The impact of market design in understanding quality

This presentation is part of an ongoing study into *HOW* the Australian VET system operates and the role the concept of quality plays.

In particular, this is the extension of a study into *HOW* quality is used in the national training system.

Because quality functions as a contested concept – used as if it has permanent importance, but in fact does not have a fixed meaning – it can be used as a political tool and lubricates policy discussions. Because it is a contested concept, quality can simultaneously hold multiple meanings.

Embracing quality is the cost of entry into the political and ideological contests for control of the VET system.

**Quality means different things to different stakeholders in the VET system**

In the original research¹ four national bodies were shown to have taken an issue that was identified at the birth of the national training system and nurtured it into a quality problem, which they then could best solve on the behalf of governments (Bacchi, 2009). The National Centre for Vocational Education Research provided quality information that inevitably invites the need for further information – there is never enough data for good policy-making or the operation of fully-informed markets. The Australian Workforce and Productivity Agency deployed quality in order to remove inconsistency, the vagaries of the market and undesired effects caused by a lack of centralised scenario planning and direction. The Industry Skills Councils were equally concerned with inconsistency of teaching and assessment, course content and the relativity of qualifications. These 12 bodies were ideologically committed to centralised standard-setting and exacting specification as the best method of providing quality assurance. Finally, the National Skills Standards Council believed that markets, providers and industry each present a threat to the good name of the system that can only be defended through the rigorous enforcement of national standards and centralised control.

These problems with quality were identified at the gestation of the national training system and have continued to flourish. This is because there are organisations who cultivate the issues in order to use the contested concept of quality to enhance policy clout and extend their own influence and ideological ambitions. They give political meaning to their preferred solutions by invoking the concept of quality. As a contested concept, quality has provided a transactional space for these national bodies to use their specialities of information gathering and usage, provision of leadership and guidance, specification of training content and regulation of integrity to coalesce into a national training system.

The same style of discourse analysis described in the initial research has been extended to other VET system organisations to determine if the contested concept of quality is more widely used to legitimate participation in struggles for influence and control. These first three

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bodies lie outside of direct government responsibility but still seek to influence VET policy. The Australian Council for Private Education and Training (2016), has deployed quality to legitimise their views; indeed their web page heading boldly stakes the claim: “Representing quality private education providers in Australia”.

The lobby group for public training providers, TAFE Directors Australia (2016), also mobilises the now familiar contested concept; “leading the advocacy for quality skills in Australia” and “to promote and support TAFE Institutions as the foremost providers of quality skills training”. In addition, the L H Martin Institute (2016) explores research questions that link quality to the key capabilities of VET teachers, the impact of RTO organisational practices, VET teacher characteristics and student learning outcomes. The remainder of the organisations being described in this section owe their existence to the decisions made by the Australian Government.

Embracing quality does not guarantee organisational survival, however, as both the Australian Workforce and Productivity Agency and the National Skills Standards Council were disbanded by the newly elected Coalition Government in 2014 and some of their functions brought into the Department of Industry (2014b) which immediately described its role as promoting a post-school education and training system “recognised as providing quality outcomes”. Due to changes in ministerial duties, responsibility for VET and the associated reform program was shifted from Industry to the Department of Education and Training which also staked its claim to quality. The government objectives of improving “the quality, job outcomes and status of VET” are to be facilitated by the department to ensure that “top quality providers and top quality courses enhance the contribution VET makes” (Department of Education and Training 2016b).

By early 2016, out of the original four organisations that legitimised their efforts with an appeal to quality, only the National Centre for Vocational Education Research remains operational. However, its functions and influence are being contested by the new Australian Industry and Skills Committee (2016) whose role is to “provide direction on national vocation (sic) education and training (VET) sector research priorities, including the work of the National Centre for Vocational Education Research”. As with its predecessor organisations (the Australian National Training Authority, Skills Australia and the Australian Workforce and Productivity Agency), the Australian Industry and Skills Committee is also founded upon claims to quality. It provides ministers with “an industry-based perspective focused on quality and relevance of the national training system”, quality assurance2 and approval of training packages and responds to regulatory concerns with training packages, such as Training and Education, to make “a positive step towards higher quality VET training” (Australian Industry and Skills Committee 2016).

In addition to this peak advisory committee, the reform package also included the creation of Industry Reference Committees (to replace the Industry Skills Councils that were analysed in the previous research) that are supported by Skills Services Organisations chosen on the basis of responses to an open tender in the marketplace. Not unexpectedly, the Skills

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2 Quality assurance is the maintenance of a desired level of quality in a service or a product, especially by means of attention to every stage of the process of delivery or product. [http://www.oxforddictionaries.com/definition/english/quality-assurance](http://www.oxforddictionaries.com/definition/english/quality-assurance)
Services Organisations ensured a link to quality; for example, ensuring that industries “have access to quality industry engagement on skills issues” (Skills Impact 2016) or “managing quality assurance” (Skills IQ 2016). It is of passing interest that the stated roles envisaged for the Industry Reference Committees did not make mention of the contested concept of quality and that they are currently ‘under review’ by the Australian Industry and Skills Committee (2016).

Another major Australian Government initiative in 2014 was the conversion of the former Australian Apprenticeship Centres into the Australian Apprenticeship Support Network that would be delivered through contracted out services. The network is intended to support apprentices and employers in “a high quality Australian Apprenticeships system” by delivering “quality end-to-end advice and support services” based upon initial government purchasing arrangements to encourage “innovation and high-quality service delivery” (Department of Industry 2014a).3 The Australian Skills Quality Authority’s (2016) use of this contested concept is simple and to the point; “ASQA makes sure that the quality and reputation of Australia’s VET system is maintained through effective national regulation”.

While not an organisational example, the political importance attached to the contested concept of quality is on display in Redesigning VET FEE-HELP: discussion paper (Department of Education and Training 2016a). The word ‘quality’ is used to describe 14 different aspects/problems/reforms of the current income contingent loan scheme; examples include ‘a strong regulatory framework’ (p. 6), ‘ethical provision’ (p. 31), ‘cost and reputation’ (p. 39) and ‘market oversight’ (p. 42).

<table>
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<tr>
<th>Organisation</th>
<th>Concept of Quality</th>
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<td>NCVER</td>
<td>Robust, accurate data</td>
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<td>AWPA</td>
<td>Leadership and guidance</td>
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<td>ISCs</td>
<td>Nationally consistent training specification</td>
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<td>NSSC</td>
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<tr>
<td>AISC</td>
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<td>IRCs</td>
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<td>ASQA</td>
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3 The author is on the board of directors of a company which holds a contract to deliver AASN services.
Classical markets have interactions of price, choice, competition, information and quality

Simplistic applications of Adam Smith’s market laws exert an extraordinary influence upon public policy-making in VET. The advocates for market-based approaches believe that the drive of self-interested individuals in a similar environment will result in competition between providers; this will produce the goods and services in the quantities and with the qualities society desires, and at prices society is prepared to pay (Heilbroner 1999, p. 55). Self-interest motivates the market while informed competition regulates it. However, the limitations of markets are also well known. “The reason the market often fails to produce satisfactory results is that incentives impinging on individuals and groups (firms, industries) acting in it frequently make behaviour and outcomes diverge from ones that are preferable” (Wolf 1978, p. 2). With specific reference to VET, Keating (2004, p. 86-87) believes that the Australian National Training Authority was established in 1993 “to develop a competitive training market with increased scope for user choice” but because of resistance from the state-based TAFE systems that the market positives were limited and reduced the national training system’s responsiveness to the users.

Although Australians have historically looked to the governments for their welfare, Keating (2004, pp. 4-6) argues that the state’s policy directions and goals can be achieved through a carefully managed mixture of public and private provision; even though one result is the substantial loss of state power because market-based policies represent a less overt form of government intervention. Human services, such as VET, serve individual and community needs in support of both the economy and society; in theory governments can benefit from managing markets by setting standards for the quantity and quality of human services provided while users benefit from competition and choice among competing suppliers (Keating 2004, p. 75). “Governments have marketised their approach to policy because it has been found to work better” (Keating 2004, p. 182).

Butlin, et al, propose that Australia’s use of public enterprises as substantial producers of services has been declining since the 1950s as part of the move away from ‘colonial socialism’ (Butlin, Barnard & Pincus 1982, p. 48). The Australian Government has frequently ‘gone to the market’ for the provision of VET-related services and programs; examples include tendering for evaluation services for the Australian National Training Awards, Australian Apprenticeships Support Network (Department of Industry 2014a), Australian Technical Colleges (The Auditor-General 2007) and Skills Services Organisations (Department of Education and Training 2015). The bulk of this activity is in the form of ‘contracting out of services' within very tightly specified parameters that are regularly monitored and enforced through milestone-type payments for services rendered.

Strong critics of marketisation of public services have frequently responded to citing the shortcomings of ‘economic rationalism’ as a general project (for example, Pusey 1991, 2003; Self 1993). More specifically Marginson (1993, 1997) believes that market-based approaches are not suitable for education in general and VET in particular. In recognising the political dimension of governments turning to the market for service provision, Quiggin (1996, p. 143) states that “privatisation programs have been adopted (and opposed) on the basis of faith rather than evidence".
Increased stringency in the public sector has resulted in “a general trend to reduced service quality” regardless of competition and contracting out (Quiggin 1996, p. 179); it is politically attractive to implement reductions in service quality at the time of contracting out because ‘there are incentives for private contractors to provide the minimum service specified in the contract”. In fact, multiple regression analysis suggests that both in Australia and overseas that cost savings are low and “that, on average, contracting out is associated with reduced quality” (Quiggin 1996, p. 180). In addition, “there is substantial international evidence that for-profit organisations, especially corporations, provide social services that are, on average, lower quality than those provided by public or non-profit organisations” (Meagher & Wilson 2015, p. 72). The Boston Consulting Group (2016, p. 13) has found that a significant number of Australian VET students are ‘price-sensitive’ and are “willing to trade quality for price as qualification most important (sic)”. 

In order to maintain quality, public authorities frequently resort to increased levels of regulatory oversight. “Much existing regulation seeks to set the minimum quality standards” (Quiggin 1996, p. 189). The more complex the set of objectives being pursued by governments, the greater the difficulties with rule-based regulation; “the problem lies in the very clarity of the incentives created by fixed rules” (Quiggin 1996, p. 197). By setting out which activities will be rewarded, organisations are encouraged to direct resources to those that are ‘profitable’, i.e. those which bring in rewards in excess of the resources they consume, as a result large distortions can be created when the rules don’t properly reflect the intended public interest outcome(s). 

The Harper Competition Policy Review (2015, pp. 234) agrees with Quiggin’s view that there are situations when it is ‘harder to apply user choice to human services’ due to complexity of outputs and uncertainty of outcome, natural monopolies, capacity constraints, transaction costs and government specifications on service delivery. “Highly prescriptive standards with limited ability for suppliers to compete on price or quality” is generally related to increased levels of regulation and makes application of a user choice arrangement more difficult. Nevertheless, the review report support the views of Keating from a decade earlier on the basis that all of the issues to do with the marketisation of human services can be managed through comprehensive rational planning and careful implementation (Harper et al. 2015, p. 254) and is unequivocal in its claims that competition policy “can improve the quality and range of goods and services, including social services, to Australians” (2015, p. 15). 

Leahy (2016) uses the Harper Review ‘hard to apply to human services’ set of criteria and concludes that VET is one of those areas where “user choice is not appropriate” particularly noting that regulation in the sector is an issue making it “difficult to address the problems with quality”. A more extreme position is expressed by Quiggin’s “ugly fact”: “For-profit education has been a consistent failure in all times and places. The limited exceptions relate to areas of vocational training with little or no general educational components” (2013, p. 63).

Some of the considerations that inform the design of markets include the cost of entry to providers, the cost of exit from the market and the potential for unintended outcomes to result from moral hazards (Quiggin 1996, pp. 68, 139 and 155). Neither Keating nor Harper directly addresses the matter of moral hazards – a situation that arises when ‘a contract or
financial arrangement creates incentives for the parties involved to behave against the interests of others’. Entry, exit and moral hazard will be dealt with in turn.

Since the very first moves were made to marketise the provision of VET, provider access has not hindered market forces. The first national report on total VET activity lists 4601 training providers from all sectors delivered accredited training in 2014 and this included 2,865 private training providers (National Centre for Vocational Education Research 2015, p. 5). In the previous year the National Skills Standards Council (2013, p. 2) had described that there were “nearly 5,000 registered training organisations” and that there was a need for “setting the bar higher for providers” to enter and remain in the training market (p. 29). Also in 2013, the Australian Workforce and Productivity Agency (2013, p. 136) stated that provider entry into the market was “too easy” and that the organisation supported options to lift the standards for all new RTOs. The increased regulation proposed by the National Skills Standards Council (2013, p. 49) in response ease of entry and poor provision was to take a series of steps to increase the cost of compliance for providers but also would “reduce the number of providers in the training market this potentially reducing competition”. The clear implication is that access to the market has been too easy with a detrimental impact upon quality (Mackenzie 2016).

There is very little evidence that much attention has been paid to costs associated with exiting the vocational training market. While both the Australian Council for Private Education and Training and TAFE Directors Australia operate tuition assurance schemes to protect students' pre-paid fees in case of provider collapse, the ‘sunk costs’ of technology, specialist training equipment and capital infrastructure seem to generally be ignored in the design of the market. In particular, the destruction of public value held in the state-based TAFE systems and the associated loss of TAFE’s brand value in the pursuit of maketisation have not been calculated or even considered (Mackenzie 2016).

Quiggin (1996, p. 155) believes that moral hazard problems, to some extent, are an inescapable consequence of privatisation, particularly when governments have an incentive to tighten regulations in response to favourable shocks when companies make high profits from formerly public activities, but leaving the shareholders to bear the brunt of unfavourable shocks or other downturns in the market. Moral hazard problems are frequently associated with insurance schemes where it is surmised that the insured will be tempted to take less care due to the fact that they are insured against loss (Cullis & Jones 1992, p. 117). More generally, moral hazard design problems in markets can provide incentives to behave in unintended ways because someone else has to pay for the risks taken. The tuition assurance schemes run by ACPET and TDA are exposed to moral hazard considerations. Increased regulation of markets is frequently proposed as a remedy to such circumstances, but even this solution comes with its own set of moral hazards if the bureaucrats and politicians decide that the costs should be borne by the organisations or individuals that are having their activities curtailed or are passed onto the end users of the services or purchasers of products. The excessive and multiple moral hazards that were built into the VET FEE-HELP scheme are discussed below.

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4 http://www.lexicon.ft.com
Some of the perverse outcomes in markets for delivery of public human services stem from a lack of clarity about quality.

The public servants and political advisors who design VET markets (for eventual ministerial approval) have not demonstrated a particularly strong record of success. The policy confusion associated creating a market in which VET colleges enrolled international students doubled as a proxy immigration scheme damaged the sector in ways that have prevented the sort of growth and financial benefits witnessed in higher education (Baird 2010). Likewise, by mandating the Certificate IV in Training and Education (and its predecessors) as the minimum standard qualification required of those who deliver VET training a market was created. With the progressive withdrawal of state subsidies for the delivery of this qualification full fee-for-service providers made aggressive moves into the market resulting in the Certificate IV being declared ‘high risk’ in 2008 and apparently unsuccessful past efforts at market reform that have now become the responsibility of the Australian Industry and Skill Committee (Zoellner 2016). The “substantial market failure” (p. 18) and “poor design of the program” (p. 22) for the VET FEE-HELP income contingent loan scheme and its damage to “the perceived and actual quality of VET training” only adds yet another contributor to this “perennial issue for the VET sector” (Department of Education and Training 2016a, p.19).

The creation of competitive markets for the provision of government services and the associated ‘contracting out’ requires a difficult balance between specification, oversight and the destructive risk of micro-managing providers and eliminating innovation and responsiveness (Keating 2004, p. 83-84). In rejecting criticism of market-based contracting out as an inappropriate methodology for government service provision, Keating (2004, p. 98) proposes that unplanned consequences, especially reductions in individual equality, can be traced back to inadequate contract specification, selection of contractors and/or poor contract management and certainly is not an “inevitable consequence” of contracting out. He also notes that one result of the increased use of contracted non-government organisations to deliver public services is that the bureaucracy “will lose some of its practical experience that has underpinned its policy expertise and governments accordingly need to consult more” (Keating 2004, p. 164).

Again, it is worth noting that Keating does not consider moral hazard as a design problem. The design of the VET FEE–HELP program was dominated by the considerations of who pays and who benefited from the market-based incentives. Providers were paid upon successful enrolments at a specified date from an unlimited bucket of taxpayer dollars. Potential students had access to large sums of taxpayer-provided loans (regardless of how they were represented) with a repayment schedule that, in many cases, would not commence until far into the future or ever if they remained on low incomes. Public servants could sign over tuition charges to the providers on the basis of properly completed enrolment documentation as the money they were dispensing was uncapped and ‘off budget’ and the student became responsible for the debt incurred. Each major party to the scheme could afford to take substantial risk, because someone else was going to pay – the classic case of moral hazard. However, in this case all three parties could be tempted to roll the dice.

In order to understand how it has come to be that, despite multiple attempts to successfully design VET markets over the past quarter of a century, any moves beyond strict specification and monitoring associated with contracting out of services has proven to be so
very difficult to implement. Understanding the multiple ways in which the contested concept of quality has been used and taking strict notice of moral hazards may offer an explanation. Robust analysis of incentives and ‘road testing’ of designs must become an explicitly established part of the market design process to identify when moral hazards are likely to appear and to judge their magnitude in order to reduce the possibility of unintended consequences and market failure.

In the other case, designing markets around the legitimised claims to quality is much more difficult. As demonstrated earlier, there have been at least 20 distinct conceptual versions of the word quality in use in the national training system in recent years. Each of them is associated with a variety of organisations that are frequently guided by different ideologies and solutions to the problems facing vocational education and training. When the various bureaucrats and interest groups seek to introduce or alter the drivers of market behaviours, they must first make a decision as to which version of quality with which they are dealing. Is it regulation, teaching, training package standards or any of the others? The process requires a host of decisions to be made by a whole variety of organisational actors.

Pressman and Wildavsky (1984, p. 110-112) note that market designs that take the politically attractive route of linking two major objectives under the same goal frequently result in goal displacement and/or one element becoming stalled or eliminated. Therefore, market designs that include more than one internally consistent version of quality will have an inbuilt flaw which will, at best, detract from achieving operational efficiency and other market-based benefits or, in the worst case, result in market failure. Policy implementation of markets in a complex VET system always faces a mundane set of problems; changing actors, diverse perspectives and multiple clearances (Pressman & Wildavsky 1984, p. 93).

While somewhat dated, Pressman and Wildavsky’s research into policy and program implementation identified the importance of ‘decision points’ in determining success or otherwise. These points were particularly relevant when there were multiple interest groups with different perspectives involved in the process; not unlike any effort to implement markets in the Australian VET system and the numerous versions of quality in valid use. Pressman and Wildavsky (1984, p. 107-108) calculate the probability of any particular project succeeding when there are multiple decision point clearances required. For example, it would not be unusual for there to be dozens of decision points, including party political and ministerial preference considerations, for there to be dozens of clearances required. If the probability of agreement at each of 70 clearance points is .99, the probability of success is less than 50% (.489). If probability of agreement is .90 then the chance of success is less than one in a thousand. Alternatively an unusually low number of 30 clearance points with 95% agreement would result in the probability of success being less than one in four (.215).

It is likely that the contested nature of quality, and the multiple negotiations and decisions that contribute to the design of VET markets to accommodate it, build in the characteristics that limit the benefits attributed to markets. When combined with the problems arising from moral hazards, the capacity to develop effective and efficient VET markets looks to be a very daunting task indeed and contribute to the highly problematic ‘perennial issue’ of quality in the VET system.
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