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# 5 Reflections on four Australian case studies of evidence-based policy

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### **Abstract**

Policy-making should be informed by solid evidence. This paper explores four Australian examples of the way that evidence has been used to influence policy through case studies relating to higher education financing, labour market programs, TAFE funding and student income support. The paper distinguishes between instances where evidence was used as a foundation for new policy ('Ms Polyanna' evidence) and instances where evidence was used to justify a pre-existing policy agenda ('Mr Hyde' evidence). The wider role of evidence in public policy is explored through case studies, with an acknowledgement that evidence is often used to persuade or silence critics as much as it is to formulate sound policy.

## **5.1 Introduction**

The following are reflections on what I perceive the role of evidence to have been in my experiences in Australian public policy making over the past 20 years or so. I confess that I find evidence-based policy a complicated area to think about, because of some difficulties I have with the meaning of the words. What exactly is 'evidence-based policy'?

It is inconceivable that a politician or other influential policy person would dispute the importance of evidence-based policy. To make this point absurdly clear, imagine a minister announcing a policy reform and saying at the media conference that 'An important contributing factor behind [new policy name] is that there is no research available to suggest that it will have desirable effects. Indeed, there is even some possibility that things will be made worse'.

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If sanctioning evidence-based policy is as obviously trivial as being in favour of, say, efficient government or a fair go, what do its proponents really have in mind in their endorsement and advocacy of evidence-based policy? To assist in this matter I consulted speeches made by Brian Head and Gary Banks, which provide important background to the topic. Head (2009, p. 13) argues that ‘The advocates of EBP urge the incorporation of rigorous research evidence into public policy debates and internal public sector processes for policy evaluation and program improvement’. A clarifying observation from Banks (2009, p. 14) is that ‘If it hasn’t been tested, or contested, we can’t really call it evidence’. In combination, these remarks imply that a policy development is evidence based if the development process used meticulous research methods and data, and was subjected to disinterested scrutiny.

With these clarifications it is accurate to suggest that, in the examples I know about, policy has indeed been evidence based. Even so, this does not necessarily mean that the evidence usually motivated the policy, not does it imply that the available information was used only to define and calibrate the parameters for reform. To help understand the different motives for, and use of, evidence, it is useful to classify two distinct functions of rigorous and contested information in the policy process. These can be labelled as:

- Evidence Type 1 — data of which the principal benefit is to inform the policy stance. This is essentially what more innocent commentary implies by the term ‘evidence-based policy’ (this classification can also be called ‘Ms Polyanna’).
- Evidence Type 2 — data of which the principal benefit is to smooth the implementation process or silence the potential opponents of policy reform. This is what more sceptical analysts of government mean by what might be labelled, unsupportively, ‘policy-based evidence’ (this classification can also be called ‘Mr Hyde’).<sup>1</sup>

This chapter explains and documents important examples of both.

## 5.2 Background

This paper draws on my involvement as an advisor in four different areas of economic policy reform in the period from 1987 to 2009: higher education financing (1987–2009); labour market programs for the long term unemployed (1992–95); TAFE funding (2006–08); and student income support (2008–09).

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<sup>1</sup> The first time I heard this phrase, it came from Professor Richard Mulgan of the Crawford School of Economics and Government at the Australian National University.

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## Higher education financing

In 1987, the Minister responsible for Australian higher education, John Dawkins, invited me to prepare a paper outlining the costs and benefits of different approaches to the reintroduction of a user-pays higher education system for Australia. Critically, the Minister had already decided that tuition fees should be reintroduced; they had been abolished by the previous Labor government in 1973.

My report was delivered in December 1987. It presented analyses of several financing mechanisms, including up-front fees with scholarships, up-front fees with government subsidised bank loans, and an income contingent charge system. The paper recommended the last of these, with repayments to be made via the direct tax system. Details of how such a system might work were provided, including possible fee levels and repayment parameters.

The minister subsequently set up the Higher Education Financing Committee, chaired by Neville Wran, former Labor Premier of New South Wales. I was appointed as a consultant to the committee. Its report, delivered in May 1988, recommended the adoption of an income contingent loan to underpin higher education tuition, to be called the Higher Education Contribution Scheme (HECS).

## Labour market programs

In 1991, Raja Junankar, Cezary Kapuscinski and I, as research academics, were engaged in forecasting exercises with respect to the likely future levels of Australian long-term unemployment (LTU) — that is, the number of people who are unemployed continuously for 12 months or more. Our analysis suggested that, well after recovery from the serious recession of 1990–93 had begun, LTU numbers would rise to levels that were more than double the historical peak. Using labour market theory, we explained why this situation was both very inefficient for the operation of the macroeconomy and very inequitable for the people concerned. This research gained some publicity during 1992, and was raised in parliament by the Liberal Party – National Party coalition, then in opposition, as an indictment of the Labor government’s economic policy stance.

After Labor’s (arguably surprising) victory in the 1993 federal election, I was asked by the Minister for Employment, Education and Training, Kim Beazley, to undertake a consultancy related to LTU (Chapman 1993a). Soon after that, the Australian Government set up a high-level committee chaired by the Secretary of the Department of the Prime Minister and Cabinet, Michael Keating. Among others, Professors Bob Gregory and Barry Hughes were appointed to the committee, and I served as a consultant at the same time as I was preparing the paper for Minister

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Beazley. The committee process led to the Working Nation program, which had as its centrepiece the ‘Job Compact’, under which all people who had been unemployed for 18 months or longer had access to wage subsidy, training or public sector employment opportunities (Australian Government 1994).

## **TAFE funding**

Since the late 1980s, I and many others have been involved in a series of research exercises related to the potential for radical reform of the up-front fees associated with TAFE (Technical and Further Education) courses and vocational education and training in general. Over time, academics and others have continually and publicly made the case in favour of TAFE funding reform.

This policy stance was arguably reinforced when, in 2005–06, I had the opportunity to serve as a consultant on the topic to the Victorian Government and also undertook a joint project on the topic with colleagues Mark Rodrigues and Chris Ryan.<sup>2</sup> In this exercise we modelled and analysed the potential for TAFE fees policy to be converted to an income-contingent loans system, based on HECS. In 2008, the Victorian Government, in partnership with the Australian Government, announced major changes to TAFE funding for associate diplomas and diplomas, using such an approach (Victorian Government 2008).

## **Student income support**

In 2008, I and several others, including Lin Martin and David Phillips, were engaged as consultants to the Review of Australian Higher Education (the Bradley Review). Working with Professor Martin, my principal area of analysis was student income support. An important part of this role was to provide arguments for, and evidence relevant to, possible reforms to the existing system. At the completion of its process the Bradley Review recommended radical changes to Youth Allowance. The changes were adopted by the Australian Government in the 2009–10 Budget.

## **5.3 Case studies**

In the four examples of policy reform cited above, my role was essentially that of researcher. I endeavoured to analyse the issues, using the conceptual framework of economics, and sought to bring to bear the best available statistical evidence

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<sup>2</sup> Mr Rodrigues was on secondment from the Australian Treasury to the Australian National University at that time.

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relevant to the policy problem. These approaches and the particular role of evidence are now explained in the context of a case study of each policy reform.

## **Higher Education Contribution Scheme**

### *Relative lifetime earnings*

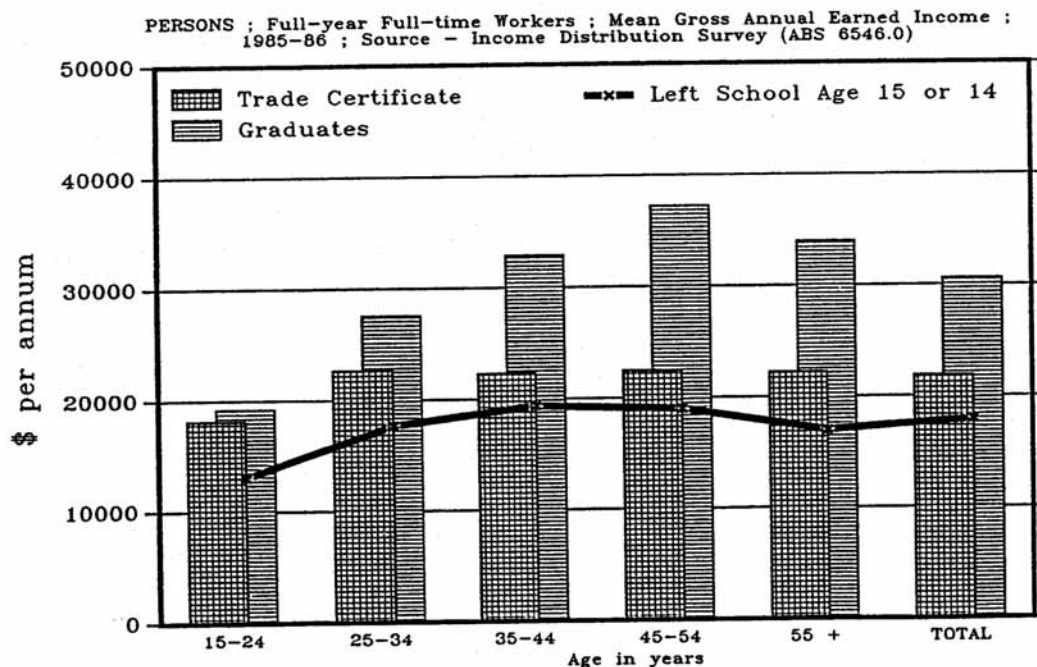
An important part of the background to HECS is the fact that in 1987 two Labor Cabinet ministers, John Dawkins and Peter Walsh, were strongly in favour of the reintroduction of student fees on the grounds of equity. Their view was that a system which did not charge tuition fees for higher education students was regressive, since at the time universities were paid for by all taxpayers, yet students on average came from relatively privileged backgrounds and as graduates received relatively high personal economic benefits.

My role in writing the options paper to set the scene for the reintroduction of tuition fees had at least two motivations. One was to consider the costs and benefits of alternative student financing policies, but another was to examine evidence relevant to the case for changing from a fully taxpayer-funded system to a system requiring financial contributions from students. To achieve this end, I employed the most commonly used evidence concerning the alleged lifetime earnings advantage of graduates. The data are shown in figure 5.1 (Chapman 1988).

There is no doubt that evidence of average lifetime income advantages of graduates, such as that presented in figure 5.1 was critical to the debate surrounding the case for the reintroduction of university tuition fees. The data showed fairly compelling support for the position already held by ministers Dawkins and Walsh, and probably also by the majority of members of Cabinet. Thus the evidence presented did not initiate the commitment to reform; instead, it was the case that the data facilitated the politically successful introduction of HECS. Therefore, in the classification system suggested in section 5.1, this aspect of the HECS exercise is Evidence Type 2, Mr Hyde.

Figure 5.1 **Earned income by age and education (persons)**

Background to the Higher Education Contribution Scheme



Data source: Chapman 1988.

### *Income contingent loans and government-guaranteed bank loans*

Student loans systems are commonplace internationally. What was different about HECS was that, for the first time, the mechanism involved the notion that repayments would be collected through the income tax system contingent on the former student's income (an instrument known as an 'income contingent loan'). At the time of the development of HECS, most other countries with student loans schemes used banks to finance the loans, with student debts being guaranteed by government.<sup>3</sup> While there was no direct evidence in favour of the Australian-suggested approach (since no other country had introduced such a scheme), it was nevertheless possible to use the conceptual tools and empirical evidence from labour economics relevant to an assessment of the likely effects of this different policy stance.

The most important concern about the introduction of the policy related to the access of poor students to higher education. Many opponents of the scheme asserted that a HECS-type approach would significantly diminish the access of the poor.

<sup>3</sup> For analysis of the economic issues relevant to this aspect of student loans policies, see Chapman (2006).

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However, my view with respect to the conceptual issues and the evidence from related issues in the labour economics literature was that the new arrangement would have at most benign effects on the access of the poor to higher education. Indeed, it even seemed likely that many poor students would be advantaged by the introduction of HECS, if the promise of additional revenue also implied an expansion in the number of university places.

This suggests that research underpinning the development of income contingent loan policy in Australia was not motivated principally by a need to persuade opponents of the benefits of HECS as such, but was instead based on a view that this aspect of the policy design constituted a better economic policy approach than the alternatives.<sup>4</sup> This aspect of the HECS process should be classified as an example of Evidence Type 1, Ms Polyanna.

## **Working Nation**

### *Helping to set the scene for the early 1990s labour market program intervention*

In 1992, as research academics, Raja Junankar, Cezary Kapuscinski and I developed an econometric model which related various and complicated forms of the quarterly Australian adult male and female unemployment rate to contemporaneous and future levels of the numbers experiencing LTU. We published what we considered to be realistic boundaries of the future levels of LTU; these were between about 300 000 and 500 000 people by the middle of the decade. We also pointed to the highly deleterious consequences of the LTU situation, in both equity and efficiency terms. Our projections are shown in figure 5.2. At the time the data and analysis were treated with both scepticism and alarm; however, the analysis seemed to matter in the setting-up of the Working Nation Task Force after Labor's federal election win in early 1993.

There is little doubt that the LTU projections broadly influenced the nature of the debate concerning the role of government policy with respect to the recovery from the recession. By the end of 1992, most analysts inside and outside government were expressing relief with respect to the end of the recession. The focus was very clearly on the macroeconomic aggregates — such as the unemployment rate, which had fairly clearly peaked around that time. Refocusing the debate to consider the importance of unemployment duration and not just overall levels of joblessness can

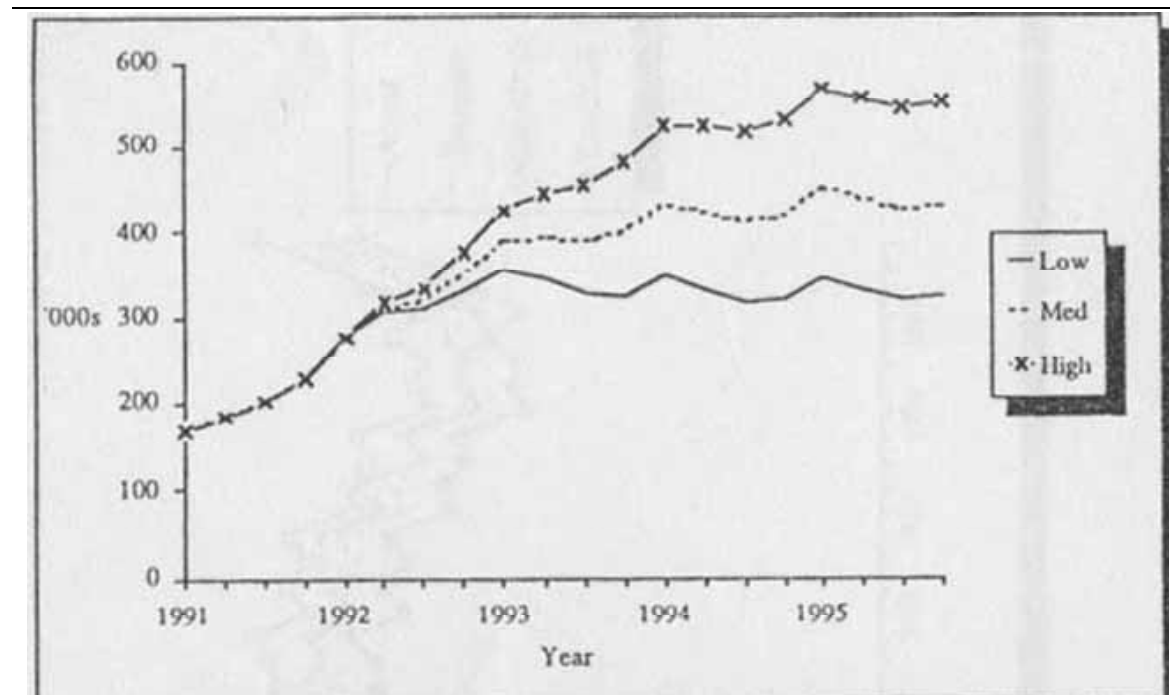
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<sup>4</sup> It is true, however, that major sections of the Australian Labor Party were against the introduction of HECS; this is best understood as coming from an aversion to there being a charge and not to the form it took.

be seen to contribute to a quite different way of understanding the effects of recession and the potential role of policy in recovery. The classification for this evidence in the policy process is a further example of Evidence Type 1, Ms Polyanna.

**Figure 5.2 Projections of long-term unemployment**

The beginnings of Working Nation



Data source: Chapman, Junakar and Kapuscinski 1992.

### *Providing persuasion for the implementation of the policy*

An important background aspect of the development of the Working Nation programs relates to whether or not there is an efficiency case for intervention. The basis for this perspective can be traced to both an economics conceptual framework and the availability of econometric tests of the essential propositions. The former is provided through the analysis of Chapman, Junankar and Kapuscinski (1993) and is based on the work of Lord Beveridge in the 1930s concerning the aggregate unemployment–vacancies (UV) relationship. The essential conjecture is that the UV trade-off deteriorates as LTU increases, implying that the macroeconomy operates less effectively when LTU is relatively high. There is considerable empirical evidence in support of this perspective (Budd, Levine and Smith 1988).

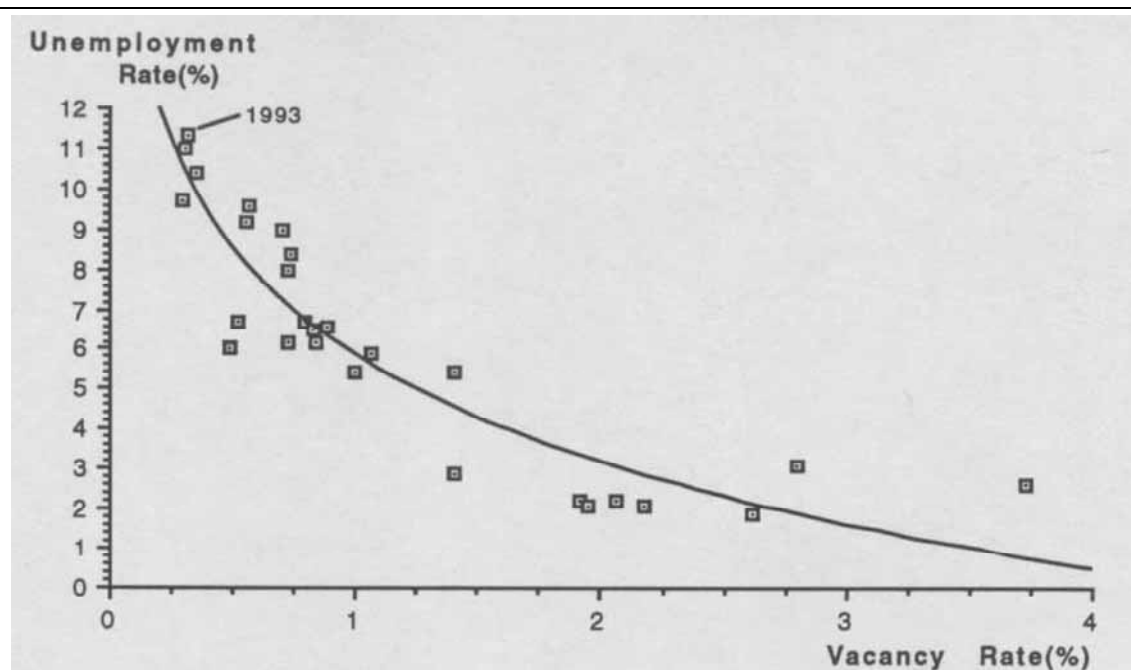
The nature of the apparent UV relationship in Australia became very important to the deliberations of the Working Nation Committee, for the following reason. If it is



the case that large numbers of long-term unemployed implies a mismatch between the available supply of labour and emerging job opportunities, this implies the possibility of wasted government expenditure on unemployment benefits and forgone tax revenue though lower than possible levels of employment and incomes. Depending on the evidence, there might be a case for targeted programs simply on the basis of improved budgetary costs, meaning that the 'Job Compact' being considered for policy reform could be justified without recourse to the more obvious case for intervention made on the basis of distribution and equity. The issue was clarified for the debate at the time through the use of the data shown in figure 5.3, information relevant to the issue of whether or not the Australian labour market operated less effectively in times of high LTU.<sup>5</sup>

### Figure 5.3 The unemployment–vacancies curve

A critical part of the Working Nation expenditure debate



Data source: Chapman (1993b).

The relationship depicted in figure 5.3 became a critical part of the in-house debate surrounding the development of Working Nation in 1993 and early 1994. Most importantly, it became clear that officials in the Department of the Treasury were sceptical about critical empirical issues related to the effect of LTU on the efficiency of the operation of the aggregate labour market, and as part of the policy development their concern required a high-level, technical response. As a result, Barry Hughes and I spent an intense day with the Treasury officials, discussing (or,

<sup>5</sup> The conceptual issues are considered in detail in Chapman (1993b).

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more accurately, debating — perhaps even arguing about) whether or not LTU had shifted the Australian UV curve by the small amount of 0.5 per cent, or the larger amount of 1.2 per cent. The agreed size of the shift was significant because modelling had suggested that, with effective programs, expenditure on the LTU would be revenue-saving for the federal budget if, as a result, the UV curve was shifted by around 1 per cent.<sup>6</sup>

In the end we reached an agreement that the shift was around 0.8 per cent, and this provided a macroefficiency basis for the Job Compact of Working Nation. I believe that it would have been much more difficult to have broad government support for the size of the intervention implied by Working Nation in the absence of this agreement, and that it opened the road internally for the relatively smooth policy development and implementation process that followed. Since the data did not lead to the policy, this example should be classified as Evidence Type 2, Mr Hyde.

## **TAFE funding reforms**

### *Setting the scene for TAFE funding reforms*

For a very long time since the late 1980s, many education analysts were interested and disappointed in the differences between the financing approaches for undergraduate higher education and the TAFE system. TAFE had long had up-front tuition fees and, over time, these had grown to levels which were likely to act as barriers to the access of prospective students, even though there were also scholarships and concessions available to many. Yet, conceptually, there was nothing different between the capital market problems which had been recognised for university students and had led to HECS, and the sorts of financing difficulties likely to be faced by prospective students of vocational education and training.

The anomalies between having an income contingent loan for higher education undergraduates and up-front fees for other areas of tertiary education were noted and criticised by a growing number of commentators, including importantly Gavin Moodie, who wrote a regular column in *The Australian* newspaper's higher education supplement. As well, a series of academic articles, most notably Watson (2001), Wheelahan (2001), Watson, Wheelahan and Chapman (2001) and Noonan, Burke and White (2004) argued the case on conceptual and equity grounds. A 2008 report from the Tertiary Education Union made oblique reference to the important need for an overhaul of TAFE funding, which was interpreted by many to be a call

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<sup>6</sup> For an application of the technical side of the modelling, see Piggott and Chapman 1995.

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for the extension of HECS. This position was also taken in a high-profile presentation by David Phillips in 2002.

In combination, these arguments and the associated evidence concerning the conceptual errors inherent in maintaining the status quo eventually set the scene for radical reforms to TAFE funding, with the beginnings of change (which is still incomplete) appearing in the mid-2000s. Given the long period of inertia demonstrated by governments in this area, and the criticism of the policy stance, it is clear that this aspect of TAFE policy reform was led by the information, and the information was not instead used to reinforce a policy position that had already been taken. Therefore the classification here is Evidence Type 1, Ms Polyanna.

### *Defining the parameters for TAFE funding reform*

In 2006, two research exercises arguably helped set the scene for policy development in this area. The first entailed the secondment to the Australian National University from the Department of the Treasury of Mark Rodrigues, to work with Chris Ryan and me on TAFE funding. The secondment was motivated by the benefits to both institutions of a shared research project.

An important part of the Chapman, Rodrigues and Ryan partnership involved analysing the Household, Income and Labour Dynamics in Australia (HILDA) dataset to determine the lifetime earnings outcomes for TAFE diploma recipients. The information mattered because it would help ensure that a HECS-type scheme could be designed in a way that might work for TAFE graduates without incurring considerable budgetary costs for the Australian Government. Figures 5.4 and 5.5 illustrate what we found based on 2005 information.

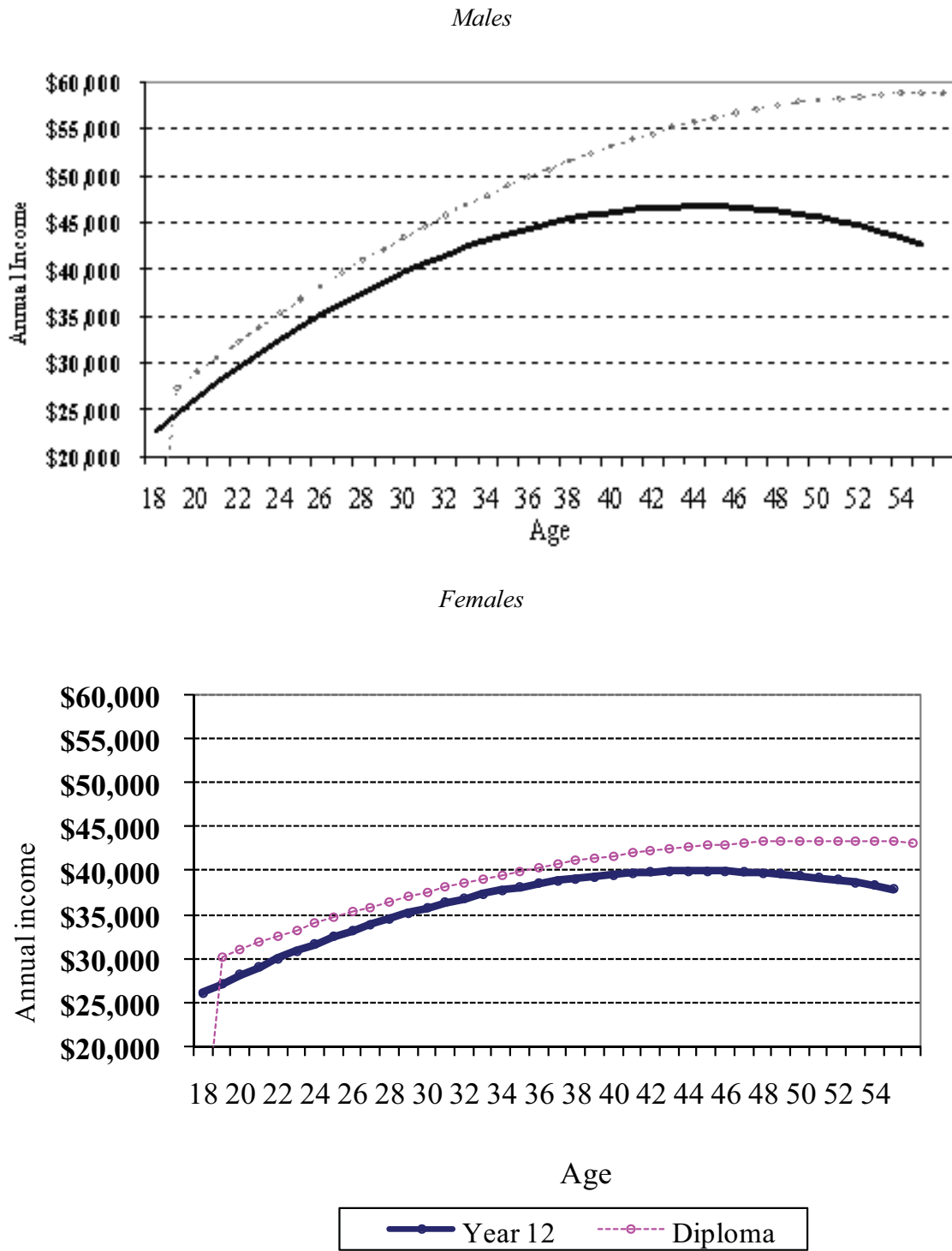
The data from the figures, which show that the lifetime incomes for those with TAFE diplomas are relatively high, imply two things:

- On average, there seems to be a real private benefit from receiving a TAFE diploma, compared to only finishing Year 12.
- The application of the collection parameters of a HECS variant for loans to TAFE diploma graduates had the potential for the Australian Government to recover the debt relatively quickly.

Both possibilities were confirmed by the technical analysis we undertook reported in Chapman, Rodrigues and Ryan (2008).

**Figure 5.4 Relative annual earnings with Year 12 certificates or TAFE diplomas**

Evidence of the feasibility of an income-contingent scheme for TAFE fees



Data source: Chapman, Rodrigues and Ryan (2008)

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At about the same time, I was helping the Victorian Department of Employment and Training with the same issue — the introduction of an income-contingent loan for students in the TAFE system. As was the case for most State/Territory governments, TAFE up-front fees were becoming a political liability for the Victorian Government.

These research exercises were of use in helping to persuade sceptics of the feasibility of a HECS-type system for TAFE, and with respect to the design parameters of the scheme. But it is highly likely that the need for such policy reform was already a conviction in the minds of many. This certainly appeared to be the case with respect to senior members of the Victorian bureaucracy in 2005–06. Accordingly, the example should be classified as Evidence Type 2, Mr Hyde.

### **Youth Allowance reforms**

In 1998, the Australian Government extended the basis under which full-time tertiary students under the age of 25 years would be considered to be ‘independent’ of the financial circumstances of their parents and thus eligible for income support grants even if living at home. The additional criteria included working a given number of hours in paid employment over a specified period of time, or earning \$18 850 (in 2008 dollars) in a recent 18-month period. This opened the possibility that students could receive non-means tested income support after having a ‘gap year’ or after being employed at an exceptionally high wage rate for a short period by a family member or friend. It is very likely that this policy development was in part a response to the possible inequities associated at that time with the increase in the ‘age of independence’ to 25 years.

The number of students in receipt of the ‘independent-at-home’ (IAH) allowance increased very rapidly in the period from 1999 to 2003, from around 1000 to around 21 500. In absolute terms, the figure has since remained virtually unchanged; it stood at 22 689 in 2007 (Commonwealth of Australia 2008). This represented about 18 per cent of all recipients of Youth Allowance (YA) in 2007.

Possible reforms to YA, including with respect to IAH, were canvassed in detail as part of the Bradley Review. A critical issue for policy was whether or not IAH income support recipients were in fact financially disadvantaged. This is more complicated than it might seem at first blush, because the actual government assistance provided to those in the IAH category is well below the amounts delivered to those in other categories of YA, in which the recipients live away from

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their parent or parents.<sup>7</sup> Thus the issue concerns whether or not those on IAH assistance are receiving help from YA in addition to the help that is implicitly assumed to be transferred from parents or guardians in various forms. Unfortunately for our analysis, there was no evidence available to allow confident conclusions with respect to the distribution of resources within households.

Kiatanantha Lounkaew (a PhD student at the Australian National University) and I set about the task of determining the true relative household income situation of students in receipt of IAH. This was made arduous by the fact that there is only poor information available from the government concerning all the relevant economic circumstances of people receiving YA. We were required to access five waves of the HILDA panel data set, adjust the income data for wage inflation, and make assumptions concerning who in the broad category of YA recipients was likely to be in the IAH category. The detail of our process is explained in Chapman and Lounkaew (forthcoming, 2010).

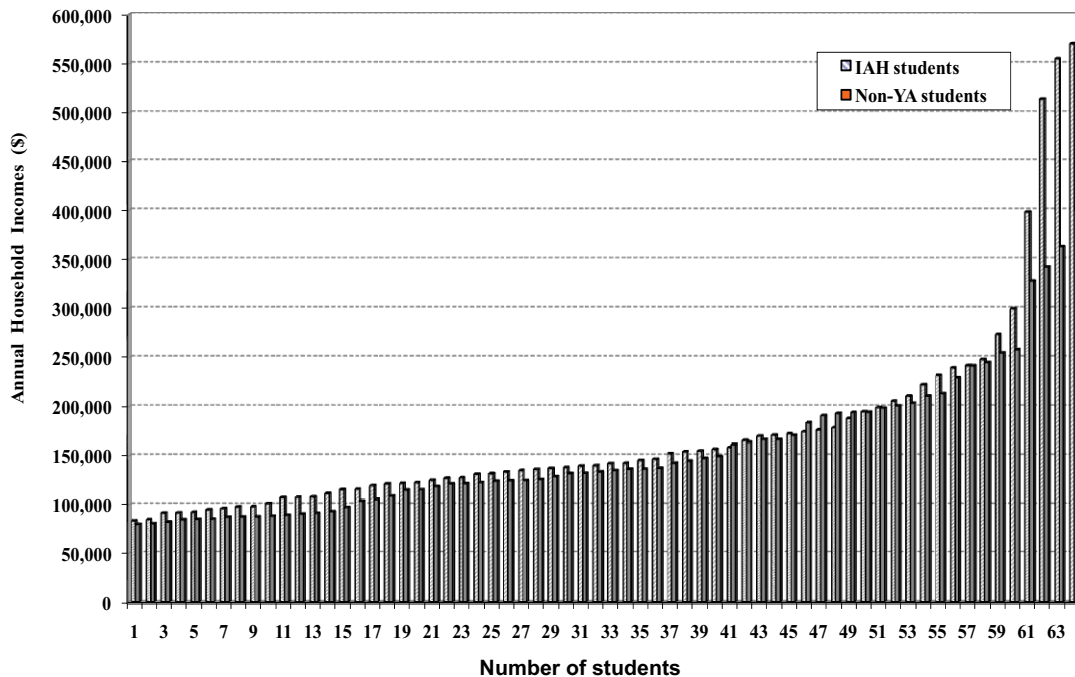
This research led to the critical finding that is illustrated in Figure 5.6. The data show that the household incomes of full-time university students aged less than 25, living with a parent or parents and in receipt of IAH, were essentially the same as the household incomes of otherwise similar young people not receiving YA. This was taken by members of the Bradley Review committee to constitute compelling evidence that this category of YA was poorly targeted and inequitable.

It is a matter of opinion as to whether or not the evidence presented above led the policy change, or instead was highly useful ammunition to form the basis of a policy decision that was inevitable. My view is that the evidence in this case was more in the former category, a perspective influenced importantly through an interpretation of the position taken on the issue in the Bradley Review process (Commonwealth of Australia, 2008). I think a fair assessment of this position is that, without the data, the recommendation for the policy reform was unlikely to be forthcoming, or at least would have meant that a much more nuanced stance was taken in the report from the committee. Accordingly, on balance, I think the right classification for this example is Evidence Type 1, Ms Polyanna.

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<sup>7</sup> For example, the amount paid to those on IAH is around \$220 per fortnight, but the maximum received by those on YA living away from home is about \$350 per fortnight and is supplemented by rent assistance for students residing in high-rent areas.

Figure 5.5 **Comparison of the household incomes of the Youth Allowance and non-Youth Allowance groups**  
Reforms to the 'independent-at-home' Youth Allowance oxymoron



## 5.4 Conclusion

Important data in support of policy reform are frequently used as part of the policy-making process. Indeed, it is hard to think of significant policy changes that are not characterised by the use of what is often referred to as ‘evidence’. But even if the information can rightly be referred to as evidence, in the sense of having been tested and contested, this does not necessarily mean that a policy procedure should be considered to be entirely consistent with what its proponents refer to as ‘evidence-based policy’.

Policy makers — politicians in particular — use research for different reasons. In some circumstances the evidence provides a fundamental basis for policy change; in others, the data can be employed to persuade, or quieten, opponents of a policy which has already been decided for reasons not related directly to the data. This distinction has been used above in a classification of the role of evidence in case studies of four policy matters that I have been involved in.

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All of the examples described here used what would generally be considered to be meticulous and scrutinised research methods and data, but it was not always, or even generally, the case that the policy was initiated in response to the evidence. This should not be seen to be criticism of the way policy reform takes place, nor should it undermine the important role played by research in the process. But it is useful for those engaged in policy-related research to be aware of the constraints and limitations inherent in what we are trying to do.

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