

Let's go shopping: competition and choice in tertiary education

Norman LaRocque argues against the current trend towards centralising tertiary education

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The face of New Zealand's tertiary education has changed dramatically in the past 15 years and, more often than not, the changes have improved and developed it. Since the late 1980s, a series of broadly market-based reforms in tertiary education has helped move the system toward meeting contemporary requirements for success.



These reforms have been beneficial in many respects. Tertiary education participation has risen significantly and there is now a far wider range of subjects to cater for today's diverse needs. Enrolments for traditionally disadvantaged groups have also increased rapidly. Maori enrolments, for example, grew 46% between 1994 and 2000, compared to overall growth of 8%.

Few, however, would argue that our tertiary education system is succeeding in all respects – that it is fostering the leadership and thinking needed to compete in today's global economy, that it is producing the skills needed by employers, or that it is sufficiently flexible to meet the needs of a rapidly changing society.

Since late 1999, the Government has been unwinding many of these market-based initiatives with the aim of better aligning the tertiary sector's outputs with national development goals. There is scant evidence to suggest its proposed changes will improve the sector. Indeed, the evidence suggests the opposite.

Is competition bad?

An underlying principle of the recent changes seems to be that there is too much competition in the sector. Steve Maharey, the Associate Minister of Education (Tertiary), has described the sector as "fragmented, inward-looking and characterised by duplication and overlaps". The Minister's vehicle for "fixing" the sector is the soon-to-be-passed Tertiary Education Reform Bill (TERB). The TERB will re-institute a degree of centralised control through the establishment of a Tertiary Education Commission, the introduction of institutional charters and profiles and a "strategic relevance" test to determine which courses get funded or can be delivered. Furthermore, under the proposed changes private providers will no longer be funded where there is deemed to be "undesirable duplication" between their offerings and those of state institutions.

To see the potential implications of this, it is useful to draw

an analogy between the tertiary education and accounting industries. There are many similarities between the two. They are, for example, both multi-product service industries with a human capital focus.

And, like tertiary education, there is considerable "duplication and overlap" within the accounting industry – the Wellington phone book alone contains some 150 listing under Chartered Accountants.

In spite of the existence of such "duplication", would anybody seriously suggest that the accounting industry should be steered by a group of wise people in Wellington? That accounting firms should only be allowed to expand or offer new services if they can prove that these services are somehow "strategically relevant"? That private accounting firms should only deliver services where these are not offered by a government-owned accounting firm?

Probably not (although to be safe, we should probably wait and see what the post-Enron regulators come up with before answering that question). Yet, the situation described above is analogous to the model being built for tertiary education. If a non-competitive accounting industry doesn't make sense, then I would suggest the same is true for tertiary education. Indeed, the evidence, and there's a lot of it, points to successful outcomes for tertiary education resulting from competition and consumer choice. This is recognised by the fact that most other countries are taking steps to increase the role of competition, rather than lessen it.

You might argue that the two industries are different because the Government subsidises tertiary education. The Government, however, also subsidises legal aid, yet it does not "steer" the legal industry. In effect, the Government subsidises the consumption of food for those on welfare benefits, yet it doesn't allocate butter sales to Foodtown and margarine sales to Woolworths to avoid "needless duplication".

Students have a range of needs

There is no "one best way" to provide tertiary education.

The fact that the Government is subsidising tertiary education actually strengthens the case for competition given the latter's beneficial impacts on quality and price.

Changing labour markets, economic transformation, shifting demographics and

advancing technology are having a profound impact on the tertiary education landscape. The school-leaver focus on tertiary education has given way to the reality of lifelong learning. The four-year degree has been replaced by the 40-year degree. Students have a range of needs that calls for diversity of supply. There is no "one best way" to provide tertiary education. This is evident from the rise of corporate universities, the growth in e-learning and the emergence of for-profit institutions such as the University of Phoenix.

Centralisation

A key assumption underlying the tertiary reforms is that central planning can lead to education outcomes that are more in line with national development goals than would occur under a decentralised or market-based system. There is only one problem with this view – central planning simply doesn't work. It demands a great deal of quality, timely information that is costly or even impossible to obtain, even in a country as small as New Zealand. The multi-dimensional nature of education means that the central planner must know what courses and programmes are in demand, how students want to study, whether students want applied or academic studies, what technologies should be used and so on. Add to that the increasing numbers of students and the diversity of courses and you have a task that is far too complex for any central planner, no matter how able. In addition, central planning is subject to the vagaries of a different market – the political one.

Economist Friedrich Hayek wrote, "Many of the greatest things man has achieved are not the result of

consciously directed thought, and still less the product of a deliberately co-ordinated effort of many individuals, but of a process in which the individual plays a part he can never fully understand." It's a good way to think about the process of tertiary education planning. Devolve responsibilities and let the market do its thing.

Institutions should be free to determine what courses they offer, how many and at what price, enabling students to make their own choices. If the Government wished to influence outcomes – encouraging more engineers and fewer accountants and lawyers, for example – it could provide financial incentives for relevant courses.

Students and institutions are more likely to make good choices when it comes to the type of education or training they want. They are able to perceive the fields where demand is strongest and take into account the costs. Their decisions won't be perfect, but then they don't have to be. They only have to be better than those of a central planner. Experience suggests they would be.

A competitive education sector does not mean there is no role for the Government in tertiary education. On the contrary, the Government has an important role in ensuring access to tertiary education irrespective of family income. It should also create an environment in which the sector can flourish. This includes ensuring that industry regulation is appropriate (including quality assurance), consumers are well informed and state institution governance structures are effective. As a general rule, the Government's role should be to reinforce the operation of the market, not supplant it.

A practical future

Although the theory underlying New Zealand's proposed tertiary education reforms has been built upon the notion of centralisation, we can only hope the implementation is different. The TERB's focus on objectives, information and

sector performance provides a sound platform for the Tertiary Education Commission (TEC) to play a facilitation role that supports market institutions. The accompanying Tertiary Education Strategy can help tertiary sector participants and the Government focus on outcomes rather than on the means of achieving them. The unified funding framework will provide greater coherence in sector funding, and the proposed charters and profiles could push institutions to put a greater emphasis on strategic planning, a weakness in the sector.

Where the TEC could contribute the most, however, is by adopting a light-handed approach to regulating the tertiary education sector, with an emphasis on providing information, assuring quality and measuring performance. To the extent that the TEC plays such a role, it could be a catalyst for positive change. To the extent that it tries to micro-manage the sector, it will do more harm than good.

Rather than trying to cut a one-size-fits-all garment from the cloth of tertiary education, the Government should be thinking more along the lines of the Wearable Arts Awards, by letting providers tailor the types of creative, visionary and individual initiatives that people want.

Norman LaRocque is a policy advisor with the New Zealand Business Roundtable and an advisor to the Education Forum (www.educationforum.org.nz).

Education Forum

P.O. Box 10 539
Manners Street
Wellington, New Zealand
Telephone: +64 21 607 636
Fax: +64 4 471 1304
Email: info@educationforum.org.nz
Web: www.educationforum.org.nz