Markets in education

John Daley, CEO, Grattan Institute
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10 September 2015
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 shift: employee contribution not government privilege
Why do markets ‘fail’?

Principal-agent
- Purchasers not spending their own money

Information asymmetries
- Purchasers don’t know what they’re buying

Lack of competition
- Barriers to entry, minimum efficient scale

Under-provision of public goods
- Education has a public value, but purchasers would under-buy

Government failure can be worse than market failure
- Jobs services network has issues, but was the CES perfect?

- Government schools
- University undergraduates
- Parents buying playing fields
- International students buying uni ‘prestige’
- Lack of real competition amongst schools in practice
- Hence subsidies in most education markets
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How competitive are Australian education markets?

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<th>Open to new entrants</th>
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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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Type of university attended makes little difference to lifetime earnings

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

- Go8: $3
- Tech: $3
- IRU: $2
- Other: $1

Grattan Institute, *Mapping Australian higher education, 2014-15*
## What are the outcomes of education markets?

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### Successes

- Better staff management
- Better demand match
- Very responsive to student demand
- Rapid expansion of places
- Good outcomes with minimal regulation

### Issues

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

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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

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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