Markets in education

John Daley, CEO, Grattan Institute
Presentation to TDA National Conference
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Markets in education

Market theory
• Why do markets work?
• Why do markets fail?
• “Working” and “failure” are questions of degree
• Government failure can be worse

Education markets in Australian practice
• How competitive are education markets?
• What are education markets ‘working’?
• Where are education markets ‘failing’?

Policy lessons in market design
• Government subsidies require government controls on quality
• If prices are unregulated, outcomes need to be visible
Why do markets ‘work’?

**Focus producers on what consumers want**
- Consumers often know better what they want than governments
  - e.g. students picking where the jobs will be
- Change institutional behaviour
  - providers focused on consumers, not farming the subsidy
- Change internal dynamics
  - Consumer preferences a counterweight to history
  - e.g. shut the under-performing departments

**Sharper incentives for efficiency**
- Bureaucrat incentives are to build empires
- Commercial incentives are to maximise profits

**Encourage specialisation and value chain disaggregation**

**HR impacts**
- Mindset of maximising employee contribution to business, not ensuring fairness of distributing government privilege
Why do markets ‘fail’?

Principal-agent
• Purchasers not spending their own money
  – e.g. parents and government schools, undergrads and universities

Information asymmetries
• Purchasers don’t know what they’re buying
  – e.g. parents buying school playing fields and class sizes
  – e.g. international students buying ‘prestige’ universities

Lack of competition
• Barriers to entry, minimum efficient scale
  – eg lack of real competition amongst schools in practice

Under-provision of public goods
• Education has a public value, but purchasers would under-buy
  – Hence subsidies in most education markets

Government failure can be worse than market failure
• Jobs services network has issues, but was the CES perfect?
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# How competitive are Australian education markets?

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<thead>
<tr>
<th></th>
<th>Open to new entrants</th>
<th>Breadth of purchaser choice</th>
<th>Pricing discretion</th>
<th>Subsidy</th>
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## What are the outcomes of education markets?

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<td>Good outcomes with minimal regulation</td>
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Internationally, good school outcomes do not require high levels of autonomy.

School autonomy and PISA performance

- High autonomy
- Medium autonomy
- Low autonomy

PISA reading score, 2009

Grattan Institute, *The myth of markets in school education*
Locally, good school outcomes are not reflected in choices

Enrolment change, %, 2009-11

Gvt schools n = 1,336
Ind. schools n = 1,025

$R^2 = 0.003$

Same outcomes when regressing enrolment against NAPLAN adjusted for SES, or NAPLAN value added

Grattan Institute, *The myth of markets in school education*
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*Note: The table uses a color code to indicate success (red), medium success (orange), and low success (yellow).*
Type of university attended makes little difference to lifetime earnings

Lifetime earnings premium relative to only completing year 12, $ million

Grattan Institute, Mapping Australian higher education, 2014-15
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**Successes**

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**Issues**

- Little impact
- Pricing for elite facilities and class sizes
- Little efficiency innovation
- Pricing for research prestige
- Some poor student outcomes

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**Notes:**

- School (gvt): Little impact
- School (ind): Better staff management, Pricing for elite facilities and class sizes
- Uni (dom): Better demand match 2nd tier innovation, Little efficiency innovation
- Uni (i/nat): Very responsive to student demand, Pricing for research prestige
- Voc (cert): Rapid expansion of places
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Group of Eight universities charge international students a bigger premium

**Masters of commerce**, annual fee, $2014

Grattan Institute, *University fees: what students pay in deregulated markets*
Without other information, international university students pay for research reputation

International undergraduate student fee, weighted average, 2012

Correlation co-efficient = 0.90

Grattan Institute, University fees: what students pay in deregulated markets
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What are the policy lessons?

**A dangerous combination**
- Government subsidy
- No cap on quantity
- Limited barriers to entry
- Limited quality control

**Another bad combination**
- No price controls
- Poor visibility of outcomes

**Significant bad apples**
- Pink batts
- Individual savings accounts
- ? NDIS
- ? Vocational education

**High prices for peripherals**
- International students and research rankings
- Independent schools and sporting facilities

**Resolution**
- Higher barriers to entry
- Bigger sanctions for failure
- E.g. doctors, universities

**Resolution**
- More visibility of outcomes
- E.g. employer short courses, public exams
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