

How Economics Explains Failure of the Publicly Funded Privately Delivered Training Market



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1. Introduction

Creation of a 'training market' for publicly funded but privately delivered vocational education and training (VET) is one of the most transparent failures of neoliberal public policy over the last three decades. It is an exemplar of the great damage inflicted when a naive and idealised neoliberal conception of how markets work is the basis for public policy. Over the last decade or so I have sought to highlight a key paradox. For forty years orthodox economics has been the primary justification for introducing the training market and designing its operation. But orthodox economics is also an immensely powerful tool for explaining widespread and persistent concern over quality and malfeasance in the publicly funded but privately delivered training market (Toner 2011, 2014, 2018). The paradox arises because advocates of the training market, either wilfully or through ignorance, failed to apply economic analysis to VET in Australia to determine its suitability for contracting out and the incentives driving participation and behaviour of many training market members. Such analysis demonstrates that widespread quality diminution and malfeasance are an inexorable outcome of publicly funded but privately delivered VET. This chapter provides a brief summary of these arguments. This has been a unique perspective on the training market complementing the dominant educationist explanation of failure in the training market.

In summary quality problems in the VET market arose with the introduction in the 1990s of contracting out publicly funded VET to private providers based on a grossly inadequate analysis of the economics of the private training market, the scope for efficient contracting and the actual level of demand for quality training amongst students and employers. Second, concomitantly a new pedagogical system, Competency Based Training (CBT) and Training Packages, was introduced to realise the core objectives of the training market in terms of flexibility and customisation of training to the needs of individual students and firms. The degree of flexibility and poor specification of training and assessment standards facilitated diminished quality and malfeasance among

market participants. Third, a key objective was to make the VET system 'industry-led' by shifting from a supposedly 'supply-side' model dominated by the self-interest of TAFE teachers and education bureaucrats, to a 'demand-side' VET system focussed on the needs of VET users. However, fundamental ambiguity remains in key policy documents and practice as to whose interests the new VET system is actually intended to serve. Is it the individual student, the firm, the industry or even the taxpayer investing billions annually in publicly supported VET? The interests of these four stakeholders converge but also diverge in key respects. Four, because of these design flaws, and the sheer number of private providers who entered the market and number of courses and qualifications permitted in the VET system, efficient regulation is exceedingly difficult or impossible. Finally, greatly reduced real public VET spending per student hour has also reduced quality.

The training market created both the opportunity and incentives for quality diminution and malfeasance by many market participants exploiting strategic ambiguities in the design of the system. Orthodox economics provides a useful analytical toolkit to explain why publicly funded but privately delivered VET should not have been contracted out and why the large scale adverse outcomes were inevitable. This is paradoxical as orthodox economics was also used to justify introducing the training market. This paradox is explained in part by a commitment to neoliberal ideology by training market advocates and powerful financial incentives to market participants who benefitted from the 'flexibility' the new training system permitted. Private providers lowered cost and increased profitability; students lowered cost and effort; and employers had taxpayers fund firm-specific training and some sought to suppress wage rises by increasing the supply of trained labour.

2. Origins of the Training Market

A chief advocate of neoliberalism, Milton Friedman (1955), first outlined the arguments for separating the role of government as a direct producer of educational services and VET from its role financing education and training. Making public training funds contestable through means such as a voucher system would better meet the needs of

students and employers, lower costs and improve pedagogical innovation.

It was not until the early years of the UK Thatcher government in the 1980s that a fully integrated neoliberal training market was introduced. There were four key elements: competition between public and private providers through contracting out publicly funded VET; establishing a VET quality regulator; a new pedagogy Competency Based Training (CBT) and a new national system of qualifications (National Vocational Qualifications) based on CBT principles (Bates 2002). Following these 'reforms' the English VET system has continued to be widely recognised as the worst among advanced European nations: a barrier to efficiency in industry; a key source of persistent skill shortages and failure to integrate disadvantaged groups (Finegold and Soskice 1988; Ryan and Unwin 2001; Leitch 2006; Brockmann et al 2011).

As part of the broader neoliberal revolution in economic and public policy over the 1990s, the UK VET system was replicated in Australia virtually *ex integro*.ⁱ The intellectual rationale for this revolution was bipartisan support for 'micro-economic reform', institutionalised through National Competition Policy, encompassing deregulation of labour, product and capital markets. For government neoliberalism meant privatisation of profitable government businesses and subjecting the supply of remaining government services to competition between public and private providers by contracting out (Hilmer 1993). ((In the new system both types of training provider are known as Registered Training Organisations or RTOs).

A re-designed training system was to be an essential complement to the broader push for labour market deregulation as greater 'flexibility' in training delivery would be critical to achieving the supposed productivity gains from enterprise bargaining and award restructuring (Dawkins 1989).ⁱⁱ Opening public training funds to competition in a 'training market' would improve technical efficiency by creating incentives for public and private training providers to minimise costs. It would also raise allocative efficiency by more closely tying training provision to user demand. It would lift dynamic efficiency by promoting innovation in service delivery. The combination of competition and the new pedagogy CBT would permit training providers to customise training to the needs of an individual student and employer by giving priority to flexibility in training content, delivery and assessment (Deveson 1990: 9). The new system would be 'demand-led' serving the needs of students and employers not 'supply-led' serving the needs of teachers and education bureaucrats.

It is crucial to note introduction of the training market into Australia was based neither on detailed evidence regarding the performance and efficiency of the *status quo ante* or on a detailed analysis of the economics of a training market and the characteristics of VET users to determine the suitability of contracting out publicly funded VET. Rather, its introduction relied solely on *a priori* reasoning that is the foundation of neoclassical economics. Allocating public

training funds through a market based system and introducing competition between providers would, *by definition*, create a better system.

It is also important to note that from the beginning of the training market private RTOs were given equivalent status with TAFE in terms of being able to deliver training based on Training Packages, assess students and issue nationally recognised qualifications. RTOs are registered with the national regulator, the Australian Skills Quality Authority (ASQA) established in 2011, to deliver a specific range of courses at a given level of qualification, typically a range between Certificate 1 to Diploma level, and even degrees. This equivalent status gave private RTOs access to an essential and economically highly valuable commodity, the right to issue qualifications that are frequently a pre-condition for work in many occupations.ⁱⁱⁱ

3. Implementing the Training Market

Since the early 1990's Australian governments have been incrementally instituting a training market by increasing the share of public funds diverted from the public provider, mainly TAFE to private RTOs. From a few earlier pilot programmes the training market commenced officially with the introduction in 1998 of User Choice policy, or the 'the flow of public funds to individual training providers which reflects the choice of individual training provider made by the client' (Selby-Smith 1998: 7). Under User Choice all public funding for off the job apprentice and traineeship training was 'contestable'. In 2008 Australian governments moved to make all public VET funds contestable (COAG 2008), though the degree to which this has occurred differs substantially across the states. For example, Victoria has for many years been a particularly enthusiastic supporter of the training markets regardless of the 'colour' of government.

Various mechanisms have been used to allocate public training funds such as tendering for the delivery of courses nominated by government; 'entitlement' funding whereby specified courses are subsidised but students and/or employers are free to choose an RTO and a voucher system where courses and providers are decided solely by students. Various mechanisms have also been used for pricing publicly funded training including tendering to deliver a fixed number of specific qualifications; some jurisdictions use detailed research into the 'efficient cost' of delivery for different qualifications to fix prices with students able to choose their preferred RTO; prices can be determined by set nominal (anticipated) hours of delivery for a given qualification and uncapped or fully market based pricing has also been used, most notably and to disastrous effect, in the former VET Fee Help programme.

Over the 20 years from 1996 to 2016 the Australian publicly funded VET market has undergone a radical transformation (Figure 1). At the outset of the training market almost all publicly funded VET was delivered by TAFE colleges, and other public institutions like government business enterprises and agricultural colleges. Not-for-profit Adult and Community Education (ACE) providers were also important in the system. In 1996 98% of students receiving

publicly funded VET were in TAFE (83%) or not-for-profit community education providers (15%) but, by 2016 this had fallen to 52% and 6% respectively (NCVER 2016: Table 11).^{iv} The number of students in for-profit or other RTOs receiving government funds increased from 23,000 in 1996 or just 2% of students to 532,000 in 2016, or 42 % of publicly funded VET students. This is an annual compound rate of growth of 18 per cent per year over 20 years.

This large shift in the distribution of students across providers is attributed by proponents of the training market to the rational decision making of students and employers exercising their newly found choice to select new, mostly private for-private providers. The latter, newly incentivised, delivered flexibility in training content, assessment, teaching equipment, teacher qualifications and training duration. The training market, it was claimed both transformed the demand-side and supply-side of VET. This proved to be an optimistic assessment of the change.

contestable market compared to standards in public delivery. The following practices in some non-public providers are claimed to give rise to lower quality. Enrolling students with very low educational attainment precluding successful course completion and poor assessment standards (Schofield 2000:viii, Productivity Commission 2011: 122; Halliday-Wynes and Misko 2013: 32); short training duration raising concerns about the ‘volume’ of both training delivered and skills acquired by students (National Strategic Industry Audit 2010; Productivity Commission 2011: XLV; Halliday-Wynes and Misko 2013: 20-21); low level of qualifications held by teachers (Productivity Commission 2011: Table C.16; Halliday-Wynes and Misko 2013: 26) and inadequate teaching resources (Allen Consulting 2013: 10). Private RTOs provide misleading marketing to students as to graduate outcomes and industry recognition of qualifications (ASQA 2013). Mitchell (2012) documents providers offering inducements to students to undertake training ranging from cash payments (the provider ‘splits’ the government training subsidy with the student), free Ipads and holidays in Bali.

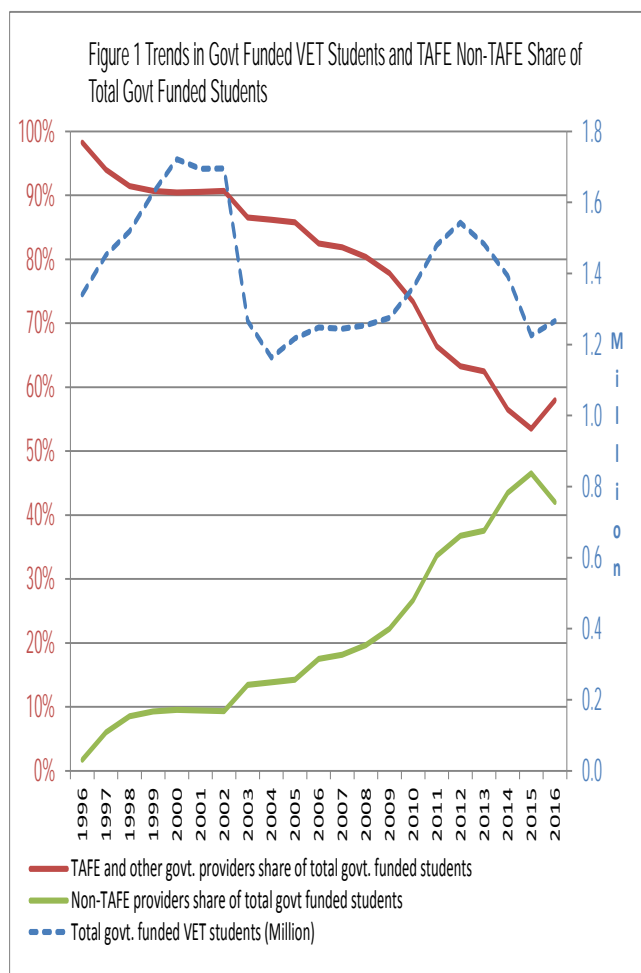
4.2 Scale of Quality Problems

There are no published official data that permit an estimate of the overall scale of the quality problem in the training market. There are however several indicators that show the problem is significant.

4.2.1 Regulatory sanctions and audits

To date the prime locus of regulatory concern regarding the quality of VET provision has been private providers. The national training market regulator ASQA undertakes audits of RTOs to determine compliance against minimum standards. It exercises considerable discretion so that typically sanctions are applied only on RTOs who persistently fail to meet audit standards or where particularly serious breaches occur. Sanctions issued by ASQA include immediate cancellation of an RTOs registration; cancellation of RTOs registration upon renewal every three or so years; suspension of an RTO from operating for a specified time or restricting the range of courses it can deliver. In 2011 19 RTOs were subject to regulatory sanction but the number increased regularly so that in the first six months of 2017 187 RTOs were sanctioned (ASQA 2017). It could be objected that the large rise in sanctions indicates the regulator is removing the ‘rotten apples’ from the system and that, given sufficient time, the average quality of provider should be rising. Against this is the sheer scale of malfeasance recently revealed under VET Fee Help and the continuing flow of adverse findings from ASQA regarding ‘systemic risks’ to quality. (Detailed below).

Aside from recording sanctions ASQA also reports the outcomes of compliance audits. Over the 4 years 2012-13 to 2015-16 approximately 1200 to 1500 RTO audits were conducted each year (ASQA 2016: 48). The outcome of two different RTO audits are reported; the initial audit after RTOs operated for 12-18 months and a final audit where RTOs initially not compliant are given 20 working days to rectify the problem with advice from ASQA. Over the four years 2011-12 to 2015-16 the average level of initial RTO



4. Quality Problems in the System

This section examines the nature, extent and causes of quality problems in the publicly funded VET system.

4.1 Nature of Quality Problems

A persistent finding in academic and regulatory evaluations is lower quality of training in many private providers in the

compliance against national standards was just 22%. In other words, on initial audit only 1 in every 5 RTOs are compliant. After rectification the average level of compliance was only 76.0%. After rectification only 3 in 4 RTOs on average are compliant. ASQA expressed particular concern at the high level of non-compliance with standards that 'relate to meeting the needs of industry and learners and ensuring the quality of training and assessment' (ASQA 2016: 55). ASQA does not report what happens to the nearly quarter of audited RTOs that fail to pass the final audit.

4.2.3 Regulator Reviews

In addition to audits of individual RTOs ASQA (2017b) undertakes investigations 'where **systemic risks** are identified. ASQA seeks to prevent damage to the VET sector by undertaking strategic reviews of these training areas or issues'. ASQA identified systemic risks in training for the following industries, aged and community care in Australia; Construction Industry; equine, early childhood education and care and security. In addition highly critical strategic reviews were made into RTO marketing and advertising; minimum prescribed VET teaching qualifications; the duration of training and VET FEE Help (ASQA 2018). It cannot be inferred that 'strategic' concerns are restricted to these industries and issues; rather the number of reviews is limited by a range of factors such as regulator resourcing and changing priorities of the regulator and government.

The latest strategic review into the duration of training provided by RTOs 'found that the long-term quality of Australia's vocational education and training (VET) sector is at risk unless the issue of unduly short training is definitively addressed' (ASQA 2017c). The fact that the Mandarins acknowledge that systemic risk exists on a matter so fundamental as the duration of training and volume of learning more than three decades into the life of the training market speaks eloquently as to the scale of the quality problem and difficulty of regulatory solution to these problems.

In addition, the NSW Independent Commission Against Corruption (ICAC) undertook several damning reviews into VET provision in NSW over the first half of the 2000s. Using its extraordinarily powerful investigatory powers it revealed extensive low quality training and corruption across several sectors. (These are dealt with in section 5). The ICAC ceased its investigations not because it had exhausted the scope of malfeasance but simply because it believed it expended sufficient resources to illuminate the scale of the problems and expected government to remedy the problem.

4.2.4 Employer Associations

Major employer associations, including the Australian Industry Group (AiG) and Australian Chamber of Commerce and Industry, that were key architects of the present system, argue that due to fundamental problems with the design of the training market, contracting-out has reduced the quality of provision; fails to meet industry skills needs and reputational damage to the training

system reduces the incentive of employers and workers to acquire VET qualifications (Mitchell 2012: 34-35; 38-39). More recently in a submission to an Australian Senate (2015) inquiry into private VET providers the AiG stated it 'has experienced disquiet from employers concerning inadequate time in the delivery of courses by providers, inadequate assessment of competence and poor quality training outcomes' (Senate 2015: 54).

The Housing Industry Association, also a key supporter of the training market, finds the system of training and assessment for apprentices in the construction industry to be fundamentally unfit for purpose. A key function of qualifications under the CBT system in the current industrial relations system introduced with award restructuring is to tie the acquisition of qualifications to increments in award wage levels given that the former is intended to signal a certain level of worker competence and productivity. Such wage setting 'requires a comprehensive, well-structured framework within which the competencies of apprentices can be accurately assessed: such a system does not currently operate' (Housing Industry Association 2015: 4.3.18).

It is important to note however, that like the VET Mandarins, these employer associations continue, in general, to support the current system. The reasons for the persistence of this commitment are taken up in section 6.

5. Causes of Quality Failure

Many explanations of widespread concerns about quality and malfeasance in the training market are to be found in the literature. Following Toner (2014), these may usefully be divided into economic and pedagogical conditions.

5.1 Economic Factors

5.1.1 Sovereign Consumer

An efficient market assumes buyers be adequately informed, if not perfectly informed. This assumption in turn relies on the condition that consumers have sufficient rationality or capacity to process this information to make optimising decisions. It also assumes information about the VET market is valid, accessible and obtainable at low cost. Further, it is in the self-interest of consumers to choose a high quality producer. For many students these three conditions, separately or collectively, do not hold.

First, the orthodox economics model of optimal decision-making under risk (in the absence of perfect information) relies on unrealistic and empirically refuted assumptions about how humans choose between two or more options. But neoliberal policy, including the training market, assumes the orthodox model is true. Over the last three to four decades major advances in the economics of choice, broadly known as behavioural economics, have revealed the profound inherent limitations and biases in human decision-making. '[T]he deviations of actual behaviour from the normative [orthodox] model are too widespread to be ignored, too systematic to be dismissed as random error, and too fundamental to be accommodated by

relaxing the normative system' (Tversky and Kahneman 1986: 252).

Second, there are no reliable official indicators of RTO quality. Toner (2011b) outlines the profound methodological issues in developing quality metrics for VET given its diverse objectives and extensive statistical adjustments required to construct valid comparisons of RTOs. The Productivity Commission (2011: XLIII) finds 'there are no unequivocal indicators of teaching quality in VET'. There are also compelling practical problems given there are around 4,500 RTOs (1931 of whom deliver publicly funded VET) teaching over 2000 different national training package qualifications and 943 nationally recognised accredited courses (Korbel and Misko 2016: 13). Developing valid quality indicators for each qualification at each RTO is impossible.

Third, RTOs can engage in obfuscation by misinforming potential students as to the quality of training and its labour market outcomes. A recent Department of Education (2016b: 24) review of the student loan scheme VET Fee Help found that 'an essential challenge to the scheme has been dealing with uninformed, poorly informed or misinformed consumers who may not understand their options or the implication of these options. Critical to understanding this is the scale and breadth of unethical practices undertaken by some providers and brokers employed to attract and enrol students'.

Four, a large proportion of VET students have low initial educational attainment, limited literacy, numeracy and problem solving capacity.^v This is not unexpected given that increased participation of disadvantaged groups is an explicit objective of publicly funded VET.

Severely bounded rationality for many VET students calls into question the efficacy of constant demand by government and the VET regulator to improve student choice of RTO by increasing the volume and quality of information about RTO performance.

Recent evidence for these problems is provided by the stark differential in pricing (up to 2-3 times) that emerged between private and public providers when prices were uncapped under VET Fee help (Department of Education 2016). The latter pricing method constituted a 'natural experiment' regarding the efficiency of unregulated markets for government funded VET training forces in the real world.

Finally, improving the quality of information is irrelevant for many students and employers as a large number are indifferent to the quality of training. (This is explained below).

5.1.2 The market for low quality training

Toner (2014) identified market conditions creating 'perverse incentives' for students and employers not to demand quality training and for providers to supply this low quality training. Three such conditions are identified here.

First, participation in VET can be induced by 'students enrolling in courses to meet mutual obligation requirements associated with welfare support. For example, income support payments such as Newstart Allowance, Youth Allowance and the Work for the Dole programmes require recipients to apply for jobs, train or study to remain eligible for support. In these instances, people enrol in a VET course...to meet their obligations (Department of Education 2016b: 21)'. These students are likely to be less focussed on their studies than other students who are intrinsically motivated to participate in VET to improve their position in the labour market or for interest.

Second, perverse incentives arise, when there is a legislated requirement to attain a VET qualification to work in a specific occupation but, students and employers view the mandated training as an unnecessary bureaucratic impost. This negative attitude is reinforced when acquisition of the qualification is required of workers already working in the occupation (possibly for many years) and there is no economic return to such workers via higher wages for attaining the qualification. ASQA strategic review of training in the security industry found a prevalence of courses with a duration much less than that recommended in the Training Package, and that this was due to a lack of demand for quality training by trainees and employers. This was demand that found a ready supply. 'RTOs reported that shorter programs...were delivered for a range of reasons, including student and employer pressure for fast training in required qualifications to gain a licence, and market pressures to reduce the time taken and the cost of programs (ASQA 2016: 9)'. Toner (2014) summarises ICAC inquiries into the NSW training market which revealed some students also lack the prior educational attainment or English language proficiency to legitimately attain occupational licences and seek out compliant providers.

Some idea of the scale of compulsory this problem is provided by an NCVET annual survey of employers' use of the VET system and VET trained workers. It encompasses employers that do and do not use the VET system. In 2015 36.6% of all employers, excluding employers with apprentices and trainees, had jobs that 'required a vocational qualification' (NCVET 2015: Table 1). Of this group 62% of employers stated the qualification was needed to 'provide the skills required for the job'. This is closely followed in importance by 'legislative, regulatory or licensing requirements' (52.1%), and 'to meet and maintain professional or industry standards' (27.9%). The next most important reason was 'to improve the quality of goods and services provided' (3.6%) (NCVET 2015: Table 10).^{vi} In other words, some form of compulsion was a dominant reason for requiring employers to have workers with a VET qualification. What is unknown is what proportion of this large potential pool of firms colludes with employees and/or RTOs to reduce the burden of mandated training.

Third, ICAC reports reveal some employers are indifferent to quality of training during periods of high labour demand

and may otherwise seek to encourage an over-supply of 'qualified' labour (Toner 2014).

Just how large is the demand for low quality training? Some studies suggest it is very large indeed.

In a recent report for NSW TAFE Boston Consulting (2015) provided a market segmentation analysis based on the priority students give to quality in the selection of a provider against other factors that may influence their choice such as price; short course duration; location and mode of delivery and assessment (on-line versus classroom). The purpose was to show where TAFE stands in the market as 'providers are defining their competitive advantage by identifying and tailoring their offerings to specific customer segments' (Boston Consulting 2015: 54). Between 40%-55% of the student market are willing to trade quality for lowest price and convenience. For these students a 'primary concern is obtaining a qualification, rather than necessarily the quality of that qualification' and 'price is very important... [they are] willing to trade quality for it' and/or they 'have limited agency... [or are] highly susceptible to aggressive recruitment strategies'.

5.1.3 Barriers to enter and exit the VET market

A key assumption in the creation of the training market over the last three decades is that competition would lift quality. At least in many fields of teaching, this has not happened. A prime reason for this is that entry by RTOs into the training market requires minimal investment in buildings and equipment and there are inadequate standards relating to teacher qualifications and teaching resources. These characteristics can be exploited by opportunistic providers. In the five years to 2015 the annual combined rate of RTO exit and entry was 13% (Korbel and Misko 2016: 15). At this rate the total stock of RTOs would, in theory, turnover every 7.6 years.

The public funding system also reduces the incentive of private providers to invest due to the relatively limited duration of some government training contracts, which can be as short as one semester, and uncertainty over continuity of funding in a competitive market (Allen Consulting Group 2011: 10). Also government funding of training in the competitive market does not make explicit allowance for capital costs. Government could redress these disincentives by increasing the duration of contracts but this would contradict a key objective of contracting out which is to maximise competition between providers and increase supply flexibility in meeting fluctuations in demand for training. Explicit allowance for capital costs could be made but this creates a potentially massive administrative problem of estimating capital costs per course or qualification; accounting for and disposing of capital goods after exit of a private RTO and ensuring an RTO receiving publicly funded capital did not use it to deliver privately funded training.

An alternative solution is to require private providers to lodge a large monetary bond to be forfeited if the regulator takes successful action against the RTO. Imposition of a bond of sufficient scale to generally deter provider

opportunism would be administratively complex requiring a period of trial and error to find an efficient bond price for various types and levels of qualification (as different qualifications receive differential public funding). It would raise prices in the market.

Low barriers to entry and exit greatly reduce the risk of business failure due to an inability to attract or retain students or adverse action by regulators against opportunistic providers. Under these conditions, even where some providers seek to act ethically, the force of competition can drive them from the market if ethical provision results in higher costs (ASQA 2017a). The problem of low barriers to entry is now widely acknowledged, but its solution in the private training market remains elusive.

5.1.4 Limits to VET regulation

There have been a variety of regulatory bodies and systems over the decades since the training market was instituted. Currently, the Australian Skills Quality Authority (ASQA), established in July 2011, regulates all federally and most state funded training. ASQA regulates 1931 government funded RTOs and another 3300 or so other registered providers as well as a multitude of qualifications and courses. In this total VET market there are around 4 million VET students but 42% of providers had fewer than 100 students enrolled in 2014 (Korbel and Misko 2016: 19). This large and complex market structure is not conducive to efficient regulation and is indicative of very low barriers to entry and exit (Korbel and Misko 2016: 23).

Aside from problems with the efficacy of regulation caused by the sheer number of RTOs and qualifications and loose specification of standards there are other limits to the effectiveness of regulation. These include constrained regulatory resources. Second, the need for ASQA to adhere to principles of natural justice and administrative law which can lead to protracted enforcement action. 'A significant restraint on the regulator's capacity to take swift action at present is the availability of significant, protracted and potentially expensive review processes' (Department of Education and Training 2016c: 25). Third, limits are also imposed by the legislated requirement for ASQA (2016c: 4) 'to achieve a reasonable balance between the responsibility to deliver protection to the community and the burden imposed by external intervention'. Finally, the regulator is in the invidious position of being *responsible* for enforcing standards but not being in *control* of these standards. Ultimate control over all VET standards rests with Council of Australian Governments (COAG) Industry and Skills Council, a body comprising mainly VET Ministers. Relatedly, Harris (2015:28) laments the constant turnover and re-invention of national policy making bodies in VET causing loss of continuity and corporate memory.

5.1.5 Reduced government funding

Due to a combination of contestability, government funding restraint and rising number of people participating in publicly funded VET, resources for VET teaching have fallen perilously. Using a different methodology to the earlier estimate of Pilcher and Torri (2018) by one standard

measure real government recurrent funding on VET fell by 39 per cent between 2005 and 2014 (Productivity Commission 2017: 5.34). It is disingenuous of the Commission to suggest that 'low or decreasing unit costs can indicate efficient delivery of VET services per successfully completed load pass hour' without considering that such a large reduction in resourcing can have the opposite effect.

Previous research indicates under-investment in TAFE is a chronic problem and this has reduced the capacity of the system to keep up to date with new technologies and maintain the currency of teacher skills and knowledge (Toner 2005). This declining capacity is likely to have worsened in the last decade.

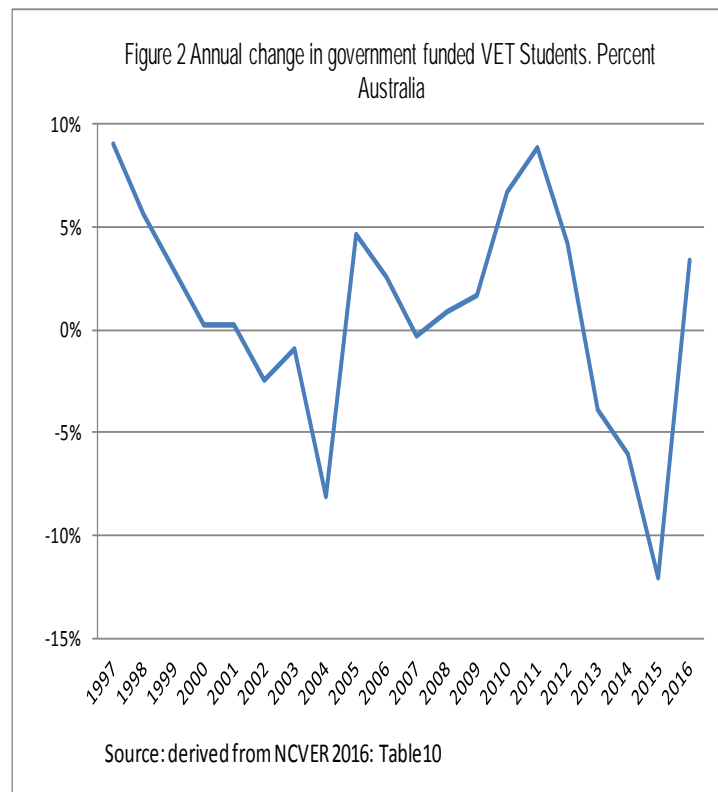
A large reduction in real government funding per hour of teaching will arguably restrict the scope for investment in improving the quality of ethical RTOs and reinforce incentives by other RTOs to maintain profitability through quality diminution.

5.1.6 A market or state controlled system?

A key objective in introducing the training market was to make the system more 'responsive' to the needs of industry, employers and individual students. If the publicly funded system was actually driven by the needs of the labour market overall enrolments would on average grow steadily by around 2% a year, in line with annual growth in the labour force. But this is not the case, as annual student enrolments are quite volatile (Figure 2). For example, from 2010 to 2012 they increased by 20% but then fell by 22% between 2013 and 2015. The average annual number of enrolments over the period 1997 to 2016 was 1.3m students, so quite large shifts in the absolute number of students were required to elicit these proportional changes.

These fluctuations are driven overwhelmingly, not by the needs of the labour market, but by changes in government policy governing overall funding, the opening and closure of specific training programmes and change to rules governing student eligibility for government funding.

These huge swings in student numbers induced by government fiat have major implications for quality in the system. First, large fluctuations make rational planning and resourcing difficult for ethical providers. Second, great uncertainty over the anticipated level of student demand reinforces the short-term investment horizon of for-profit RTOs, reduces the incentive to invest in equipment and staff and increases incentives for opportunism by RTOs. Finally, huge swings in enrolments expose the tenuous connection to the labour market of many publicly funded courses. The sensitivity of annual student enrolments to changes in government student eligibility and government training subsidies suggests that, at least for many students and employers, the benefits they perceive participating in training are marginal. An implication of this is that students and employers who are only marginally attached, or indifferently committed, to training will be undemanding of RTOs to provide high quality service.



5.2 Pedagogy

The pedagogical system, Competency Based Training, developed for the training market is a central cause of quality diminution. All nationally accredited VET training has been in the form of Training Packages based on CBT principles. Put simply, Training Packages are developed by representative bodies in major industries and set out the training content and assessment methods and standards for qualifications covering many occupations in each industry.

From the beginning educationists in the UK and Australia have been critical of Training Packages and CBT. They argue CBT is focussed on training for, and assessment of, discrete tasks with inadequate recognition of underpinning knowledge; the content of Training Packages is developed by industry representatives with little if any involvement of professional TAFE teachers; and standards are loosely specified (Cornford 2000; Wheelahan and Moodie 2011). Imprecision in Training Packages affects virtually every aspect of training including volume of learning, assessment, performance standards, duration of training, student entry standards, teacher qualifications and learning resources.

Imprecision in the volume and assessment of learning flows directly from an elemental flaw in the original design of the training market which persists to this day. This is tension between the principles of 'flexibility' and 'standardisation' which underpin the system (Toner 2014). Flexibility in all aspects of VET was sought to allow customisation of training to the needs of individuals, workplaces and industries. Standardisation was applied to create national as opposed to state based qualifications and regulation, but the principle was not applied to form

prescriptive, detailed content and assessment methods. At key moments in the formation of the training market, when the principles of standardisation and flexibility have conflicted, priority has been given to the former. An identical argument was later made by Bowman and McKenna (2016) who focussed on the 'dynamic tension, built into the system, to achieve both national consistency and sufficient flexibility to ensure that training meets specific local, industry and learner needs'. The resulting 'lack of standardised national assessments means that there is no standard to ensure that a particular set of skills has in fact been acquired' (Guthrie 2009: 13).

Giving priority to flexibility also created fundamental ambiguity as to whose needs VET is intended to serve. 'Training packages do not prescribe how an individual should be trained. RTOs use training packages to help design curriculum and/or learning and assessment methodologies that assist individuals to gain and/or demonstrate they have the skills and knowledge specified in training packages. Training is tailored to *individual* learner needs and can be contextualised to the specific circumstances of an *employer* and/or *industry* sector' (Australian Industry Skills Committee 2016: 5-6, italics added). Is it the individual, the employer or industry? Arguably each of these three entities has differing perspectives on the content and assessment of training. Meeting these diverse interests requires a degree of 'elasticity' in the system that is incompatible with prescriptive standards. Arguably each entity has differing perspectives on the content and assessment of training. Meeting these diverse interests requires a degree of 'elasticity' in the system that is incompatible with prescriptive standards.

Given the presence of perverse incentives these ambiguities can be exploited by RTOs, employers and students to collectively lower their costs respectively, in granting a qualification, receiving a qualification and increasing the pool of qualified labour.

6. Why it Persists

Why has a system so widely recognised as deeply flawed persisted for more three decades and proven so resistant to change?

Ideological commitment among national and state government economic Mandarins to neoliberalism, the market and contracting-out public services is pervasive. The Productivity Commission for example, (2016) re-committed its support to the training market subject to vaguely specified improvements in 'stewardship'.

But a successful ideology always has strong material foundations. The rationale for taxpayer support of VET training is that it redresses the market failure of employer reluctance to invest in industry-level or general skills as opposed to firm-specific skills. Employers cannot ensure workers remain with the firm to recoup the cost of providing industry level or general skills. However, the degree of customisation permitted under the training

market enables employers to have taxpayers fund their firm-specific training. The AiG note that 'employers and individual students, wherever possible, need to have training delivery and outcomes shaped to meet their organisational and individual needs. There is considerable flexibility built into the application of qualifications to meet employers' or individuals' needs' (Commonwealth of Australia 2015). This contradicts the orthodox economic case for taxpayer support of the current training market.

Second, the private training market is also very big business with public spending generating billions in revenue each year (Oliver and Wu 2015). Industry associations, both employers and unions, have for decades operated RTOs often integrated with other employment services such as Group Training and pre-apprentice training. In many industries the associations are major training providers. Clearly, concerns from industry associations, echoing their members, regarding declining quality is insufficient to offset the economic gains the associations accrue from these operations. Aside from private RTOs, global capital markets, such as private equity, have in the last decades seen education, including VET, as an important new asset class (Shubber 2017).

Conclusion

This chapter sought to highlight the profound paradox that introduction and persistence of the training market was justified on orthodox economic terms but orthodoxy also explains widespread quality diminution and malfeasance. This paradox was resolved by claiming training market advocates were either ignorant and/or wedded to a neoliberal ideology which, like all forms of *a priori* reasoning, cannot be empirically refuted. Persistence of the training market is explained primarily by a very broad range of factors including financial rewards to many key market participants.

A concerning possibility is that a low quality VET training system over several decades can feed-back onto firms whereby the latter gradually adjust their production processes and quality of output to accommodate the rising supply of low-skill labour. This process known as a 'low-skill equilibrium' has been shown to apply in the UK (Finegold and Soskice 1988). Australia has closely emulated the UK training market.

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ⁱ There are many excellent histories of the training market, for example Ryan (2011).

ⁱⁱ The Byzantine process of negotiation between unions, employers and political parties required to introduce the training market and the eventual disenchantment of some unions with the new market is provided in Brown (2006) Ewer et al (1991) and Hampson (2002).

ⁱⁱⁱ Prior to the introduction of Training Packages detailed and uniform curricula, textbooks, learning materials, assessment methods and standards were produced by specialist professional TAFE teachers in well resourced centralised Curriculum Development Centres. An explicit goal of the system was uniformity and consistency in training content and assessment in training for each occupation within each state. Uniformity was also promoted by the use of moderation of standards for marking. For example, all head teachers in a given field in the state would meet occasionally at a central location to agree on a standard of practical and theoretical work to grade students. Uniformity was also assisted by long average tenure of TAFE teachers and agreement between teachers and industry that the prime objective of training,

at least in the trades, was to impart skills and knowledge for a 'representative' trade occupation in a given industry. Skills and knowledge were to be of sufficient breadth and depth to facilitate transferability of the occupation across firms in a given industry. Employer preference for trades with broad skills was due to the average small size of firms which lacked the scale to permit the use of specialised labour. Unions liked transferable, as opposed to firm-specific skills, due to the bargaining power it gave their members (Curtain 1987). In summary, TAFE served both the occupation and the industry. Imparting high quality transferable skills allowing entry to skilled occupations was implicitly assumed to serve the interests of the student. (In the new system the level of analysis is much more fluid). It was this uniformity and absence of provider choice that were particular targets of training market advocates.

^{iv} The 1996 data includes both publicly funded and fee for service students attending VET.

^v Standardised international tests of adult literacy, numeracy and problem solving reveal significant educational disadvantage among many VET students.

Between 50-77% of all persons with a Certificate 1-IV are classified to the lowest 2 levels of the 5 level scale used (derived from Australian Bureau of Statistics 2008: Table 10). Level 3 is the "minimum required for individuals to meet the complex demands of everyday life and work in

the emerging knowledge-based economy" (Australian Bureau of Statistics 2008: 5).

^{vi} Multiple choice was permitted.