Election Study on TAFE funding returns

Vocational education spend pays

Exclusive
Tim Dodd

As Labor seeks to turn TAFE funding into an issue in Saturday’s federal election, a new study has found that boosting spending on vocational education delivers a very high return to the national economy.

The study, by economist Chris Murphy of Independent Economics, finds that the cost of expanding vocational education and training (VET) has an internal rate of return of 18 per cent.

The study will be released on Monday to the TAFE Directors Australia national conference in Brisbane.

In his report Mr Murphy says the high investment return for VET education was due to its role in providing skills that are in demand from industry.

“The key benefit takes the form of a boost to the employability of VET students, through higher labour force participation rates, lower unemployment and improved access to full-time jobs,” he says.

In calculating the return on investment, the study takes into account all money spent on VET education by government, business and students (through course fees).

It specifically looks at the impact of the 5.6 per cent boost to VET spending (over five years) which resulted from the National Agreement for Skills and Workplace Development signed off at the Council of Australian Governments in 2012.

This extra investment in VET will cost governments, business and students an extra $2.3 billion in tuition costs. There is a further $4.7 billion cost in foregone earnings by students who are studying rather than working, giving a total cost of $7 billion.

However the extra training yields total benefits of $20.4 billion due to greater employment of skilled workers and better productivity.

The net benefit of $13.4 billion leads to a permanent 0.1 per cent boost to real GDP and employment.

The report says this will result in significant expansion of industries which are relatively dependent on VET skills, including manufacturing, automotive repair and personal services such as hairdressing.

Mr Murphy goes on to model the outcome of a larger boost to VET education in which government funding is boosted by 13.7 per cent rather than 5.6 per cent, and the net benefit to the economy is $32.5 billion with a permanent boost of GDP of 0.2 per cent.

The study was commissioned by TAFE Directors Australia whose chief executive, Martin Riordan, says the report made “a compelling case” for substantial ongoing investment in VET.

“Investment in vocational education and training has a substantial multiplier effect that effectively turbo charges the economy and helps people move to higher-skilled and more rewarding jobs,” he says.

In the report, Mr Murphy says that the estimated high return of 18 per cent from spending on VET education indicates there was “likely” to have been underinvestment in this area, partly due to student’s inability to foresee the benefits of skills training.

“This underinvestment is likely to have been caused by myopia in potential students and limited access to loans to finance students’ investment in VET,” the report says.

“Both of these market failures would discourage potential students from undertaking VET study, despite the high returns.”

Last week the Coalition announced it would boost spending on VET education with an income-contingent loan scheme offering apprentices up to $20,000 to help with living expenses.