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Markets in education

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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'?

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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'?

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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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	Open to new entrants	Breadth of purchaser choice	Pricing discretion	Subsidy	Outcome visibility
School (gvt)					
School (ind)					
Uni (dom)					
Uni (i/nat)					
Voc (cert)					
Voc (short)					

What are the outcomes of education markets?

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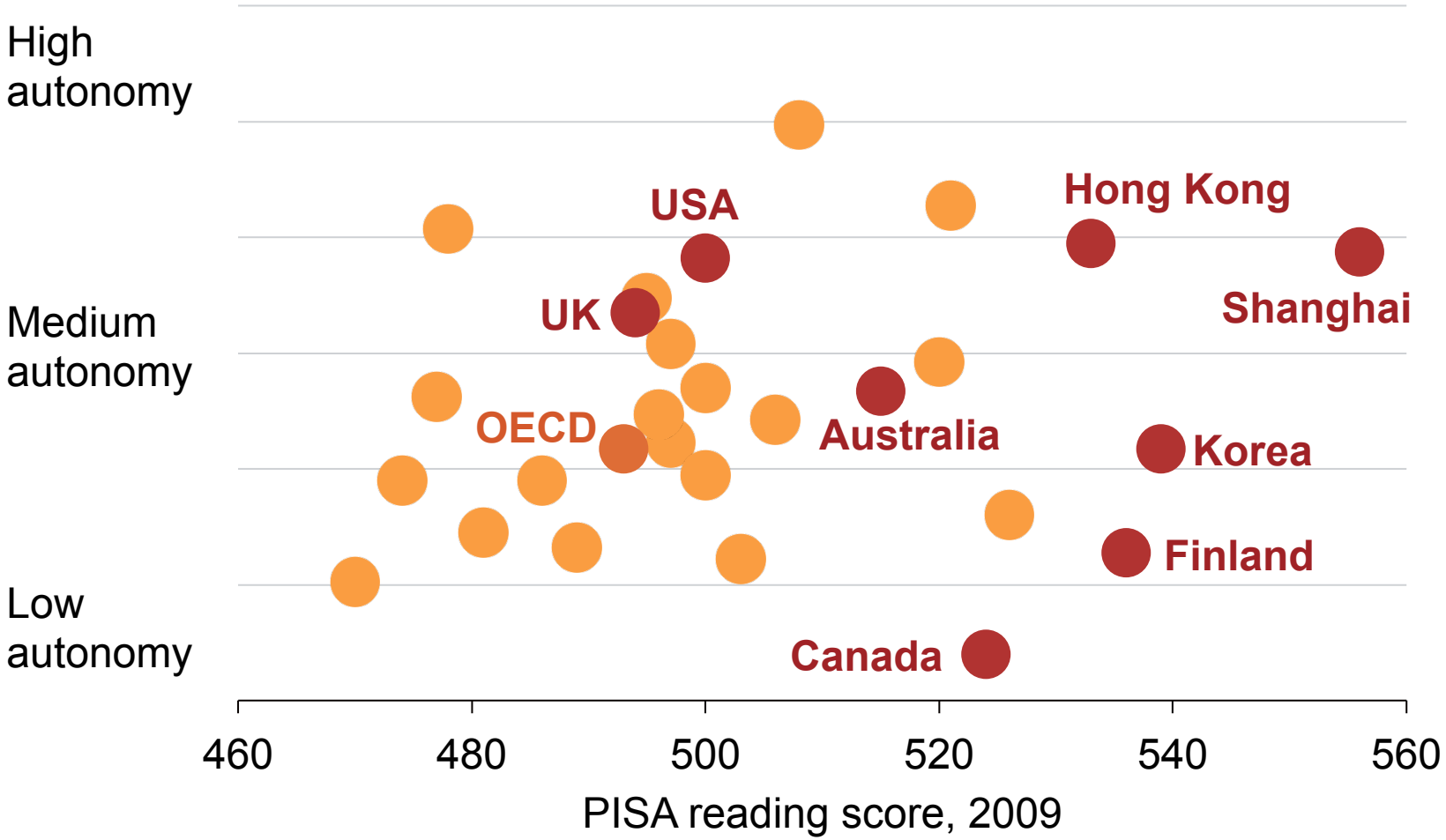
	Entry	Choice	Pricing	Subsidy	Visibility	Successes	Issues
School (gvt)							Little impact
School (ind)						Better staff management	Pricing for elite facilities and class sizes
Uni (dom)						Better demand match 2nd tier innovation	Little efficiency innovation
Uni (i/nat)						Very responsive to student demand	Pricing for research prestige
Voc (cert)						Rapid expansion of places	Some poor student outcomes
Voc (short)						Good outcomes with minimal regulation	

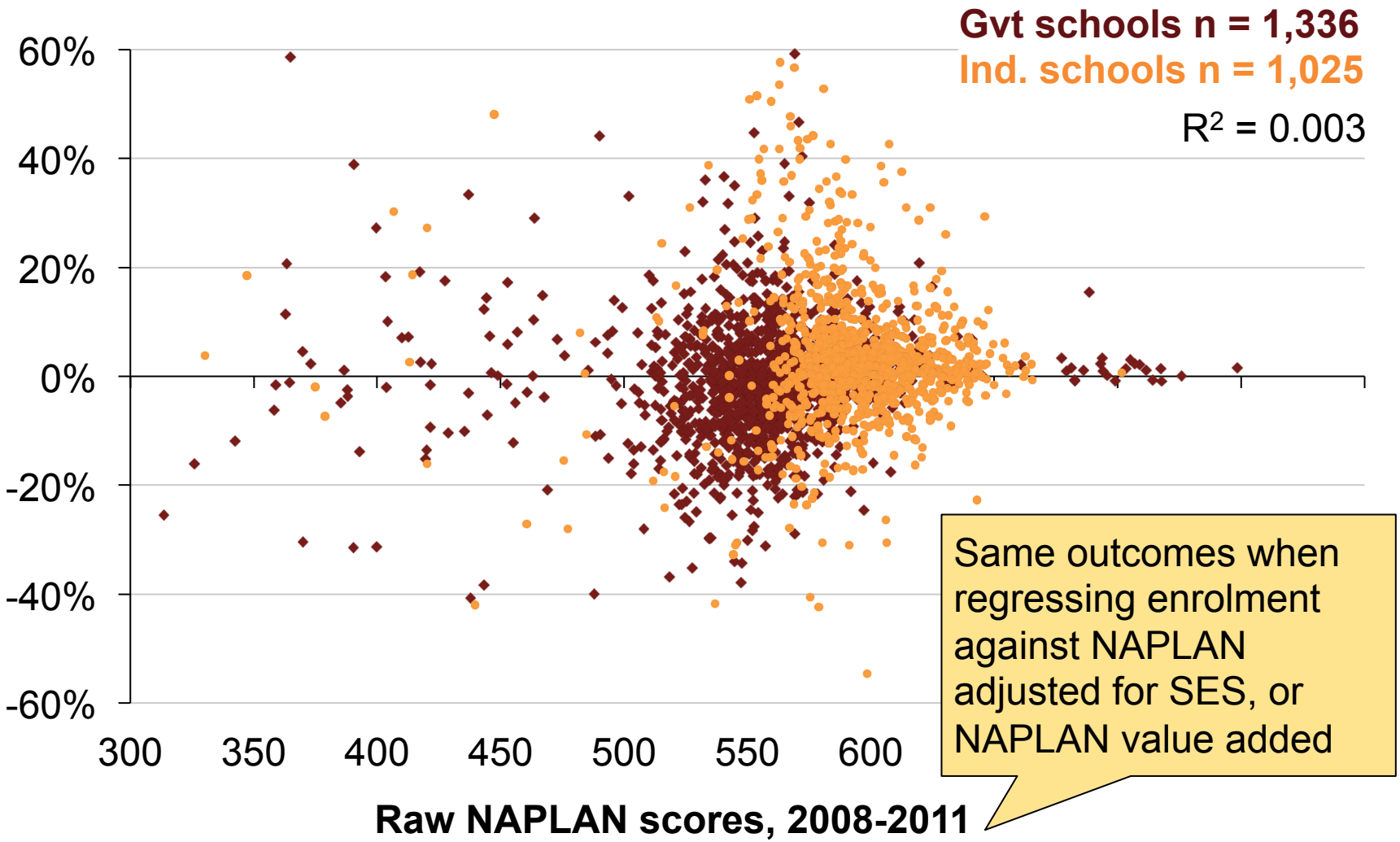
Internationally, good school outcomes do not require high levels of autonomy

School autonomy and PISA performance



Locally, good school outcomes are not reflected in choices

Enrolment change, %, 2009-11



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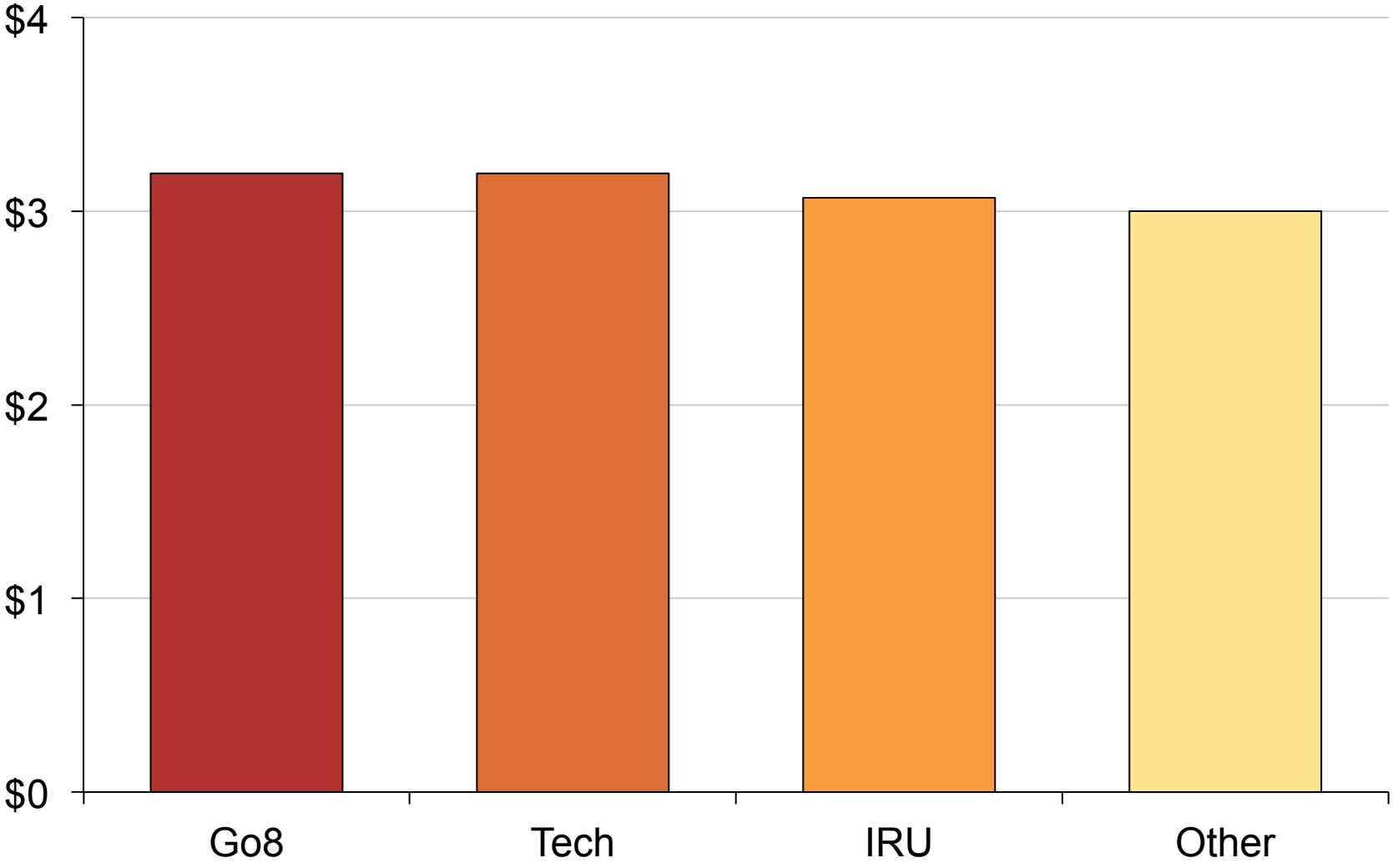
Type of university attended makes little difference to lifetime earnings

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



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

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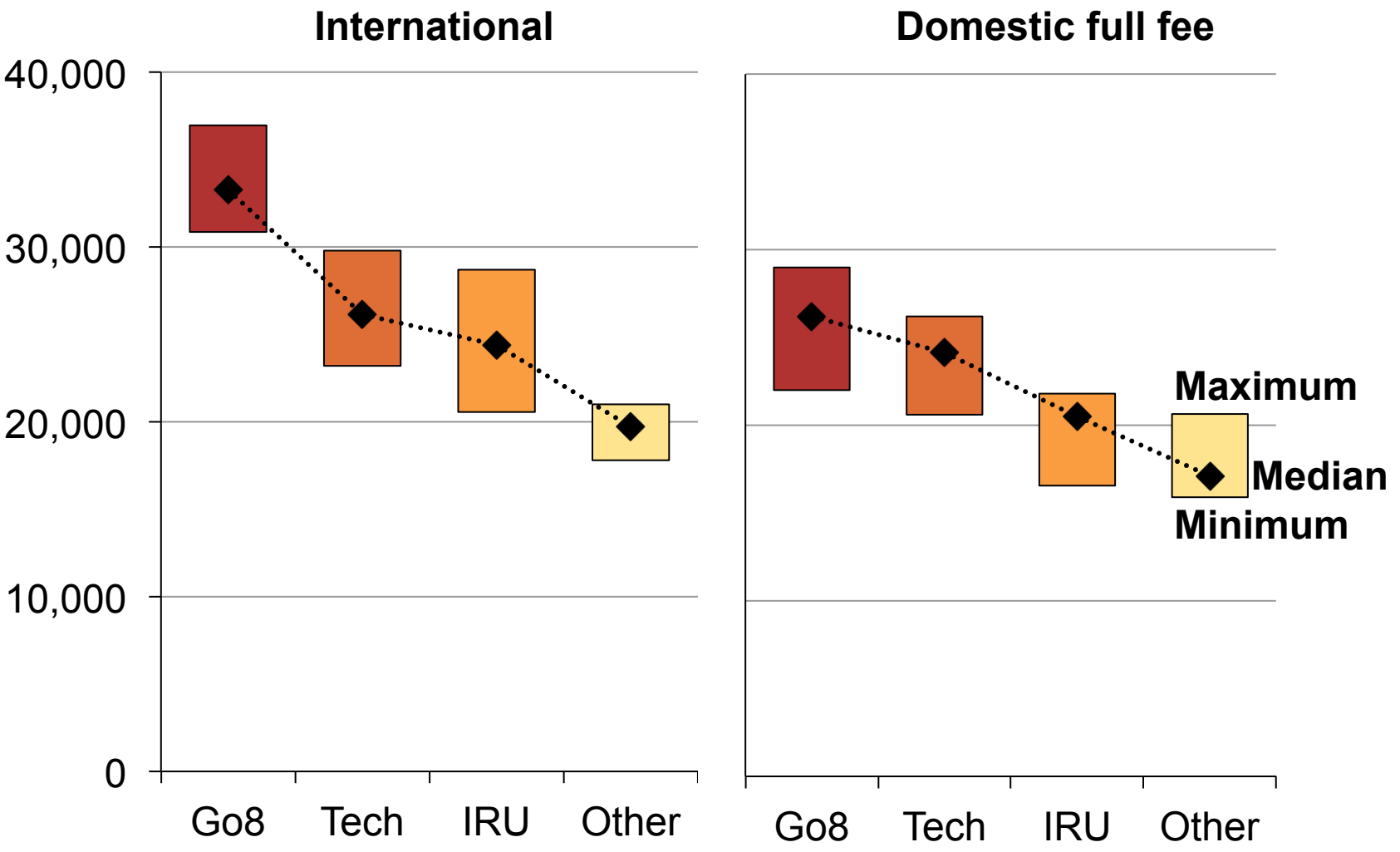
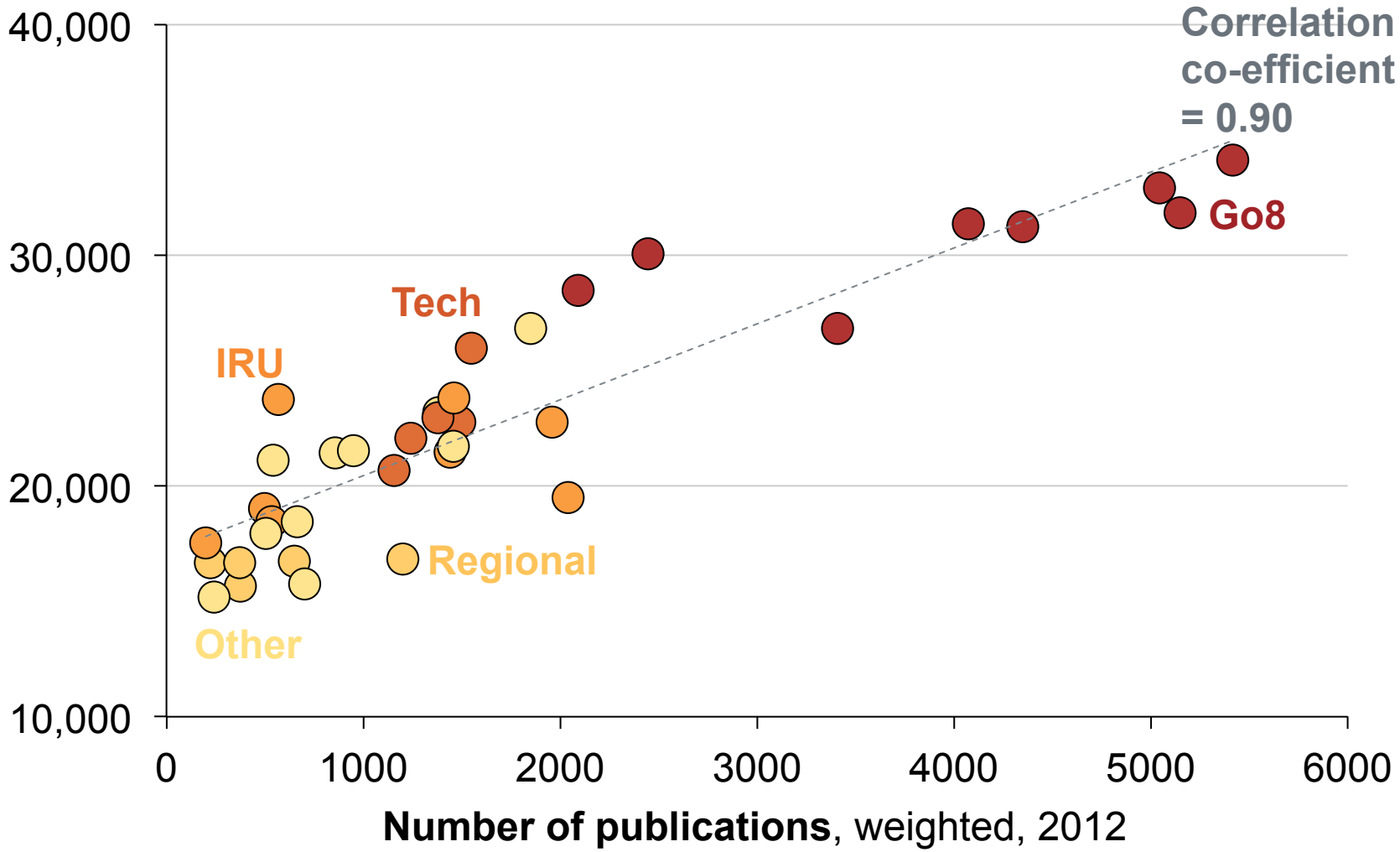
Group of Eight universities charge international students a bigger premium

Masters of commerce, annual fee, $2014



Without other information, international university students pay for research reputation

International undergraduate student fee, weighted average, 2012



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What are the policy lessons?

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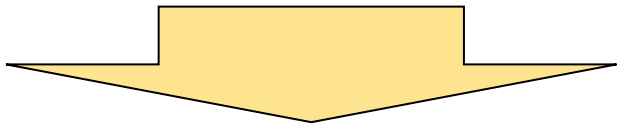
A dangerous combination

- Government subsidy
- No cap on quantity
- Limited barriers to entry
- Limited quality control



Significant bad apples

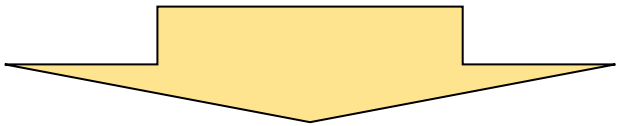
- Pink batts
- Individual savings accounts
- ? NDIS
- ? Vocational education

Resolution

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

Another bad combination

- No price controls
- Poor visibility of outcomes



High prices for peripherals

- International students and research rankings
- Independent schools and sporting facilities

Resolution

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

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