

Assessing Market Mechanisms for Higher Education in New Zealand and Australia

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Australia and New Zealand have been among the countries most committed in recent decades to market-based privatization strategies in higher education. Over the past 15 years, each country has engaged in a deliberate national strategy to shift from an approach that relies on public funding and government control of higher education to one in which public policies give market forces much greater leeway.

But while both countries have been committed to privatization strategies, they have done so in markedly different ways. New Zealand has been both more aggressive and erratic in relying on market forces than Australia. New Zealand's approach also has been much more traditional in terms of charging tuition fees at public institutions and providing these institutions with more autonomy, encouraging the creation and expansion of private institutions (including greater direct government support of for-profit institutions), and creating and expanding a student loan program that helps student borrowers pay for higher fees through income-contingent repayments.

Australia has been less traditional but more consistent over time in adapting market-based strategies than New Zealand. The Australian approach has included creating the unique Higher Education Contribution Scheme (HECS) in which participating students (now about three-quarters of all enrollments) are not charged fees while enrolled. Students in HECS either prepay their obligations once they graduate or repay through an income-contingent repayment plan that almost constitutes a graduate tax. The other main aspect of the market-based approach in Australia has been the government's encouragement of public institutions to act more like private entities, through the aggressive marketing of Australian higher education to foreign students (who now constitute 15 percent of all enrollments) and the development of commercial applications that yield greater levels of private-sector resources to universities.

Reliance on Private Funding Sources

In both New Zealand and Australia, the reliance of public institutions on tuition fees has increased sharply, growing from less than 5 percent of education-related expenses in the early 1980s to one-third or more by 2000, emulating and possibly exceeding trends in U.S. public institutions.

Institutional Autonomy

New Zealand provides its public institutions with much greater autonomy than does Australia. In New Zealand, the funding of public institutions is demand driven and the institutions have control of how public funds are spent and how tuition fees are set, although the current government is seeking to restrict autonomy in important ways, including taking away existing institutional flexibility in fee setting.

Australian universities also have autonomy in spending public funds, but the funding system is antiquated and institutions have no control over, and do not retain, HECS fees. They do have authority to set and retain tuition fees for those students not participating in HECS, which explains the much more rapid growth in the numbers of these students.

Diversity of Student Choice

New Zealand has developed a much greater diversity of student choice in higher education than Australia over the past two decades. Students in New Zealand now have considerable choice among institutions including a vibrant sector of private training opportunities as well as a proliferation of polytechnics and other types of nonuniversities. In Australia, the trend has been toward public institutions consolidating into larger universities, and there is no viable private sector of institutions in either academic or vocational training.

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Examples of Market Successes and Failures

In those countries that have employed market-based strategies in higher education, public debates unfortunately focus too often on the use of markets as an end in itself. But it is important to distinguish between ends and means and to measure the effects of market-based strategies in terms of results. In New Zealand and Australia, the results of relying more on privatization strategies have been mixed in terms of what could be characterized as market successes and failures.

The most prominent market success in both countries has been that rates of participation and attainment have increased tremendously as market-based strategies took hold. It is hard to imagine this expansion would have occurred in the absence of market-based strategies. Perhaps the most visible example of “market failure” in both countries is that, despite the growth in overall participation, equity gaps have not significantly narrowed. Middle-class and wealthier students continue to be much more likely than poor students to enroll and complete their degrees than they were before market-based strategies were adopted. But this result should be read with care. Few countries have been successful in reducing chronic equity gaps in higher education in recent decades, including the United States.

The possible impact of heightened competition on the quality of higher education is another critical issue when evaluating the effects of market-based strategies. One of the most legitimate criticisms of these strategies in New Zealand is that insufficient quality control has allowed inferior programs in both the private and public sectors to proliferate. This seems largely the result of strong quality assurance procedures not being established as a key component of the privatization strategy.

Another key aspect of quality is whether resource levels increased as market strategies took hold.

In the case of Australia, the arrangement in which the federal government provides the bulk of funding for higher education but state governments retain regulatory authority has contributed to a serious disconnect in accountability. This arrangement began in 1971, so it far predates the adoption of market-based strategies; its existence seriously diminishes the chances for adequate accountability of the sector as a whole. While few institutions have closed in Australia in recent decades, a number have merged to become larger institutions, which contributes to the perceived decline in institutional diversity.

Another key aspect of quality is whether resource levels increased as market strategies took hold. One measure of resources—the share of GDP devoted to higher education—has grown markedly in both countries over the past decade and a half, with some changes in recent years. The share of GDP for higher education in Australia declined from a peak of 1.9 percent in 1995 to 1.5 percent in 1999. But this figure increased or maintained its level in

New Zealand through the 1990s at roughly 2.5 percent, which puts it at a level of financial commitment similar to the United States.

This question of resources is directly related to the question of whether market-based strategies have been effective. A premise of moving toward a greater reliance on markets is that the consequent increase in private resources devoted to higher education will lead to an increase in the overall level of sector resources. Has this happened in the case of New Zealand and Australia? Yes, in the sense that private funds have become a much larger share of total resources for higher education in both countries. This increased reliance on private resources seems key to the growth in overall resources.

However, on another frequently used measure of resources—spending per student—the answer is much more ambiguous. Resources per student have declined in both countries in recent years, and this decline has led some observers to conclude that market strategies have led to reduced quality. While it is hard to assess in a precise way whether reduced resources per student lead to diminished academic quality, one fact is clear: the juxtaposition of the share of GDP for higher education increasing, the share of public funds decreasing, and spending per student declining in both countries means that overall resources have not been able to keep up with exploding enrollments.

The current government’s policy in New Zealand has been to shift back to a more regulated approach that primarily benefits students already enrolled, by freezing tuition fees and increasing student loan subsidies for enrolled student borrowers. This shift, however, is likely to exacerbate concerns about diminished quality and chronic equity gaps. High on New Zealand’s agenda, therefore, should be: strengthening quality assurance procedures; creating an independent buffer body responsible for designing a funding system that reflects national priorities and enhances equity; and consideration of the other steps necessary to improve equity in the sector, including the adoption of more aggressive early intervention strategies for students most at risk.

Unlike New Zealand, the current government in Australia is pushing forward in its aggressive use of market-based strategies. But Australia, like New Zealand and most other developed countries, has failed to close equity gaps in higher education. It also has failed to provide greater diversity in student choice. Key reforms for Australia to consider therefore include: whether to retain its federal/state split between funding and accountability, how to modernize its nontransparent system of funding institutions, and what further changes may be needed to provide greater differentiation in tuition fee revenues among institutions. ■