
Future of Markets and TAFE

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Michael Brennan, Chair

Thank you. It's a great pleasure to have been asked to talk to you today about the future of markets and TAFE.

It's always challenging and interesting to try and look into the crystal ball and say something about the future.

In your industry I do it with particular trepidation, given the dramatic changes of the last decade.

Will there be the same pace of change over the next decade?

It is the conceit of every generation to believe that they are uniquely positioned on the cusp of radical change – either an inflexion point in history or just unprecedented uncertainty.

In reality, change and uncertainty are great constants and I have my doubts as to whether ours is really that different to any other moment in history.

When it comes to the future of the labour market, we know both more and less than we think (I will explain what I mean in a moment).

But my other main contention is that when we look back over the last decade, the really big changes, disruptions and discontinuities in the vocational education and training industry are not about the labour market at all (except perhaps for those of you from Western Australia or the NT).

They have all been about public policy, and specifically the big 3:

- the move to national training entitlements
- introduction and cessation of VET FEE HELP
- the demand driven system of university funding.

It is one of life's ironies that these changes were made in part to link VET and education more closely to underlying economic need.

And yet, while the economy has adapted relatively smoothly over the last decade (notwithstanding the GFC and a mining boom), the education and training system has experienced big swings and sudden shifts.

These big 3 policy changes have now all settled somewhat, and it is an opportune time to take stock and learn some lessons for future policy.

To that end, we at the Productivity Commission did some work on the demand driven system in universities, the findings of which I will also discuss later.

But when it comes to VET policy, I have also done a bit of lifelong learning of my own – not from a textbook but all on the job – given that I was in the Victorian Government from 2011 to 2015 at the time when the government was grappling with some of the challenges of the Victorian Training Guarantee (VTG).

I will finish with some candid reflections on this time.

What does the future hold for the labour market?

There is no shortage of prognostications. It is quite the growth industry, especially when it comes to dramatic projections of job losses due to automation.

I said earlier that we know both more and less than we think:

- More – because in reality the future (in retrospect) often looks more like the present and recent past than we anticipate.
- Less – because many of our projections and extrapolations – particularly regarding technology – have a tendency to be misplaced.

I show here 4 significant labour market trends for Australia. They are the:

- rise of female labour force participation
- secular decline of manufacturing as a share of the workforce and the rise of services employment
- rise of non-routine jobs at the expense of routine ones
- rise in labour force participation among older workers (over 65s).

All of these are big changes, yet none was out of the blue. The horizontal axis on these charts is 30-40 years.

These are steady trends with (one would think) some way to run.

And then there are the things that haven't changed.

For example, levels of self-employment (including independent contracting) have been very stable. The gig economy is imperceptible in the aggregate figures.

Length of tenure in jobs is rising slightly, despite claims that workers are increasingly moving jobs and sectors.

Of course these things can change – economic history is full of turning points and inflexions, but in general past trends are a pretty good guide to the future.

How about automation?

It too is a constant.

Although it is true that some jobs have disappeared (including a lot of bank tellers and typists), overall employment in Australia has continued to rise as a share of the working age population.

The best evidence suggests that it is likely that it will be individual tasks, rather than entire jobs, which are most likely to be automated in the future.

In general, it has proven easier to automate routine tasks – including some cognitive tasks like aspects of legal research and analysis of financial reports.

It is the tasks that rely on perception, creative intelligence, social intelligence, empathy or high levels of dexterity that have proven harder to automate.

Some of this involves tacit knowledge – that which is difficult for us to clearly define or codify.

It was the presence of this sort of knowledge which underpinned the evolution of the apprenticeship system – based on the idea that there are some things which can only be learned through observation, and practical experience.

Of course, most jobs are a mix of tasks – including some routine and some non-routine tasks.

This suggests that, as always, a lot of demand for training in the future could be up-skilling by workers in order to keep doing their existing jobs, as much as retraining by those who lose their jobs.

Some speculate that, in this case, short form credentials (i.e. micro credentialing) could become a growing part of the system.

We also know that over recent decades the tendency has been for technological change to be ‘skill biased’ – that is, it increases the overall demand for higher skilled labour across the economy.

This is good news if you are in the skills formation business.

And, again, it is likely that we will see a continuation of this trend, such that our economic evolution will continue to require higher skill levels.

However, there is nothing to say that this necessarily means that the university sector should grow relative to the VET sector. It is quite likely that both will grow in absolute terms.

This brings us back to policy

I mentioned the big 3 policy changes, the third of which was the demand driven system for university funding.

This is an area in which the Productivity Commission has done some recent research work, to try and assess its implications for the additional students who studied at university as a consequence, and for the overall composition of the university student cohort.

The demand driven system has been in place since 2010.

It removed the previous caps on enrolments and moved to a system where the decision whether or not to go to university was made by students, as well as the universities themselves, in deciding whom they will admit.

It saw a very significant rise in enrolments, with the number of domestic bachelor degree students increasing by one third between 2009 and 2017.

Using the Longitudinal Survey of Australian Youth, we estimated that by age 22, 60 per cent of Australians have now attended university at some point.

We were particularly interested in identifying who these additional students were.

This is not an easy thing to do, given that of those students who have enrolled since the introduction of the demand driven system, many would have enrolled under the old system as well.

So we looked at the attributes of students who enrolled *before* the demand driven system came in and compared them to those who enrolled *under* that system. This allowed us to impute the probability that a given student would study under either system.

To the extent that a student had attributes which made them more likely to attend university under the new system than the old, they were regarded as an additional student. This allowed us to build up a weighted statistical cohort of 'additional students' and to test both who they were and how they had fared in their university experience.

We found that of the additional students:

- 32 per cent were from the bottom socio-economic (SES) quartile
- 63 per cent were the first in their family to attend university
- only 18 per cent were from rural or regional areas
- 11 per cent attended a Group of 8 university
- 30 per cent did VET prior to university.

More of these additional students dropped out of university, relative to the other students (those who would have studied under either system) – 21 per cent, compared with 12 per cent.

By age 23, fewer of the additional students were in full time work and more were unemployed than was the case for other students.

But by age 25 some of these outcomes had converged.

Looking back in time to when these students were 15 and sat the PISA test indicated that they came into their university studies with lower literacy and numeracy than did the other students.

Overall the equity story was mixed – more of the additional students came from low SES backgrounds, but the system also attracted many students from high SES backgrounds with lower ATARs.

And the additional students were overwhelmingly from metropolitan areas.

What does it mean for policy?

We stopped short of expressing a definitive view as to whether the demand driven system had been a success or a failure. We gave it a mixed report card.

For one thing, it was difficult to ascertain whether the additional students would have fared better had they attended a VET institution. But this is an important question in evaluating the policy overall.

But we did draw some clear policy lessons, including:

- Information to students is very important, so that they can make as informed a choice as possible as to whether university is likely to be right for them.
- There is often a need for ongoing support from the university to ensure students are given every chance to succeed (or make a quick decision to quit, before racking up too much debt and forgone earnings).

A third policy implication is that provider incentives matter.

One issue in universities is the extent of cross subsidy between teaching and research.

This can mean that universities have an incentive to increase enrolments by more than would be the case if that cross subsidy did not exist.

This is not to say that the demand driven system is wrong – merely that it is another instance where market design and provider incentives have to be carefully thought through.

VET and the move to national training entitlements

As you know, the idea of national minimum training entitlements was enshrined in the National Partnership on Skills Reform in 2012.

The idea was to provide a government subsidised place up to a student's first Certificate III, and to provide them with some choice of Registered Training Organisation.

Two states went early – Victoria in 2009 and South Australia early in 2012.

Even in Victoria in 2009, the idea and experience of contestability was not new.

I emphasise this because sometimes in the public debate you get the impression that before 2009 there was no contestability of government funding and no significant private sector.

Hence people ask why the move to contestability could not have been done more gradually.

That is a fair question, but only up to a point.

In reality, contestable funding was a feature of Australian VET policy since the early 1990s (along with portable, nationally recognised qualifications)

The Deveson Report in 1990 and several others after that time made the case for greater choice and responsiveness through competition.

Through the 1990s, Commonwealth growth funding was often made subject to competitive tendering by state systems.

And apprentices and trainees had user choice from the late 1990s.

There was also a history of private fee for service training.

(Even today there are 4 million students studying VET in some form, of whom 1.2 million are in receipt of a government subsidy. Some 800,000 students are studying a nationally recognised qualification via a fee for service arrangement).

This is not to say that Victoria's move to contestability was not a significant change. It was.

And it is notable that other states and territories went for less far-reaching versions when it came time for them to implement a training entitlement.

To me, the most salient aspects of Victoria's initial model were that:

- places were completely uncapped
- the number of courses covered by the guarantee was very broad
- fees were deregulated.

My own first-hand experience with the Victorian Training Guarantee (VTG) started in 2011, just as its full impacts were coming through.

The most dramatic of those impacts was the fiscal cost.

The budget for training subsidies went from around \$800 million in 2008 to closer to \$1.2 billion at its height.

In addition there was concern over the quality of some of the training being subsidised and also about whether the course mix was a genuine reflection of the underlying skill needs of the economy.

You know much of the detail of the policy response.

It happened in several stages, from late 2011 through to the 2013-14 Budget. In summary, they involved:

- The move to a 5-tier subsidy based on an assessment of the public value of the relevant training.
- A number of individual courses and individual types of training (including recognition of prior learning) were moved from one tier to another as new 'surges' of activity were observed in particular areas.
- The hourly rate 'increment' (the uplift to the general subsidy) for TAFE was removed, and the block funding substantially reduced.
- Various restrictions on enrolments were introduced (including the move to limit enrolments to 2 a year).
- Eventually a form of overall capping was brought in to limit the aggregate cost of the scheme.

Since 2014 the Andrews Government has taken further steps to raise the bar for providers to enter the sector and has reintroduced greater 'CSO-style' funding for TAFEs.

In addition, other policies have been rolled out such as the fee free places at TAFE for specified courses.

In retrospect, it was a pretty torrid time. A chastening experience. As I said before: lifelong learning!

Personal reflections about what the Victorian experience could mean for policy in the future

First, we referred to it as a demand-driven system. It wasn't. It very quickly became supplier driven, in the sense that the training mix seemed to be determined much more by the interests of some RTOs than the underlying skill needs of the Victorian economy.

Information to students is always a necessary condition for the successful working of a market, but it is not of itself sufficient. Sometimes the market settings need to address the strong information asymmetries that are present in the system.

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Second, price signals matter. It turned out that the problem with deregulating fees was not that exorbitant prices were being charged, but the opposite – there was a proliferation of zero (and negative) fee courses (negative in the sense that some inducement was being offered).

It is notable that other jurisdictions such as the ACT and NSW have gone down a path of mandating some student contribution.

Of course affordability is also a key goal and there is a need for concessions for disadvantaged students. But the presence of some modest up front contribution has been an important feature in other states.

Where there are special 'fee free' offerings, States have generally tried to limit it to courses of particular identified need – though that too can be a challenging task.

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Third, one of the challenges was that the desire to have a more market driven system ran headlong into a fiscal imperative to balance the budget at a time of very low revenue growth.

Having worked on a lot of Budgets at both the state and Federal level, I will say that States in general are uncomfortable with uncapped, demand driven programs.

Most State spending is in the form of capped appropriations and fiscal discipline is maintained by requiring that agencies stick to their allocated budgets and avoid cost overruns.

At the Federal level, things are very different, since the vast bulk of spending takes the form of uncapped programs (pensions, Medicare benefits, Pharmaceutical benefits and the like). Significant 'estimates variations' occur across a range of programs with each fiscal update.

In Victoria, there was considerable concern about the fact that subsidised training had gone ‘over budget’ and there was a strong desire to find ways to keep costs to within (or closer to) the originally defined envelope.

That required a lot of regular changes to market settings which in turn worked against the stability of the market.

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Fourth, it was hard to accurately price courses and calculate subsidies on the basis of public benefit. This was the intent of the 5-tier subsidy system introduced in Victoria part way through the VTG reforms.

Notwithstanding the difficulty, most states are seeking to do just this in their respective systems.

NSW appears to be an outlier with its emphasis on efficient cost. It is also an outlier in the role it gives the IPART to calculate those efficient costs via an independent, arms’ length regulatory body.

Having this sort of independent body to determine subsidy levels provides greater predictability for the supply side of the market.

In Victoria, the Essential Services Commission produced a report in 2011 which hinted at such an approach but by then the fiscal challenge of the VTG had become the dominant concern and government was reluctant to hand over the very levers which could help constrain the cost.

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Fifth, the TAFEs struggled for a number of reasons.

Reduced block funding and the loss of the hourly subsidy was a significant part of that.

But TAFEs also lost considerable market share with the introduction of contestability. They were not always as nimble as their competitors, and also at times seemed to suffer from being the ‘department store’ of training as distinct from those with a specialty offering.

More clearly defining and understanding the CSO responsibilities of the incumbent providers in the system is an important element in policy design.

It also raises the question of how – in the context of competency-based training – a provider like TAFE can leverage its brand.

Brand is very important in university education, where the reputation of the entity conferring the qualification can make a big difference. My sense is that TAFEs are getting better at this, but it was difficult for them in the early days of contestability.

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Sixth, regulation is difficult and essential but not the only form of quality protection.

I say this in part because one often hears discussion of the importance of regulation in safeguarding quality when introducing market-style or contestable funding arrangements.

Which is fair enough, but regulators can't be the sole guarantors of quality. In Victoria, I learned that it was the funding/contractual role of the Department that provided additional vital teeth to ensure quality.

Losing your contract for subsidised training is a big stick.

At the Federal level, the same point can be made about the more tightly defined eligibility to offer VET Student Loans as compared with the old VET FEE HELP.

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And finally, the Federation did its job.

One often hears scepticism about whether the Federation really does provide the laboratory for policy experimentation that its advocates claim.

But in this case it did.

Other jurisdictions learned from the Victorian experience – notably South Australia in 2012.

Other subsequent adopters of the training entitlement moved more cautiously.

Given that rocky path, what is the future of markets and TAFE?

Will the future once again be like the recent past?

My instinct is that we will find it hard to replicate the dramatic pace of change associated with those big 3 policies of the last decade.

We are still working through how the system settles following the implementation of training entitlements, the closure of VET FEE HELP and a tighter regulatory stance from Australian Skills Quality Authority (ASQA).

We will see how the role of the private sector in the training market evolves as a result of those effects.

All participants would probably welcome a period of relative policy stability to allow the system to find its feet.

But that's not to say we should do nothing. Stability is not the same as stasis.

There is the implementation of the recommendations in the Joyce review, including the creation of the National Skills Commission, moves to streamline qualifications approval and more nationally consistent funding arrangements.

In pursuing these things it will be important for policy makers to exercise caution, respecting the primary role of the States in this policy area.

There are good aspects of the various state and territory systems that are worth considering.

And we should never pursue harmonisation for its own sake – another point on which the Joyce Review was clear: states and territories need flexibility to adapt national systems to their own skills needs.

The aim should be for a coherent national framework with flexibility for states to reflect local circumstances.

And the future of markets?

In relation to VET, even if you wanted to go back to a world without contestable government subsidised training, there would still be considerable competitive threats to the TAFE sector.

These would come from the:

- universities
- potential disruption from industry/employers going outside the formal system to develop short form credentials to suit their needs to upskill their workforce.

My view is that TAFE would be even more vulnerable to those disruptions had it remained a public monopoly in the period since the early 1990s.

Markets are not perfect, but there is a reason why there was a 20 year ambition to have more contestable VET systems.

We can always criticise markets, but it's important to ask: compared to what? Heavily regulated, government owned and run monopolies?

The key thing is not to be naïve.

Markets won't solve everything and they can cause new problems, some of which are hard to predict ahead of time.

So the lessons are something like this:

- Move cautiously.
- Understand the industry, its players, its drivers and its norms of behaviour.
- Know the limits of markets – some services just aren't amenable to competition.

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- If you still proceed, think hard about market design.
 - Most importantly, learn from history.

The future of TAFE and markets?

I am almost always optimistic about the future and optimistic about TAFE and I am even optimistic about markets, so long as you bring caution, realism and a dose of humility.