

Association of Polytechnics in New Zealand

**Positioning Polytechnics for
the 1990s:
An Industry Perspective**

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POSITIONING POLYTECHNICS FOR THE 1990s AN INDUSTRY PERSPECTIVE

Where the business community is coming from

In recent years business in New Zealand has taken an increasing interest in education performance.

Part of this interest naturally has to do with the needs of the private sector for the human resource skills that will enable it to compete in an open trading environment with the world's most successful economies. This aspect was emphasised again recently in the Porter report.

Another part relates to the very large public expenditure outlays on education, at a time when the pressures of government spending, taxation and debt have been squeezing the private sector and hampering economic recovery. The issues here include ways of getting better value for the education dollar and the case for re-examining the split of public and private funding.

Possibly the most important motivation, however, for a business sector interest in education is the recognition that national goals such as higher productivity and social opportunity will not be realised unless policies and institutional arrangements provide the right incentives to both the providers of education services and their clients.

A positive development this year was the establishment of the Education Forum which has joined together in an informal way all the major business organisations, educators from the primary, secondary and tertiary sectors and school trustees to discuss education issues.

Business attention is now focusing much more closely on the systems and structures that determine education performance, rather than just superficially on the outcomes. It is usually fairly easy to define the ends that most people want; the difficult questions relate to the means. At the level of national economies, experience with command and control systems has shown them to be disasters. Another social experiment appears to be coming to an end in Sweden. The problems associated with public ownership are now much more widely understood. In all settings, public and private sector alike, much more effort is being devoted to understanding why some systems work and others fail, and to creating an incentive environment which will generate better outcomes.

The dangers of woolly thinking

In this process, many propositions which have been part of the conventional wisdom have been overturned or at least viewed in a different light. Consider the standard complaint that too few New Zealand students go on to universities. This may well be true. But how do we know? The Watts committee appointed by the university vice-chancellors simply asserted that 'more is better' and that participation should be doubled over the next two decades. A competing view was recently given by Paul Johnson (*The Spectator*, September 1991):

"Universities are the most overrated institutions of our age. Of all the calamities which have befallen the 20th century, apart from the two world

wars, the expansion of higher education, in the 1950s and 1960s, was the most enduring. It is a myth that universities are nurseries of reason. They are hothouses for every kind of extremism, irrationality, intolerance and prejudice, where intellectual and social snobbery is almost purposefully instilled and where dons attempt to pass on to their students their own sins of pride. The wonder is that so many people emerge from these dens still employable, though a significant minority, as we have learned to our cost, go forth well equipped for a lifetime of public mischief-making."

Johnson is almost certainly right in respect of many courses currently being taught in New Zealand universities. For example, the recent labour market reforms have made the human capital and course content of many of our departments of industrial relations practically obsolete. The staff in them are typically dedicated adherents of the old order, and students are likely to learn little or nothing that is relevant to the new world of employment relations skills. I have no problem with people studying alchemy, peace studies or Marxist economics, but I would like to see the value of such courses tested by putting a price on them.

The issue is much more complex than the Watts committee recognised. More is not necessarily better. It is possible to over-invest in education just as it is to under-invest - the social return from additional investment may be too low. It is also possible to invest in the wrong areas. We need to think much harder about how to create not just an educational environment but an overall economic and social environment in which the right choices are made about investment in tertiary education.

One point worth underlining in this regard is that education and training is not confined to formal institutions. One United States study estimates that spending on employee training is roughly equivalent in size to outlays on the entire primary, secondary and higher education systems. It found that only 15 percent of the variation in income among Americans can be accounted for by formal education. The remaining 85 percent is accounted for by learning in the workplace. For the majority of the population the role of formal education in determining lifetime earnings is relatively modest.

That is one reason why the Business Roundtable has placed such weight on reforms in the labour market. These are far more relevant than higher academic education for the bulk of the unemployed. The old system made negotiation about training at a workplace or individual level unnecessarily difficult. By levelling pay within and between occupations it both reduced the potential rewards for investing in training and shut the relatively low-skilled out of work experience. Rigid demarcation discouraged practices such as multi-skilling. As the United States study concluded, training outside the workplace does not create jobs; jobs create training.

A recognition of the importance of systems and structures has also changed the way business needs to think about links with education. There is still a tendency among employer organisations to want to promote linkages with education through national and industry training boards and councils which can dictate or influence curricula and qualifications. The difficulties with this approach are the same as those which tend to plague all centralist and corporatist models. Representatives on peak councils can possess only a fraction of the information relevant to a diversity of industry circumstances. Such bodies become dominated by industry organisation bureaucrats, retired people or others with time on their hands, and captured by those

with their own agendas. Not all interests can be represented and the interests of the 'small people' - employees, small firms, consumers and taxpayers - typically get a poor hearing. To enfranchise these groups, much more decentralised linkages between the workplace and educational institutions are needed, and all possible avenues for enhancing consumer choice and direct accountability need to be opened up.

The shape of tertiary education

It was against this background that the Business Roundtable developed its thinking on tertiary education policies in a 1987 study prepared with the assistance of Professor Richard Blandy of Flinders University. At that time, it will be recalled, the polytechnics were controlled in minute detail - at least in theory - by the Department of Education. Course offerings and the institutional allocation of courses were determined at the national level, changes to course structures sometimes took years to discuss and implement, polytechnic staff - although legally employed by councils - were de facto employees of the Department, enrolment decisions needed departmental sanction, and a host of approvals for budgetary expenditures were required.

Our study essentially concluded that the polytechnics (and other tertiary institutions) should be unshackled. It proposed that they should become autonomous corporations operating in a decentralised, competitive market for their services. A clear distinction should be made between the functions of providing tertiary education services and paying for their provision. Funding would come through tuition fees and enrolment - based subsidies, and from the sale of goods and services generally. Private ownership of some of the existing entities, as well as new private entrants, would be feasible. No restrictions would be placed on the services that could be offered, the terms under which staff could be employed or the structuring of the institutions themselves. We saw a case for new governance arrangements and a fresh start in respect of contracts with chief executives and staff.

Many steps in this direction have now been taken, although not without resistance from the central bureaucracies and others affected. It seems to be widely acknowledged that the benefits have been tremendous. Institutions are now bulk funded and have full control over their budgets, they are marketing themselves strongly, and there is vigorous competition between institutions to attract students. The overseas market is being tapped, with benefits to New Zealand students. The whole institutional atmosphere has changed. It is ironic that we are having a debate about bulk funding of schools at a time when any proposal to turn the clock back on polytechnics would be unthinkable.

Clearly more work remains to be done to improve the operating environment for polytechnics. The budget decision to introduce charges and funding for assets will improve asset management. The issue of corporate governance needs to be revisited following the rather inconclusive review earlier this year. Private competition needs to be encouraged, essentially by allowing students attending private institutions to attract the same subsidies as public institutions. The Liberal party in Australia is promoting such a policy. There is a case for reviewing the EFTS funding formula to provide institutions with stronger incentives to look at part time options. While these may involve higher administrative costs they may be a more cost effective form of training, facilitate interaction with industry, encourage greater participation and economise on the need for student assistance. Almost certainly national awards

need to be replaced by institution- and individual-specific contracts with staff, with incentives for performance.

By contrast, I would place much less priority on the establishment of a Tertiary Education Commission. As I see it, the important task is to create the best possible operating environment for autonomous tertiary institutions, following which the need, if any, for a central administrative function can be addressed. With any return to centralised structures, I believe political decision making and bureaucratic interference would re-emerge and polytechnics would risk becoming a poor relation of the universities again.

Rather than explore any of these areas in detail, however, I shall turn to a number of other issues that are on your programme or currently under debate.

- ***Tuition Fees***

The prime case for fees is to encourage institutions to be efficient and to respond to their market, and to encourage students to select their courses carefully and to perform well in them. In the absence of a significant level of fees, there is little incentive on institutions, for example, to cull out low value courses or to examine whether a course could be taught in 2 years rather than 3 or 3 rather than 4. Fee-paying students will demand performance. Other performance monitoring mechanisms are weak by comparison. As long as the government is paying most of the costs, political interference and the dead hand of bureaucracy will remain part of the way of life for tertiary institutions. With a fall in the level of government subsidy, it will be possible to increase institutional autonomy further, with a further round of benefits.

It is incorrect to argue that fees will discourage participation in courses which are of private or social value. Countries with much higher fees than New Zealand typically have much higher rates of tertiary enrolment. Education pays. One United States study estimates that, over their lifetimes, college graduates earn some \$600,000 more than high school graduates, equivalent to more than a 10 percent rate of return on the average cost of higher education. The main benefits of higher education are clearly private ones - otherwise why would students worry about which courses they took?

There are far better ways - such as loan schemes - for ensuring that no students are debarred from study on financial grounds. Overall, state-funded tertiary education is a massive transfer from the poor to the rich; in New Zealand only 4 percent of students come from the bottom 40 percent of households. Even the Watts committee concluded that 20 percent of funding should come from student contributions, and it is disappointing that university administrators have not been prepared to stand up and be counted on this issue. A 20 percent contribution is minimal compared with outlays of around \$50,000 which some students make to qualify as airline and helicopter pilots.

A recent Heylen survey undertaken for the Education Forum revealed that 58 percent of the public favour students paying part of their course costs. There is nothing ideological about such a policy. The manifesto for the British Labour party proposed by *The Economist* earlier this year contained the statement:

"Primary and secondary education are for everyone. University education is a benefit enjoyed by a prosperous minority. Gradually, therefore, we will seek to recover the full costs of post-18 education (including tuition costs) from those who benefit. Long term, unsubsidised government loans will be available."

As the AIT's 1991 visiting scholar, Sir Christopher Ball, put it, the only way to improve New Zealand's tertiary education system is to make students pay, with government subsidies for the very needy.

- ***Structure of Fees***

Tertiary institutions have been determining their fee structure in the light of the budget decisions. There are two issues here. One is whether fees should be related to course costs or set on a uniform basis. The other is whether separate fees should be charged to Study Right and non-Study Right students.

Waikato University was the first to set a flat fee. One of the reasons it gave was that a cost difference between arts and science courses distorted student choices in favour of the cheaper course. This is like arguing that the higher costs of flying to Europe compared to Australia distort travel in favour of Australia. Clearly it is the decision to equalise fares or tuition fees that would represent an economic distortion. Professor Peter Karmel, one of the most respected commentators on higher education in Australia, recently argued that tuition fees should more accurately reflect the cost of courses, noting that this would promote :

"[a] more efficient distribution of resources by making enrolments in certain courses sensitive to the balance between the demand for those courses and the costs of giving them."

The observation that there may be no close correlation between course costs and later earnings does not alter the analysis. The fact that not all investments have the same yield is not an argument for subsidising some of them. Students take courses for reasons other than pecuniary returns. In addition, earnings streams will change with a reduction in subsidies as the labour market adjusts to new conditions of supply and demand.

The action taken by some institutions not to differentiate between Study Right and non-Study Right students seems to fly in the face of political accountability. In my view a decision on the categories of students benefiting from taxpayer subsidies should be one for elected politicians to make. I am surprised at the fairly benign view that the minister of education has taken of moves by publicly-owned organisations to thwart the government's intentions. In saying this I am not necessarily endorsing the present Study Right policy; I am simply arguing that policy should be determined by policy makers not by administrators.

At the end of the day, however, it is unlikely that these distortions will survive competitive pressures. Institutions engaging in heavy cross-subsidisation will be laying themselves wide open to other institutions attracting students away from over-priced courses. Polytechnics may well have competitive opportunities in this regard. Attempts to prevent this happening by persuading competitors to set similar fees are unlikely to be successful: in competitive markets cartels seldom last long. New private entrants may hasten the process of eliminating distorted pricing

especially if students attending them qualify for government subsidies, along the lines of the Australian Liberal party's voucher plan.

- *Employer Contributions*

It is sometimes suggested that the business sector should be financing more of the costs of tertiary education. The argument is that because business benefits from a supply of well - trained graduates it should meet part of the costs of their training.

This reasoning is fallacious. The point is that firms pay now for the costs of the human resources they employ - in the marketplace. Certainly employers 'benefit' from the availability of such resources, but only in the same way that they benefit from the supply of consultancy services, capital, raw materials, transport and other inputs that they combine in producing goods and services. Provided markets are competitive, they will be forced to pay the full economic value for all the resources they use, including skilled labour. Looking at it the other way, employees will be able to command a full economic value for their skills. There is no more of a case for employers subsidising skill training than any other business input.

Although employees are the primary beneficiaries of investment in training, this is not to argue that employers and employees should not negotiate with each other over training. It may well make sense for agreements to be reached on apprenticeships, study leave, bursaries, bonding arrangements, training wages and the like to enable employees to develop their skills. These are matters to be determined by free contracting within a total employment package related to the current and future productivity of the employee. The costs of training will be offset by other elements of the package, such as lower initial wages.

Within this framework, firms should of course be free to associate on an industry basis to provide training programmes. They may wish to agree to a system of voluntary levies to finance such training. There seems no justification for compelling firms that do not wish to be involved to join in such programmes. In the light of the foregoing analysis, free-rider arguments appear to carry little weight, particularly in the new environment of flexible labour contracts.

- *Curriculum and Qualifications*

A final set of issues is accreditation, certification, validation and similar quality control functions affecting the activities of the polytechnics. Our 1987 study took a very clear position on these issues. It argued that any such quality control should be performance (outcome) oriented, voluntary (so far as training providers are concerned), and user driven and financed. Providers should be completely free to determine their own training programmes and methods of assessment. There should be no imposed national examinations nor prescribed curricula and the emphasis should be solely on monitoring outcomes to ensure that minimum standards are being achieved. (I am not referring here to financial auditing, which is a valid function for both public and private institutions.)

There are still centralist tendencies at work in this area. The New Zealand Qualifications Authority appears to be espousing a highly centralised approach to qualifications. It appears to be envisaging a role for itself in designating which courses individual institutions may teach. A very prescriptive approach is being taken towards the way in which units of learning (modules) are designed and fitted

together in a qualifications structure. The NZQA has proposed that all existing courses should be written in a unit of learning format which, apart from anything else, would be an extremely expensive proposition. This tendency is being reinforced in the discussion on industry training with proposals for a range of boards that would lay down specific prescriptions for industry training courses.

The danger with such ideas is that they can easily straitjacket the providers of education and inhibit entrepreneurship and innovation. Skill requirements are not static. Many industries that will be important in the future are not yet born, and the basis for their development will be education not specific training. The merits of the decentralised model are that competitive institutions and educators have much stronger incentives to identify needs, anticipate trends and respond quickly to them. If they fail to do so, students will go elsewhere. Accordingly they will be likely to want to attract movers and shakers in industry on to their governing councils, to establish competent advisory committees, to draw staff from industry, and to reflect local needs - in other words to interface with industry at a devolved level rather than at a central level. They will also have incentives to design units of learning in a way that will facilitate transfer between institutions because such options are likely to be attractive to students. The invisible hand can do a lot of the work that the hand of bureaucracy can only carry out in a more clumsy and costly manner.

In my view the NZQA should not be in the business of prescribing course offerings or structures, and it should not have the powers of a monopoly rating agency. Essentially its job should be quality assurance. I believe its performance would be enhanced if it had to attract institutions to use its services voluntarily. They would do so if and when they judged that quality assurance provided by the Authority would improve their own position in the education marketplace

Conclusion

The polytechnic sector in New Zealand is in many ways exceedingly well positioned for the 1990s. It does not appear to share the national urge to want to stop the world and have a teabreak. It is led by a number of chief executives who have responded to the new freedoms with enthusiasm. Your president's submission to the government's Conference on Enterprise and Growth last November was a breath of fresh air. It talked about polytechnics focusing their activities more tightly on supporting the economic growth of the country. It recognised that they could contribute to increased productivity of capital and human resources by, for example, introducing a third semester and extending the teaching day - even if this involved addressing historically entrenched conditions of service. It argued for a dramatic downsizing of central government bureaucracy. It agreed that students should pay more towards the costs of their education, as this would also make them more discerning customers and value their education more highly. It welcomed the involvement of industry in education. The contrast with the stance adopted by the universities was striking.

With lower cost structures and, in some cases, site advantages, many polytechnics are well placed to compete strongly with other tertiary institutions in the 1990s. I hope more of them introduce degree courses and go head to head with universities. Others will find competition difficult; they will have to adjust their offerings, cut their costs or close down. That is how it should be. As the Association's submission put it, education itself is an industry. The Association rightly claimed the autonomy necessary to survive in a free market environment. Given that, however, it is

consumer demands, and your performance as councils and executives in responding to them, that should determine the future of your sector and the institutions in it.