the provider with the best performance results from the previous year
- ✧ enrol with the provider who advertises heavily on television and repeatedly claims to have the highest quality teachers and to deliver the best outcomes for students.

Even if it is assumed that the financial cost, travel time and a wide range of other factors are otherwise identical, it is not obvious that students will be able to make well-informed decisions, which are in their or the economy's best interests. Furthermore, if students use price as a proxy for quality (as wine drinkers and a range of other consumers often do), the difficulty in choosing between providers is enhanced significantly.

Independence of tastes and preferences

The assumptions listed above are extensively discussed in the orthodox economics literature, but there is a less well-known assumption, one that is particularly relevant to understanding the economics of the education industry. This is the assumption that, for a market to work efficiently, the tastes and preferences of individuals must be independent of each other.

In a perfectly competitive market, the tastes and preferences of an individual are fixed and independent of the expressed tastes and preferences of others. In such an environment there can be, by definition, no fashion, no trends, no runs on banks and no 'herd' mentality. On hearing that others are abandoning a particular course of study, potential students interested in pursuing the course themselves would reflect only on the likely reduction in price and increase in attention from the teachers. In such a world there would be no students who, uncertain about their own preferred course of study, might take their lead from the popularity of the choices made by others.

When tastes and preferences exhibit interdependence, the capacity of the market to efficiently match the 'preferences' of individuals to the abilities of a range of providers is significantly diminished. For example, if students believe that they need to attend the 'best' provider in order to secure the 'best' jobs and their assessment of 'best' institution is influenced in part by the views of others, then there is likely to be significant 'congestion' at the 'best' provider, while near-identical providers experience excess capacity. In addition to generating an excessively 'lumpy' distribution of students across the range of providers, it is also possible that such interdependent assessments of quality will, as a result of congestion and overcrowding, generate a significant wedge between the perceived and actual quality of the course in question. Alternatively, such an influx may create a positive feedback loop in which the resources that flow with larger student numbers ensure that a

particular provider can create an unassailable advantage over other providers. Neither scenario is possible, however, under the assumptions of a perfectly competitive market.

VET-specific market failures

In addition to the general forms of ‘market failure’ discussed above, there are a number of particular issues associated with the VET market that are potentially problematic for those interested in applying market mechanisms to the VET system. Although the following issues are, in one way or another, simply extensions of the forms of market failure outlined above, they are discussed separately and in some detail to assist in the development of a framework for assessing the suitability of an increased reliance on market forces in the VET system.

Inter-temporal mismatch of agent decision-making

Students are motivated by a wide range of objectives, but the acquisition of skills that will deliver marketable benefits on graduation and beyond are likely to be high on their list of priorities. This gives most VET students a decision-making timeline based on their expectations of the labour market in two to ten years time. Employers, by contrast, are seeking applicants for current vacancies, with some larger employers (or employer organisations) taking a longer-term view of emerging needs, giving them a time horizon of zero to five years. VET providers and their staff, on the other hand, face costs and logistical difficulties if they rapidly restructure their courses in response to the changing expectations of students and employers.

Such a disparity between the time horizons of the different participants in the VET system has the potential to impede the effectiveness of relying on the self-interest of individual students and the profit motive of individual providers to deliver a socially optimal mix of courses. For example, while the VET systems in Australia and United Kingdom share a common heritage, the increased reliance on profit-seeking private providers in the latter in recent decades has resulted in a system which, when compared with its Australian counterpart, delivers much shorter, competency-based courses with students acquiring significantly fewer problem-solving skills (Toner 2008).

Imperfect information, interdependent decision-making and risk

Employer and student expectations can change rapidly; for example, demand for IT courses has shown a high degree of volatility. VET providers must choose between being ahead of the market, with the risk that they invest in the development of courses for which there will be little or no market demand, or behind the market, in which case there will be lags in the creation and delivery of courses demanded by students and employers. In the first case, the costs of poor planning are borne by the VET provider and, in the latter case, by students, employers and the economy more generally. Furthermore, the mere provision of some courses may act as a signal to potential students that there is demand for such skills, a situation which may not in fact be the case.

While it is true that inter-temporal mismatch between customers and providers is common in markets, it is important to distinguish the significance of a period of such mismatch in the VET market from such a situation in other markets. Consider the following example.

Like most producers, car manufacturers must anticipate the likely demand for their products in order to ensure that cars can be manufactured and transported in a timely fashion to where they are most likely to be purchased. Amongst the myriad of decisions that need to be made by a successful car company is what colour the cars should be painted. While past sales data and forward-looking market research will provide a guide, it is always possible for a significant shift in consumer preferences to occur. If, for example, there is a significant increase in the number of customers who want a black car, either the price of black cars will rise or the queue for black cars will lengthen. Until the shortage of black cars is communicated to the factory so that it can change the

colour mix of its output and the new black cars can make it to the showroom, there is little that can be done about the shortage.

When it comes to customer demand for VET courses, the same forces apply in a market environment, and it is important to highlight the significance, both to the students and to the economy as a whole, of such bottlenecks appearing. The problem of bottlenecks is also exacerbated by the sometimes rigid structure of terms and semesters on which education is often based; if bottlenecks cannot be rectified by a particular date, students may have to wait months, or even up to a year, before the course can begin again.

Price and past performance may be a poor proxy for quality

In perfect competition, firms sell homogenous goods and compete on price, whereas in VET, suppliers provide significantly differentiated products. Students and employers tend to rely on proxy measures of quality such as price, reputation and past performance. Further, there is likely to be heavy path dependence because providers with strong reputational benefits will attract higher-quality students, staff and partners. In a competitive market such differences are apt to diminish over time, but in an imperfectly competitive market, such as VET, they are likely to become entrenched instead.

The measurement of quality, and the use of price as a proxy, can be problematic in a wide range of industries. However, attributes of the education sector and the VET system in particular exacerbate these issues. The major problem arises from the fact that, for some, the pursuit of a VET credential is a means to an end rather than an end in itself. Consider the following example.

A student who is keen to gain a credential as quickly as possible enrolls in a course offered by a provider who is keen to maximise profits. The course structure minimises face-to-face teaching time, downplays the significance of general information and focuses instead on the repetition of key tasks. Both the student and the provider may be content with the quality of the training. However, to the extent that employers and society more generally are, at least in part, the beneficiaries of education, the end result may be inadequate and such training may impose costs on employers and the economy in future years. Given that there are external benefits associated with the provision of education, there are circumstances in which neither the provider nor the recipient of VET may be well placed to assess the quality of the service.

Skills and knowledge have increasing returns, are non-rivalrous and non-excludable

While there is no doubt that there are potential private benefits to those students who undertake VET, there is also no doubt that, as with the provision of all education services, there are significant ‘public good’ attributes. This is particularly true if it is assumed that there are increasing returns to education.

‘Increasing returns’ refers to the situation in which the output from a process grows faster than the rate of growth of inputs. In relation to investment in education, increasing returns are likely to exist because the more individuals learn, the easier it becomes for them to learn more—good teaching imparts not just specific knowledge but the general skill of how to learn.

Individual students may prefer to spend less time and less money by learning only the skills necessary to work in a particular field, but all of their future employers and the economy more generally will benefit from their enhancing their capacity to learn more quickly in the future. As with the previous example, it is difficult, if not impossible, for employers or other external parties to determine accurately the ‘quality’ of the education received by a student, when an element of quality is defined to include the enhancement of the capacity of students to accumulate further skills.

Can markets efficiently allocate resources in the VET sector?

The preceding sections have examined the broad circumstances in which markets will efficiently allocate resources, the general conditions in which markets are said to fail and some of the specific circumstances in the VET sector that compound those market failures. This section considers the effectiveness or otherwise of market mechanisms for allocating resources in the VET sector.

All the major forms of market failure discussed above are evident, to a greater or lesser extent, in the Australian VET market, which is associated with externalities, public goods, natural monopoly, imperfect information and interdependent preferences.

That said, some degree of market failure is inevitably found in even the most efficient of markets; for instance, information about the stock exchange is not costless and there are external benefits associated with gym memberships. The issue of concern to policy-makers should not be ‘is there any market failure?’ but ‘how significant are the consequences of any market failure?’

In relation to VET, the most significant market failures are associated with the combination of imperfect information, interdependent preferences, the inter-temporal mismatch between decision-makers and the operation of the price and profit signals.

In a well-functioning market, innovative firms can either command a price premium or deliver similarly priced goods at a lower cost. Such innovations ensure that these firms can earn what economists call an ‘excess profit’. Indeed, it is the pursuit of such profit that is assumed to drive innovation. However, in a competitive market, such excess profits are assumed to be competed away as either new firms enter the market or existing firms copy the innovations. The result of this action is to increase the supply of a product and to lower the cost of production across all firms. However, in the Australian VET system, market forces are unlikely to deliver a similar outcome.

As discussed above, a major problem within the VET system is the difficulty of measuring quality and disseminating the information in a way that will enhance the performance of the system as a whole. Although there is a growing interest in the preparation of ‘league tables’ in the Australian education system, it is important to consider what the response of students, providers and employers to this information will be.

If students aspire, all other things being equal, to attend the institution that is ranked the highest, it is possible that their desire to do so could either reduce the quality of teaching (if profit-seeking providers expand enrolments in line with student demand) or increase the quality of the course (if early success allows firms to lock in an initial advantage).

If profit-seeking providers aspire to be ranked highly in league tables, they will implement a range of strategies that may be counterproductive, both for students and for society more generally. Providers may, for example, seek to poach staff associated with successful courses from other organisations. While such an approach would help to disseminate better teaching methods, it would also reduce the link between past performance in league tables and the quality being pursued by students.

Alternatively, providers seeking to succeed in league table comparisons may engage in strategies which, while beneficial under the design of a particular set of performance criteria, are ultimately detrimental to the learning experience. These strategies are likely to entail a narrowing of the training in order to focus exclusively on the course components covered by examination, with reduced emphasis on genuine problem-solving skills.

Conclusions

The complexity of defining and measuring the quality of an educational service such as VET is likely to significantly constrain the operation of an efficient market in such services. This

conclusion is strengthened when the interrelated motivations of students, providers, employers and governments are taken into account.

Under some circumstances, for example, in the provision of quick, cheap, low-quality courses, the interests of students and providers are in accord, but in other circumstances such outcomes will not be of benefit to employers or to the community more generally. At different times the interests of providers and employers may be in alignment, with the outcome being detrimental to the students and society in the longer term.

The capacity for tacit collusion and the passing of costs on to other parties are forms of market failure in themselves but, when combined with the imperfect information described above, the consequences are significantly increased.

Empirical work comparing the VET systems of countries has found that those with the most robust systems have achieved a stable balance between the competing interests of students, VET and employers (Toner 2008).

It is important to note that, in a market system, such balance, while desirable, is neither inevitable nor likely. Indeed, it is the legal obligation of individual firms solely to pursue the interests of their shareholders. Further, if a for-profit provider were to engage in discussions with other providers or with its customers about achieving such ‘balance’, it would potentially be in breach of the *Trade Practices Act*.

The Australian VET system currently contains elements of market competition, which exist on a foundation of government provision and government regulation. While the nature and extent of the ‘market mechanisms’ at work may alter over time, it is unlikely that any move towards a ‘free market’ in VET would deliver significant long-term benefits to the sector or the economy as a whole. The nature and extent of the market failures in the VET system are too great to create an informed, equitable and stable competition.

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The paper by Richard Denniss provides a strong theoretical framework to examine the current operations of the VET market and the potential consequences of introducing market mechanisms. The following discussion uses the theoretical framework developed in the paper to do that.

Many people will agree with the author's conclusion that a move to a free market would not deliver significant long-term benefits. I also agree that a free market is not entirely the right approach, but I would argue that this does not preclude the possibility of introducing some market mechanisms—accompanied by safeguards to ensure benefits flow.

Australia has one of the best VET systems in the world, yet the current reality of training here suggests the need for reform. In Victoria, for example, over 1.6 million Victorians do not have post-school qualifications; it is estimated Victoria will have a shortfall of 123 000 workers qualified in higher-level skills by 2015; and businesses identify access to skilled workers as their most frequent barrier to success.

These are genuine policy problems that all governments and stakeholders need to address. The introduction of market mechanisms to address these issues should not be discounted as part of the solution.

In examining the VET market in Australia, it is important to identify from the outset that there are multiple VET markets. At the highest level there are two markets:

- ✧ the privately funded market where the full cost of training is borne by the individual learner or a third party such as their employer
- ✧ the publicly funded market, where the cost of training is shared between government and the individual learner, or a third party. Within the publicly funded market there are eight markets, one in each state and territory.

While there are multiple markets, there is a fundamental architecture of the sector which is common to all markets:

- 1 The Australian Qualifications Framework (AQF): this defines all nationally recognised qualifications.
- 2 The Australian Quality Training Framework (AQTF): this is the national set of standards which seeks to assure nationally consistent, high-quality training and assessment in VET.
- 3 Training packages: these are a set of nationally endorsed standards and qualifications that are developed by industry to meet their identified training needs. They state what competencies an individual needs to achieve to gain a qualification; they also allow the registered training organisation to determine the teaching strategies and methods that assist the learner to become competent.
- 4 National recognition: this requires all states and territories to recognise registered training organisations registered by other states and territories; furthermore, all registered training organisations must recognise AQF qualifications and statements of attainment issued by other registered training organisations.

This architecture seeks to ensure a robust system. In addition, it represents the regulatory framework of the VET sector. All VET activity, including activity in the private market, thereby occurs in a regulated market, not a free market.

Consequently, when we consider whether market mechanisms are an appropriate way to allocate resources, the issues should be considered in the context of this regulated market, rather than that of a theoretical free market.

The question is whether the architecture should remain, or whether its elements should be open to market mechanisms. For example, should training packages be replaced with a market for VET qualification?

In looking at these matters, we need to keep in mind that the current architecture counters some of the potential market failures outlined in Denniss's paper.

For example, the VET-specific market failure of 'imperfect information, interdependent decision-making and risk' is based on the idea that, because demand for courses can change rapidly, registered training organisations are faced with a risk if they invest in developing courses and the demand does not occur. This risk is largely alleviated by industry developing training packages.

Denniss identifies a second failure as the 'inter-temporal mismatch of agent decision-making'. The danger here is that an increased reliance on 'profit seeking private providers' may result in registered training organisations delivering much shorter competency-based courses, with students acquiring significantly fewer problem-solving skills. This risk is also largely alleviated by the standards and competencies detailed in training packages.

In this situation there is the additional risk that providers may inappropriately deem a learner competent. This risk can be largely mitigated by the quality assurance provisions within the AQTF, assuming it is operating effectively.

Accepting that the regulatory framework does provide a robust VET system and counter some potential market failures, it would seem that any attempt to implement market mechanisms should focus on elements of the market that are outside this regulatory framework.

This leads to the question of where market mechanisms could usefully be implemented in the resource allocations to VET?

Beyond the regulatory architecture, the privately funded market already has full market mechanisms. Providers set their own prices, decide on the courses they will offer, and the number of places they will offer. The privately funded market remains strong in Australia, suggesting that it operates well.

The publicly funded markets are different. Within these markets the relevant government can, and usually does, determine:

- ✧ the amount of public funding or the number of government-subsidised training places which are available in the market each year
- ✧ the eligibility criteria for learners to access a government-subsidised training place
- ✧ the rate a learner will need to pay to a registered training organisation as their contribution to a government-subsidised training place
- ✧ the courses where government-subsidised training places can be offered
- ✧ which registered training organisation can offer a government-subsidised training place
- ✧ the number of government-subsidised training places a registered training organisation can offer
- ✧ the rate registered training organisations receive for a government-subsidised training place
- ✧ the allocation of government-subsidised training places between industries.

A completely free-market approach would be one where governments had no role at all; they would not fund, regulate or provide training. Such a market would undoubtedly result in most, if not all, of the market failures the author discusses in his paper.

There is, however, room in a publicly funded VET landscape for market mechanisms. This is what already happens in the private VET market, where governments still play a regulatory role.

The Victorian reforms outlined in *Securing jobs for your future* (Victorian Government 2008) illustrate this point further. In addition to the substantial increased government investment, two of the most significant market reforms introduced in Victoria are a training guarantee and student choice. In recognition of the substantial public benefit that flows from most training, the government is no longer limiting the amount of public funding and the number of government-subsidised training places available, and it is allowing the learner to determine which provider they enrol in.

These changes are supported by government regulation to ensure that resources are allocated efficiently within the public VET market. The introduction of a training guarantee is accompanied by eligibility criteria. The criteria are focused on a potential learner's previous educational attainment.

The criteria support the government's objective to increase the skills stock of the Victorian working-age population and to ensure that industry and enterprises can find the workers they need. Resources are allocated efficiently by ensuring that those most in need of training will be able to access training.

Denniss highlights the difficulty in measuring and understanding the quality of VET provision as a significant barrier to introducing market mechanisms. In a free market that would be the case, but when market mechanisms are accompanied by government regulation, the barrier can be minimised.

In the case of the Victorian reforms, the introduction of student choice is designed to open the market to more providers and encourage providers to compete with each other to both actively seek out potential learners and adapt their delivery to the needs of learners.

This choice and increased competition are accompanied by the government setting a benchmark that registered training organisations must reach before they can access government funding. The benchmark goes beyond the quality standards of the AQTF and includes financial viability, requiring registered training organisations to publish all their audit reports, and complying with the VET statistical standard. The benchmark is an impost on providers and creates a clear disincentive for poor-quality providers to enter the publicly funded market.

The rate governments pay a registered training organisation for training provision is also an important factor in ensuring high-quality provision. In a completely free market, the government would be the price-setter and the providers who are motivated by profit and who try to cut corners could set their prices low to attract learners and then offer poor-quality provision. As the price-setter the government recognises the different cost structures of public and private registered training organisations, and, as is the case in the Victorian reforms, this creates a market where all providers can compete and sends a clear signal to the market that training provision needs to be of a high quality. This is then backed by the quality regulatory framework.

These are just some examples of how market mechanisms, accompanied by regulation, could be introduced into the various publicly funded VET markets in Australia.

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Contestability, information asymmetry and quality signals in a competitive training market

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Introduction

This essay addresses two questions:

- ✧ What price and quality ‘signals’ do employers and students need to make informed choices about providers and courses?
- ✧ What problems are posed by information asymmetry and how might these be addressed?

In early 2009 state and Commonwealth governments were discussing policy proposals to open up competition between education and training providers in a fully contestable skills market. This proposal extended existing market conditions in vocational education and training—established in the 1990s—by seeking to open up public funding to competition amongst all VET and higher education providers. Providing guaranteed entitlements for students to take up publicly funded places in higher education and VET was intended to address social justice outcomes and steer provider competition in ways that would increase student participation in VET. This market reform was accompanied by proposals for changes in governance systems that were intended to coordinate education and training by monitoring outcomes against national targets. The Review of Australian Higher Education—the Bradley Review—complemented these proposals for VET reform and suggested a new institutional architecture, which organised post-school education and training into ‘tertiary education’ (AQF level 5 and above) and ‘training’ (focused on AQF level 3 qualifications) (Department of Education, Employment and Workplace Relations 2008).

The purpose of the essay is to open up discussion about competition and contestability in VET. It does not address the advantages and disadvantages of market reform; instead, it draws on a substantial body of social science and VET research to consider the risks of information asymmetry in a skills market and how they might be offset.

The first section of this paper identifies the methodological assumptions that frame this discussion of competition and contestability within VET and the risks that accompany information asymmetry. Defining information asymmetry as a ‘problem’ highlights ‘quality signals’ as a solution. In the next section I consider the nature of quality signals in more detail. I describe quality signals as a means of projecting value propositions, or ‘goods’, into the public domain. These permit communication about what is valued between both market actors and decision-making agencies. The third section documents different approaches to the design of quality signals and quality assurance processes, while the final section considers the implications of a different value base for quality assurance in Australian VET. In acknowledgement of the possible transition of VET to the new categories of tertiary education and training, I make some suggestions for the kinds of quality signals that employers and students need to enable informed choices about providers and courses.

Contestability and risks of information asymmetry

Current reform proposals for Australian VET are for a fully contestable training market. This ‘entitlement-based, demand-driven structure’ is organised by two questions: ‘who should deliver training and how’ (the supply-side question) and ‘who should buy training, and why’ (the demand-side question). This policy solution organises market relations on the assumption that all actors can choose how to use (invest) their resources within buyer–seller relations. It also implies the need for publicly endorsed ‘rules of the game’ to establish incentives and address risk (Cooney 2008).

These reform proposals are informed by a ‘market design’ methodology. This approach simplifies the processes of policy design by focusing on relationships in terms of economic actors. Assumptions about the way buyers and sellers behave provide a way of designing structures that, it is assumed, can realise preferred outcomes, like innovation and inclusion. This perspective sees the centrepiece of the proposed national structure as a market, but also acknowledges the need for ‘institutional rules’ that steer the skills market and its stakeholders in preferred directions and offset risks. Market design pursues a ‘regulated market’ approach, which mobilises market relations as a means of coordinating the resource allocations and regulatory frameworks that govern the market (Seddon 1996).

This market design reveals risks when there is information asymmetry between buyers and sellers. A ‘demand-driven’ structure organises buyers and sellers, who make choices about investing in training products. Investment decisions are based on price and quality signals, which are set against use criteria. Such judgements are uncontroversial when buyers and sellers have a commonsense grasp of ‘value for money’. Quality can be offset against quantity when shopping for food. People’s choice of car is influenced by their sense of quality between BMWs and Holdens.

These judgements are more difficult in VET because quality signals are not well developed. The training market is currently constrained by the specifications of training packages and qualifications, and governments fixing quantity and price through the allocation of training places. It is not easy to judge the quality of training, when all graduating trainees get a qualification that only specifies competence. If you have a certificate III in automotive, you have a certificate III in automotive, irrespective of the ‘quality’ of training.

In the absence of useful quality signals, it is rational for buyers to choose cheaper products. So the price structure for qualifications offered, for example, by private registered training organisations, TAFE NSW or TAFE Victoria, becomes a primary determinant of buyers’ investment choices. The risk is that such ‘information asymmetries’ promote adverse or poor selections (Akerloff 1970). Buyers don’t know which product is a ‘lemon’—a poor-quality product—so they reduce risk by buying low-cost products as a general strategy. This undercuts higher-cost products, regardless of the quality benefits they may offer. Information asymmetry has the potential to generate a downward spiral in price and quality that ultimately destroys the market. Such information asymmetries affect all stakeholders. Providers that admit learners with limited information about their capacity to learn also risk investing their resources in ‘lemons’.

In practice, information asymmetry and adverse selection encourage sellers to develop ‘quality signals’. They may give guarantees. Brands and chains develop, which signal ‘quality’ and allow buyers to retaliate against poor-quality products. Licensing is used to assure buyers of expertise in production of goods and services. Qualifications serve this purpose, as does their association with education and labour market ‘brand names’—accredited providers and firms that build reputations for quality in developing human resources. Learners who carry a qualification into a recruitment process or further education admission process can be confident that their qualification comes from a reputable training provider (Akerloff 1970, pp.500–1).

Yet as market actors respond to information asymmetries, their brands, slogans and marketing devices proliferate. This presents further challenges. Buyers and sellers must discriminate between different quality signals in order to judge which products are of higher quality and whether or not the quality signals can be trusted.

It is the task of government to confront these coordination challenges by establishing institutional rules to coordinate and assure the claims of quality made by market actors. This rule-making institutionalises categories of signals that are widely understood in the public domain and helps to educate users about the signals that indicate ‘quality’ in the skills market. Quality assurance publicly endorses the seller’s claims of quality. It establishes a systematic set of activities that formalises the evidence base for the seller’s quality signals. This public evidence of quality encourages sellers to anchor their quality claims in their actual practice. In the VET sector the assurance to buyers is not an absolute guarantee that the provider’s training will be up to the standard claimed, but it makes this more likely. Having quality signals underpinned and endorsed through a quality assurance process increases the likelihood that buyers will trust sellers’ quality signals and, hence, choose to invest in their products (Sallis 2002; Goodin 1996).

In summary, there are real risks that information asymmetry could drive adverse selection in a fully contestable training market. These risks are particularly significant because Australia is operating in a global skills market. International buyers cannot be expected to have prior knowledge of the differences in quality between Australian providers. Yet experience of poor-quality training products is easily generalised to the Australian brand, irrespective of the diversity of Australia’s education and training providers and their reputations for high-quality provision. This risk justifies the establishment of institutional rules that coordinate the character of quality signals developed by providers and of quality assurance processes that confirm their trustworthiness.

What are quality signals?

Quality signals are value propositions. They represent what is valued, ‘something that is good’, within a community of practice. When a VET provider projects its ‘good’, its value, into the public domain, it provides information about the good practice of that community. This information flow represents the provider’s training products within buyer–seller market relations. It also represents the values that the community stands for in governance relations with other agencies and in decision-making processes.

Quality signals communicate value propositions in a market

Market actors produce quality signals in response to the effects of information asymmetries. They communicate value propositions or ‘goods’ between buyer and seller. Yet the character of the signal and its meaning and value are embedded in communities (Offe 1996). For example, the term ‘degree’ is a quality signal that has meaning globally. The term ‘certificate III’ is meaningful in more limited contexts—in Australia, in VET and particularly in industries and occupational communities that value trade skills. The Australian Qualifications Framework has systematised the nomenclature of qualifications, but the government cannot dictate how different qualifications will be valued across different communities.

Slippery meanings of ‘quality’ make developing quality signals challenging (Kemenade, Pupius & Hardjono 2008). Because meanings of quality are valued differently by communities, the assertion of any one definition tends to prompt cynicism amongst other communities (for example, practitioners commonly read organisational quality signals, like brands and slogans, as empty marketing spin). These differences in meaning and the way quality signals are valued encourage perverse smoke-and-mirror behaviours. On the supply side, practitioners comply with the formalities of quality frameworks but do not use the information to reflect on practice as a basis for

improvement. On the demand side, users distrust claims about quality and fall back on other sources of information, often tied to personal experience, anecdotes and networks. Neither outcome addresses the risks that arise from market choice, where price signals are clearer than quality signals.

These difficulties arise from attempts to legislate top down for quality (Offe 1996). Quality assurance in VET developed alongside critiques of ‘provider capture’, the view (real or imagined) that professionals organise training in self-interested ways rather than in ways that benefit users (Devine 2004). It drew on notions of quality in manufacturing, which stressed control, standardisation and vertical authority relations. Top-level decision-makers were empowered at the expense of ‘shop floor’ workers, undercutting horizontal relations anchored in the authority of expertise in particular jobs. Such managerialism was disputed, driving quality assurance to recognise the usefulness of expertise in problem-solving and the value of continuous improvement. While such quality assurance recognised ‘shop floor’ contributions to high-quality training, it did not formally acknowledge VET practitioners as stakeholders with legitimate interests and a voice in decision-making.

Quality signals are coordinated through publicly agreed and endorsed institutional rules

While buyers and sellers produce quality signals, the signals are guaranteed and steered through institutional frameworks and rules designed by the government (Goodin 1996). The Australian Qualifications Framework, for instance, defines relationships between qualification levels and sectors. This framework establishes institutional rules that frame and coordinate providers’ behaviours and also helps to educate users about the signals that indicate quality in training. The framework therefore provides collective benefits to providers and users and encourages them to work within the parameters it establishes.

These institutional rules develop as a result of top-down and bottom-up processes. They exist as explicit codified specifications (regulations, legislation, frameworks), like the Australian Qualifications Framework, developed through rationalist government processes that build on publicly agreed and endorsed decisions. They also exist as tacit principles (conventions) anchored in the everyday practices, cultures and traditions of communities.

Governments can influence but not control the design and implementation of institutional frameworks and the value propositions they endorse. They can shape rules top down, but never fully control the way those rules are taken up, negotiated and reworked by communities as they enact their own distinctive cultural conventions. Legislating top down for quality signals does not embed the quality signal in buyer and seller community practices. If stakeholders are not involved in decision-making about quality signals, they are unlikely to own and respect the outcome.

In the VET sector, however, the decision-making involved in endorsing value propositions related to VET is increasingly difficult, given the range and diversity of stakeholders, greater global interconnectedness and increased mobility within and across scales (local, national, regional, global). VET practice is an outcome of activities undertaken by training providers, industry users and learners (agencies that exist as individual and collective actors with capacities to act and choose), all of whom operate within different jurisdictions (that is, public and private decision centres). These decision-making agencies exist as organisational nodes—firms, families and other sites of labour—that are networked together through interagency relationships which include market relations, information flows, transactions and gifts.

Reaching agreements in such complex networks depends upon the design of decision-making processes that support ‘governance’. Governance recognises that there is no single sovereign decision-making authority, but different agencies that are decision-making centres with different values and cultures. The cultural diversity of the VET sector means that it operates as a complex

network (Rhodes 1996). The task of government (that is, the locus of public decision-making) is to codify institutional rules that orchestrate these diverse agencies by creating contexts and discussions that enable decision-making. In these social spaces, different communities can voice their views and represent their value propositions in ways that are heard by others. Successful governance includes all stakeholders, steers them towards preferred outcomes and legitimises publicly agreed and endorsed decisions.

This kind of governance structure permits ‘flexible coordination’ within complex networks made up of agencies, relationships and activities—like VET. It is a way of designing and legitimising institutional rules and frameworks in conditions where there is considerable diversity in value propositions. Publicly authorised rules and frameworks, like the AQF, are critical in framing and coordinating activities and interrelationships, such that collective benefits can be realised, for example, projecting Australia as a high-quality brand in the global skills market.

In summary, ‘quality signals’ are cultural artefacts. They are embedded in particular communities and the everyday practices that they value. They communicate value propositions or ‘goods’ in and between communities, in market transactions and in public decision-making processes. The implication is that quality signals are most meaningful when they resonate with the represented community and when participants feel that the quality signal captures their good practice and things they value. The value of quality signals as a trustworthy means of communication is increased when communities own their quality signals; that is, when they are meaningful within those communities and also represent them and what they value accurately to wider publics. In market relations buyers and sellers generate quality signals to communicate value propositions about the goods they trade. In governance relations, stakeholders project the community-based value propositions for which they stand into the public decision-making processes that institutionalise publicly agreed and endorsed rules and frameworks.

Ways of developing quality signals

The use of quality signals in education and training has been under discussion since the 1980s. Over that time definitions of quality and processes for quality assurance have shifted, alongside wider economic and social changes. I illustrate these shifts by examining quality in Australian VET alongside trends in European VET.

Quality in Australian VET

In Australia, VET providers have generated quality signals to inform users in the training market. Governments have established quality assurance frameworks to guarantee those signals. This model of quality assurance has reflected the decision-making structure in Australian VET.

Governance within VET since the 1990s has endorsed industry stakeholders at the expense of education stakeholders. Excluding VET practitioner voice and value propositions in decision-making has meant that quality processes in Australian VET are not inclusive and often not respected by VET practitioners. There is compliance but not commitment.

Quality assurance in Australian VET is organised through AQTF and governed by the National Quality Council. This model values continuous improvement in ‘high-quality, industry developed and nationally recognised training’. Accountability targets the activities of training providers and is focused ‘squarely on training and assessment, client services and management systems’ (Australian Quality Training Framework 2008).

This model of quality assurance does not fully recognise the distinctive contribution that VET practice makes to training and, hence, Australia’s national education and training effort. This is partly because of the governance framework that mutes the voice of VET practice. It is also

because the history and culture of VET has not encouraged practitioners to articulate distinctive value propositions that convey the ‘good’ in VET practice.

Research on Australian VET is now revealing the distinctive character and contribution of VET practice. The capacity and capability of VET is anchored by a particular kind of teaching expertise that has developed in response to the imperatives shaping VET core business (Harris, Clayton & Chappell 2008; Seddon 2008). I call this ‘applied adult education’ expertise, following the terminology coined by pioneer VET practitioners who developed their specific skills as a result of historic public investment in VET and the transition from centralised to market training provision (Sefton, Waterhouse & Deakin 1994).

Applied adult education expertise distinguishes VET practice from teaching and learning in other education sectors in Australia. Its practices of teaching, organisational coordination and stakeholder engagement are oriented in ways that support VET core business. Sefton, Waterhouse and Deakin (1994) describe this distinctive teaching–learning approach as ‘integrated training’ that involves:

- ✧ ‘working in mixed teams, including teachers, trainers and [industry] stakeholders’, to develop ‘sophisticated understandings and strategies’ which support work-related and ‘workplace learning and change processes’
- ✧ teaching that is ‘active, experiential and inquiry or project based, linking theory to practice and promoting holistic’ learner development and competence
- ✧ using partnership work to build learning cultures that ‘model the principles, processes and practices’ which learners are encourage to use in workplaces
- ✧ contextualising programs/projects so they are ‘directly relevant to, and based upon the real world requirements’ of each learner’s ‘particular workplace context and requirements’.

This VET practice mobilises and generalises teaching expertise across a wide range of relationship work—with learners, colleagues, and wider VET stakeholders. It is evident as the work of ‘intermediaries’ who navigate and mediate between communities in sophisticated cross-cultural communications and collaborations. It is particularly significant today in global training markets, where higher skill levels are required to ensure productive outcomes.

VET practice is an underacknowledged resource in Australian education and training. This lack of recognition is a consequence of the institutional rules that were established to govern VET as a training market. These institutional rules marginalised VET practitioners from decision-making, defined the kind of training that government and industry decision-makers considered to be good quality, and used quality assurance as a means of pressing VET practice to conform to decision-makers’ definitions of ‘quality’ in VET. This model of quality assurance institutionalised control and continuous improvement as priorities in Australian VET.

Other approaches to quality assurance

Research studies show that control and continuous improvement models of quality and quality assurance have had little effect on practice in education (Stensaker 2008). Yet there is also growing policy recognition that quality frameworks can be helpful, particularly in complex networks where there is a need for flexible coordination. Quality signals allow the network to acknowledge the diversity of interests amongst autonomous decision-making agencies, while also coordinating their efforts and activities. These understandings are driving the development of approaches to quality and quality assurance that recognise the importance of quality signals in sustaining information flows.

Quality signals can support information flows that serve important public relations functions in market and governance relations in the VET sector. To maximise these informational benefits, quality processes need to be more professionalised, with better procedures. While this professionalisation may be criticised as increasing ‘bureaucracy’, it also encourages debate and dialogue about value propositions between stakeholders. Realising these benefits also requires more

explicit attention to issues of power within the quality design and implementation process. The design of governance and decision processes that define what counts as ‘quality’, who has a voice in the process, and what it encompasses is critical, because quality signals are embedded in communities that project different value propositions (Stensaker 2008).

The challenge is to encourage training providers to develop quality signals that formalise meaningful value propositions at their own provider level and which also contribute to stakeholder dialogue and multi-agency agreements about ‘quality’ and higher-level quality signals. This nesting of quality signals acknowledges that all VET stakeholders have shared interests and mutual obligations in creating coordinated high-quality national VET provision.

The way rules are designed to mobilise quality signals and quality assurance processes institutionalises values within the VET quality framework and its information flows. Early models premised on control and continuous improvement are now being superseded by open access approaches that recognise both ‘commitment’ and ‘breakthrough’ as ‘goods’ (Kemenade, Pupius & Hardjono 2008).

The ‘commitment’ approach values the views and integration of the contributions that different communities make to VET. It differs from control and continuous improvement approaches, which dispute and exclude some voices by arrogantly assuming that the values of one party can be imposed on another. This value has relevance to both buyer–seller and governance relations, because ‘commitment’ endorses agency. It is active decision-making and participation that brings people into ways of working that are focused not just on success here and now, but also beyond the immediate local context and into the future.

The ‘breakthrough’ approach endorses innovation in a world of complex choices and dilemmas. System thinking and intellectual freedom are valued because they encourage synergies that permit knowledge-sharing and generate new ideas and solutions. Such ‘breakthrough’ is more than incremental continuous improvement. It is a rupture that can arrest decline and turn agencies towards future success.

Clarifying the purpose of quality signals and their values helps to define rules governing the quality process. Articulating value propositions that define what is ‘good’ forces decision-makers to explain the:

- ✧ object: what is being assessed—system, provider, program, qualitative change?
- ✧ standard: what measure is best—what should be observed, taken into account?
- ✧ subject: who says what is value for money or quality? How are views of internal and external stakeholders accommodated?

Developments in Europe provide resources for thinking about models of quality and quality assurance that facilitate information flows within market and governance relations. They show that clarifying values can inform the design of quality signals and frameworks to facilitate flexible coordination.

Europe as an example

‘Europe’ is a regional networked entity and now includes around 25 countries. These member states, rather like Australian stakeholders, are each autonomous (sovereign) and have distinct social structures and cultural traditions as a result of their size, location and resources. Within each country there are networks that operate at national and local levels. These are made up of further stakeholders who operate as nodes and within boundary zones. These networks and competitive relations also operate in and between each country at regional, national and local levels. Europe is a complex network operating on many levels.

Flexible coordination in Europe is achieved through the ‘open method of coordination’. This approach institutionalises ‘management by objectives’ and ‘soft pressure’ accountabilities. These institutional rules are intended to harness stakeholder commitments to a shared goal (building a ‘Europe of peace’) and steer all stakeholders towards coordinated actions. Actions are specified as priorities and concrete objectives through multi-agency decision-making. These agreements frame and shape lower-level decision-making and resource mobilisations (Nye 2004; Leonard 2005).

This approach to governance institutionalises a value framework for public decision-making. It explicitly values ‘citizen’ (that is, decision-maker) participation and encourages respect and recognition across cultural differences in order to drive ‘commitment’ and ‘breakthrough’ in the European project. These values are also embedded in priorities and objectives related to education and training. Progress towards these objectives is supported through quality signals and their institutionalisation through quality frameworks. The purpose of these quality signals is to ensure that European values are integral to education and training (Seddon 2007). The quality framework means that the quality signals developed by European stakeholders become a way of branding European VET in the global skills market. The framework also helps to steer coordinated actions that institutionalise the values that define quality in VET (for example, evidence-based decision-making, collaboration alongside competition).

Collaborative cross-national European projects, like *Indicators for quality in VET* (Seyfried 2007), were funded to select and define quality indicators. The aim was to encourage VET stakeholders to articulate value propositions that could be represented through quality signals, develop evidence-based practice and decision-making that supports cross-agency information flows, and integrate quality signals and assurance processes in their everyday activities. When quality indicators are designed through inclusive processes and endorsed through public agreements, they are imbued with a moral authority as institutional rules. This moral authority then frames and influences lower-level stakeholder decision-making and behaviours, including the design and application of quality signals within training providers.

Practice within VET was prioritised in the development of these quality indicators. This recognised that VET learning outcomes are a consequence of everyday teaching and organisational work in VET contexts. These practices are, in turn, an outcome of wider stakeholder decision-making and resource mobilisation by industry, education and government. These resources included government funding at European and member state levels, and also stakeholder resources (expertise, people, time, good will). Practice was documented and was underpinned by a conceptual framework informed by international experience, resulting in a series of cross-national cases, which encouraged dialogue about good practice in VET and how it was understood and enacted in different places.

This sharing of knowledge about VET practice allowed the identification of a small number of quality indicators that had currency across VET contexts but remained meaningful to diverse VET stakeholders. The *European quality indicators in VET* project recommended the use of ten indicators (table 1). These were designed to be used in combination to provide an overview of the VET quality factors required to realise European objectives in VET.

Table 1 A coherent set of quality indicators

Level	
Overarching indicators for quality assurance	
Context/input	Share of VET providers applying QM systems respecting the European reference model by type of approach used (e.g. ISO, EFQM)
Context/input	Investment in training of trainers
Indicators according to quality objectives	
Context	Unemployment according to groups
Context	Prevalence of vulnerable groups
Input/process/output	Participation rate in VET (by type of VET course; compared with prevalence of vulnerable groups)
Output/outcome	Successful completion of training
Outcome	Destination of trainees six months after training: further education, employed (in job-related to training, unemployed etc.)
Outcome	Use of acquired skills at the workplace
Qualitative information	
Context/input	Mechanism to related developments in labour market, to VET systems
Process	Schemes to promote better access (orientation, guidance, support)

Source: Based on Seyfried (2007, p.40).

These indicators build mainly on existing European data collections, although some additional questions are required. Because of limitations in representing complex processes via quantitative information, the project also endorsed some quality indicators that use qualitative data. If practitioners are skilled and are trusted to engage in evidence-based reflective evaluation and reporting, this strategy need not create undue resource demands. For instance, the three-year European-funded CROSSLIFE project (coordinated by the author) was evaluated qualitatively on the basis of short one-page summary statements in response to five specific questions that addressed European quality goals (CROSSLIFE 2008).

This collaborative approach to the design of quality signals and quality assurance builds trust. Stakeholders come to know the values behind the quality process first-hand. Because they understand the purpose of quality processes, they are more likely to implement them in ways that provide evidence to support quality claims. The design of the quality system did not merely target processes within training providers, but also those in allied systems (for example, industry contributions) and policy processes. This recognised mutual responsibilities and accountabilities in realising VET outcomes.

The quality assurance and quality management process encouraged transparency of information through:

- ✧ maintaining open access to information so all stakeholders/citizens can independently evaluate information about others' contributions to quality in the training market
- ✧ building good communication and ways of working across cultural boundaries between agencies and decision-making levels
- ✧ developing the expertise necessary to implement and act on quality signals, quality frameworks and evidence-based practice.

This emphasis on information and transparency between agencies also encouraged commitments to building the skills necessary to use information resources within Europe. Institutionalising these commitments in ways that were transparent to all stakeholders and citizens made public their contributions to the shared European project and increased the likelihood that they would act on the basis of quality-assured signals.

According to Seyfried (2007), the information provided via quality indicators helps relevant actors in VET to:

- ✧ assess the extent to which they meet their predefined object and also communicate results, negotiate effects, discuss influential factors and adopt the consequent decisions
- ✧ achieve commonly shared understandings of good practices that help structure the exchange of experiences and identify strengths and identify weaknesses of VET quality systems at European, national, regional and sectoral levels
- ✧ encourage cooperation on quality in VET by having specific criteria and indicators that support comparison of achievements in quality and permit reflective assessment of the quality of cooperation in VET at European level.

So what is the relevance of all this in a contestable and competitive Australian training market?

Suggestions for a quality framework in Australian VET

The analysis developed in this paper suggests that quality signals are important in a fully contestable and competitive training market. A quality framework in VET should address risks of information asymmetry, ensure providers' quality signals are recognised and support quality improvements in Australian VET. I outline this framework below under six sub-headings: context, purposes, values, object, subject and standards. My suggestions are based on a substantial body VET research.

Context: What kind of contestability and competition is emerging?

The training market and flexible coordination

Australia is already implementing a model of flexible coordination through recent COAG agreements that have some parallels to Europe. The national project is 'skill building'. With the global financial crisis eating into iron and coal export markets, it makes sense to invest in our third largest export earner, education, and perhaps, promote 'Skill-building Australia' as a brand in the global skills market.

The National Skills and Workforce Development Agreement, with complementary agreements in school education, defines the structure of the contestable training market (Council of Australian Governments 2008). The Bradley Review elaborates some details. Convergence in these recent policy developments suggests the landscape for post-school education and training may be:

- ✧ a national market in skills
- ✧ a 'quality-centred' steering mechanism that monitors performance outcomes against specified indicators and is linked to funding
- ✧ new nomenclature designating a division of labour in skill-building, making AQF level 5 and above as 'tertiary education' and up to level 3 as 'training'.

Training market embedded in networked governance

Training markets and complex networks are two sides of the same coin. A market is a reified way of talking about networked communities that must achieve publicly endorsed agreements as a basis for practice. Such governance networks shape the context in which market relations are embedded and sustained.

The character of contestability and competition in the skills market will be framed by institutional rules, agreed and codified by policy-makers, but realised through day-to-day negotiations with VET stakeholder communities and their lived conventions. The history of VET market reform illustrates these push-pull processes.

The quality of this training market and its quality processes will be an outcome of government and VET stakeholder communities working together towards already endorsed goals, outcomes and targets. It will be shaped by negotiation of policy values and stakeholder choices related to the following issues:

- ✧ *Positioning in the market*: in the skill market, how will VET stakeholders position themselves relative to users, other agencies in VET, and universities, schools and community providers?
- ✧ *Participating in decisions about quality*: in the decision processes that will define ‘quality’ in tertiary education and in training, how will VET stakeholders project and negotiate their value propositions?
- ✧ *Practical resource mobilisation*: how will VET stakeholders mobilise resources to do this work and project a distinct value proposition about VET practice? What resources are available through government, and through VET stakeholders’ own resources.

Competition and collaboration

Market coordination operates through interlinked competitive and collaborative practices. Competition can be a zero-sum struggle for resources. This occurs in contexts of scarcity. Yet skill-building targets and learner entitlements suggest that managing abundance and mobilising learner demand may also be challenges.

Competition also prompts collaboration. Given trust, comparison between providers (for example, benchmarking) can spur good practice as a kind of cooperative ‘race for quality’. Acknowledging difference can also encourage collaborative partnerships, in which different providers and their resources are combined into consortia. Evidence of such productive partnering already exists.

Purposes: Why have quality signals?

The purpose of quality frameworks is to harness the resources embedded in VET practice to the benefit of the national skill-building project. This model should:

- ✧ institutionalise values that recognise VET practice and build trust
- ✧ assure provider quality signals through explicit evidence-based processes
- ✧ steer collaborative and competitive activities towards quality improvements in VET as a global–local skill-builder
- ✧ mobilise practitioner expertise and VET learning cultures as distinct and valued resources within national skill-building
- ✧ address stakeholder hopes for better consultation and a more positive culture in VET (Guthrie 2008).

Values: What is valued in the design of quality signals?

Currently the Australian VET quality framework values control and continuous improvement. The optional ‘excellence criteria’ in the framework provide a focus for providers wanting to actively improve the quality of their training. However, its main features—continuous improvement, three quality indicators, a specific focus on registered training organisations but not other stakeholders and policy processes, and limited acknowledgment of VET practitioner contribution—constrain the development of quality in VET.

In the proposed post-school landscape, a preferred model would value the distinctive contribution that VET makes to Australian education and training. The Bradley Review sets the groundwork for this approach by acknowledging the contribution of VET in enhancing educational access (particularly amongst vulnerable groups) and sustaining high levels of user satisfaction. The Bradley report calls for VET to project its distinctive mission and also asks that this distinctive resource embedded in VET practice not be lost in the new post-school landscape.

The challenge is to create institutional rules that support information flows about quality in VET between agencies in market and governance relations by:

- ✧ *Explicitly acknowledging values of 'commitment' and 'breakthrough'*: this endorses open access developments that recognise the contributions and accountabilities of all stakeholders in Australia's skill-building project and encourage training that addresses the complexities of working lives in an era of complex choices and dilemmas. It may also help to mobilise the range of public and private resources necessary to sustain the national skill-building agenda by offering a more diversified range of VET programs and qualifications than currently exists.
- ✧ *Recognising that distinctive VET values are embedded in VET practice*: currently this is an unacknowledged and largely unrecognised resource. It should be articulated as a value proposition and institutionalised through quality signals and frameworks.
- ✧ *Affirming VET practice that supports distinctive VET learning cultures, partnership-working, reflective researching and developing supportive organisations*: this applied adult education expertise is now evident across public and private providers, although its distribution is not well researched.
- ✧ *Supporting professional renewal in VET so that 'applied adult education' expertise is consolidated as a sustainable human resource*: this would make VET capability available as an investment choice and knowledge base for learners, providers, industry, communities and government.

Object: What is observed and represented through quality signals?

VET practice is an outcome of interconnected activities and decision-making by networked agencies. This means that what needs to be monitored is not just training providers, but the processes and agencies that contribute to VET resources and activities. These include industry contributions (in generating jobs), governments (in allocating funds) and community support through families and firms (in encouraging learner participation).

The conceptualisation of indicators should focus attention on:

- ✧ training activities and resource mobilisations that can sustain distinctive VET learning cultures that value 'breakthrough'
- ✧ stakeholder (including VET practitioners) support and participation in decision-making that values 'commitment'
- ✧ capacity-building and organisational capability development that sustain, enhance and generalise applied adult education expertise in VET.

Subject: Who is involved in decision-making about quality signals?

All VET stakeholders are involved in decision-making that makes a difference to VET practice. It means that decisions about the design of quality signals must include VET practitioners, as well as industry, peak training bodies and government. VET practitioners provide a particular perspective on VET and the nature of VET practice. These insights, which include in-person understandings of the challenges that learners face, are largely unavailable to other stakeholders.

The Tertiary Education Accreditation, Quality and Regulatory Agency proposed by the Bradley Review must have VET representation. This body's task is to advocate for higher-level training that mobilises VET learning cultures to support industry-relevant training; its role is also to create trainer learning pathways that develop, credential and quality-assure programs and qualifications in applied adult education expertise. The National Quality Council should also include VET practitioners. The National Quality Council would then be in a position to advocate for the distinctive VET approach to work-related learning and applied adult education, alongside specific industry requirements in skill development. Such advocacy would represent the value of applied adult education expertise in training and its benefits for all VET stakeholders.

The categories of quality signals endorsed by these quality agencies must be meaningful across all stakeholder communities. Familiar quality signals that have everyday currency include:

- ✧ *Provider classifications*: ‘university’ is defined by research-informed teaching. What term captures high-quality industry training?
- ✧ *Learning culture classifications*: how might school, university, VET higher education, training and community learning cultures be distinguished?
- ✧ *Qualifications*: VET qualifications based on industry standards make sense for industry and learners who seek work-specific skills. They are less appropriate for learners seeking more generalised work-related and applied adult education. Freeing qualifications up from the strictures of training packages and building VET practitioner skills would ensure appropriate contextualisation of courses and qualifications.
- ✧ *Teaching qualifications*: currently teaching qualifications are either VET competency-based (certificate IV, diploma) or university curriculum-based (mostly school focused BEd, MEd, graduate-entry DipEd). Few qualifications recognise expertise in applied adult education, nor its relevance to lifelong learning across diverse settings and roles.
- ✧ *Qualification/ career pathways*: pathways give strong messages about the value of expertise in jobs that can be attractive to recruits. A qualification pathway (certificate IV, diploma, bachelor) in applied adult education is an important addition that may help to assure quality in VET and assist in VET recruitment.
- ✧ *Star ratings*: as indicated on white goods or via ISO ticks, these may be helpful quality signals for some consumers, but they give culturally specific messages about the product. They may be more meaningful in some communities than others. Once established, the familiar signals noted above may be more helpful to learners and industries—other than manufacturing.

Standards: What are appropriate ways of measuring quality signals?

The methodology underpinning the quality framework should be focused on good practice in VET, be agreed by VET stakeholders, and steer quality improvements that enable VET to work towards national targets. The European indicators of quality in VET (Seyfried 2007) could be a useful starting point for discussion. These are of three types:

- ✧ *Overarching indicators*: these support and encourage the development of quality signals in VET. The two proposed are: ‘Share of VET providers applying effective internal QA systems’; and ‘Investment in trainers and teachers in VET’.
- ✧ *Context indicators*: these support progress towards policy goals, recognise agencies’ (including policy) interconnected efforts and responsibilities, and establish baseline data.
- ✧ *Specific indicators*: these address:
 - ◆ inputs: focusing on resource mobilisations under the control of VET actors and policy-makers and have a direct effect on activities and processes in VET.
 - ◆ processes: difficult to monitor, but focusing on learning cultures and innovative teaching best monitored through qualitative and narrative research.
 - ◆ outputs: the direct result of VET activities influenced by the way inputs and processes are organised.
 - ◆ outcomes: focusing on results that are only partly and indirectly consequences of the VET system and also results of other allied systems and structures.

A distinct mission for VET

Contestability and competition in a context of information asymmetry present risks for public and private VET providers, but also opportunities. These dilemmas can be addressed if stakeholders

recognise that quality signals, with appropriate quality assurance, support information flows about what is 'good' in VET and enable flexible coordination of the national network of VET agencies.

Research suggests that VET could project a specific value proposition to users in the national skills market. VET capacities and capabilities in applied adult education practice, which underpin the distinctive character of VET practice, are significant but unacknowledged resources. The feasibility of projecting this value proposition into the training market will depend on agreements between VET stakeholders, along with professional renewal that consolidates and sustains applied adult education expertise in VET.

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In this paper, Terri Seddon of Monash University examines characteristics and quality options of an emerging market-oriented system for training in Australia, a system set to become increasingly competitive, as public and private providers are ushered into the same 'contested' professional sphere to vie for students and bid for associated funding.

Factors identified in the paper impinging on skills demand and the supply of training will preempt national policy changes, potentially reshape Commonwealth and state government relations and necessarily redefine procedural mechanisms to govern more flexible delivery arrangements of vocational education and training at the local level.

These factors involve the introduction of stimulus measures to increase the contestability of public funding and broaden domestic student entitlements. Such demand-led measures challenge institutional traditions (especially for TAFE) and disrupt the operational status quo with respect to government purchasing of targeted training. They will open further avenues for appropriately registered universities and higher education providers to access VET funding and also fundamentally alter the commercial premise that underpins previously non-government-funded full-fee VET delivery in the private for-profit and not-for-profit sectors, which already contribute very significant independent investment into the Australian training effort.

Seddon makes the point that, while policy-makers may exert influence, they cannot control the 'meaningfulness' of market communication between training providers, buyers and competitors about what constitutes value propositions operating within complex VET transactions, practices, networks, decision centres and organisational nodes, concluding that: 'Legislating top down for quality signals is meaningless because they are not embedded in community practices.'

This assertion raises very substantial questions about the intended and actual market relevance of the Australian Quality Training Framework (AQTF) Quality Indicators developed by the Australian Council for Educational Research (ACER) and endorsed by the National Quality Council in December 2008.

Irrespective of the source of VET funding or the market design priorities of an emerging competitive training market, the AQTF Quality Indicators do not focus on the quality or relevance of specific training products or differentiate between the relative merits of delivery strategies used by VET providers. Rather the AQTF Quality Indicators invoke blunt top-down instruments that demand systemic conformity with non-discipline-specific, externally developed documentation for verifying generalised provider compliance with legislative requirements. As such, the AQTF Quality Indicators would seem to have usurped, if not subverted, the market role of 'quality signals' as described by Seddon.

Commencing 1 July 2009, the AQTF Quality Indicators impose additional mandatory annual data-collection requirements on registered training organisations, enforcing use of entirely generic survey instruments for learner and employer feedback. Obligatory online reporting direct to regulators of specified organisational data then becomes mandatory from 1 July 2010. The information generated is to be used selectively by the regulators to determine the risk classification of training institutions for AQTF auditing purposes, with as-yet-unspecified and potentially punitive implications for provider registration.

In its current format, therefore, information derived from the AQTF Quality Indicators cannot shed light on the qualitative values of 'commitment' and 'breakthrough' innovation of any particular registered training organisation because the analysis of survey responses and other mandatory reporting of predetermined data sets are entirely mediated for and by the regulators.

As such, the AQTF Quality Indicators would seem to redefine the purpose and occupy the position of the 'quality signals', while failing to deliver any 'meaningful and trustworthy' source of internal or external information relevant to VET stakeholders attempting to operate competitively within increasingly unpredictable training markets. Information derived from the AQTF Quality Indicators may round out the government statistics on the overall size and scope of activity in a national VET marketplace, but this will contribute nothing of substance to inform a 'commonsense' community understanding of what might constitute competitive 'value for money', let alone educational quality in a contested training market at the local level.

The paper contains some very welcome, long overdue and eminently logical suggestions for qualitative revision of quality assurance principles and practices in VET. Especially interesting is the proposed (re)valuing of the distinctive mission and respect for practitioner knowledge and experience in VET and the call for 'professional renewal that consolidates and sustains applied adult education'.

However, Seddon's paper unfortunately stops short of addressing the interface between the hypothetical vision for a new quality assurance regime in a contestable training market and the pragmatic means of transitioning from the current AQTF (2007) system of VET quality assurance.

Such policy disjuncture between theory and practice is highly problematic for independent registered training organisations, whose very right to exist as institutions with approval to compete (or not) in training delivery on designated courses is enshrined in their AQTF scope of registration. Both institutional registration of registered training organisations and the scope of approved VET qualifications are predicated upon full compliance with existing AQTF quality assurance requirements, which take no account of market considerations.

In terms of institutional competitiveness, lessons learned from past training reform in Australia since 1990 confirm that, for private providers especially, the devil is always in the detail and in the timing of any proposal for change. Often lengthy delays in transitioning from rhetoric to reality constitute genuine business risks and inevitable cost burdens. Opportunities are lost, client relations are disrupted, academic delivery and progression become increasingly difficult to manage, market position is compromised and trade is potentially restricted, due to the bureaucratic time it takes to turn vision into action. In the process of drafting enabling legislation and promulgating the operational regulations and procedures required to implement even minor national policy revisions in each jurisdiction, negotiations between Commonwealth and state government authorities trade policy intent off against the consequences; for example, adverse business consequences can then arise for providers. The resulting confusion and lack of certainty in VET is destabilising, threatening stakeholder viability and presenting bitter-sweet challenges along with opportunities.

For the Commonwealth Government to achieve major reform in the short-to-medium term, fulfil its market design goals in VET, and act upon the recommendations of the Bradley Review noted in this paper will require a fundamental re-engineering of AQTF. Therefore, serious proposals for policy change, such as those outlined by Seddon, are contingent upon the contribution of workable strategies for quickly uncoupling quality assurance from the interlocking network of systemic constraints under AQTF. This work is vital to facilitating prompt implementation of a more cooperative, flexible and responsive model of quality assurance in post-secondary education and training in Australia, one which encourages equitable provider participation and ensures fair competition in a 'managed' training market.

If pragmatic solutions for transitioning from AQTF to some other quality assurance regime are not readily available, then the initiative to instigate a competitive training market under national administration in Australia is prone to delay, 'white-anting', and significant compromise at a bureaucratic level, which will be likely to further undermine stakeholder confidence in the training sector.

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Improving information flows for users of post-secondary education

NICHOLAS GRUEN⁴³
LATERAL ECONOMICS

The normal market mechanism for dealing with asymmetric information is reputation. When we place a deposit with a bank, or visit a doctor, we rely on the reputation of the bank and the doctor to assure the security of our deposit and the wisdom of the advice. No regulation can ensure that banks will not go broke or that doctors will make correct diagnoses, and regulation directed to information disclosure – rules that compel banks to display their balance sheets, or require doctors to explain fully risks and prognoses – does not work well either.

(Kay 2003, p.370)

Сегодня мы работаем на репутацию. Завтра репутация будет работать на нас

[Today we work for our reputation. Tomorrow our reputation will work for us.]

Russian saying (Picci 2007b, p.1)

Introduction

In the last generation we have moved towards greater reliance on competition and private provision. Nevertheless, some naïve enthusiasms notwithstanding, a central tenet of economic orthodoxy going back to Adam Smith himself is that markets comprise an ecology of private and public goods. We ignore that proposition at our peril, as indicated by the various more and less botched liberalisations of former communist countries in the 1990s.

Thomas Friedman makes a similar point in his racy op-ed journalese:

[C]ome to Africa – it's a freshmen Republican's paradise. Yes sir, nobody in Liberia pays taxes. There's no gun control in Angola. There's no welfare as we know it in Burundi, and no big government to interfere in the market in Rwanda. But a lot of their people sure wish there were.

(Friedman 1999, p.435)

Public goods such as property rights and their enforcement are necessary even where trade occurs, as it does in local vegetable markets, in pure private goods. Much of microeconomics is devoted to analysis of circumstances in which traded private goods nevertheless take on certain qualities of public goods by virtue of various technical characteristics such as scale economies or externalities. Where these issues are too prominent to ignore, a case for public provision arises—at least in the textbook. In fact we have moved away from public provision and yet have sought to address the concerns of the textbook with hybrid public–private institutions. Thus, although we have corporatised and privatised many utilities and so moved away from public provision, where there are strong natural monopoly characteristics for nationally significant infrastructure, Australia's

competition policy regime encourages private investment, but nevertheless subjects it to various public disciplines on access to potential competitors.

The two technical characteristics of a public good are non-rivalrousness in consumption and non-excludability.⁴⁴ As information economists like Arrow, Akerlof and Stiglitz have pointed out, information has powerful public good characteristics. Increasingly in the age of the internet, information and media ‘content’ have these characteristics to a substantial extent. Thus the cost of an additional person downloading an ABC podcast or this year’s Budget Papers is next to nothing. At the same time, as recording companies and other publishers of content are discovering, it is increasingly difficult to allow access to one, without allowing access to others.

Further, discrete items of information *themselves* comprise both private and collective aspects. Thus, for instance, although this essay is one of many addressing the theme in this volume and in this sense is a private, potentially competitive contribution, it is written in the English language using Roman script. It would be unintelligible without these standards, which are of course pretty close to pure public goods.

If this helps us to understand why competitive markets can produce unsatisfactory results in the generation and dissemination of information, we need a dose of Hayek to remind us of the pitfalls of too crude a reliance on public provision. Hayek’s focus was not so much on the technical characteristics of discrete items of information, but on the fact that so much important information is decentralised throughout the economy.

This reasoning leads us to a presumption on which this paper is predicated. Even more than the market for those goods and services with ‘imperfections’, which require some collective involvement in their production and/or sale, the market for information requires a felicitous hybrid of private and public institutions to achieve the best possible outcomes.

The structure of the paper

A presumption of the move to liberalise the vocational education and training sector is that consumer choice—in the first instance, student choice—is relatively well informed. For that reason, we focus on a single crucial means of informing them about the quality of the training on offer in VET institutions. This is information about evaluations which previous students of these institutions have made of the quality of their VET experience and the employment outcomes to which it has led them.

While I regard the information from student evaluations as sufficiently important for its proper design and dissemination to substantially improve VET outcomes, obviously there are many other things that students, employers, and VET administrators and teachers should be interested in, and there are many other issues that will influence the quality of VET. But for the sake of clarity and brevity, because it makes a compelling case study, because the internet has opened up fabulous new opportunities for us, and because many of the principles adopted in the case study can be generalised to other areas, this study is thus constrained.

We examine the VET Student Outcomes Survey (SOS) and the dissemination of its results.⁴⁵ This is compared with a very different (competitive) model of providing the public good of information about student evaluations through private sector internet review sites such as <ratemyprofessors.com>. We then examine the British universities’ National Student Survey (NSS) and the website on which its results are published <unistats.com>. This is a huge improvement on our own approach with the SOS. Still, the British approach could be substantially improved.

In elaborating such improvements I propose a new approach to generating and distributing information on student experience and employment outcomes. Fully embracing the potential of the ‘collaborative web’ or ‘Web 2.0’ and harnessing both collective and individual contributions would

improve things further again. While the example being used is from VET, the hybrid arrangements being proposed would have relevance more widely within post-secondary education, and, with some modifications, more broadly still.

The value of student evaluation of tertiary education

A considerable research literature—most of it admittedly focused on university education rather than VET—suggests that student evaluations are extremely valuable in determining the quality of courses and teaching.⁴⁶ Given this, it is not surprising that, as a recent Organisation for Economic Cooperation and Development (OECD) report argues: ‘a strong quality culture may ... develop as a result of public intervention; for example, through the creation of internal quality assurance systems by TEIs [tertiary education institutions] or in response to appropriate incentives such as publishing student evaluations of their learning experience’ (Santiago et al. 2008, p.21).

Of course, like any system for evaluating the quality of educational services, student evaluations are far from the last word. Becker (2000, pp.113–15) lists six objections to using student evaluations as the sole means of evaluating university teachers. An important problem is that, as Nathan Bowling reports (2008, pp.461–2), student ratings of university professors’ teaching performance are highly contaminated by course easiness. Indeed, Bowling’s results suggested that approximately one-third of the variance in quality ratings is explained by course easiness. On the other hand, forewarned is (often) forearmed. Thus, it will often be possible to make reasonable statistical corrections for known sources of bias, such as course ease or class size⁴⁷ (Gillmore & Greenwald 1999), or students’ improved opinions of courses or teachers who evaluate them positively (Cruse 1987).

The VET Student Outcomes Survey

Australia’s VET system expends considerable resources obtaining information from students on their satisfaction with their VET experience and their post-course employment status. In addition to numerous internal student surveys conducted at TAFE institutes, a national VET Student Outcomes Survey is conducted annually.⁴⁸ The survey is not disaggregated to the level of individual courses or teachers.⁴⁹ The lack of disaggregation in reporting may be for valid statistical reasons, but information disaggregated down to the individual institution, if not courses and teachers, is surely highly valuable for purposes of governance of individual institutions or to help students find courses best suited to them.

The greatest shortcoming of the survey is that the public release of details disaggregated to individual VET institutions is suppressed.⁵⁰

Given the power of student evaluation to help fill out our picture of how VET courses, institutions and teachers are performing, and the low cost of doing so, the case for publishing more disaggregated results is powerful. Further, by rebuilding the system using the internet as a platform, we ought to be able to dramatically improve the current system.⁵¹ And of course we could and should make it widely available to the general public, with disclosure being curtailed only for well-justified reasons, such as (legitimate) confidentiality or privacy. We now consider two other models of information provision, one profit-based, the other a modernised version of the Student Outcomes Survey, before using those examples to suggest our own improvements to Australian practice.

Ratemyprofessors.com

Ratemyprofessors.com and similar sites offer a quite different model for generating and accessing student evaluations, funding themselves very largely from online advertisements and inviting students to rate their professors, the results of which results are then aggregated and reported on the site.⁵² To maximise engagement and comprehensibility, the scale against which professors are measured is very simple (a rating of 1 to 5) on five different dimensions: easiness, helpfulness,

clarity, overall quality, and rater interest. A sign of the site's commercial orientation and its need to engage users is the facility given to users to click on a chilli pepper icon to score a professor as 'hot', with 'hotness' ratings also being reported, but not influencing other ratings on the quality of teaching.⁵³

Ratemyprofessors.com provides valuable information. In one study the site's rankings provided a 0.68 correlation with student evaluations conducted by the school, with substantially higher correlations for those professors ranking highly. But with some other parameters scoring lower correlations, for instance, correlation of measures of easiness was 0.44, ratemyprofessors.com ratings should be treated with caution (Coldarchi & Kornfield 2007, p.7). It is not difficult to see why. Indeed, as in the case of Wikipedia, it's hard not to be surprised that it works at all.

There are the usual 'free riding' incentives, for example, students can access the information on others' evaluations without contributing themselves. Yet the site currently boasts 6.8 million student-generated ratings of over one million professors.⁵⁴ Self-selection is likely to bias both the types of people who post ratings on ratemyprofessors.com and skew their motivations. More enthusiastic students may self-select, as do some who are motivated to manipulate their professors (see Kindred & Mohammed 2005 for lurid examples). Indeed, because anonymous posting is so easy, some of the feedback will not be from students at all, but from those seeking to make mischief or even professors seeking to favourably influence their own ratings.

Ratemyprofessors.com tackles these problems as best it can.⁵⁵ But it is severely handicapped by its lack of power to compel, or verify the identity of students posting ratings. Some engagement from governments and/or the schools it rates would be likely to make a great deal of difference, a subject to which we turn after we examine one of the more thoroughgoing attempts to generate and disseminate student evaluations.

Unistats.com

In January 2003 the United Kingdom Government white paper on higher education announced '[b]etter information for students including a new annual student survey and publication of summaries of external examiners' reports to help student choice drive up quality' (Department for Innovation, Universities and Skills 2003). The result was the website unistats.com, which provides comprehensive reporting of a census of final-year students—the National Student Survey (NSS).⁵⁶ Using a methodology not dissimilar to the Australian VET Student Outcomes Survey, the National Student Survey generates data on student satisfaction with subject areas rather than specific courses.⁵⁷

Unistats allows users to obtain information at relatively fine levels of detail, for example, the user can see the breakdown of the answers from 1 (strongly disagree) to 5 (strongly agree) for each question. This will reveal differing levels of polarisation in opinion, even where averages are the same. The user can also see the scores achieved in response to specific questions. Thus, in one random search I did, the overall level of satisfaction between three pharmacy courses was similar. Yet substantial differences were evident on specific questions, like whether feedback was prompt.

Disaggregating measures of satisfaction: Randomly chosen pharmacy schools	Agree (%)	Completion rate
<i>Overall, I am satisfied with the quality of the course</i>		
University of Aberdeen: Medical science and pharmacy	93	42 of 54
Aberystwyth University: Agriculture and related subjects	94	52 of 74
Aston University: Pharmacology, toxicology and pharmacy	89	99 of 117
<i>Feedback on my work has been prompt</i>		
University of Aberdeen: Medical science and pharmacy	49	42 of 54
Aberystwyth University: Agriculture and related subjects	71	52 of 74
Aston University: Pharmacology, toxicology and pharmacy	60	99 of 117

Source: Results from a search on unistats.com

Receiving 4800 visits and 82 000 page impressions a day in 2007, the site is clearly proving of interest to users, many of whom are prospective students.⁵⁸ It is also evident that the survey means a lot to university administrators and teachers and they live in hope of improving their position on the regularly published official 'league tables' and in real fear of falling towards the bottom.⁵⁹ There is good anecdotal evidence that this new transparency has driven worthwhile reform, although much of the evidence appears ominously buried in managerial jargon, with liberal references to 'change management'.⁶⁰ It is also notable and somewhat concerning how often the response to poor results leads to initiatives to 'improve communication' with students.⁶¹ Nevertheless, even though it may reflect an attempt to get students to see things in the best light for the purposes of their evaluations, this is something which most universities will seek to do, thus 'levelling the playing field' to some extent, as exam preparation does between students. And communication with students is an important part of serving their needs well. There are certainly some cases where it appears to be a sensible and important ingredient of a wider program to substantially improve services to students, with resulting outcomes. Thus the University of Manchester Dentistry School went from the lowest to the highest student satisfaction rating over a single year with a comprehensive program which involved assiduous communication with students, which included listening to their concerns and seeking to meet them.⁶²

This having been said, much more could be made of unistats.com. It has obvious flaws, many of which could be ameliorated. And its functionality and usefulness could be substantially enhanced in myriad ways, to which we now turn.

Improving existing models

This section explores some of the remaining shortcomings of unistats.com, many of which can be ameliorated, if not eliminated with better design and more collaborative use of technology. This process of critique naturally leads to suggestions which, if they were implemented in Australia's VET system and indeed more widely, could take Australia to the forefront of best practice.

- ✧ Asymmetric information is an important problem under the current system, which will only worsen with the deregulation of educational institutions. Those choosing courses often have sketchy knowledge about the quality of institutions and this may give an unfair and inefficient advantage to incumbents with a good reputation (whether deserved or otherwise).⁶³ In addition, 'peer effects' can mean that those institutions attracting the best students end up with better-measured outcomes, not because the teaching is better, but because students perform better in the presence of better, more stimulating peers. For this reason 'league tables' of educational institutions should reflect, not the absolute performance of their students, but some measure of the contribution or 'value added' by the institution in improving students' scores.⁶⁴

- ✧ It would be possible to provide much more finely grained information if it were possible to interrogate the database. For instance, a user or researcher might want to know how a particular course was rated by students who performed highly or poorly and whether differences arose from the gender or ethnicity of students. We should work towards maximising access to all such data, subject only to restrictions that take account of important principles such as protection of privacy (these thoughts are expanded somewhat in the final section).

The appropriate principle is set out by Robinson et al. (2008, p.1). They argue that as a general rule, rather than ‘struggling ... to design sites that meet each end-user need’, governments ‘*should focus on creating a simple, reliable and publicly accessible infrastructure that “exposes” the underlying data*’ (emphasis in original).⁶⁵ Markets are often sufficiently shallow that it makes sense for governments to provide an interface with the data, although this should not compromise other potential suppliers’ access being built off the same architecture as proposed above. But where private providers of the data are viable, and they are likely to be in this case, there may be some sense in governments relinquishing their role of providing the interface to both save money and avoid ‘crowding out’ private provision.⁶⁶

Some further issues arise from these considerations.

- ◆ If interfaces are to be provided privately—ratemyprofessors.com might provide an interface for the National Student Survey—it may be appropriate for such sites to be subject to some obligations; for instance, to ensure that advertising is subject to some code of practice. The issue here is that advertisers should not exert any influence on what information is presented, although contextual advertising *a la* Google ad words could be very valuable to users.
 - ◆ If it is necessary, there may be merit in publicly subsidising the development of certain display and analytic capabilities on websites. We discuss this further below.
- ✧ As with the Australian survey, a great deal that is of interest is not reported upon because there is a requirement that reported data achieve some basic level of statistical robustness. This raises a number of questions:
 - ◆ Firstly, the principle should be that more information is better than less. Where preferred statistical robustness has not been demonstrated, and, providing that a caveat is added, information of limited statistical significance should be made available.
 - ◆ Secondly, there is a variety of techniques for squeezing more information out of less. Some opinions are more equal than others. Highly favourable evaluations mean more from those who make them sparingly. Further, a comparison of a rater’s evaluations with the evaluations of others suggests how discriminating they are. The following diagrams illustrate an uncritically generous evaluator, whose preponderance of high ratings degrades the information value of any high ratings they provide, and a non-discriminating evaluator, whose ratings vary widely but not in a way that is consistent with others’ ratings. In each case we have strong reasons for suspecting the value of the rating.

Figure 1 Uncritical and non-discriminating raters



Source: Ho and Quinn (2008, p.283).⁶⁷

By contrast Ho and Quinn (2008) argue that where something is highly rated by as few as two raters whose rating elsewhere shows them to be discriminating, this can nevertheless provide a relatively robust rating.

Figure 2 Two discriminating raters



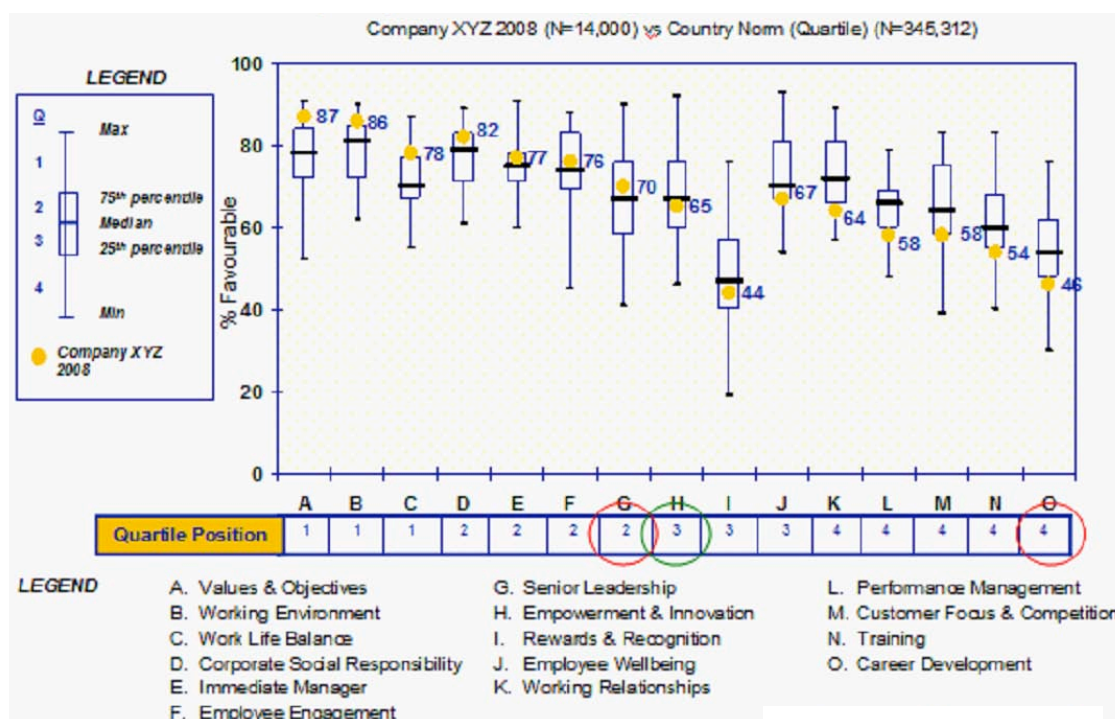
Source: Ho and Quinn (2008, p.283).⁶⁸

Such techniques evidently provide very powerful means for improving the statistical robustness of limited sample sizes.⁶⁹ An advantage that the official data systems like the National Student Survey and the Student Outcomes Survey have here is that, unlike the web-based private ratings providers like ratemyprofessors.com, they can reasonably vouchsafe the identity of all raters.⁷⁰

- ✧ Statistical robustness is also improved by increased sample size. The United Kingdom's National Student Survey aims to be a full census of all students⁷¹ and achieves a response rate of around 60%, with all institutions achieving a minimum response rate of 50%. We could replicate this in Australia, but of course without a change of methodology it would substantially increase costs. Current response rates to Australia's Student Outcomes Survey are 42.6% for the graduate survey and 33.2% for the Module Completed Component Survey.⁷²
- ✧ There is a further way of improving response rates and this is to make responses compulsory. This seems reasonable, given that the information being collected is a public good. Furthermore, providing the information is opened to students for their own uses, it also seems fair.⁷³

✧ Cognitive efficiency is also a crucial consideration. The *availability* of information is only the first step, with the next step being its clear communication to the user, which should include the user's ability to use, understand and manipulate it perceptively. For this reason much more effort should go into helping users appreciate various fine, and not so fine, points about using, interrogating and manipulating the information provided.⁷⁴ The issue of 'value added' has already been raised. At a more fundamental level, data should be provided in a way that helps users identify degrees of statistical significance and corresponding confidence intervals.⁷⁵ Further, some kinds of questions tend to attract lower ratings than others. Users of the data must know that if they are to use the data in a sensible way. In ratings of employee satisfaction, for instance, ratings of the adequacy of pay are typically unusually low compared with most other ratings of employee satisfaction. Thus for the data to be reported in a way that enables users to work out whether a firm has a *disproportionately* bad reputation for underpaying its employees would require a firm's raw score to be reported against industry averages (see figure 3).

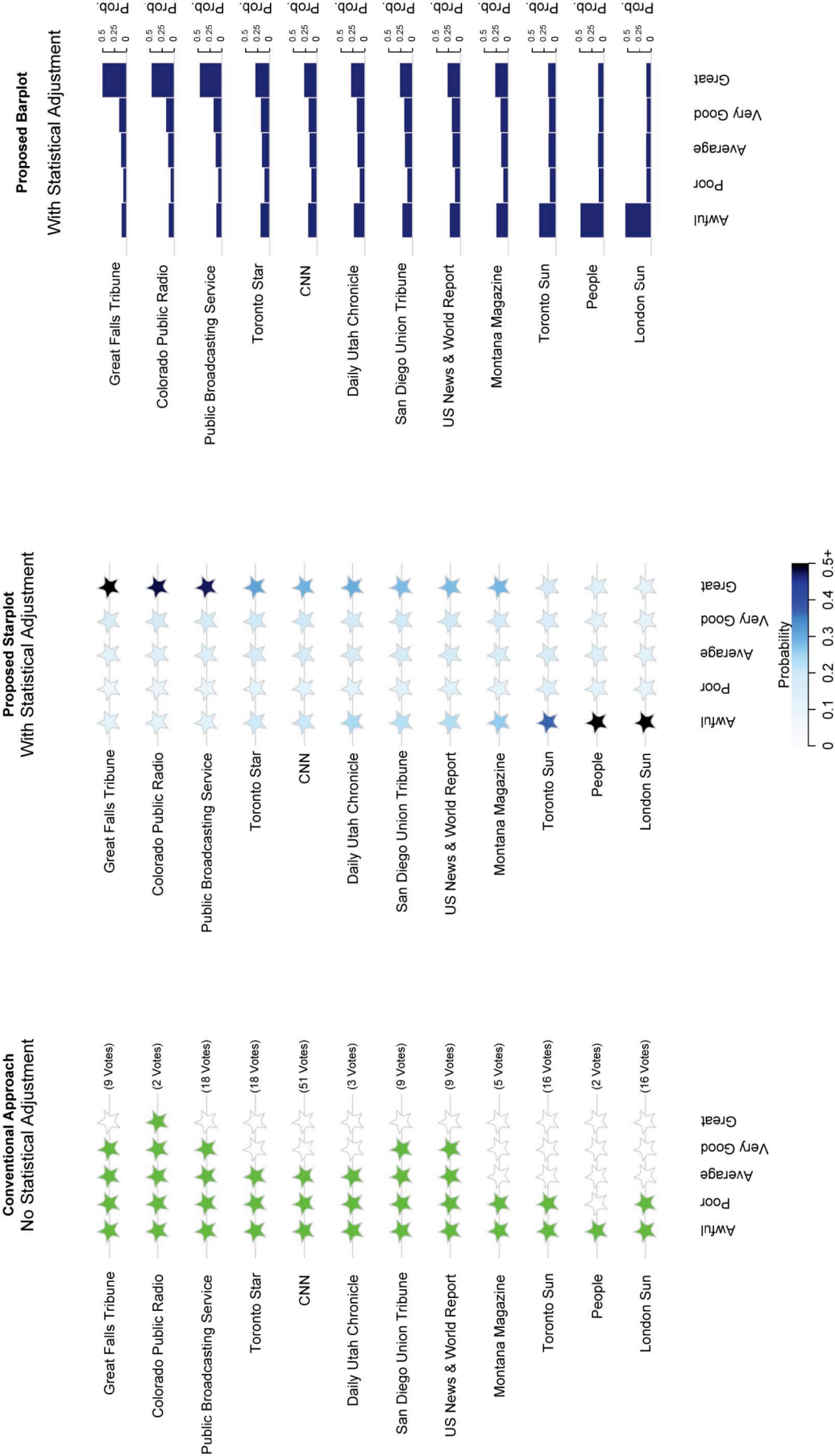
Figure 3 Graphically illustrating the statistical context of various results



Source: Personal correspondence with human resources firm.

How the data should be interpreted should at the very least be explained; however, it would be far better if users were able to access moderated scores according to professionally accepted and clearly documented methodologies. A variety of powerful ways to convey such information graphically is available and it is important to facilitate the use of such methods (see figures 3 and 4 for illustrative examples).

Figure 4 Graphically presenting statistically richer data



Source: Ho and Quinn (2008, p.282).

Conclusion: Some speculations about the need to develop hybrid institutions, and the potential of Web 2.0

I conclude by returning to one of this paper's original themes. Hayek was concerned that collective economic institutions were insensible to the abundance of decentralised information throughout the economy, concluding that only markets could harness this information. His argument is appealing and has since been vindicated by experience. Yet on closer inspection, 'the market' itself—the mores, practices, laws and other institutions that support the existence of markets are a public good and in that sense a *collective* asset. Perhaps aware of the potential tension, Hayek, in his prosecution of his anti-socialist case, argued that the public goods which made markets possible—for instance, respect for private property and keeping a bargain—had spontaneously evolved as social norms over time within a culture. For him, the public good of the market was most efficacious and most secure if it was an instance of spontaneous order (what he called a *cosmos*), only subsequently legitimated and enforced by a centrally enforced mechanism (what he called a *taxis*).

Yet it was always the case that collectively—and centrally—imposed laws evolve alongside social experience, and not always simply legitimating what has already evolved. And since Hayek's heyday, more and more countries have refused to rely on the gradual evolution of spontaneous order, choosing instead to accelerate their transition to becoming sophisticated market economies by centrally designing and imposing the appropriate legal architecture.

This ecology between evolved and created social institutions has its counterpart in the hybrid institutions discussed at the outset of the paper, which comprise both private, individual and decentralised aspects, alongside collective and centralised aspects. The discussion in this paper suggests that the evaluations of individual students of their VET experience is a highly valuable resource. And yet, just as a market augments the productive power of its individual constituents by *inter alia* rationalising and standardising information, so the value of student evaluations can be harnessed much more effectively by deliberately designing and building the architecture of a system to do that, rather than relying on market forces alone, as ratemyprofessors.com must.

Having the capacity to vouchsafe the integrity of the identity of contributors, and indeed to compel their contributions, which is available only with the exercise of the collective power of the system itself, is a critical factor in a reconceptualisation of a database with the potential to provide accurate reputational information. The VET sector should move its current efforts with the Student Outcomes Survey in this direction, beginning with the publication of its results in an appropriately indexed and searchable form. But Web 2.0—the way in which the internet is now being used as a distributed IT platform between suppliers and users, producers and consumers and the way in which it can facilitate networking and collaboration between users—allows us to take things much further still. As Picci argues (2006, 2007a), Web 2.0 enables us to massively leverage 'word of mouth' information. And the process by which word of mouth is transformed into reputations is multidimensional, with communications not being between 'users' and a 'provider' or aggregator of information, but between just a few interested parties. This means that the traditional provider can also become a user. Usage patterns from unistats-style websites may just as readily enable institutions to learn more about their students and prospective students and what interests them.

Picci also distinguishes between 'ad hoc' and 'integrated' statistics. In Picci's terminology, the Student Outcomes Survey and indeed virtually all the statistics collected by the ABS are ad hoc, which is to say that they are discrete collections of data that have been specifically sought by the authorities. Against this Picci (2006, p.16) contrasts integrated statistics, which 'are produced as a view of the digital information already present within a computerized information system'. Ratemyprofessors.com provides integrated statistics in this sense, being continuously available both for receiving and sending data.

It seems a worthy goal—to work towards building a system in which the generation and dissemination of data on service quality is integrated with the delivery of post-secondary educational services. It is also likely that a properly integrated system would operate at low marginal costs (particularly where student input via the internet can be maximised, perhaps charges made for input supplied by other means). A system such as this would always be ‘on’ and available for occasional surveys during the teaching year—to give providers feedback on student responses to service delivery or for the consultation or involvement of students on other matters while courses were taking place.⁷⁶

To further leverage word-of-mouth information, we can create a hierarchy of ‘opt ins’, which reflect different people’s preferences in the trade-offs between the protection of privacy and openness to others, as is now being pioneered on social networking sites. This is best illustrated with an example. Users could be allowed to adopt ‘avatars’ or internet identities chosen by them, which present them on the internet as a specific person, while preserving their anonymity to other users. However, this is a structured and not absolute or anarchic anonymity. To acquire an avatar they would undertake to communicate truthfully and in good faith. Their identities would be known to ‘the system’, so that their privileges could be modified or removed for misbehaviour and they could be pursued in the event of defamatory comments. They would also be warned that it may be possible for other users of the system to work out or speculate about their true identity.

For the sake of our example we have a student who is at the Mildura TAFE doing hospitality. He gives himself the avatar ‘Sunraysya’. When ‘Sunraysya’ contributes to discussion forums about the hospitality course at the Mildura TAFE, the system verifies that he is indeed qualified to comment; that is, that he is or has been a student in the relevant course.

Scientist Michael Neilson (2009) has commented on ‘the untapped creative potential existing in latent connections between scientists, and which could be released using suitable tools to activate the most valuable of those latent connections.’ Of course this is just an aspect of the greater value of human connectedness, something which is going through an epoch-making step change. Once this system of avatars and permissions is established, it becomes possible to facilitate the evolution of very socially, professionally and educationally useful networks of information and communication.

Information networks such as these do not currently exist, because the necessary ‘social networking’ technology is only just coming into common use on the internet, and because to date, statistical systems established by governments have typically imposed a ‘one size fits all’ set of privacy protections on users. Thus most statistical agencies have strict protocols for preventing the release of any information that might enable the identification of someone contributing data. Yet amongst those whose privacy is being protected, there exists a possibly substantial number who would be prepared to forego some privacy in return for others doing the same. Indeed, the way relationships typically develop—in our normal social lives or in cyberspace—is through a process of gradual and reciprocal revelation of information which remains private to others.

People could choose to establish ‘profiles’ either in their own name or in the name of an avatar and allow their profiles to be interrogated. They could elect to allow viewers of the profile to email them (either directly or via their avatar, which would still protect their anonymity); they could then respond as they wished—revealing their identity, responding still in the name of their avatar or ignoring the advance.

Such a system would facilitate the evolution of communities of interest and communities of common experience and would enable the deep mining of the database, where people might interrogate the system to identify whether a course or a teacher had been well regarded by ‘people like them’ in some specified respect(s), or search for those who had made the transition from one area of professional training to another. It would likewise enable teachers and course administrators to identify the strengths and weaknesses of an existing course and/or teacher, in terms of their appeal to different kinds of students, at a much greater level of detail than is possible today.

Of course this may remind readers of social networking sites like MySpace and Facebook. Facebook began in a tertiary institution—Harvard—with the initial goal of facilitating social, professional and pedagogical networking and communication. It has been built into a vast network with over 150 million users.⁷⁷ And Facebook now hosts applications, of precisely the kind—although I doubt yet of the scale—of what is being proposed here. It may well be that the most efficient and effective way to build the capability described here is not to build it on the *analogy* of Facebook, not to build it *like* Facebook, but to build it as an application *in* Facebook.

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Nicholas Gruen's paper takes as a starting point that the move to encourage competition also requires that consumer choice is relatively well informed. His paper focuses on the information that comes from the evaluation of courses and teachers by previous students, arguing that these have been shown to be a good source of information on teaching effectiveness. He particularly homes in on the NCVET's Student Outcomes Survey, which is undertaken annually in May by a sample of students who have completed courses or who completed modules in the preceding year. He acknowledges that there are other sources of information in addition to the opinions of previous students but his paper is explicitly limited to that area.

I will consider some aspects of the VET system that affect the use of information on student opinions and discuss some other information that it is important for consumers to have in making choices.

Special features of VET

Student opinion and outcomes data are certainly an important source of information for future customers, but there are a number of features of the current structure of the Australian VET system that suggest that the developments in student opinion and outcomes surveys considered by Gruen might be a little slower in this sector of education than in higher education. Additional sources of information will be needed alongside student data, as Gruen acknowledged at the outset. The rather special features of VET include:

- ✧ About 20% of students are apprentices and trainees and the choice of training provided is to a considerable extent in the hands of employers.
- ✧ VET courses are based on workplace competencies and a considerable proportion of learning is practical and in the workplace, not involving face-to-face teaching with a single teacher or professor.
- ✧ The VET system provides for a relatively large number of less advantaged students, some with low literacy, who are not used to searching data sets or assessing information on courses.
- ✧ There is a small number of very large TAFE institutes, other public providers and over 4000 private VET providers (compared with 150 providers in higher education). There is a considerable number (5–10%) of providers opening and closing their businesses in any year. Some are quite small and the likelihood of getting good student opinions data or of assessing it seems fairly low.
- ✧ There is a considerable number of training providers catering for international students whose motivation for undertaking a course includes obtaining additional points in the Department of Immigration's assessment for a visa for permanent residence. Such students may be somewhat reluctant to offer opinions on the quality of the course if their main objective is achieved by its completion and its quality is of secondary importance.
- ✧ Some courses in the VET sector are very short. There are examples of certificate courses being completed within a few weeks. The opinions of the course and the teacher are not as likely to be formed as in a three- or four-year course in higher education.

Immediate developments

The possibilities outlined by Gruen need to be given close and ongoing consideration. However, the immediate future might be the small but important step of getting student survey data developed to a stage such that it can be reported for individual institutions and, if possible, for courses of study.

Doing this offers the opportunity to make other forms of information available by institution. This could include data on competency completion rates, learner engagement and employer satisfaction, all of which are to be required of training providers under the Australian Quality Training Framework. For the time being these data are for internal development and for reporting to registering authorities but are not being made publicly available by training provider.

The still-limited provision of public information by each provider can be contrasted with the new requirements for primary and secondary schools. Under the *Administrative guidelines: Commonwealth programs for non-government schools, 2009 to 2012*⁷⁸ paragraphs 33 and 34 on ‘Publication of information by schools’:

33. All schools and system authorities must make publicly available, within six months of the end of each program year, a report that includes information about the school. Aimed at parents and the community, this annual report will include the following information, to be specified in the regulations:
- ✧ Contextual information about the school, including the characteristics of the student body
 - ✧ Teacher standards and qualifications as mandated in the relevant jurisdiction
 - ✧ Workforce composition, including Indigenous composition
 - ✧ Student attendance at school, including:
 - ◆ Rates of attendance for the whole school and for each year level
 - ◆ A description of how non-attendance is managed by school
 - ✧ Senior secondary outcomes, including the percentage of year 12 students:
 - ◆ Undertaking vocational or trade training
 - ◆ Attaining a Year 12 certificate or equivalent VET qualification
 - ✧ Student outcomes in standardised national literacy and numeracy testing
 - ✧ Parent, student and teacher satisfaction with the school
 - ✧ Post-school destinations
 - ✧ Income broken down by funding source.

34. The regulations will require that this information must be made publicly available on the Internet, but if a parent is unable to access information in that way it must be provided to the parent in a way that the parent can access. These requirements will be comparable to those required for state government schools under the National Education Agreement.

(Department of Education, Employment and Workplace Relations 2008, p.9)

Finally, an important way of ensuring that students can trust the quality of the training delivered by a provider they are considering is to be assured that the assessment applied by the training provider meets the required standards. The Council of Australian Governments in its consultation paper, *Skills and workforce development*, in September 2008 noted:

COAG’s main aim in reforming the national regulatory VET arrangements was to ensure industry and employer confidence in the national VET system ... Another stage of regulatory reform may be required which focuses on the quality and integrity of assessment.

COAG, in conjunction with the National Quality Council, is giving attention to ways of assuring that assessment requirements are met. Most school systems require students completing secondary school to undertake external examinations or tests. Such a process applies in the VET sector for the licensed trades but is otherwise rare. The report on the Australian VET system by the Organisation

for Economic Co-operation and Development (OECD) in 2008 *Learning for jobs* drew attention to this issue and spoke favourably of the exit tests used in the VET systems in several countries.

If providers are required, among other information such as student outcomes data, to publicly report their completion rates, and if we can be sure that the assessment standards have been met, then students can feel reasonably confident that they are choosing between providers of at least minimum acceptable quality.

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Possible governance structures and autonomy of TAFE institutes

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Introduction

The discussion of possible governance structures and autonomy of TAFE institutions is inordinately complex for a number of reasons. First, in Australia, the discussion reflects the substantial differences in the way in which TAFE is structured and controlled amongst the states and territories. At one extreme is the Victorian TAFE system, with its dual-sector institutions and where individual TAFE colleges and their councils enjoy a large degree of autonomy, and at the other is the NSW TAFE system, where TAFE colleges are not substantially different from schools in terms of state-controlled structures. The other states fall somewhere in between these two extremes as is depicted in attachment A.

The second factor complicating the discussion is that tertiary education in Australia is likely to undergo substantial transformation. The 2008 Review of Australian Higher Education—the Bradley Review—proposed a number of recommendations that could lead to the creation of a nationally integrated tertiary (that is, VET and universities) education sector (Department of Education, Employment and Workplace Relations 2008). One could reasonably expect that the elevation of TAFE to a nationally funded and controlled tertiary sector might afford individual TAFE colleges the same degree of autonomy as presently enjoyed by Australian universities.⁷⁹ However, the consequences (intended or otherwise) of the way in which a new tertiary sector is to be structured require rigorous analysis and will be discussed in more detail later in the paper.

A third complicating factor in the discussion of autonomy and governance is the fact that they significantly impact on how an organisation sets and achieves its mission, how it relates to various stakeholders (students, staff and employers), and how it meets the expectations of governments and society as a whole. In a Janus head fashion, an analysis of autonomy and governance must look simultaneously to their effect on internal institutional behaviour and the external role of the institution in the overall social order.

This essay is based on an ‘outsider’s perspective’ and is intentionally speculative and future-oriented. It does not analyse the consequences of the current specific governance structures and degrees of autonomy of the present TAFE regimes in Australia. Rather, it assumes that TAFE will move towards greater autonomy and self-governance as it becomes part of a truly national tertiary sector. How this is likely to shape both the character of individual TAFE colleges and their collective contribution to Australian society is the main theme of analysis. While the picture is far from clear, much is at stake in terms of devising a system of tertiary education to effectively meet the present and future needs of Australia.

The essay assumes that self-governance and enhanced autonomy, if managed appropriately, lead to more innovative and effective institutions. As Gasskov argues (2006, p.xi):

[E]vidence ... suggest that responsive, operationally flexible and cost-efficient VET institutions can best be achieved by delegating to them sufficient management, financial and academic autonomy, and, correspondingly, by strengthened professional and management competence of their staff. Lack of autonomy often translates into fewer incentives for staff initiative and improvement of performance.

The essay also assumes that much can be learned from the higher education sector regarding appropriate approaches to governance structures and autonomy of TAFE institutions. This approach is influenced by the fact that much of the literature on governance and autonomy relates to the higher/university sector. But, more importantly, governance and autonomy need to be looked at in terms of both behavioural and structural dimensions, and in this respect higher education has many lessons to offer. To keep true to this theme, the essay adopts the Organisation for Economic Co-operation and Development (OECD 2003, p.61) definition of institutional governance, where governance 'comprises a complex web including the legislative framework, the characteristics of the institutions and how they relate to the whole system, how money is allocated to institutions and how they are accountable for the way it is spent, as well as less formal structures and relationships which steer and influence behaviour.'

In the following section, an overview of theoretical approaches to the analysis of tertiary/higher education governance is presented. This is followed by a discussion of 'new public management', for the issues of governance structures and autonomy of TAFE institutes cannot be divorced from the broader neoliberal managerialist movement shaping the governance of all public sector institutions in most OECD countries. This in turn is followed by a more detailed discussion of autonomy per se. Next, the essay moves to issues surrounding the governance of Australian higher education institutions, particularly the role of councils, over the last couple of decades. The idea here is that the way in which councils govern reflects the social purposes the institutions serve. The penultimate section of the paper turns to a discussion of TAFE governance at the sector level and examines the proposed governance structures of the Bradley Review and their likely consequences for diversity. The elevation of TAFE/VET to the national level in the absence of well-considered policies and structures to maintain institutional diversity could in fact be a retrograde step. The concluding section attempts to summarise the overall argument of the paper.

Understanding tertiary education governance

The question of how best to optimise the performance of tertiary education institutions has generated much debate both at the level of governments, which have the legal and financial responsibilities for them, and at the level of the individual institutions themselves. In part, the debate has been fuelled by the steep growth in tertiary education participation rates and the pressures on institutions to find increasing proportions of their operating grants from sources other than the public purse. Concerns regarding the relevance of tertiary education to the labour market and to economic growth and prosperity—their contribution to the so-called knowledge economy—have also focused attention on this sector. A common theme in the performance debate has been the adequacy of existing institutional governance and management structures and processes to meet stakeholder expectations.

Changed government perspectives on their role in system steering, changed community perceptions on the purpose of tertiary education, and changed economic conditions have impacted on tertiary education institutions nearly everywhere. These developments have been studied and documented widely, both from a national as well as a cross-national perspective (Amaral, Jones & Karseth 2002; Goedegebuure, Hayden & Meek 1994; Marginson & Considine 2000; Meek et al. 1996; Neave & Van Vught 1991; Teichler 1988). There is some agreement that the changing relationship between

the government and tertiary education institutions is characterised by a common trend, whereby governments increasingly refrain from detailed steering of their respective tertiary education systems in favour of more global policies that determine the boundary conditions under which institutions may operate. However, the consequences of this for self-governance and autonomy remain highly contested.

At a relatively high level of generality, two broad and distinctive pressures that have brought about change in the way in which tertiary education institutions are governed can be identified: the European/Continental model and the Anglo-Saxon model. With respect to the European situation, the government has increasingly stepped back from the direct control of institutions, forcing a corresponding need for increased management expertise at the enterprise level. This in turn can be seen as a strengthening of institutional autonomy and self-governance. In contrast, the tertiary education systems shaped by Anglo-Saxon traditions have lost some of their institutional autonomy to governments intent upon introducing various quality control and accountability measures to better determine educational outputs. Of course, under both paradigms, universities generally enjoy greater autonomy than other types of post-secondary education institutions.

How governance in tertiary education is defined depends on the level of analysis: national, local, institutional, sub-unit or discipline level. Clark (1983, pp.205–06) directs attention to three primary authority levels: the understructure (basic academic or disciplinary units), the middle or enterprise structure (individual organisations in their entirety), and the superstructure (the vast array of government and other system regulatory mechanisms that relate organisations to one another). The dynamics within each level, and the interaction between levels, differ according to context. The context, according to Clark, depends on where institutions are located within a triangular field of governance/coordination constituted by academic oligarchy, state authority and the market. While traditionally Australian TAFE institutions would have been squarely in the state authority corner of Clark's triangle, they are presently rapidly moving towards the market position.

Explanations with respect to the ability of education institutions to exercise initiative in the context of system-wide authority structures have often been organised on a continuum. At one end of the continuum is the 'bottom-up' type of system, where government policy follows rather than leads a change process initiated at the departmental, faculty or institutional level; at the other end of the continuum is the 'top-down' type of system where institutions merely respond to government-inspired policy initiatives which are enforced by the power of the state. Bottom-up systems are characterised by high institutional autonomy; top-down systems are characterised by the opposite. There have been various calls in Australia to enhance bottom-up participation in governance. The Victorian TAFE Association (2000, p.9), for example, writes that 'educational autonomy must acknowledge the professionalism, expertise and skills of teachers and to this end, teachers as the paramount professionals in the sector must contribute to the determination of learning outcomes and to the curriculum development.'

A central question in research on tertiary education governance is whether the university is an exceptional institution that has retained its core authority structure over the centuries, or is it to be understood in the same way as any other modern corporation? Some empirical research on the governance of universities points to their resilience and asks whether the changes we are now witnessing are a categorical break with the past or whether they are merely the codification of existing practices. Clark (1998), in his analysis of the entrepreneurial university, while recognising the importance of strengthening the central steering core, nonetheless returns to what he terms the 'stimulated academic heartland' as the fundamental ingredient of success. Others, such as Askling and Henkel (2000, p.113), see the move of the university to the corporate enterprise as undermining the claim of exceptionality, where the challenges facing them are 'broadly similar to those of a range of public service agencies in the late twentieth century'. In a later article, Henkel (2007, p.97) argues that 'academic autonomy as protected within commonly accepted boundaries has been largely undermined.' Somewhat ironically, this is due to the recognition by governments of

the importance of the contribution of higher education institutions to the knowledge economy: 'The university is seen not so much as an exceptionalist institution, but rather as embedded in society, which expect[s] it to make direct contributions to general economic and social welfare' (Henkel 2007, p.94). The issue of autonomy will be discussed in more detail below, but here the question can be raised of whether, in terms of governance structures and autonomy, we may be witnessing a convergence between other types of post-secondary institutions and universities, with the former gaining ground in these areas and the latter losing. Moreover, many of the forces shaping the governance structures and autonomy of all types of tertiary education institutions arise mainly from outside the institutions themselves and need to be seen as part and parcel of broader social economic movements. Of particular relevance in this respect is the neoliberal new public management movement of recent years.

'New public management'

As argued elsewhere (Meek 2003), any specific discussion of tertiary education governance and autonomy needs to be set within the broader context of 'new public management' (NPM), if for no other reason than the prominence that both practitioners and policy-makers have given the movement in recent years. New public management and related concepts, such as new managerialism and reinventing government (Osborne & Gaebler 1992), have dominated public sector reform over the last two decades as OECD governments respond to declining economic performance, fiscal deficits, changes in the patterns of demand for government services, greater consumer expectations about quality of service, and reduced community confidence in the ability of government to deliver services. As Denhardt and Denhardt (2000, p.549) note: 'The New Public Management has championed a vision of public managers as the entrepreneurs of a new, leaner, and increasingly privatized government, emulating not only the practices but also the values of business.' Haque (2001, p.65) puts the case in less charitable words:

In recent years, the concern for ascertaining the status of public service as an authentic public domain seems to have diminished worldwide under the emerging market-driven mode of governance. Public service itself has undergone businesslike transformation, especially under the influence of current global reorientation of state policies toward deregulation, privatization, and liberalization.

One of the main principles behind new public management is that, while public actors such as government should maintain core public service values, they should place greater emphasis on achieving the desired results or outcomes of services rather than on the processes and rules of service delivery. It is assumed that efficiency and effectiveness of service delivery will be achieved through the use of private sector management techniques, such as specifying service objectives and competition for customers, performance measurement, decentralisation of decision-making and the use of markets to deliver services. Based on public choice theory with its central tenet that all human behaviour is motivated by self-interest (Kamensky 1996), new public management assumes that market competition rather than centralised bureaucratic regulation will deliver to the public 'value for money' from public expenditures.

However, much of new public management is more a set of ideological assumptions about how public institutions *should* be run, than a well-considered strategy for improving the efficiency and effectiveness of how they are actually managed (Pollitt & Bouckaert 2000). 'The New Public Management is not just the implementation of new *techniques*, it carries with it a new set of *values*, specifically a set of values largely drawn from the private sector' (Denhardt & Denhardt 2000, p.551). Moreover, there is no consensus in the literature on a precise definition of new public management. The lack of consensus is, in part, due to countries and regions with different public institutional arrangements, different levels of public consultation in government decision-making, and different public managerial abilities and historic patterns of public sector reform implementing

new public management in various ways and with degrees of intensity. It is also due to internal contradictions between some of the principles advanced by the movement's proponents.

While new public management has been characterised in a number of ways, Keating and Shand (1998, p.13) succinctly summarise many of its purported key features:

- ✧ a focus on results in terms of efficiency, effectiveness, quality of service and whether the intended beneficiaries actually gain
- ✧ a decentralised management environment which better matches authority and responsibility so that decisions on resource allocation and service delivery are made closer to the point of delivery and which provides scope for feedback from clients or other interested groups
- ✧ a greater focus and provision for client choice through the creation of competitive environments within the public sector organisations and non-government competitors
- ✧ the flexibility to explore more cost-effective alternatives to direct public provision or regulation, including the use of market instruments, such as user charging, vouchers and sale of property rights
- ✧ accountability for results and for establishing due process rather than compliance with a particular set of rules, and a related change from risk avoidance to risk management.

Part of the criticism of new public management rests on deficiencies in the way in which it has been designed and implemented in different countries. Related to this criticism is the tendency for some countries, such as Australia, New Zealand and the United Kingdom, to implement the principles of new public management in a universal, hostile and ideologically motivated manner, rather than on a case-by-case assessment of whether the economic improvements of the services provided would outweigh the economic and social costs. Other criticisms are directed at perceived contradictions amongst the principles of new public management themselves. Decentralisation, for example, is an inherent aspect of new public management, as is rationalisation of bureaucratic decision-making. But Williams (2000, p.524) maintains that the two principles or themes are incompatible: 'The effective use of rational decision making techniques relies on the existence of a strong centralized authority structure that can require that these techniques be used, assure that the outcomes of rational analysis lead to decisions, and prevent bureaucrats from subverting rational decisions while implementing policies.' Another contradiction pointed out by Williams is that, while proponents of new public management advocate the use of competition to reduce costs and improve quality of service, they also advocate a reduction in the duplication of the delivery of services.

Williams (2000) asks what is new about new public management, noting that the performance measurement literature begins in 1910 and performance budgeting in the 1950s; management by objectives was being discussed in the early 1960s, and 'privatisation was in the governmental tool kit as early as the 16th century' (p.10). Denhardt and Denhardt (2000, p.550) outline some of the key criticisms of new public management arising from the literature:

Those challenging the New Public Management ... ask questions about the inherent contradictions in the movement (Fox 1996); the values promoted by it (deLeon and Denhardt 2000; Frederickson 1996; Schachter 1997); the tensions between the emphasis on decentralization promoted in the market model and the need for coordination in the public sector (Peters and Savoie 1996); the implied roles and relationships of the executive and legislative branches (Carroll and Lynn 1996); and the implications of the privatization movement for democratic values and the public interest (McCabe and Vinzant 1999). Others have suggested that public entrepreneurship and what Terry (1993, 1998) has called 'neomanagerialism' threaten to undermine democratic and constitutional values such as fairness, justice, representation, and participation.

Although new public management and the reinventing government movement have dominated governance discussion in the public sector for the last two decades, new public management has

failed to deliver on many of its promises, and cracks are appearing in its intellectual and ideological foundations. The initial success of new public management in delivering economic return, based mainly on drastic reductions in the public service labour force, has not been maintained across the board, and the wisdom of such strategies as privatisation (for example, electricity services in the United Kingdom and the United States and railroads in the United Kingdom) is increasingly in question. Moreover, the social costs of the movement are being brought into focus as some argue that new public management's emphasis on productivity leads to a decline in a sense of community and public trust (Gregory 1999). Although new public management maintains a dominant position in discussion on the way in which the public sector should be governed, alternative 'paradigms' are starting to assert or reassert themselves. Denhardt and Denhardt (2000), for example, propose the 'new public service' (NPS) as an alternative. The current global financial crisis is bringing into question almost all neoliberal forms of governance and management of the last couple of decades.

Under new public management the public are clients of government, and administrators should seek to deliver services that satisfy clients. In tertiary education, too, students are referred to as customers or clients, and in most tertiary education systems a labyrinth of quality assurance and accountability measures has been put in place to ensure that academic provision meets client needs and expectations. According to Considine (2001, p.1), tertiary education institutions are 'being "enterprised" by a powerful logic of managed performance, executive centralisation and a new code of corporate governance.' Where we see these new forms of governance personified is in the councils/boards of governors of tertiary education institutions. But, before turning our attention to that discussion, a few words need to be said directly about institutional autonomy and academic freedom.

Institutional autonomy and academic freedom

Much of the recent change in tertiary education management at the enterprise level involves questions of institutional autonomy and academic freedom. However, the autonomy debate is not new nor is it restricted to any one country, except in its details (see Ashby 1966; Berdahl 1988). Moreover, debates about autonomy are often more emotive than they are analytically rigorous. The authors just cited, along with many others, have noted that, if the issue of autonomy is going to be taken seriously, which indeed it should, then a distinction needs to be made between academic autonomy (maybe better phrased as 'scientific or academic freedom') and institutional autonomy. Drawing on Ashby (1966), Berdahl (1988, p.7) defines academic freedom as the 'freedom of the individual scholar in his/her teaching and research to pursue truth wherever it seems to lead without fear of punishment or termination of employment for having offended some political, religious or social orthodoxy.'

In its literal sense, no tertiary education institution has complete autonomy; autonomy is not an all-or-nothing issue. Tertiary education institutions will always be subject to some demand to be publicly accountable, whether the institutions themselves are public or private. Society has too much of an interest in tertiary education to allow 'pure autonomy' (which always was probably myth) to prevail. According to Ashby (1966, p.296), what is important is to examine the 'essential ingredients' of institutional autonomy:

- ✧ freedom to select staff and students and to determine the conditions under which they remain in the university
- ✧ freedom to determine curriculum content and degree standards
- ✧ freedom to allocate funds (within the amounts available) across different categories of expenditures.

Drawing again upon Ashby (1966), Berdahl (1988, p.7) further subdivides autonomy into substantive and procedural issues: '*substantive autonomy* is the power of the university or college in its corporate form to determine its own goals and programs ... *procedural autonomy* is the power of the

university or college in its corporate form to determine the means by which its goals and programs will be pursued ...’ According to Berdahl (1988, pp.8–9), interference in procedural autonomy:

... (e.g. pre-audits, controls over purchasing, personnel, some aspects of capital construction) can be an enormous bother to Academe, and often even counter-productive to efficiency, but still usually do[es] not prevent universities or colleges from ultimately achieving their goals. In contrast, governmental actions that affect substantive goals affect the heart of Academe.

The nature and details of procedural autonomy wax and wane in all countries, to the great annoyance of institutional administrators. But the real substance of the debate about governance structures and autonomy of TAFE institutes should mainly concern substantive autonomy.

Rather than viewing autonomy as an absolute, it can be regarded as a relational issue involving the balance of power between institutions and government, on the one hand, and between management and the academic/teaching profession within institutions, on the other. Direct threats to academic freedom are more closely associated with the internal balance of power between executive and collegial governance than with external intervention, although the executive arm of the institution may act as a proxy for government bureaucrats. It is important to note that institutional autonomy provides no absolute protection of academic freedom.

Goozee (2001) notes that, unlike universities, which began as autonomous institutions, most TAFE systems in Australia originated and developed as parts of government departments, operating within a public administration framework. As a result, TAFE has been expected to apply both Commonwealth and state government economic, social justice and education policies.

Many observers of TAFE advocate enhanced autonomy for TAFE institutions. The Victorian TAFE Association (2000, p.8) argues for increased autonomy from government in matters relating to the corporate governance of TAFE institutes for two reasons: ‘The granting of autonomy signals faith in and is an acknowledgement of the business and educational acumen of institutes’, and ‘Increased autonomy of Institute Councils allows Institutes to be more flexible and thus more responsive to their local communities and industries.’

More autonomy will allow TAFE institutes more freedom to develop individual missions. The question becomes how to align institutional missions with state and national needs and priorities. Experience so far points to mixed results. Levin (2008, p.72), for example, writes that: ‘For South Australia, institutional detachment from government led to deteriorating performance and negative outcomes of TAFE ... for Victoria, TAFE autonomy has been praised ...’

Gasskov (2006) maintains that institutional autonomy would help to inspire motivation and encourage VET managers and staff to improve their capabilities to achieve better results. But of course these and other authors recognise that with increased autonomy goes increased accountability. The greater the degree of autonomy of an institution, the more accountable they will be for their independent activities, which can lead to greater operational and financial risks (Gasskov 2006). ‘Ironically, while increased autonomy means greater freedom and distance from the power-holder (in the TAFE context, this means government and perhaps industry), it also means greater accountability’ (Victorian TAFE Association 2000, p.13).

The way in which accountability is exercised will depend, in part, on the way in which any new tertiary education sector is structured and regulated. But, before turning to that topic, a few words need to be said about councils/boards of governors.

Institutional governance models

It can be hypothesised that TAFE institutes and their councils will have increased autonomy in the future. But the crucial question is not one of autonomy, as such, but the purpose of councils and

their orientation to institutional governance. Again, the history of Australian university councils is instructive.

Harman and Treadgold (2007, p.13) note that, from the 1980s onward:

Australian and overseas universities moved away from the self-governance model of university governance to a model more closely aligned with business corporations. This move largely reflected the neo-liberal economic and new public management agendas that regarded the business model as superior in terms of assuring greater efficiency and accountability, and more effective in managing financial and human resources.

Since 1995, when the first major report was produced on university councils—the Higher Education Management Review (Hoare Committee)—various official documents have catalogued perceived weaknesses. The Hoare Committee report identified the need for them to have, amongst other things, an explicit set of responsibilities, a threshold level of professional knowledge and skills commensurate with the task of governing complex institutions, a strategic focus in their deliberations, and a more refined sense of their role in relation to asset and risk management. Also identified was the need for university councils to be smaller in size, preferably with ten to 15 members, for external members to outnumber internal members, and for potential external members to be identified through an independent professional process (Meek & Hayden 2005).

Since the Hoare Review, councils have engaged in a process of reform that has resulted in smaller memberships and increased thoroughness in the selection of external members. There are, nonetheless, perennial problems affecting councils. Within the past few years, for example, there have been well-publicised instances of factionalism within councils and of intense conflicts between councils and the senior academic management of universities, particularly between chancellors and vice-chancellors. Further, there are continuing expressions of concern that councils are not well equipped to respond promptly and decisively to change, and that council members have a great deal of difficulty in being properly informed about not only the operations of the institution but also about the activities of its controlled entities (Meek & Hayden 2005).

In 2003, the Commonwealth introduced a statement of ‘national governance protocols for higher education’ with which universities had to comply in order to secure additional Commonwealth funds. These identified generically the main responsibility of university councils and required that individual members of councils should be aware of their duties. In 2008, the newly elected Rudd Labor Government abolished the protocols.

Councils with the ultimate responsibility for autonomous TAFE institutes will face many of the same governance dilemmas as those faced by university councils. Skills Australia (2008), for example, maintains that a good governance model for VET should identify clear roles and accountabilities, promote confidence at all levels of government and amongst all stakeholders, and contain lines of communication and advice that are simple and transparent. Exactly how these are to be accomplished, however, is another matter.

It might be argued that a corporate, business or market model of governance might be even more suited to TAFE institutes than universities. However, like new public management principles in general, the appropriateness of the corporate model of governance for not-for-profit tertiary education institutions—educating citizens for the common good—has been brought into question (Goedegebuure, Hayden & Meek 2009).

It can be speculated that an autonomous TAFE sector could pursue a number of different models or orientating governance paradigms. Drawing on the works of Olsen (2005), four models or structures for the governance and autonomy of tertiary education institutions can be identified: the tertiary education institution as: ‘(i) a community of scholars; (ii) an instrument for national purpose; (iii) a representative democracy; and (iv) a service enterprise embedded in competitive markets’. These models are not necessarily mutually exclusive, but the one or combination that

dominates will not only shape the development of the individual institution, but also will need to be closely aligned with the overall institutional governance structure. In this respect, the recommendations of the former Australian Vice-Chancellors' Committee (2003) on good governance are of interest. The committee suggested a 'trusteeship' model of governance in contrast to what it saw as the traditional 'stakeholder' and 'business' models. While the trusteeship model is not elaborated on in detail, Harman and Treadgold (2007, p.26) explain that:

The 'corporate' model puts rather too much emphasis on a small board, externally orientated and chosen, with powers predominantly centralized and preference for self-selecting, disinterested membership concentrating on short-term agendas. As a trusteeship model attempts to blend benefits from the 'corporate' model with a more community-oriented approach for the long-term benefit of the institution, it could thus be seen as a more sensible approach to governance.

Whatever the specific model, there is likely to be a reciprocal relationship between institutional governance and that of the sector as a whole. As TAFE institutes are drawn into a national system of tertiary education, it can be expected that this transition will impact on several key aspects of governance at the institutional level: accreditation, quality assurance, financial accountability etc. What will be crucial is the way in which institutional and system-wide governance structures coincide (or otherwise) to enhance (or otherwise) TAFE institutes' contribution to national educational, economic and social objectives. If, as discussed in the following section, the transition results in strong academic drift towards the university model and does little to add to the overall diversity of the mission, role and purpose of post-secondary education, then nothing will have been accomplished except for the furthering of institutional ambition.

Governance structures and autonomy at the sector level: Diversity or homogeneity

There are many different types of diversity in tertiary education (programmatic, systemic, procedural etc.). Here, we will concentrate mainly on systemic diversity, which can be defined as the 'existence of distinct forms of post-secondary education, of institutions and groups of institutions within a state or nation that have different and distinctive missions, educate and train for different lives and careers, have different styles of instruction, are organised and funded differently and operate under different laws and relationships to government' (Trow 1995). One also needs to distinguish between vertical (or hierarchical) diversity, based on the status of institutional types, and horizontal diversity, based on institutions' teaching and, to a lesser extent, research functions.

Diversity, it is claimed, affects nearly every aspect of tertiary education: access and equity, teaching methods and student learning, research priorities, quality, management, social relevance, finance etc. Stadtman (1980, pp.98–9), for example, states that diversity:

- ✧ increases the range of choices available to learners
- ✧ makes higher education available to virtually everyone
- ✧ matches education to the needs and abilities of individual students
- ✧ enables institutions to select their own mission and confine their activities
- ✧ responds to the pressures of a society (complex and diversified in itself)
- ✧ becomes a precondition of college and university freedom and autonomy.

However, views about both the character and extent of diversity vary substantially. Guri-Rosenblit, Sebkova and Teichler (2007, p.2) ask the following questions:

- ✧ What range of heterogeneity or homogeneity is preferable?

- ✧ To what extent should diversity be arranged inter-institutionally or intra-institutionally?
- ✧ How clearly should differences be demarcated or softened and blurred?
- ✧ To what extent is diversity best served by formal elements of diversification (that is, different types and levels), or by informal elements (that is, differences in the reputation or profile between individual institutions or their sub-units)?
- ✧ Whether diversity prevails predominantly according to the vertical dimensions (that is, ranking according to quality, reputation etc.) or whether horizontal differentiation (that is, according to curricular thrusts and institutional profiles) plays a role as well.

With the continual expansion of tertiary education following the Second World War, the issue of diversity has been a recurrent theme in debates on the governance and management of tertiary education institutions and systems. But the debate has resolved neither how diversity is to be achieved, whether or not it is an inevitable result of expansion, nor even if it is a worthwhile goal. Responses to the issue by different national systems vary widely. Much of the writing on tertiary education in the United States assumes that diversity is an inherent good, best achieved through market competition rather than by centralised planning (except for California). Many European countries until quite recently have not only developed centralised systems of tertiary education but have also, in the name of equity and quality, enforced a high degree of homogeneity amongst institutions, particularly universities. Other countries have attempted to manage diversity through structural means, such as the binary systems in Australia, Germany and Great Britain, which differentiate between ‘theoretically based’ universities and ‘vocationally oriented’ polytechnics. While the binary arrangement has been discarded by Australia and Britain, it appears to remain entrenched in Germany and is being introduced and/or reinforced in such countries as Finland, Norway and the Netherlands. In addition, according to Guri-Rosenblit, Sebkova and Teichler (2007, p.2):

Trends of globalization, supra-national policies, bottom-up initiatives of founding private for-profit higher education institutions, continuous cuts of higher education budgets by governments, the emergence of the digital technologies and the growth of transnational higher education in the last decade have added additional layers to the debates on diversity and massification in higher education.

One thing that is known about diversity is that it cannot be understood in isolation from the way in which governments steer and structure tertiary education systems. The great debate over the last 30 years is whether tertiary education systems around the world are evolving towards integrated, unitary systems or towards formally differentiated systems. So far, the empirical evidence does not support the ascendancy of one trend over the other. Nonetheless, it is important to understand the basis of the two arguments for they impact directly on how we think about the governance, character and efficacy of tertiary education.

Bleiklie (2007, p.1) argues that tertiary ‘education systems in much of the Western world have become steadily more integrated.’ But he also comments that this is a very complex and far from an inevitable, or one-directional, process. He notes that, from the literature, there are two opposing views on the development of diversity of tertiary education systems: convergence and divergence. The convergence school argues that, for example, with the increased emphasis on similar compliance schemes in the areas of quality assurance and accountability, increased student mobility, the blurring of basic and applied research, and cross-border initiatives such as the Bologna process, all tertiary education institutions are assuming similar characteristics, norms and values. The counter-argument has it that institutions in competition with one another will ‘naturally’ seek a niche market and differentiate themselves from their competitors. Governments also take a direct interest in diversity because, with growth in function, complexity and size, they find it extremely difficult to fund all institutions on the same basis.

Research and different knowledge regimes are also potentially powerful differentiators of tertiary education systems. No country can afford to fund all of its tertiary education institutions as world-class research universities. But in integrated, unitary systems, there is a tendency for all institutions to emulate research-intensive universities. However, due to a lack of resources, this emulation results in second-rate imitations. Moreover, those institutions that emulate research universities without sufficient resources to adequately do so, cannot provide their students, particularly their research students, with appropriate tuition. Emulation of research universities also diverts institutions away from engaging in extensive programmatic diversity, which appears imperative for mass tertiary education. The important question is how to foster diversity by preventing institutions from converging on some preconceived gold standard of what is proper tertiary education. But how this is to be accomplished is not at all clear.

According to Bleiklie (2007, p.5), there are basic political–economic concerns driving the development of tertiary education everywhere: ‘The first concern is that the level of education in the population affects the competitiveness of a nation.’ Nations will attempt to structure their tertiary education systems in order to produce the highest educated population at the lowest possible cost. The level of education in the population is directly related to nations’ ability to compete in the global knowledge economy—a fundamental tenet of the Bradley Review. The second concern is that higher education systems need to be flexible. Specialisation both within and between institutions is necessary to match graduates with the needs of the labour market. Nations’ response to these concerns is influenced by a number of factors:

- ✧ Firstly, institutions within today’s integrated higher education systems constitute a complex set, in which different categories of institutions have had vastly different relationships with public authorities and demonstrate considerable variation with respect to their degree of autonomy.
- ✧ Secondly, institutions may try to adapt to the integration process by means of different strategies.
- ✧ Thirdly, national systems vary considerably with regard to the degree to which they are placed into a hierarchy, both across categories of institutions, and within categories.
- ✧ Fourthly, knowledge has gained importance in society because, amongst other reasons, of the emergence of mass education and the steadily more extensive use of research in private business and public administration (Bleiklie 2007, pp.6–7).

In a similar vein, Guri-Rosenblit, Sebkova and Teichler (2007, pp.3–4) argue that:

The extent of diversity and homogeneity of higher education systems in each national context depends on various variables. Each national higher education system has external and internal boundaries that portray its horizontal and vertical structure at various levels. The external boundaries define basically which kind of institutions are included in or excluded from the higher education system ... The internal boundaries reflect the horizontal and vertical structures of any given higher education system in relation to a variety of variables: overall structure (unified, binary or segmented into several sectors), the interrelations between the public and private sectors, access policies, study programs, budgeting patterns, research and teaching policies, academic traditions and cultures, evaluation and accreditation, etc.

There can be little doubt that the need to enhance diversity places a great deal of pressure on institutional governance. It is not that the issue of diversity is new. As was noted above, diversity has been advocated as an appropriate policy response to mass tertiary education at least since the late 1960s. What is different from the 1960s policy environment, however, is that diversity is to be achieved much more through institutional leadership and strategic planning in response to market competition than through policy directives and formal regulation. This was the position adopted by the Dawkins reforms of the early 1990s and merely restated by the 2008 Bradley Review (see below).

At the time of the Dawkins white paper and the dismantling of the binary system, many critics of government policy feared the creation of a uniform set of higher education institutions. These fears

have been justified insofar as what has happened has been an increase in internal institutional diversity with a corresponding decrease in external system diversity. Thus the adequacy of government policy to promote diversity as well as that of institutional leadership to define distinctive missions for their institutions must be questioned. Of course, the two are not mutually exclusive, for the reward structures put in place by government policy influence strategic decisions at the institutional level. It can be argued that the recommendations of the 2008 Bradley Review of Australian Higher Education may be repeating the same mistakes made two decades ago.

The final report of the Review of Australian Higher Education (Department of Education, Employment and Workplace Relations 2008, p.2) acknowledges that 'during the process of this review, some have argued that there is a case for radical changes to the structure of the higher education system in Australia.' The review received proposals 'to address the sustainability of institutions, to concentrate research investment and effort, to create greater diversity, to create new forms of institutions and to improve the interface with vocational education and training.' However, while opening the door to a progressive transition of VET coordination and funding to the Commonwealth level, the panel was:

not drawn to recommend a formal process to restructure higher education in line with any prescribed model. Such a process would be a prescription for increasing levels of government intervention in the affairs of institutions. Instead the panel's preference is to establish a national framework which allows progressive change in the structure of the sector to occur over time as institutions and governments respond to emerging trends in the environment. Such a framework should permit a diversity of approaches by institutions while also encouraging excellence, innovation and accountability. It should also encourage institutions to both work together and compete with each other, while meeting the nation's needs for high-quality, tertiary-educated citizens.

(Department of Education, Employment and Workplace Relations 2008, pp.2–3)

The Bradley Review proposed a new system of governance for tertiary education and training which is depicted in figure 1.

The move from a higher to a tertiary education system for Australia is a most positive step. However, the lack of formal definitions of institutional roles and overall regulatory structures that promote diversity is disappointing. Left to themselves, the evidence suggests that, as TAFE institutes take their place on the national tertiary education stage, they are more likely than not to imitate universities. There is not only empirical evidence to support such a conclusion, but theoretical interpretations as well.

According to Van Vught (1996) there are two crucial factors influencing the direction of tertiary education diversity: (1) the way in which governments structure the policy environment; and (2) the relative power of academic norms and values within tertiary education institutions. Van Vught (p.54) postulates that: 'The larger the uniformity of the environmental conditions of tertiary education organisations, the lower the level of diversity of the tertiary education system.' Related to this proposition is the notion that market forces and competition may create an environment that is 'more completely homogeneous than state administration (whose control is never as complete) can ever be' (Marginson 1993, p.245).

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graph TD; COAG[COAG] --> MCTET[Ministerial Council on Tertiary Education and Training]; COAG --> CMEd[Commonwealth Minister for Education]; MCTET --> CMEd; MCTET --> STMET[State and Territory Ministers for Education and Training]; MCTET --> NCTER[National Centre for Tertiary Education Research]; MCTET --> NSOC[National Senior Officials Committee]; CMEd --> DEWR[Department of Education, Employment and Workplace Relations]; CMEd --> NRB[National Regulatory Body]; NRB --> AU[Accreditation Unit]; NRB --> AUU[Audit Unit]; NRB --> LMIU[Labour Market Intelligence Unit]; NRB --> SAC[Specialist advisory committees]; NRB --> ISC[Industry skills councils]; NSOC --> SCS[Sub-committees and taskforces]; STMET --> STDET[State and Territory Departments for Education and Training]; STDET --> STTAG[Skills and tertiary education advisory groups];
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The diagram illustrates the organizational structure of the Commonwealth Government in relation to tertiary education and training. At the top is the **COAG** (Council of Australian Governments). Below it, the **Ministerial Council on Tertiary Education and Training** is connected to COAG. This council is linked to the **Commonwealth Minister for Education** and the **State and Territory Ministers for Education and Training**. The **Ministerial Council on Tertiary Education and Training** also oversees the **National Centre for Tertiary Education Research** and the **National Senior Officials Committee**. The **Commonwealth Minister for Education** oversees the **Department of Education, Employment and Workplace Relations** and the **National Regulatory Body**. The **National Regulatory Body** oversees the **Accreditation Unit**, **Audit Unit**, **Labour Market Intelligence Unit**, **Specialist advisory committees**, and **Industry skills councils**. The **National Senior Officials Committee** oversees **Sub-committees and taskforces**. The **State and Territory Ministers for Education and Training** oversee the **State and Territory Departments for Education and Training**, which in turn oversee **Skills and tertiary education advisory groups**.

Van Vught (1996) also maintains that 'the level of influence of academic norms and values in a tertiary education organisation is related (by means of either academic professionalism or imitating behaviour) to the level of diversity of the tertiary education system. Drawing on the notion of competition under conditions of scarce resources, this proposition emphasises mimetic and normative isomorphism as proposed by DiMaggio and Powell (1983).

This leads Van Vught (1996, p.54) to formally postulate that: ‘The larger the influence of academic norms and values in a tertiary education organisation, the lower the level of diversity of the tertiary education system.’ Thus, at least theoretically, it would appear that providing TAFE institutes with enhanced autonomy and ability to engage in self-governance in the context of an integrated (non-formally differentiated) national tertiary education governance structure may encourage a strong process of institutional isomorphism.

Enhancement or otherwise of diversity is a result of a complex and sometimes contradictory interplay between government policy and institutional response that requires constant monitoring.

On the other hand, no matter how well devised the policies at system level, innovative governance and leadership at the institutional level appear to be a necessary although maybe not sufficient condition for the achievement of diversity.

Conclusion

Possible governance structures and autonomy for TAFE institutes is, in the final analysis, all about the relationships between TAFE and government (both Commonwealth and state). As Levin (2008, p.67) notes:

Governance is part of a historical and cultural process that both reflects and shapes institutional identity. Institutions are both agents and recipients of change, altering their social, cultural, and political contexts and being altered by these contexts. In the public sphere, government has primacy of authority for institutions. While governments have authority to change governance processes and structures in [TAFE] colleges, such changes do not emerge from thin air or within government, but from the negotiated order between government and its institutions and from the social, political, and economic context in which government operates in any given jurisdiction.

TAFE institutes are presently experiencing intense negotiations with governments at all levels over their future, much of which involves questions concerning degrees of self-governance and autonomy. My bet is that, over time, both will be increased. However, that is not the crucial question. What is at stake is the way in which enhanced self-governance and autonomy of TAFE institutes are shaped in order to ensure that these organisations continue to serve the educational, economic and social needs of the nation.

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Attachment A: How flexible and commercially focused are publicly owned providers?

Flexibility includes	NSW	Vic.	Qld	WA	SA	Tas.	ACT	NT
1. Autonomy, broadly defined as authority of TAFE directors to independently manage their institutes (legal independence and reporting through an independent board rather than directly to the department) i.e. publicly owned providers are statutory bodies with clear boundary between government's owner and purchaser roles	Publicly owned providers are governed by department and the owner and purchaser roles of government tend to be more blurred	✓	From early 2008 publicly owned providers progressively becoming statutory bodies	Publicly owned providers are statutory bodies but department orchestrates whole-of-sector planning and retains approval rights over issues such as capital expenditure, sale of land and entry into profit-making joint ventures	Publicly owned providers are governed by department and the owner and purchaser roles of government tend to be more blurred	✓	✓	✓
2. Employment arrangements that maximise workforce flexibility e.g. enterprise bargaining agreements negotiated at the public provider level	Employment terms negotiated by the department	Government requires all TAFEs to enter into a multi-employer certified agreement	Employment terms negotiated by the department	Employment terms negotiated by the department	Employment terms negotiated by the department	✓	✓	✓
3. Incentives for public providers to act commercially, such as the ability to retain revenues and enter partnerships with industry i.e. public providers are fully commercially accountable, can retain surpluses and can enter into commercial contracts*	Publicly owned providers can enter commercial contracts and retain surpluses in a rolling three-year period but there is an absence of capital asset management mechanisms	✓	New legislation establishes statutory authorities with the freedom to retain and invest their surpluses (without government approval required by the TAFEs)	Publicly owned providers commercially accountable but must gain government approval for capital expenditure decisions above \$50 000	Publicly owned providers operate commercially within the confines of departmental processes and cannot retain surpluses beyond the annual budget period	✓	✓	✓

Note: * All jurisdictions have policies that allow third-party access to publicly funded infrastructure on a fully commercial basis but private registered training organisations perceive barriers or limitations on access to TAFE infrastructure, such as conflicting with times of high utilisation and security of IT infrastructure. In addition to other publicly funded infrastructure, the NT Government runs four regional training centres accessible by negotiation to all public and private training providers.

Source: The Boston Consulting Group 2007, prepared by NCVER.

DISCUSSANT: MICHAEL KEATING

SKILLS AUSTRALIA AND SA TRAINING AND SKILLS COMMISSION

Meek's underlying presumption is that, 'over the next few years, TAFE institutes will gain greater autonomy and self-governance as TAFE becomes part of a truly national tertiary sector', as recommended in the Bradley Review of Australian Higher Education (Department of Education, Employment and Workplace Relations 2008). The main theme of Meek's paper is how this shift in favour of autonomy and self-governance can be expected to shape the character of individual TAFE colleges and their collective contribution to Australian society.

I certainly agree with Meek that it is important to preserve the distinctive features of the VET system. Some of the differences which presently distinguish VET from universities are:

- ✧ the links with industry, which are formalised and fundamental, underpinning course design, delivery and assessment
- ✧ much greater reliance on work-based training and assessment, with industry trainers and assessors working in partnership with VET providers
- ✧ competency-based assessment and work-oriented courses with a strong practical applied content covering a wide range of skills, but for the most part at a lower level than universities
- ✧ much more private funding of VET training by employers
- ✧ a very different student profile, with 88% studying part-time, a median age of 31, and much higher participation from students from disadvantaged backgrounds.

In short, by comparison with universities, VET is offering a very different learning experience to a very different group of students. Furthermore, the surveys reported in the Bradley Review strongly suggest that the majority of the students that VET serves do not aspire to go to university and would prefer the VET learning experience.

I accept that there is a risk that a common framework for the governance of a tertiary sector and the changes to the funding system, as advocated in the Bradley Report, would pose some threat for these distinctive features of VET. However, I don't believe that we should exaggerate these risks.

First, as a recent NCVER (Cully et al. 2008) review of governance structures for VET systems in other countries found, how governance actually works is heavily contingent on each country's history and culture and may not be able to be readily replicated in another country. In our case, and as Meek acknowledges, the historical traditions of our TAFE systems are unlike those of universities: 'unlike universities, which began as autonomous institutions, most TAFE systems in Australia originated as parts of government departments, operating within a public administration framework.' For that reason alone, I suspect it will probably take a long time to radically change the inherited culture of both government and industry involvement to the point where TAFE is mimicking universities, even if TAFE perceived that to be in its interest, which I very much doubt.

Nevertheless, in order to reduce the risk of VET being subsumed within a much more uniform system, it would be possible for VET to have its own separate governance arrangements. From the student's point of view, the governance arrangements are not important, but what matters is the ease of moving from one system to another and the credit arrangements associated with such transfers. But if the university and VET systems each had their own separate regulator, it would still be possible to meet the essential student demand, namely, to get the two regulators to agree on better articulated pathways to enable students to obtain reasonable credits and more readily transfer between VET and higher education—in both directions.

Second, perhaps the issue that needs to be addressed more specifically is the future role of competition in the education and training market and its implications for governance. The Bradley

Review into Australian Higher Education has proposed a system of student entitlement, where funds would follow the student. In that case student demand and choice will determine each institution's student numbers and funding. This may pose a number of problems for various TAFE institutes that I will refer to later. However, as I have just outlined, I think that most of the students TAFE is serving are sufficiently different from university students and are seeking a different educational experience, which would mean that competition from universities will not represent the main challenge to TAFE.

Instead, the competition is likely to be more intense within the VET sector, both from private registered training organisations and from other TAFE institutes. This being the case, TAFE institutes will need more autonomy to enable them to compete effectively. Only more autonomy will provide individual institutes with the flexibility and the capacity to innovate, which is necessary to survive in a competitive market.

At the same time, accountability is the critical counterpart of greater autonomy. In considering future accountability arrangements as part of governance, we need to recognise the following:

- ✧ Historically TAFE teachers have not experienced the same status and trust that university academics have enjoyed. In particular, because academics are seen as the experts in their field, they have largely controlled what each university will teach and how it will be taught, with even their governing councils having minimal input into such decisions. By contrast, VET teachers are not regarded as having the same level of expertise, and often there are questions about their understanding and the currency of their experience of industry's needs. That is probably the key reason behind the increased role of industry in VET over the last 30 years, as industry and governments have sought to change VET from what they saw as a supplier-driven system to a demand-driven system.
- ✧ If the market is imperfect, for example, because consumers are not properly informed, then there is more of a role for government regulation, such as quality control, and/or government purchasing, possibly in turn informed by industry. Indeed, the arrangements for quality control have been a key concern of stakeholders in relation to the Council of Australian Governments' proposals last year to move to more contestable VET funding, possibly through a student entitlement model.
- ✧ The counterpart, however, is that, if market imperfections can be removed by government intervention to secure the provision of better information and/or to ensure proper quality control, then there may be less need for other more intrusive forms of government regulation.

My hunch is that future governance arrangements for VET are likely to reflect reliance on some combination of the different alternatives I have just outlined, as we move towards a more competitive education and training market. However, I don't see it as necessarily becoming a more uniform market. Rather, I consider there is a good chance that a diversity of different needs among the prospective VET students will continue. If this is the case, a competitive training market will respond in similarly diverse and innovative ways. Individual TAFE institutes will therefore need more autonomy, not less, if they are to respond quickly and flexibly to the variety of student demands. However, *operational* autonomy will need to be exercised within a policy framework set by governments, which directs the institutes to the outcomes that government wants them to achieve.

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Endnotes

Tom Karmel

- ¹ The last of the agreed research priority areas for 2008–10 is *Enabling VET providers to compete effectively: by identifying the barriers VET providers face to operating effectively in a competitive environment*.
- ² There is also a large private market for the provision of accredited training in which there are no public subsidies. The reasons why some accredited training is subsidised and some is not appear to be historical more than anything else.

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- ³ In line with the skill levels described in the ABS Australian and New Zealand Standard Classification of Occupations (ANZSIC) I have classified managerial and professional jobs as typically requiring degree-level qualifications. Mismatch for vocational qualifications is harder to measure at the level of aggregation in *Education and work*, but appears to be high for diplomas and certificate III/IV in the 2005 survey and difficult to assess for certificate I or II (Cully 2006, table 6, p.21). For recent vocational education graduates, levels of mismatch are also high (Karmel, Mlotkowski & Awodeyi 2008).
- ⁴ This does not include places at private higher education institutions operating without the FEE-HELP loan scheme, as they are not obliged to report their enrolments. The percentages are calculated on the coursework places recorded in the Department of Education, Employment and Workplace Training's *Selected higher education statistics*.
- ⁵ Each cluster comes with a Commonwealth contribution per full-time student place. There is also a student contribution amount set by the higher education providers up to a maximum set by the Commonwealth, with almost all students paying the maximum amount. The Commonwealth contribution rates can be found at table 1 and student contribution amounts at table 2, available at: <<http://www.goingtouni.gov.au/Main/FeesLoansAndScholarships/Undergraduate/CommonwealthSupportForYourPlaceAndHECS-HELP/WhatYouPay.htm>>.
- ⁶ There are some exceptions for 'specialised and nationally significant courses', which restrict course closures that would be likely to create a skill shortage or involve a 'nationally strategic language'.
- ⁷ The complications are explained in my submission to the 2009 Review of Australian Higher Education (the Bradley Review), at p.6: <<http://www.dest.gov.au/NR/rdonlyres/D20E360D-E93A-4EB9-8A55-7FD39FA3021B/23161/091ANorton.pdf>>. Changes from 2008 make adding new places without formal agreement from the Commonwealth less difficult.
- ⁸ The complexity introduced in 2005 was not so much the formal agreements on funding clusters, as there are no formal penalties for not meeting target numbers. Rather, it was the new distinction between Commonwealth and student contributions. This meant that disciplines that had similar total income per student place had very different Commonwealth contributions, making them less interchangeable, while keeping within maximum total Commonwealth contributions.
- ⁹ Department of Education, Training and Youth Affairs, *Learning for life: Review of higher education funding and policy* (the West review). The cabinet submission can be seen at: <http://wopared.parl.net/senate/committee/eet_ctte/completed_inquiries/1999-02/public_uni/report/e04.pdf>.
- ¹⁰ For example, Martin & Bernoth (1999).
- ¹¹ See also the submissions from the Council of Private Higher Education, the Australian Council for Private Education and Training, Bond University, and Navitas Ltd to the Review of Australian Higher Education. <http://www.dest.gov.au/sectors/higher_education/policy_issues_reviews/reviews/highered_review/#Submissions>.

- ¹² I was the ministerial adviser responsible for higher education in 1999. My most detailed argument for market mechanisms appears in Norton (2002).
- ¹³ Now superseded. The number of digits indicates the level of specificity. For example, the one-digit '4' is for tradespersons, the two-digit '44' is for construction tradespersons, and the three-digit '443' is for plumbers.
- ¹⁴ Actual level of demand inferred from adding reported student numbers (NCVER 2008, table 16) to ABS estimates of unmet demand (*Education and work* various years). These results were then compared with table 15 of the Access Economics report.
- ¹⁵ For graduation trends, see CM Joyce et al. (2007, pp.309–12).
- ¹⁶ For statistics on the heavy reliance on imported medical professionals see ABS (2008a).
- ¹⁷ 2006 census data show that nearly 85% of males and more than 70% of females aged 25–54 years with medical degrees are working as medical practitioners.
- ¹⁸ A study of why private US vocational colleges get better results for their students than community colleges noted that the former puts much greater emphasis on liaison with employers, both in devising their courses and helping their students find jobs (Rosenbaum et al. 2006, esp. chapters 7–10).
- ¹⁹ However, I doubt whether the Bradley Review voucher system will work due to issues with its price system; see Norton (2009).
- ²⁰ For relevant summaries from the Department of Employment and Workplace Relations 'Skills in demand' lists and for the graduate labour market from the Graduate Careers Australia, *Graduate destinations*, see the University of Melbourne submission to the Review of Australian Higher Education, p.30, viewed 27 December 2008, <<http://www.unimelb.edu.au/publications/docs/2008bradleysubmission.pdf>>.
- ²¹ Net migration of computing professionals added about 50% to the labour supply generated by domestic students completing IT courses (Birrell et al., 2006, table 1; Department of Education, Employment and Workplace Relations 2007, table 3).
- ²² Applications data going back to 1993 can be found in the 2003 Australian Vice-Chancellors' Committee annual unmet demand report, viewed 2 January 2009, <<http://www.universitiesaustralia.edu.au/content.asp?page=/publications/stats/unmet/index.htm>>.
- ²³ In the 2008 Graduate Destination Survey, all health occupations had unemployment rates below those of graduates generally (see GradStats no. 13, December 2008, viewed 2 January 2009, <<http://www.graduatecareers.com.au/content/download/3869/16197/file/GradStats%202008.pdf>>.
- ²⁴ In a 2005 survey 75% of higher education respondents gave as their main reason for university study something to do with work, and 19% nominated 'interest or personal reasons' (ABS 2006).
- ²⁵ <<http://joboutlook.gov.au/Pages/default.aspx>; <http://jobsearch.gov.au/careers/pages/skillsinfo.aspx>>; <http://jobsearch.gov.au/Careers/Pages/je_information.aspx#jobexplorer> (viewed 2 January 2009)
- ²⁶ Own calculations from funding agreements supplied by the Department of Education, Science and Training and subsequently by the Department of Education, Employment and Workplace Relations. Places are allocated to particular courses rather than according to funding clusters or ASCED field of study, which means that there will not be perfect correspondence with reported enrolment data. For example, a student in a course for which medicine is the main field of study may take units of study classified into the natural and physical sciences.
- ²⁷ This happened 18 times between 2005 and 2008 (Senate Employment, Education and Workplace Relations Committee 2006, p.66; Healy 2008).
- ²⁸ New places are author's calculations from the Department of Education, Science and Training and subsequently by the Department of Education, Employment and Workplace Relations funding agreements with universities. See also note 30 for issues in extrapolating from course names to actual units of study, the basis of table 4.
- ²⁹ Some of the consequences of this for states are explored in Norton (2008).
- ³⁰ For example, Department of Education, Science and Training, 'Additional Commonwealth supported places commencing in 2008', application guide.

- ³¹ 'Fully funded' distinguishes between the target load of places and so-called 'over-enrolments', partially funded enrolments in excess of the target. Target load numbers are recorded in higher education reports published annually by the Department of Education, Employment and Workplace Relations.
- ³² Author's analysis based on census results provided by ABS. The graduates may in fact have those qualifications, since the census asks only about the highest qualification.

Mark Burford

- ³³ Ivan Deveson was chief executive of Nissan Motor Company in Australia at the time and Chair of Victoria's State Training Board. The review was conducted for the national Ministers of Labour Advisory Council and was ostensibly an inquiry into the training costs associated with the then-significant movement of award restructuring, but it was really a more broad-ranging inquiry into training and the need for growth in investment for training. Deveson provided the arguments for a significant boost in Commonwealth operating funding for training—the growth funds that lubricated negotiations leading to the establishment of the Australian National Training Authority (ANTA). Interestingly, the review also examined the level of TAFE fees and considered the arguments for extending the Higher Education Contribution Scheme (HECS) arrangements to TAFE. While expressing concern at the level of some fees, the review rejected HECS for TAFE at that time on the ground that income returns to individuals did not warrant a significant co-investment, as had been the case with higher education. The author of the current essay was a member of the review secretariat and a co-author of the report.
- ³⁴ PCEK later became the Boston Consulting Group in Australia.
- ³⁵ Although these too are in need of major reform.
- ³⁶ Of course I have packed a lot of history into a short space here and ignored much else. The period of David Kemp's ministry is particularly interesting. He pursued market reforms with greater vision and thought than was later the case under subsequent Howard ministers. He also had the benefit of assistance from reform-minded advisers and a policy-focused ANTA.
- ³⁷ Commissioned by MCVTE during the last days of the Howard Government, but not captive of any one government's policy.
- ³⁸ The discussion here refers to VET and TAFE. In my view similar arguments apply for higher education.

Pat Forward

- ³⁹ For an elaboration of this argument, see Michael Cooney in the Per Capita discussion paper released late last year, which attempts to provide some rationale for a student entitlement model. He 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 [an] adequate supply of training to meet the emerging demand. This can be expected to deliver important new social and economic benefits' (Cooney 2008).
- ⁴⁰ The Productivity Commission uses the level of government inputs per unit of output (unit cost) as an indicator of efficiency. The indicator of unit cost reported here is 'recurrent expenditure per annual hour'. Recurrent cost per annual hour of training measures the average cost of producing a training output of the VET system (a unit cost).
- ⁴¹ The Commission also uses 'government recurrent expenditure per load pass' as an indicator of the efficiency of VET services. It represents the cost to government of each successfully completed VET module or unit of competency (that is, the cost per successfully achieved output).

Richard Denniss

- ⁴² See any orthodox economics textbook such as Samuelson and Nordhaus (1987, p.24) and Lipsey and Crystal (1995, p.6).

Nicholas Gruen

- ⁴³ Thanks to Damian Jeffree for valuable research assistance and Colin Alcock, Andrew Norton, Clive Kanes and David Kellam for their comments on an earlier draft.
- ⁴⁴ The classic public good is defence from invasion of the realm because once the realm is defended it costs no more to defend all citizens (non-rivalry in consumption) and once one has protected one citizen one cannot exclude others from the protection (non-excludability).
- ⁴⁵ A similar survey is done for the university sector in Australia, which is discussed briefly below.
- ⁴⁶ McKeachie (1997, p.1219) argues that ‘student ratings are the single most valid source of data on teaching effectiveness.’ Hobson and Talbot’s 2001 review concluded that ‘well-developed student evaluations with adequate reliability and validity data may provide some of the best measures of teaching effectiveness’ (p.30). Centra (2003, pp.495–6) goes into more detail:
- No method of evaluating college teaching has been researched more than student evaluations, with well over 2,000 studies referenced in the ERIC system. The preponderance of these study results has been positive, concluding that the evaluations are: (a) reliable and stable; (b) valid when compared with student learning and other indicators of effective teaching; (c) multidimensional in terms of what they assess; (d) useful in improving teaching; and (e) only minimally affected by various course, teacher, or student characteristics that could bias results.
- ⁴⁷ Note this information should not be ignored for many purposes, for instance, assessing course quality, but should be taken into account, for instance, when seeking to assess the quality of a teacher who has no control over class size.
- ⁴⁸ In a ‘small year’ a random sample of around 82 000 is selected to be asked questions about their VET experience and their employment status. This provides statistically robust information at the level of states but not at the level of individual institutions or schools. Individual institutions can top up the sample from their student catchment at a marginal cost. In 2008, a small year, this increased the sample to about 108 000 students. In a large year, which produces institution-level reporting, the sample size is about 300 000 students.
- ⁴⁹ There is some breakdown of results by ‘field of education’, although the information on student satisfaction and employment status does not seem to be adequately reported.
- ⁵⁰ As Knight and Cully observe (2007, p.30), the current arrangement: ‘tends to favour the interests of the producers of vocational education and training (that is, the providers and the state training authorities) over the consumers (that is, individual students and employers) and the general public interest.’
- The protocols imposed on NCVER in its handling of information include the following:
- NCVER will not release information about an individual training provider without the written permission of that provider (or, where relevant, the appropriate state training authority). In addition, a number of state training authorities have requested that information about provider sectors within their jurisdiction (i.e. TAFE, community providers and private providers) not be published or released. As a result of these requests NCVER only publishes or releases sector-level information for those States and Territories that have agreed in writing to do so (viewed 8 January 2009, <<http://www.ncver.edu.au/aboutncver/statistics/protocols.html>>).
- This situation is similar to the one imposed upon the body managing a similar survey of university students in Australia (see below).
- ⁵¹ There will soon be some progress in the direction of online access to SOS information, with the March or April 2009 launch of SOS Online. This site, aimed at prospective students and modelled on GradsOnline (<gradsonline.com.au>), will feature information on employment outcomes and graduate salaries. Unfortunately, as per the restrictions on NCVER’s funding agreement, no information on a per-institution basis will be available, nor will any information relating to the graduates’ perceptions of teaching quality, effectively neutering the site as a driver of institutional competition (pers. comm. Susan Dawe and Mette Creaser [NCVER]).
- ⁵² <Ratemyprofessors.com> operates from five countries—but does not include Australia—from the US, Canada, England, Scotland and Wales.
- ⁵³ Illustrating the principle that more information is usually better than less, it turns out that ‘hotness’ is correlated with higher-quality scores, offering a means for users to correct for the possibility of bias should they wish.

- ⁵⁴ <<http://www.ratemyprofessors.com/About.jsp>>, viewed 17 January 2009.
- ⁵⁵ For instance, giving professors a specific ‘channel’ to voice their responses to student feedback (or putative student feedback!) and with rejection of defamatory and obviously poorly motivated ratings and comments.
- ⁵⁶ See <<http://www.thestudentsurvey.com/>> for further detail.
- ⁵⁷ <<http://www.unistats.com/faq.do#s2q1>>. There are plans to collect and publish information at course level in future. The closest thing Australia has to the NSS is the Course Experience Questionnaire organised by Graduate Careers Australia. The teaching quality score for each area of study at each institution is given as average, worse, or better and is published in the *Good universities guide*. Graduate Careers Australia is a not-for-profit organisation run by representatives from the universities themselves and government. The course-level teacher-quality rating is currently not published online, although the data are made available to the universities. The level of compression of the data in the *Good universities guide* makes it effectively useless as a basis of competition between university course offerings. In fact, the universities are expressly prevented from using the Course Experience Questionnaire data to compete against each other by a clause in the contract with Graduate Careers Australia. By comparison, the English NSS is commissioned by the Higher Education Funding Council for England, which is the funding body for all higher education in England, and the study has been designed to facilitate informed competition between the institutions. Nevertheless, it is possible that the data gathered by the Course Experience Questionnaire could be co-opted as the basis for a Unistats-style site (with thanks to Andrew Norton for information on the Course Experience Questionnaire).
- ⁵⁸ <<http://www.timeshighereducation.co.uk/story.asp?storyCode=310073§ioncode=26>>, viewed 17 January 2009.
- ⁵⁹ See for instance <<http://mhslearning.edublogs.org/2008/09/26/do-you-teach-no-i-work-at-the-university/>>, viewed 10 January 2009.
- ⁶⁰ See the case studies at <www.heacademy.ac.uk/assets/York/documents/ourwork/research/surveys/nss/nss_case_studies_nov07_v5.doc>.
- ⁶¹ See for instance De Montfort University, <http://www.ipsos-mori.com/_assets/nss/pdf/de%20montfort.pdf>. Part of its plan, communicated in some Powerpoint slides, involves ‘develop[ing] own branding about the survey’ and making sure students are ‘back [and] settled in’ (I presume this means when the survey is administered.)
- ⁶² As reported on a blog post by Kevin O’Brien, Professor of Orthodontics:
- So what did we do?*
- Head of School, Dr Grey took hands on approach with high student visibility.
 - Concentrated on being positive and pushing the good things.
 - Improved communication. The students received the Head of School weekly update.
 - Started a BLOG.
 - We had an excellent student year rep with whom we worked. She knew that she could approach any of us and we would listen to her and help.
 - Staff/student meeting. We made a point of listening to the students and acting on their concerns. There had been a tendency to ‘brush issues’ aside in recent years.
 - Let the students know how we had responded to their concerns and requests. Extra lectures, extra clinics. There was transparency.
 - One member of staff/tutor met with a group of 10–12 students for an hour every week. This was the personalised contact between the group and the tutor. We tended to let the group set the agenda. If the group had nothing to fill the time we had prepared material to go through with them. That member of staff made sure that the session occupied the hour.
 - The tutors met 3 times, with their students individually to go through their log book/portfolios and give feedback, advice etc.
 - The tutors made sure that the students realised that they were receiving feedback. We changed the heading on the sheets to read—feedback.
 - Each group of students had a rep that would speak on behalf of the group, for the group. These reps also met with the year coordinator.
 - The tutors also met with the year coordinator to [deal with] feedback issues. These were quickly addressed and actions reported back to the students.

- The year coordinator was supported by a full time administrator/secretary. They both had open door policies. The students appreciated this.
- The Head of School had 1 to 1 emails—he invited questions from the students, to which he responded personally.
- More staff student interactions/events.

Basically, we listened to the students, responded to requests and let them know what we had done or not done (in a few cases) <<http://mhslearning.edublogs.org/2008/09/26/do-you-teach-no-i-work-at-the-university/>>.

⁶³ Andrew Norton has commented, I think rightly, that this is more of a problem in the universities than it is in VET.

⁶⁴ See, for instance, Department of Education and Early Childhood Development (2007). Note that the problem of ‘established’ institutions enjoying self-reinforcing reputational advantages by virtue of their incumbency seems much less pronounced a problem in the VET sector than it could be in the university sector.

It may not be appropriate to develop such corrections for such things in student satisfaction with courses (although it is worth trying to further disaggregate results to provide some profile of the kinds of students who rate themselves as satisfied and unsatisfied with courses). However, where league tables reflect the numbers of students finding employment after completing a course, one would have thought it important to provide users of unistats.com with some means of inferring the extent to which outcomes are influenced by the quality of the institution as opposed to the quality of its students. Not doing so is likely to perpetuate unfair and inefficient advantages of incumbent institutions.

⁶⁵ They go on:

Private actors, either nonprofit or commercial, are better suited to deliver government information to citizens and can constantly create and reshape the tools individuals use to find and leverage public data. The best way to ensure that the government allows private parties to compete on equal terms in the provision of government data is to *require that federal websites themselves use the same open systems for accessing the underlying data as they make available to the public at large* (emphasis in original).

⁶⁶ Note however that there is a further problem. If privately run sites are generating data, for instance, in discussion forums or through the additional provision of information by users, this may fragment the available information, unless the various competing sites are nevertheless coordinated in some way, perhaps taking data feeds from one another.

⁶⁷ As Ho and Quinn (2008, p.283) explain the diagrams and what they are illustrating.

[Figure 1] plots the observed ratings for two raters of *U.S. News*. Each panel represents all ratings submitted by two raters on the y-axis (randomly jittered for visibility) and the [posterior mean of the] latent content quality as estimated from the IRT model on the x-axis. The first panel shows that *U.S. News* was rated by a non-critical user, who rated more than two-thirds of all outlets as ‘great’ (i.e., better than *U.S. News*). If anything, from this user’s rating of ‘very good’ we learn that *U.S. News* may be worse than the majority of outlets rated. The second panel plots a user who is largely non-discriminating, failing to distinguish high and low content outlets in any systematic way compared to the majority of Mondo users. Intuitively, we learn little from such users, as a rating of ‘very good’ does not distinguish the outlet meaningfully. Little information is conveyed ...

⁶⁸ All ratings submitted by the two raters, both of whom rated *Colorado Public Radio* in row 2 of figure 2. Each panel depicts data from a single rater. Each circle in each panel represents a news outlet rated by the rater in question, randomly jittered for visibility within each of the five rating categories. The filled blue circles represent the rating of *Colorado Public Radio*. This figure illustrates how, even with only two ratings, the (posterior) probability that this news outlet would be rated ‘great’ is quite high. Note that both raters rated many outlets and both raters are very good at distinguishing low- and high-quality news outlets.

⁶⁹ Note: to the extent that this technique is used, it presumes an objective standard of rating. Accordingly, the statistical approach would need to be re-specified and would lose some power, to the extent that we sought to interrogate the data for more than one perspective; for instance, a high-performing student’s perspective versus a lower-performing student’s perspective.

⁷⁰ On the other hand, ratemyprofessors.com has a strong incentive to use such techniques, which can disrupt and raise the cost of ‘strategic’ or manipulative posting. If ratemyprofessors.com downgraded

those raters who show erratic ratings, those seeking to make their ratings count would have an incentive to try to match them to their expectations of others' ratings.

⁷¹ Student instructions are offered which imply that completion of the survey is in the first instance compulsory; for example, by outlining procedures for 'opting out', but there is no discussion of any sanctions other than follow-up reminders.

⁷² See <<http://www.hefce.ac.uk/learning/nss/>> and <<http://www.hefce.ac.uk/news/hefce/2008/nss.htm>>, viewed 16 January 2009 for data on the NSS and NCVER (2008, p.7) for SOS data.

⁷³ The ABS has powers of compulsion in recognition of this argument, although, if such a process were sensibly adopted, the cumbersome procedures that the ABS is required to go through would be avoided (the individual provision of specific directions to provide information followed by court enforcement). A more promising approach would be analogous to that taken in enforcing compulsory voting. Someone required to provide information would be required on pain of some fine (and/or as a condition of the granting of their qualification) to register to provide the information but retaining some residual right, having gone to that inconvenience, to not provide the information. We do not actually compel voting, we compel the inconvenience of voting while allowing people to vote informally once they have submitted to the inconvenience. Similar principles should apply here. Although it is not truly compulsory, the UK student survey incorporates similar principles to those being proposed here. The student survey website <studentsurvey.com> makes no reference to any ultimate sanctions for non-completion of the survey, but it implies that the survey is compulsory, by providing advice on 'opting out' of the survey in the following terms:

We need to be sure of the identity of the student opting-out and ask for the same identification information for opting-out of the survey as we do for responding to the survey. To opt-out of the survey click here. You will be able to opt-out of specific stages of the NSS (e.g. the online survey), or from all stages.

It then goes on to pose another question, 'I have already completed the survey and I recently received a reminder. Do I have to complete it again?'. Its answer explains what students to do—implying, without saying so explicitly—that responses are compulsory <<http://www.thestudentsurvey.com/faqs.asp>>, questions 11 and 14, viewed on 17 January 2009.

A further issue here is that, if the provision of student evaluations is to be made compulsory, the survey and the methods available to students for completing it should not be onerous. One way this could be assured would be to adopt the British practice, which is to involve student associations in the governance of the system.

⁷⁴ Currently NCVER does allow approved users access to a confidentialised form of the raw data through confidentialised unit record files (CURFs). In addition, VOCSTATS <<http://www.ncver.edu.au/resources/vocstats/intro.html>> allows sophisticated users to construct their own tables extracted from the various NCVER collections, including the SOS via a web interface (pers. comm. Susan Dawe).

⁷⁵ NCVER publishes confidence levels for all SOS statistics published online. VOCSTATS does not generate confidence levels but does have a starring system to indicate data quality.

⁷⁶ It might also facilitate more comprehensive consideration of more students' interests in the construction of course timetables. Pucci (2006, p.17) also argues that integrated statistics are more robust to political exigencies than ad hoc statistics.

While the degree of institutionalization of *ad hoc* statistics greatly varies, all integrated statistics tend to be highly institutionalized. Once they have been produced for the first time, their future provision only depends on the continuing existence of the information system, and on the maintenance of the software producing the necessary views of the data. In order to discontinue the production of integrated statistics a clear opposition is needed, and not just a lack of support. To put it differently, *ad hoc* statistics requiring funding need an explicit decision to be continued. On the other hand, integrated statistics, once the continued functioning of the underlying information system is guaranteed, need an explicit decision in order to be interrupted.

⁷⁷ <<http://blog.facebook.com/blog.php?post=46881667130>>, viewed 18 January 2009.

Gerald Burke

- ⁷⁸ Available from the Department for Education, Employment and Workplace Relations website
<http://www.dest.gov.au/sectors/school_education/programmes_funding/forms_guidelines/quadguide/schools_quadrennial_administrative_guidelines_2005_to_2008.htm>.

V Lynn Meek

- ⁷⁹ Of course, the notion of a national tertiary education sector is not new in Australia and existed in a form under the former Commonwealth Tertiary Education Commission structure that operated up until the time of the so-called Dawkins reforms of the late 1980s (see Marshall 1990).

Appendix

This appendix contains data indicating the extent of the public monies flowing to private providers; it also provides data illustrating fee-for-service funds secured by public providers. This financial information is included to provide a background against which the various contributions in this volume of essays on competition in the training sector can be read and evaluated.

VET revenue tables

These revenue tables indicate the flow of public funding and the revenue public providers secure through fee-for-service.

The tables appear to show the following trends/points:

- (a) Over the last five years there has been a general increase in revenue from fee-for-service activities in public VET training providers across the jurisdictions.

Note: Fee-for-service revenue includes fees from individuals (other than regulatory student fees) and organisations, including government organisations, paid to and retained by the provider for training-related services provided under contract or commercial arrangements ... includes revenue from full fee-paying overseas students in Australia or contracted training services delivered overseas by public VET training providers. A full definition for fee-for-service revenue is in NCVER's *Financial information 2007* (p.80).

- (b) Public VET training providers in Victoria have the highest proportion of fee-for-service revenue compared with other jurisdictions. In Victoria VET reforms in 1990s resulted in more competition between public VET training providers, and these providers sought fee-paying students, particularly overseas students, and provided training services overseas on a commercial basis.
- (c) Table 3, based on the Productivity Commission (2008) report on Government Services, (table 5A.8), indicates that the proportion of government funding for VET which is available to open competitive tendering across the jurisdictions is very low and has not increased over the last five years. Although available user choice funding for training for apprentices and trainees is competitive, the proportion has changed little in the last five years.

Public providers and current revenue from fee-for-service

Table 1 Fee-for-service revenue across public training jurisdictions 2002–07

Fee-for-service revenue	NSW \$ million	Vic. \$ million	Qld \$ million	WA \$ million	SA \$ million	Tas. \$ million	NT \$ million	ACT \$ million	Total \$ million
2007	238.1	391.8	60.3	46.5	49.5	11.7	5.4	21.3	824.6
2006	228.4	334.5	53.1	42.4	41.9	10.1	2.3	18.2	730.8
2005	197.7	279.5	54.1	42.1	37.3	9.7	3.0	14.0	637.3
2004	126.6	265.9	45.0	38.3	35.5	13.8	2.7	6.6	534.3
2003	123.0	259.6	39.8	44.1	33.1	12.6	4.6	13.0	529.9
2002	104.1	247.1	33.2	37.8	34.7	10.7	2.5	8.4	478.6

Note: All values are in historic prices.
Source: NCVET National VET Financial Data Collection (unpublished).

Table 2 Percentage of fee-for-service revenue of total revenue across jurisdictions 2002–07

% fee-for-service revenue to total recurrent revenue	NSW	Vic.	Qld	WA	SA	Tas.	NT	ACT	Total
2007	13.3	25.6	6.9	8.4	12.5	9.6	4.8	18.8	14.3
2006	13.4	23.7	6.9	7.8	11.4	9.0	2.3	17.0	13.8
2005	12.3	21.5	7.1	7.9	10.6	9.2	3.0	13.8	12.7
2004	8.2	21.8	6.4	7.7	9.8	13.6	2.9	7.4	11.4
2003	8.3	21.7	5.4	9.0	9.7	12.4	4.6	14.8	11.1
2002	7.5	21.2	4.6	8.4	10.7	11.0	3.4	10.3	10.9

Source: NCVET National VET Financial Data Collection (unpublished).

Contestable public funding available for training

Table 3 Allocation of government real funds for VET (2006 dollars)^(a)

	Units	NSW	Vic. ^(b)	Qld	WA	SA	Tas.	ACT	NT	Aust
2006										
Australian Government recurrent funding ^(c)	\$m	339.1	246.0	175.2	96.1	79.1	27.1	19.3	11.7	993.5
State/territory recurrent funding	\$m	977.8	681.0	438.1	336.8	207.5	65.1	59.5	75.3	2 840.9
Government recurrent funding	\$m	1 316.9	927.0	613.3	432.8	286.6	92.2	78.7	86.9	3 834.5
<i>Amounts allocated</i>										
Open competitive tendering ^(d)	\$m	27.1	12.6	14.2	9.1	8.3	4.9	2.5	—	78.7
Limited competitive tendering ^(e)	\$m	—	—	10.4	—	4.9	—	0.2	—	15.5
User choice	\$m	226.5	205.9	127.0	55.7	39.1	17.5	11.2	11.6	694.5
Total	\$m	253.6	218.5	151.6	64.8	52.3	22.4	13.9	11.6	788.7
<i>Proportion of government recurrent funding</i>										
Open competitive tendering ^(d)	%	2.1	1.4	2.3	2.1	2.9	5.3	3.2	—	2.1
Limited competitive tendering ^(e)	%	—	—	1.7	—	1.7	—	0.3	—	0.4
User choice	%	17.2	22.2	20.7	12.9	13.6	19.0	14.2	13.3	18.1
2005										
Australian Government recurrent funding ^(c)	\$m	342.6	248.9	175.6	96.6	80.0	27.5	19.6	11.4	1 002.1
State/territory recurrent funding	\$m	982.0	670.9	468.2	357.0	203.2	63.1	60.7	69.8	2 875.1
Government recurrent funding	\$m	1 324.6	919.8	643.8	453.6	283.3	90.6	80.3	81.2	3 877.2
<i>Amounts allocated</i>										
Open competitive tendering ^(d)	\$m	21.0	13.1	15.8	12.7	6.3	3.0	2.7	—	74.7
Limited competitive tendering ^(e)	\$m	—	—	22.6	—	2.2	—	0.2	—	25.0
User choice	\$m	211.4	200.1	118.2	47.4	39.5	15.1	11.8	12.1	655.6
Total	\$m	232.5	213.2	156.5	60.1	48.0	18.2	14.7	12.1	755.3
<i>Proportion of government recurrent funding</i>										
Open competitive tendering ^(d)	%	1.6	1.4	2.4	2.8	2.2	3.4	3.4	—	1.9
Limited competitive tendering ^(e)	%	—	—	3.5	—	0.8	—	0.3	—	0.6
User choice	%	16.0	21.8	18.4	10.4	13.9	16.7	14.7	14.9	16.9

	Units	NSW	Vic. ^(b)	Qld	WA	SA	Tas.	ACT	NT	Aust
2004										
Australian Government recurrent funding ^(c)	\$m	339.7	246.4	172.8	95.4	79.5	27.4	19.5	11.3	992.0
State/territory recurrent funding	\$m	1 003.8	638.0	456.9	339.0	210.6	59.2	58.5	71.7	2 837.6
Government recurrent funding	\$m	1 343.5	884.4	629.7	434.4	290.1	86.6	78.0	83.0	3 829.6
<i>Amounts allocated</i>										
Open competitive tendering ^(d)	\$m	20.7	13.7	16.5	12.5	2.2	1.8	3.1	—	70.4
Limited competitive tendering ^(e)	\$m	—	—	18.0	—	12.3	—	0.2	—	30.4
User choice	\$m	226.5	198.2	116.6	45.1	38.3	21.0	12.8	9.7	668.5
Total	\$m	247.2	211.9	151.2	57.6	52.8	22.8	16.1	9.7	769.3
<i>Proportion of government recurrent funding</i>										
Open competitive tendering ^(d)	%	1.5	1.5	2.6	2.9	0.8	2.0	3.9	—	1.8
Limited competitive tendering ^(e)	%	—	—	2.9	—	4.2	—	0.3	—	0.8
User choice	%	16.9	22.4	18.5	10.4	13.2	24.3	16.4	11.7	17.5
2003										
Australian Government recurrent funding ^(c)	\$m	342.2	248.1	173.6	96.0	80.1	27.7	19.7	12.3	999.7
State/territory recurrent funding	\$m	1 019.3	648.7	503.5	342.2	200.4	58.4	54.3	72.9	2 899.7
Government recurrent funding	\$m	1 361.5	896.8	677.1	438.2	280.5	86.1	74.0	85.2	3 899.4
<i>Amounts allocated</i>										
Open competitive tendering ^(d)	\$m	28.3	83.1	16.5	12.9	2.2	1.7	3.1	—	148.0
Limited competitive tendering ^(e)	\$m	—	—	11.6	—	3.4	—	0.2	—	15.2
User choice	\$m	255.7	134.8	112.4	41.1	43.8	16.3	9.8	9.8	623.7
Total	\$m	284.0	218.0	140.4	54.0	49.4	18.0	13.1	9.8	786.9
<i>Proportion of government recurrent funding</i>										
Open competitive tendering ^(d)	%	2.1	9.3	2.4	2.9	0.8	2.0	4.3	—	3.8
Limited competitive tendering ^(e)	%	—	—	1.7	—	1.2	—	0.3	—	0.4
User choice	%	18.8	15.0	16.6	9.4	15.6	18.9	13.2	11.5	16.0

	Units	NSW	Vic. ^(b)	Qld	WA	SA	Tas.	ACT	NT	Aust
2002										
Australian Government recurrent funding ^(c)	\$m	328.1	237.4	165.2	91.6	77.0	26.8	19.0	10.0	955.2
State/territory recurrent funding	\$m	971.1	656.2	522.2	325.3	191.1	60.4	52.2	59.8	2 838.3
Government recurrent funding	\$m	1 299.2	893.7	687.4	416.9	268.1	87.2	71.2	69.8	3 793.5
<i>Amounts allocated</i>										
Open competitive tendering ^(d)	\$m	36.6	16.7	20.0	13.5	7.8	2.0	3.8	–	100.3
Limited competitive tendering ^(e)	\$m	–	12.1	1.8	–	1.3	–	0.3	–	15.6
User choice	\$m	263.6	202.5	121.6	38.2	42.2	16.7	11.2	9.8	705.9
Total	\$m	300.2	231.3	143.5	51.7	51.3	18.6	15.3	9.8	821.7
<i>Proportion of government recurrent funding</i>										
Open competitive tendering ^(d)	%	2.8	1.9	2.9	3.2	2.9	2.2	5.3	–	2.6
Limited competitive tendering ^(e)	%	–	1.4	0.3	–	0.5	–	0.5	–	0.4
User choice	%	20.3	22.7	17.7	9.2	15.7	19.1	15.7	14.0	18.6

Notes: (a) Data for 2002–05 years have been adjusted to 2006 dollars using the GDP chain price index (Productivity Commission 2008, table 5A.72).

(b) Victorian TAFE institutes and ACE organisations are not eligible to apply for open competitive tendering.

(c) Commonwealth specific-purpose funds for Australians Working Together (AWT) had been previously excluded but, due to their inclusion in general recurrent payments by DEST commencing for 2006, these revenues are now included in the calculation of expenditure. The AWT funding commenced in 2002. Accordingly, the 2002–05 expenditures have been adjusted to align with 2006.

(d) The tendering process is open to both public and private providers, except where otherwise noted.

(e) The tendering process is restricted to community groups that deliver ACE VET programs.

– = Nil or rounded to zero.

Source: State and territory departments (unpublished) and NCVET (unpublished), cited in Productivity Commission 2008, *Report on government services* (Canberra, chapter 5 attachment, table 5A.8).

VET funding source tables

These funding source tables show the flow of public funding to private providers, and the success of public providers in securing private (that is, fee-for-service) funds.

These tables appear to show the following points:

- (a) Government funding was provided to private training providers for fewer than 200 000 students in 2007 compared with nearly one million students in TAFE and other government providers and 165 000 students in community providers.
- (b) Almost 96.5% of the students for which private providers received government funding went to privately operated organisations, while 2.4% went to industry associations, 1.0% to enterprises—non-government and 0.1% to professional associations.
- (c) In 2007, in terms of hours of training for which government funding was provided, over 83% was in TAFE and other government organisations, 12% in private providers and 5% in community providers.
- (d) Almost 96.3% of the hours of training for which private providers received government funding went to privately operated organisations, 2.6% to industry associations, 1% to enterprises—non-government and 0.1% to professional associations.

Scope

Information contained in this publication is, unless stated otherwise, derived from the National VET Provider Collection, which is compiled under the Australian Vocational Education and Training Management Information and Statistical Standard (AVETMISS). In 2007, Release 6.0 came into effect. For further information go to: <<http://www.ncver.edu.au/avetmiss/21055.html>>.

Activity covered in this publication includes VET delivered by:

- ▶ TAFE and other government providers
- ▶ multi-sector higher education institutions
- ▶ community providers
- ▶ private providers.

This publication does not cover the following types of training activity:

- ▶ recreation, leisure and personal enrichment
- ▶ fee-for-service VET by private providers
- ▶ delivery undertaken at overseas campuses of Australian VET institutions
- ▶ credit transfer
- ▶ VET delivered in schools, where the delivery has been undertaken by schools.

Subcontracted VET activity

Any activity where revenue was earned from another registered organisation in terms of subcontracted, auspicing, partnership arrangements or similar arrangements can now be identified and not replicated in reporting. For example, for New South Wales in 2007, subcontracted VET

activity accounted for 2600 students, 29 200 subject enrolments and 892 100 nominal hours. In previous years this type of activity may have been reported in duplicate as fee-for-service. This may contribute to the decline of fee-for-service activity between 2006 and 2007.

Improved identification of offshore activity

Activity from overseas campuses is out of scope of this set of tables. In 2007 this activity is better identified and reported. As a consequence, this activity is excluded in 2007 reporting, whereas in previous years it may have inadvertently been included.

Data revisions

Data may be revised for a variety of reasons. For the latest data please visit the NCVER website <www.ncver.edu.au>.

Table 4 Number of VET students by provider type by highest funding source, Australia, 2007

Highest funding source	Provider type				Total
	TAFE and other government	Community	Other (private providers)	Mixed	
Commonwealth and state general funding	890,820	125,992	173,283	7,844	1,197,939
Commonwealth specific funding	18,712	1,964	4,627	9	25,312
State specific funding	18,283	971	934	479	20,667
<i>Government sub-total</i>	<i>927,815</i>	<i>128,927</i>	<i>178,844</i>	<i>8,332</i>	<i>1,243,918</i>
Domestic fee-for-service	350,759	35,668	0	270	386,697
International fee-for-service	34,262	140	0	1	34,403
Revenue from other RTOs	0	0	0	0	0
Award only – no enrolments	0	0	0	0	0
Total	1,312,836	164,735	178,844	8,603	1,665,018

Source: National VET Provider Collection (2007).

Table 5 Number of VET students by private provider type by highest funding source, Australia, 2007

Highest funding source	Private provider type					Total private providers
	Enterprise – non-government	Privately operated organisation	Professional association	Industry association	Manufacturer or supplier	
Commonwealth and state general funding	1,838	166,931	219	4,295	0	173,283
Commonwealth specific funding	0	4,627	0	0	0	4,627
State specific funding	0	934	0	0	0	934
<i>Government sub-total</i>	<i>1,838</i>	<i>172,492</i>	<i>219</i>	<i>4,295</i>	<i>0</i>	<i>178,844</i>
Domestic fee-for-service	0	0	0	0	0	0
International fee-for-service	0	0	0	0	0	0
Revenue from other RTOs	0	0	0	0	0	0
Award only – no enrolments	0	0	0	0	0	0
Total	1,838	172,492	219	4,295	0	178,844

Source: National VET Provider Collection (2007).

Table 6 Annual hours of VET students by provider type by funding source, Australia, 2007

Funding source	Provider type			Total
	TAFE and other government	Community	Other (private providers)	
Commonwealth and state general funding	262,168,241	13,514,752	38,100,849	313,783,842
Commonwealth specific funding	5,204,804	519,964	1,064,272	6,789,040
State specific funding	4,417,602	467,986	168,443	5,054,031
<i>Government sub-total</i>	<i>271,790,647</i>	<i>14,502,702</i>	<i>39,333,564</i>	<i>325,626,913</i>
Domestic fee-for-service	42,650,748	3,067,799	0	45,718,547
International fee-for-service	18,689,869	35,828	0	18,725,697
Revenue from other RTOs	0	0	0	0
Total	333,131,264	17,606,329	39,333,564	390,071,157

Source: National VET Provider Collection (2007).

Table 7 Annual hours of VET students by private provider type by funding source, Australia, 2007

Funding source	Private provider type					Total private providers
	Enterprise – non-government	Privately operated organisation	Professional association	Industry association	Manufacturer or Supplier	
Commonwealth and state general funding	409,993	36,634,784	49,351	1,006,721	0	38,100,849
Commonwealth specific funding	0	1,064,272	0	0	0	1,064,272
State specific funding	0	167,902	541	0	0	168,443
<i>Government sub-total</i>	<i>409,993</i>	<i>37,866,958</i>	<i>49,892</i>	<i>1,006,721</i>	<i>0</i>	<i>39,333,564</i>
Domestic fee-for-service	0	0	0	0	0	0
International fee-for-service	0	0	0	0	0	0
Revenue from other RTOs	0	0	0	0	0	0
Total	409,993	37,866,958	49,892	1,006,721	0	39,333,564

Source: National VET Provider Collection (2007).



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