

THE POWER
TO PERSUADE



Power to Persuade

Never Stand Still

School of Business

Social Service Futures and the Productivity Commission

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Introduction

Introduction and overview

When *Power to Persuade* opened its Social Service Futures Dialogue (the Dialogue), it was with some trepidation. The enthusiastic reception of the Harper Competition Review recommendations by the Federal Treasurer, and the April 2016 terms of references for a Productivity Commission inquiry for the further marketisation of the social services suggested something of a reform juggernaut. Conscious that this initiative was at odds with the views of many in social research and policy communities – who had long been marginalised in a governance reform era dominated by neoclassical economics – our initial aim was to provide a forum for policy actors with alternative views, which might also become a resource for people in the community sector especially seeking to engage with the Productivity Commission processes.

The aim of the Dialogue is to provide a more balanced and well-rounded perspective on issues of marketisation, in particular by exploring critical public sector market failures in areas such as employment services and vocational education and training (VET). More broadly, the Dialogue highlights the ‘eco-social turn’ taking place in global thinking about governance. While the latter aim began as something of an academic exercise in an Australian political context where the marketisation agenda looked solid, since then we have seen it upended by momentous developments such as Brexit and Trump’s success, and even in Australia, the new welfare politics associated with ‘Mediscare’. The era of neoliberalism (or the 1980s–90s model) is indeed closing, or at the very least undergoing dramatic change. In the context of the Social Service Futures Dialogue it has sharpened questions of how to achieve a new balance between economic efficiency, an inclusive and equitable society and a sustainable environment. Achieving these goals will demand new forms of social deliberation and management. As a whole, the collection brings into question whether existing institutional bodies, such as the Productivity Commission, are best placed to provide direction on these issues. In particular, can they grapple the full complexity of the challenges that lie ahead and offer balanced and evidence-based guidance?

While offering these Dialogue contributions as a resource for all those grappling with these urgent

policy issues, we are very modest in our claims for this report. It is not offered as a systematic review of these questions, nor has there been any editorial line followed by the contributors. Most are used to writing sophisticated research essays for academic peers. Here we have asked them to take what they see as the big ideas and translate them for policy makers engaged in real time policy making. Without this kind of exercise we believe at *Power to Persuade* that the worlds of research and policy too often never meet. And so, while not seeking to impose a false unity on the report, *Power to Persuade* would like to highlight in this introduction what we see as the key points that have emerged, with the caveat that not all contributors would agree with these observations. Indeed, the very aim of the Dialogue is to display the diversity and complexity of perspectives on social issues.

Below, we summarise key issues raised by the contributions within this report.

The Productivity Commission agenda out of step with global developments

As a whole, the collection brings into question whether the Productivity Commission is fit-for-purpose, particularly when we locate its outlook alongside the ‘eco-social turn’ in global governance thinking. The recent Productivity Commission’s inquiry into human services assumes that marketisation is still the most appropriate model for social governance reform. Yet, as Robyn Keast points out in her contribution, market models have known unintended consequences – such as further fragmenting service sectors rather than improving them, and producing inequitable results (as markets tend to have winners and losers, by definition). For the social service sector, Keast argues that markets actively work against the sectors’ underpinning values and missions to produce services that are for the public good not to generate profit. She pushes for a deeper understanding of markets and the different forms competition can take within public sector contexts.

Moreover, the push towards marketisation is in stark contrast to the thinking at international agencies such as the Organisation of Economic Co-operation and Development (OECD) and the United Nations (UN). Thus the OECD’s (2015) *Government at a Glance* declares: ‘In the last three decades, efficiency became one of the most important guiding principles

of how governments operate and how services are delivered ... often putting equity or fairness considerations on the back burner'. Indeed, fairness and efficiency were seen to be exclusive. Now they are thought to go together so that 'promoting inclusive growth requires strong, inclusive processes and institutions to counteract the forces that produce inequality'. In its recent consultation on 'Global Governance and the Politics of Transformative change', the United Nations Research Institute for Social Development (UNRISD) (2016) also notes that for some time that strategies for 'social and/or environmental objectives have played second fiddle to crafting pro-growth and market-centred policies' so that the implementation of the 2030 Agenda for Sustainable Development presents a 'partnerships and participation challenge'. They conclude that this is 'an opportune moment to launch a global debate regarding the governance and politics of transformative change. Within this debate, it is imperative that mainstream ... actors step out of the comfort zone of business-as-usual; question their assumptions about growth, free trade and public-private partnerships and look into the black box of power relations that reproduce exclusionary and unsustainable patterns of development' (p. 24).

It appears to Power to Persuade that it is unfortunate timing that, at this opportune moment in global history to rethink our system of social governance, Australia is committing to a full-scale inquiry into how to further expand an approach that is being questioned globally.

The problem of Productivity Commission's 'path dependency'

From a social service and community sector perspective, a persistent concern has been the inability of the promoters of marketisation to engage effectively with alternative voices. The most recent example of this was the Harper Competition Policy Review. Given its recommendations for a full-scale market reform of the social services one might have hoped for a specific engagement with the issues raised by the community sector in the consultation process. Further, in view of the wider tide of adverse publicity surrounding marketisation in areas such as employment services, VET and aged care, one might have anticipated some indications of how, this time, – after two decades of learning it would all be different.

In fact, the number of submissions from the community sector were very few.

Despite this, submissions revealed a profound concern about the potentially serious social consequences of any ill-considered expansion of competition. Thus the Jesuit Social Services' concerns included:

- Ensuring that competition policy does not erode the wider role of human services in building individual capabilities, cohesive communities and a more civil society.
- Recognising that community organisations should not be seen, nor should they view themselves, simply as government service delivery arms, but as co-producers of solutions and key participants in civic dialogue.
- Recognising that the role of government must be greater than that of a service-purchasing agency. Indeed, in some circumstances government will be best placed to deliver services.
- Promoting genuine choice as opposed to choice between different services offering the same thing. Within services there must also be a strong focus on promoting agency and empowering service users.
- Taking greater account of the very mixed experience of competition and for-profit provision in human services, including that it has not necessarily improved the quality of human services, and promised gains in efficiency, quality, adaptability and innovation have not been realised.

To these kinds of concerns the Joint Councils of Social Service added the fundamental question of how to ensure that increased productivity did not just lead to growth but, more importantly, to more equal and inclusive societies as well. As noted above, this has indeed become a central question for the future of social governance – one that is absent in the Harper Review.

This apparent inflexibility is also highlighted by the case studies presented in this report. For example, Olney and Gallet add to the longstanding critical literature on employment services, highlighting the way the system has utterly failed those most in need, and raising an important question mark about the alleged economic efficiency of a model that privatises the profits and pushes the costs back

onto other areas of public provision. David Freeman provides a forensic exposé of the now notorious market experiment in the VET sector, while Valerie Braithwaite shows why the choices to purchase and supply services are driven by factors that ensure that competition will never drive up service quality. Finally, Lesley Russell shows why the application of marketisation to health care has nothing to do with sound health economics and everything to do with 'political mantras', or neoliberal ideology. She introduces well-accepted understandings among health policy researchers as to why a 'laissez faire' model would be 'intolerable', why commodification is 'never about the patient', and why the universally recognised failures of the privatised US model should warn Australians against that approach.

What we emphasise here is that these Dialogue contributions are not introducing recent discoveries in the social and political science literature, but are representative of well-established opinion to which the promoters of marketisation in the Commonwealth Treasury and the Productivity Commission seem impervious. They continue to promote employment services and VET as models of what can be achieved through marketisation and to repeat the simplified 'mantras' of market competition's inevitable result in increased 'community-wide' welfare seemingly in an effort to achieve by hypnosis what cannot be done by reason and evidence.

For Power to Persuade this impasse reanimates longstanding concerns about the capacity of economic agencies, like the Harper Review panel and the Productivity Commission, to lead inquiries into matters of social governance and led Social Service Futures Co-Convenor, Gemma Carey, to raise the following critical question for this Dialogue: 'is the Productivity Commission still 'fit-for-purpose?' Institutions, she observes, can be subject to forms of 'path dependency' that prevent them from adapting to new challenges. The Productivity Commission's successive inquiries into childcare in recent years is such an example, she concludes. Its preference for targeted forms of welfare, instead of universal ones, was divorced from global evidence on best practice, and instead follows the well-trodden line of 'economic rationalist values' of the 1980s and 90s, in which its approach had been forged. Its 'legitimacy as an independent advisory body', she believes, has been undermined by the ways in which these values have 'trumped evidence when it comes to social service provision'.

Although there has not yet been an overall account of the 'values' informing the full corpus of the Productivity Commission's inquiries, and the presence of a social policy commissioner has meant that some alternative views have been documented, when it comes to recommendations on social governance there has been a monotonous consistency of opinion. A consistency entirely adapted to the policy project Carey calls economic rationalism and others, the '1980s–90s model'.

Towards an inclusive governance agenda

Today the future of social governance is at a crossroads in Australia. Decades ago, at the height of economic rationalism, we had Fred Hilmer's radical or utopian promulgation that the public interest was best served by markets to which the public services and community sector should become subordinate. That this remains the ruling wisdom was confirmed by Ian Harper in his recent seminar for the Brotherhood of St Laurence. As Smyth shows in his account of the Hilmer intervention, this view undercuts centuries of understanding of the equally legitimate roles of the state and the community sector in tackling market failures, and the excessive inequality in the pursuit of a 'civilised' capitalism. It is also why questions of social governance have since been referred to commissions of neoclassical economists for adjudication rather than to agencies more representative of the public interest. But it is the breakdown of this economic paradigm (economic rationalism – or, if you like, the 'Washington consensus'), which has launched the global quest for forms of governance more appropriate for efficient economies within inclusive societies and sustainable environments. In its short duration, the Social Service Futures Dialogue has become less about how you might reform the Productivity Commission model and more about how you might replace it with ideas and processes which can reinstate the social services, community sector and, indeed, individual citizens as actors in a new conception of social and economic development. In this final section we highlight some key points in this emergent paradigm and end with a brief look at the Victorian Government's new 'Citizenship and Co-Design' agenda as a foundation for the new governance conversation we have to have.

In his Dialogue contribution, Ben Spies-Butcher emphasises that the first question we need to ask

is 'what kind of a society do we want?'. The reason why the Productivity Commission's approach worked politically for so long was that, in the 1980s, it was rightly recognised that the Australian economy needed to be more market-oriented. So long as this was the top political priority then the Productivity Commission could get on with the job of making markets more competitive.

Now, however, we see that mounting problems around social cohesion, demands for equality and the needs to address environmental problems, have robbed that agenda of its political legitimacy. As the UN 2030 Agenda shows, we now need greater balance between economic, social and environmental objectives – a balance that we can only achieve through democratic, political process. As Spies-Butcher asks, where, for example, do care and cooperation fit in the society we are striving for? The whole of society simply cannot only be about market-style efficiency. It is only when we have agreement about what we are trying to achieve, he insists, that we can know what is or is not 'productive'. 'Focussing on the kind of society has profound implications for our assessment', he writes. Framing the whole discussion in terms of 'productivity' in the narrow sense presented by the Productivity Commission 'puts the cart before the horse' and risks 'nonsensical outcomes'.

Power to Persuade proposes that this proper starting point for our new governance conversation takes us well beyond the competency of what remains basically a commission of economists (according to the Productivity Commission website, the head of the Inquiry into Human Services is a former economics professor and chair of the Australian Competition and Consumer Commission's (ACCC) Mergers Review Committee, while the Special Adviser 'holds a Bachelor of Business from Curtin University, and spent three years working as a bank teller' before joining the public service).

As Curchin observes in her Dialogue contribution, if we are to seriously progress the new governance conversation it has to be led by people equipped to lead a discussion about the 'ethical limits of markets'. She introduces the thinking of Michael Sandel, most notably from his book, *What Money Can't Buy*. This puts at the centre of the policy discussion the need to explicitly address the normative dimensions of the 'public interest' or common good which, as Smyth shows, has been marginalised at the Productivity Commission. Like

the centuries of thinking about the public interest which had preceded neoliberalism, Sandel rejects the full commodification of all aspects of human life. Importantly – as David Tennant indicates so clearly in his *Power to Persuade* contribution on rural and regional social services – the commodification of services in the name of contestability actually drives out the kinds of altruism and voluntary endeavour which should be at the centre of successful community making.

Curchin writes that we 'have to articulate the ethical limits to the operation of markets' and recognise values such as 'human dignity, democracy and justice', which ought to 'trump profitability'. This central task of governance renewal, she continues, is not one well left to economists but must involve sociologists, anthropologists, political scientists and moral psychologists. Even more importantly, she concludes, it 'necessitates deliberation by the general public. We need a public conversation about what values we as a society care about, and what non-market norms are worth preserving'.

In a similar vein, Helen Dickinson's contribution indicates that for markets to work in such a way as to create good outcomes (for governments and citizens), there are a number of principles that must be in place, including the ability of consumers to act with a degree of sovereignty to achieve desired outcomes, and do so rationally (meaning that there can be a judgement on the basis of sound evidence); that there are few barriers to entry; and all partners have a reasonable degree of intelligence and information about services. Yet, as we start to apply these ideas to a public service context we find that they do not hold up.

Of course, she writes, this conversation must include economists, but as Tony Atkinson has been reminding us, for a fruitful dialogue the economic discipline will need a serious renewal of its welfare economics. He observes that 'welfare economics was a subject of importance half a century ago, now it has largely disappeared from the mainstream' (Atkinson 2011). He recommends to economists the theories of justice associated with Rawls and Sen as starting points for renewal. In this spirit Melbourne University's Elise Klein offers an overview of Sen's capability approach. As with Curchin, the importance for this kind of approach is that it leads to an emphasis on a democratic process involving citizens in the identification and creation of what is in effect the 'public interest'.

Together, these contributions emphasise the importance of grounding our new discussion of what is 'productive' or 'efficient' within a wider consideration of our social, environmental and economic goals, and the balance to be struck between them. To do so we have to be explicit about questions of social and political ethics values and not have them lurking, as Carey and Russell show, as half-formed implicit ideological assumptions closing off open inquiry. Here it must be noted that the Productivity Commission inadequacies in this social and political space are already evident in the Issues Paper put out at the beginning of the new inquiry. Thus its discussion of the need to ensure access to a 'minimum level of fundamental human services' seems ignorant of the fact that this is an enormously problematic statement. Rather, it *demand*s philosophical discussion of ethics and markets, justice and entitlements referred to above and an engagement with the ways in which these values have been embedded in the real-world variety of welfare regimes.

Arguably, a thorough inquiry would need to demonstrate a mature literacy in comparative social policy with an appreciation of the variations between welfare state types, such as the Social Democratic, Conservative and Liberal. Each represents profoundly different ways of institutionalising the balance between markets, state and civil society in the pursuit of distinctive national values. With the rich historiography of Australian social policy in mind, one would also demand a deep appreciation of the 'Australian way' as a distinctive, 'radical redistributive' model quite unlike the standard three identified above (as famously elaborated by FG Castles). Needless to say, the kind of 'liberalism' Carey ascribes to the implicit ethical or ideological assumptions of the Productivity Commission framework would be revealed as out of place.

In giving priority to the question of 'the kind of society we want', Power to Persuade is not suggesting that economics is not important, but rather that its contribution in terms of productivity and efficiency must be informed by a shared consensus regarding the policy goals. In her piece, Katherine Curchin highlights developments in behavioural economics, especially the new book, *Phishing for Phools*, by Nobel Prize winners, Akerloff and Schiller, who show why marketisation is inevitably a two-edged sword; yes, innovation

on the one hand, but trickery and manipulation on the other. Here, the Hilmer-like assumption of government as the problem emerges itself as 'an example of trickery – a con'. Smyth's contribution highlights the paradigm shift in economic policy from the 'Washington consensus' of the 1980s–90s towards inclusive growth indicating why it will require a 'structural adjustment' on a scale matching the shift to neoliberalism in the preceding period.

While the new economics is not easy to pigeonhole, it differs from both economic rationalism and its predecessor, Keynesianism. While sharing an emphasis on full employment with the latter, its case for state intervention is not so narrowly defined in macro-economic terms, but rather seeks government intervention to improve on microeconomic outcomes in areas such as human capital investment, infrastructure and innovation. From a governance perspective it has a distinctive emphasis on creating institutional frameworks in which government can work with market actors to raise 'productivity' rather than relying solely on the rationality of the market. This new economics is even more important for the new dialogue with social policy because of its emphasis on fairness and equality. It emphasises tackling inequality for economic as much as social reasons, changing entirely the old policy landscape of the 1980s and 90s, when social policy and economic policy were seen as in opposition. It is this new complementarity that sets the scene for a reworking of the roles of state, market and civil society as collaborators in the pursuit of a new social purpose of an economy that can sustain an inclusive society and a sustainable environment.

This challenge brings us to the final resource point Power to Persuade identifies as necessary for the new era of social governance reform: a mature and deep engagement with contemporary public policy. While this is not something we were able to cover in our Dialogue contributions it is clearly central. Power to Persuade believes that the changing policy environment described above recasts questions about how to govern our social services in the future. Rather than casting the reform agenda in terms of 'How do we promote market governance?', we should be asking, as is the UNRISD, how we can create a 'rights based approach' to governance 'that values contestation, institutionalised dialogue, bargaining and negotiation', one that can equip active citizens to participate effectively in what will become the 'new social contract' for the twenty-first century (p. 24). We need to be asking: What

this will mean for the roles of each sector? How can we renew public service capacity so that it can provide the effective leadership demanded by inclusive governance? How do we identify and foster the distinctive role of the community sector and give a more direct voice to citizens? How do we understand a legitimate role of the private sector in the sphere of social services? And how do we create a truly triadic governance regime without one sector being colonised by another? There has, of course, been an abundance of consideration given to these questions by public policy researchers over the last several decades.

At Power to Persuade then, we hope we are poised at a historical turning point for the future of social services in Australia. One that begins with a much wider policy conversation starting with the clarification of our social, environmental and economic goals in a new iteration of a centuries-old common good or public interest test, with a reassertion of a more balanced, triadic governance regime after a one-sided emphasis on the market mechanism. While this might sound a little abstract, Power to Persuade was encouraged by a recent development in the Victorian Government which offers a clear example of how the new agenda might be progressed.

The way forward – a Victorian example

Chris Eccles (Secretary, Department of Premier and Cabinet in Victoria) recently outlined a new governance model for the state that resonates with the themes of active citizenship and inclusive governance canvassed in our Social Service Futures Dialogue. Importantly, Eccles declares that Victoria needs to break with the market model in what he calls a 'zeitgeist change'. Moreover, in truly Victorian style, he proposed that their state should aim to trigger a national reform movement, as happened with the Council of Australian Governments (COAG) human capital agenda.

Reflecting Power to Persuade's observation of governance at a historic turning point, Eccles draws a firm line between the new agenda based on 'citizen engagement in the public sphere' and the market-based models of the 1990s and 2000s. Then, he says, 'members of the public were encouraged to act as consumers. Now, increasingly, the public demands to be treated as citizens'. The model of social governance here is no longer one of rival businesses competing in markets policed by government stewards, but more

a network model in which three distinct sectors co-design and co-produce the public good. The 'public sector' becomes rather a 'public purpose sector' comprising government, business, civil society and individual citizens' with a shared responsibility.

In this reform agenda the starting point is not markets, as with Harper and the Productivity Commission, but rather 'how do we reconstruct the roles of each sector in ways that put citizens at the centre'. Eccles is especially concerned with the renewal of a public sector capacity after two decades of New Public Management (NPM) leading to the loss of much of their institutional memory. Outsourcing has resulted in the loss of much of 'direct intelligence into what is going on at the local community level'.

This emphasis on a positive role for government is matched by a reappraisal of the role of non-government agencies. Rather than being objects of regulation in quasi-markets they are to be the co-designers of programs that can also bring communities behind them in effecting change. 'These bodies,' he says, 'are very often the best repositories of information, knowledge, understanding and experience of what specific problems need to be addressed and how'.

This redefinition of roles leads to a reform agenda addressing the new capabilities and culture required of the sectors – something Power to Persuade has helped progress for five years through its online and digital forum. Notably, for all involved, this will mean improved skills in listening to and engaging with different perspectives so that it will be able to bring a range of perspectives together into a cohesive outcome.

Conclusion

When Power to Persuade began this initiative, the 'consumer' model appeared well and truly entrenched and indeed about to intensify with the launch of the Productivity Commission's inquiry into human services. The contributions to the Social Service Futures Dialogue suggest that market models alone provide a poor guide to the future of the social services in Australia. Rather, we hope to start a new conversation about what types of institutions we need. This is not to say the Productivity Commission does not have a role, but that its remit has expanded beyond what might be deemed appropriate. We ask, is it time for a new policy body to provide recommendations on social policy that is not driven by economic agendas and methods?

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What is Productivity?

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The Productivity Commission's name suggests productivity is an un-controversially good goal to which policy should aspire. Yet, within economics there is considerable debate over what productivity is and how it can be measured. More broadly, there are questions over the implications of productivity, particularly for social provision.

A good example comes from recent history. In 2014 the Productivity Commission released its Productivity Update (Productivity Commission, 2014). The news was not good. Across a range of sectors productivity was falling. But look a little deeper and the reasons for the fall appear far less concerning than the headline figures might indicate. Take a few examples.

Mining contributed more to the overall fall than any other sector. During much of the 1990s mining productivity was increasing at roughly the same rate as the rest of the market economy. But around the turn of the century it started to fall off a cliff.

What happened? Surprisingly, the answer is the mining boom. That's right – the collapse in mining productivity directly coincided with the biggest growth in mining profits.

How can that be? Productivity measures output per unit of input. Rising prices for ores mean harder-to-reach deposits become profitable. Expanding production to these deposits requires more resources per unit of output.

Shifting resources into mining does create real challenges, particularly if it comes at the expense of long-term investments in industries like manufacturing. But to avoid a fall in productivity would have effectively required Australia to opt out of the mining boom – a very odd conclusion for mainstream economists to draw.

The same trend was evident in manufacturing – Peter Ferguson identified a perplexing insight, one he explores in an article in the *Australian Journal of Political Science* on the 'politics of productivity'.

Part of the productivity problem in manufacturing, the article suggested, was a change in the composition of food manufacturing. In the bread-making industry, for example, there had been a decline in factory-made bread (which is capital intensive) and a significant increase in store-made bread (which is labour intensive).

The article noted that the shift to store-made and artisan bread reflected consumer demand, and that the resulting bread was likely healthier, including seeded breads and sourdoughs. Because store-made breads are labour intensive, it also meant more jobs for bakers, and likely higher quality jobs with a greater sense of craft.

So Australia's sliding productivity appeared to be due to a boom in profits and foreign exchange, and a job-rich and health-conscious shift in consumer preferences.

Neither cause could seriously be considered the result of a 'trade off' between economic and non-economic goals, or the cause of economic misfortune. Instead, productivity itself seems to have little to do with even ordinary economic evaluations.

Of course, the Productivity Commission is not ignorant of the problems. Part of the discussion in the Update was focused on exploring exactly these issues. But Ferguson points out the framework of productivity can undermine our ability to focus on more important goals.

Focusing on productivity confuses ends and means. Even for mainstream economists the goal is to maximise the satisfaction of consumer preferences. Under certain assumptions, productivity aids that goal. But under other assumptions (like changing consumer tastes or changing technologies), it might not.

The focus on productivity also distracts us from the real goal – the kind of society we want to live in. Economists explicitly ignore this question, assuming it is the province of other disciplines. But it is surely central to social provision. The Update shows productivity is a poor proxy even if you have policies goals set externally (by the government for example).

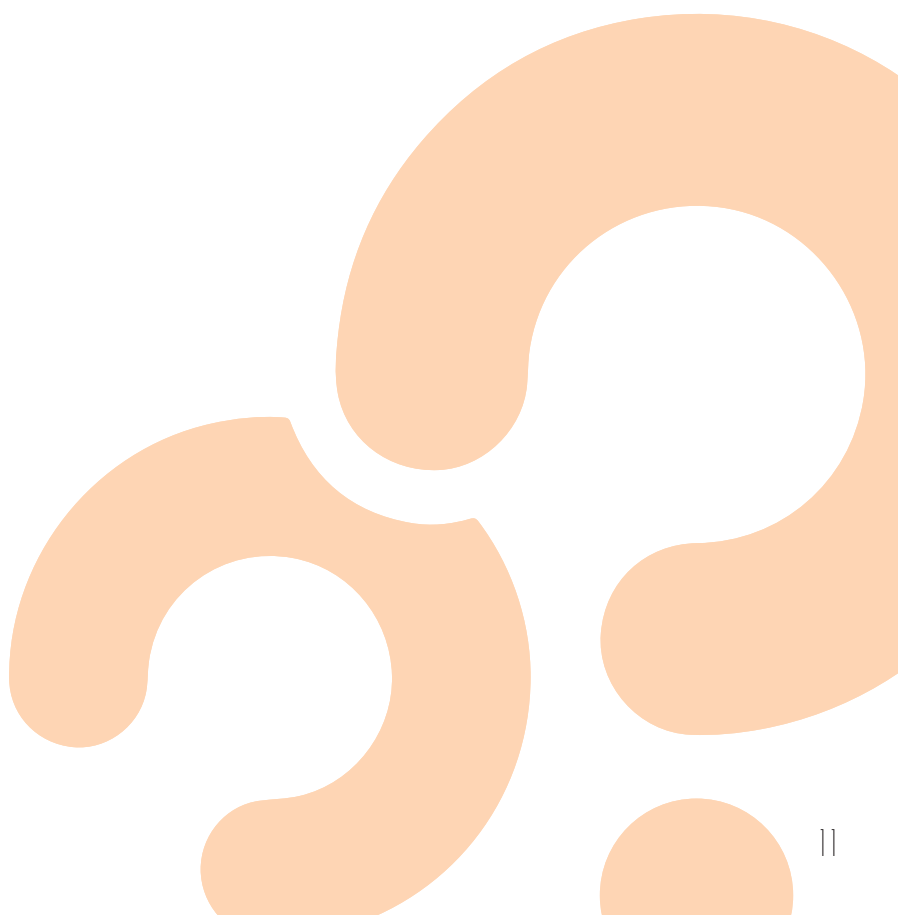
Focusing on what kind of society we want to live in has profound implications for our assessment. For example, we might prioritise supporting cooperation and care over competition, or ensuring people feel safe over promoting risk-taking. We might prefer decent wages or more jobs to lower input costs, or greater equality to higher production. Many of these considerations simply disappear in most productivity analysis. Often important goals are actively subverted.

We do need more debate and discussion over social policy. Inquiries can aid that goal by promoting careful consideration of evidence; bringing together those in the field, those that use services, advocacy groups and researchers; and media attention. Productivity Commission inquiries do attract attention and encourage debate. But framing such a discussion around productivity puts the horse in front of the cart. And it risks producing the kind of nonsensical outcomes the 2014 Update tried so hard to understand.

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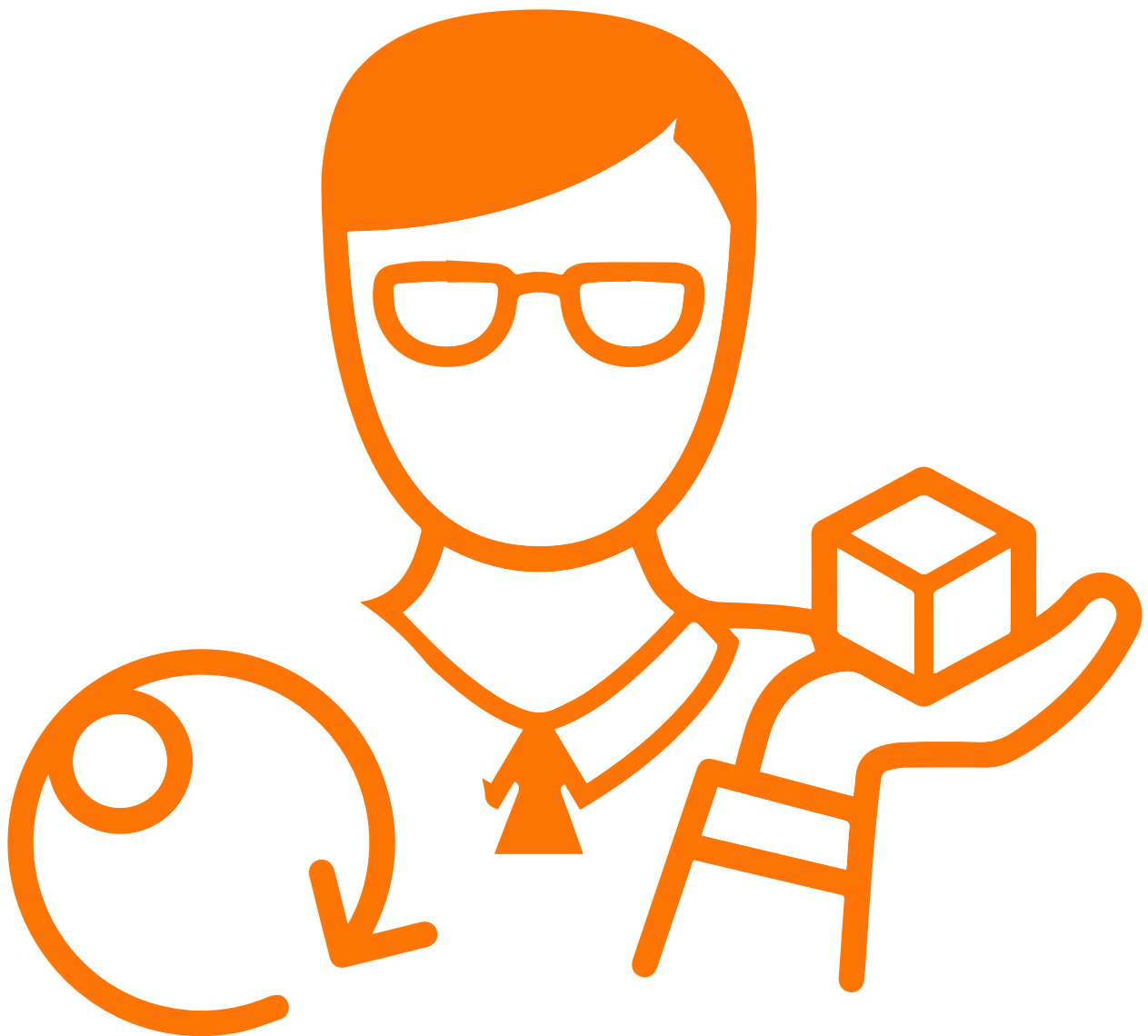
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The Productivity of What?

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The Productivity of What?

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In 1979 Amartya Sen addressed scholars and students at Stanford University, giving the coveted annual Tanner Lecture on Human Value. The title of the lecture was *Inequality of what?* Here, Sen laid out the basis of his scholarly corpus which would lead to his Nobel Laureate, the Human Development Index and subsequent books and articles that have underpinned the revival of human development.

In response to the works of John Rawls, Ronald Dworkin, Thomas Nagel and Thomas Scanlon, Sen outlined how normative theories of justice, human advancement and inequality always required the equality of something – equality of liberty, resources or utility. Sen's argument was that focusing on equality in this way overlooked the heterogeneity and *diversity of people*; the many different ways in which equality can be judged. For example, by just focusing on particular resources (e.g. liberty or economic resources) it was not clear that all people, given differing abilities, would be able to convert such resources into personal gain (Sen 1995).

Sen instead proposed that social arrangements should be assessed as human freedoms, where human freedoms are not just the *achievement* of things people value, or have reason to value, but also the *ability* of people to pursue them in the first place. So instead of policy focusing just on *things people may do or be* (for example, being nourished, riding a bike, being educated and being healthy), Sen proposed also to include the *real ability* or freedom to achieve these things (for example, the ability to be nourished, the ability to be educated and the ability to be healthy).

Put another way, Sen finds that development, wellbeing and progress should be understood as capabilities: the freedoms people 'value and have reason to value' (Sen 2009, p. 276). Consequently, economic and social policy should exist as a process of expanding the diverse capabilities that people value or have reason to value (Sen 1999). In this sense, economic advancement is only pursued as a means to the end of human wellbeing. This approach stands in contrast to other normative development approaches that see human beings as ends to economic growth and market efficiency.

The capability approach also stands in contrast to the view that human capabilities are human capital, best illustrated through the integration of competition and marketisation to explain human agency.

This basic revisionist account of Sen's capability approach is not new to Australian Federal Government agencies and departments. For example, the Australian Treasury used Sen's work in the development of the Treasury's Wellbeing Framework in 2012, stating, 'in undertaking its mission Treasury takes a broad view of wellbeing as primarily reflecting a person's substantive freedom to lead a life they have reason to value' (Gorecki and Kelly 2012). The Productivity Commission regularly draws on trends coming out from the OECD, which in 2013–14 incorporated the recommendation that human wellbeing and progress is analysed as capabilities, not economic growth or efficiency. This recommendation stemmed from the high-profile *Stiglitz-Sen-Fitoussi Commission on Measuring Economic Performance and Social Progress*, commissioned by once French President Nicholas Sarkozy.

So it comes as a surprise that the Productivity Commission would shift from conceptualising wellbeing and related social policies as capabilities, back to economic logic, efficiency and marketisation. The capability approach is useful in highlighting three specific limits of economic logic, efficiency and marketisation in social policy.

Firstly, the logic of competition and efficiency overlooks the premise that wellbeing, development and advancement limits the vast possibility of human capabilities. Secondly, the logic of competition and efficiency tends to conflate human capabilities to human capital. Sen himself argues that 'human beings are not merely means of production, but also the end of the exercise' (Sen 1999, pp. 295–296). Thus, capabilities cannot be restricted to what is necessary to feed capitalism. Instead, what is most vital to human flourishing are capabilities that people value and have reason to value, which may or may not be capitalist in function. Instead, development is freedom; the freedom to live valued lives. Thirdly, competition and marketisation overlooks the intrinsic, instrumental and constructive value of democratic processes, such as democratic deliberation, public reasoning and collective movements. Sen calls for participatory public deliberation as being fundamental to all social policy where institutions

and structures need to be procedurally just, and not solely outcome-focused (see Sen 1995; Nussbaum 2011; Alkire 2002).

So how could the Productivity Commission and other agencies go about valuing plurality and agency as per the capability approach?

One way forward would be rebalancing the relationship between the means and ends of policy. Currently, policy is outcome-focused (ends) and the process of getting to such outcomes is overlooked and undervalued. This is a concern because the agency of citizens is overlooked and undervalued, resulting in what many would argue as top-down, paternalistic policies. Instead, the capability approach places agency (means) at the centre of the development process, where public deliberation and involvement in the policy-making process is paramount. Ingrid Robeyns (2003) sets out basic criteria for selection of capabilities. Firstly, an explicit list is compiled that is then publically deliberated and defended. Secondly, the methods used in drawing up a list must be scrutinised and justified. Thirdly, the capabilities must be sensitive to the context, making clear the abstraction at which the list is pitched. Fourthly, the lists are checked to ensure that the capabilities listed cannot be reduced to other elements or misinterpretations.

Notwithstanding, pluralism in the capability approach rests heavily on democracy, deliberative processes and the ability of groups and institutions to fairly compile lists. The risk of course is that already marginalised voices will again be isolated in such a process. This is because unjust relations of power and social structures can be reproduced through collective process freedoms without a full account and theorisation of societal structures, hegemony and power in the shaping of agency and society (Otto and Ziegler 2006; Zheng and Stahl 2011). To put it differently, the radicalised, liberal and economic constitution of society tends to structure agents' options and hegemony acts to exclude other options (Gramsci 1971; Laclau and Mouffe 2001). Critical social theories could remedy such a dilemma and complement the capability approach as they specifically focus on the structural conditions of, and dialectic with, individual and collective agency. Without such critical social theory, the pluralism and flexibility built into the capability approach 'creates scope for more casual and indeed opportunistic appropriations and interpretations' (Sayer 2012, p. 582).

Shifting the paradigm back to one of competition and marketisation would undo many gains already accomplished in social policy. The capability approach provides a helpful normative framework to guide social policy to support human flourishing and productivity in its fullest sense.

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The Two Faces of Competition: Which is the Best for the Social Services Sector?

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Introduction

The proposed Productivity Commission review into competition and contestability in the human services arena follows a continued leaching of economic rationalist thinking into government policies, practices and mechanisms over the past thirty or so years. In 1993 the first competition policy review, the Hilmer Review, led to a shared national governmental goal of increased productivity and efficiency to be achieved through the adoption of market principles of competition, choice and contestability. Shaped by the economic rationalist language of the time, competition was presented as a battleground, where rivals are to be crushed, and rewards aren't to be shared (Dawkins 1976). When success comes at the cost of others, it leads to a low level of trust, an adversarial mentality and defensive positions. Tennyson's (1850) description of competition in nature as being '... red in tooth and claw' fits well with this *argy bargy*, no-holds-barred approach. But, in laying out this aggressive competitive view he also allowed that, under certain conditions, nature and humanity were inherently cooperative.

It is fair to say though, that in some industries, competition has delivered some important and necessary gains, including a lowering of prices in some consumer and service markets as well providing a stimulus for innovation: both preconditions to increased productivity. Although initially exempt from the full effects of competition policy, the human and social services sectors eventually succumbed. However, unlike the other sectors, generally the social services was not initially a conducive environment for market principles as there were few natural competitors, nor did it have an especially competitive ethos (House of Representatives Standing Committee on Family and Community Affairs 1998). Indeed, as often identified, the sector mostly relied on cooperative

relationships as the basis for its working and as the glue that bound organisations together when collective effort was needed (Lyons 2003). In view of this, most studies have shown that market principles and especially competition have had an adverse effect on this sector, with for example Davis and Rhodes (2000) notably arguing that market modes had the unintended effect of further fragmenting rather than improving the sector (see Merton (1936) on unintended or perverse consequences).

Several subsequent studies have also provided solid evidence of the perverse effects of competition on a sector bound by relationships. For example, Keast and colleagues (2012) attributed aggressive tendering and poor procurement processes, as well as self-interested strategic maneuvering by some sectoral actors (including newer for-profit actors), to the collapse of several longstanding service networks. McBratney and McGregor-Lowndes (2012) highlighted a shift in the balance of power between government and the social services sector arising from stricter service agreements and a greater emphasis on performance reporting, which was also seen to be to the detriment of sectoral values (McDonald and Zetlin 2004). Along a similar line Hancock (2004) expressed concerns of reduced service diversity and access as a result of the policy agenda. Competition in this format was neither a benign nor a supportive concept. Instead, it works against the sectors underpinning values and missions to produce services that are for the public good not to generate profit (Keast 2014). These problems notwithstanding, increased pressure on both government and the social services sector, including amplified growth in needs and decreased financial support, and therefore the need to find innovative ways to improve the efficiency and cost effectiveness of service provision, has brought competition back high on the reform agenda (Productivity Commission 2010).

The more recent experiments with competition aside, competition is hardly new to the human services sector in this country. Tierney (1975) and others (Brown and Keast 2005) have shown that since their inception non-profits have been engaged in various competitive processes – for limited resources and clients, a bigger slice of the funding pie, for autonomy in direction as well as for the attention of decision-makers, sectoral influencers and funders. The difference is that, unlike the present forms, earlier approaches were more overtly embedded in reciprocity and interdependency,

working for common purposes, and the generation of win/win outcomes, all underpinned by a realisation of the need to retain relationships into the longer term. This understanding of competition is more subtle than the pure economic model. Two or more organisations might compete for the same resources, but the competition is underpinned by an integrative purpose; looking to expand rather than limit the pie. That is, to push individual organisational boundaries as well as the boundaries of the sector.

It is this relational type of competition that best aligns with the equality that is important in the drive for cross-agency and sector collaboration and innovation increasingly sought within and across both sectors. This is not to say that it has been all love, trust and fairy-dust. Inevitably there was conflict and occasional dust-ups. For examples there were periodic ruptures between faith-based organisations and contested perspectives between different elements of the sector (Lyons 1998). But these were largely contained by the cohesive nature of the sector, its smaller size and strong leadership. Moreover, the competition was characteristically not personal, and was tempered by realisation of the need for a longer-term perspective.

Two almost opposing forms of competition currently hold centre ground in policy debates; both have merit and can equally deliver the increased productivity, efficiencies and innovation demanded for contemporary society. Their differentiation is that, typically, one is grounded in spontaneous, one-off or short-term exchanges, via transaction based-contracts that can lead to fragmented environments, while the other is more predisposed toward ongoing interpersonal relationships, reciprocity and common vision (i.e. integration).

As competition is currently conceived and implemented there are inherent difficulties. It is important that policy makers and others understand the different forms of competition can take, rather than privileging one over the other, or arguing for one while implementing policies that support another. Further, as it stands, there is a need for a more holistic or systems-wide mapping of policies, highlighting their layers of influence and points of overlap or disjuncture, to enable better management interfaces (Keast 2014). As Ham (2012, p. 2) notes, under these conditions policy makers need to 'think two or three steps ahead'.

The social services sector is at a crucial crossroad. There is no doubt that the sector should not be immune from review and reform, including examining the benefits of competition and contestability. However, it is instructive to remember that at the same time there is a strongly voiced agenda for collaboration permeating Australian policy and practice (O'Flynn 2009; Keast et al. 2007; Keast 2011). It is therefore imperative and timely that deeper thought is given to the type of competition most appropriate for its continued advancement and sustainability. Should it be progressed through the drive, contest and individual benefit of raw competition? Or through the principles of reciprocity and mutual reward? Or perhaps a combination of both? Whichever way, questions remain as to whether not-for-profit organisations can implement aspects of the competitive operating environment without compromising the qualities that distinguish them from government and the private sectors. And if government can set up the right policy, programmatic and funding infrastructures to facilitate the kind of competition to deliver the sector the foundation it needs to continue to be a viable partner in the delivery of services and support for vulnerable people.

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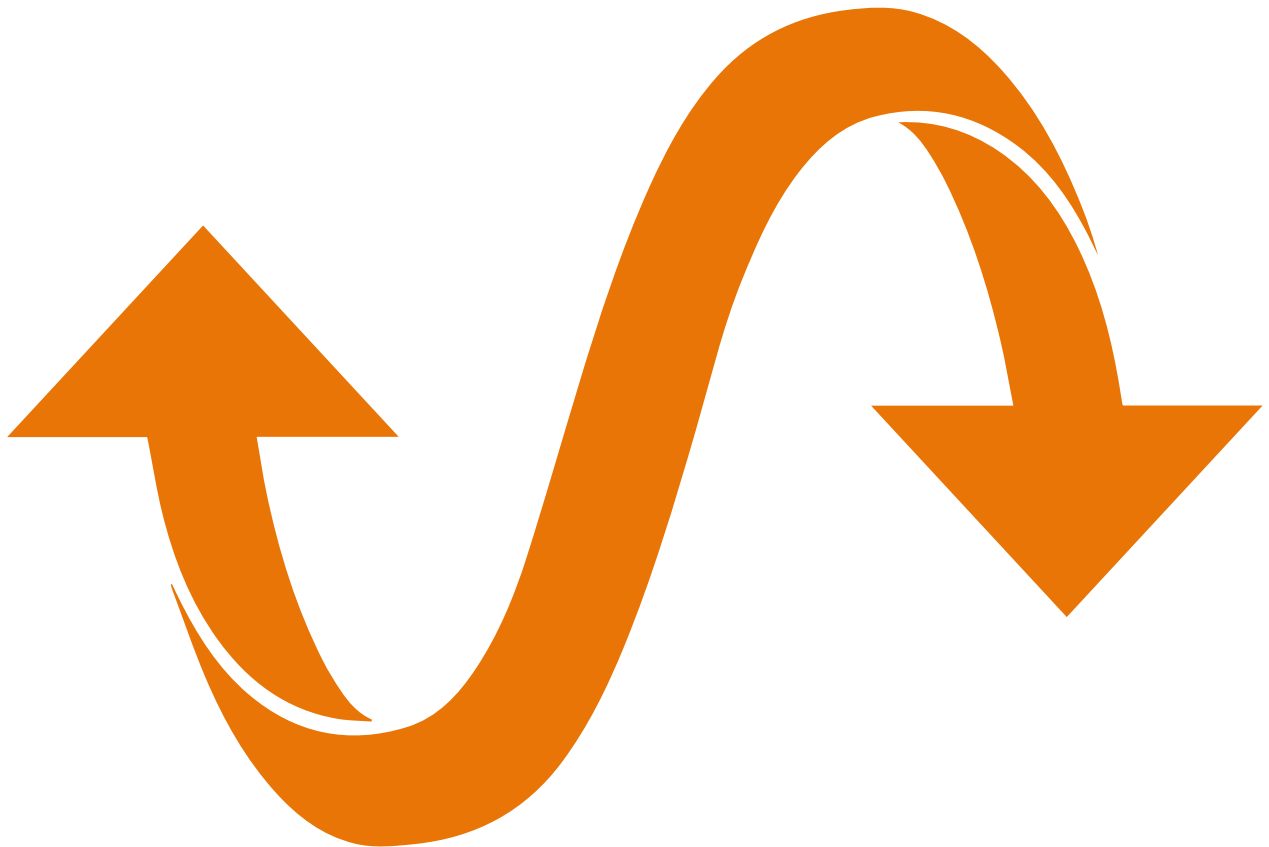
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Market-Driven Innovation is a Double-Edged Sword

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Manipulation and deception are predictable features of competitive markets – yet strangely under acknowledged. In their award-winning book, *Phishing for Phools*, economics professors George A Akerlof and Robert J Shiller (2015) argue that trickery on the part of sellers is not just an occasional nuisance: it's an inherent part of our economic system, a natural consequence of competitive pressure. The upshot is that 'free markets leads us to buy, and to pay too much for, products that we do not need'. This downside of markets is worth pondering as we consider marketising human services in Australia.

The title, 'Phishing for Phools', refers to the angling by unscrupulous sellers for buyers vulnerable to deals that are not in their best interests. (The term phish spelled with 'ph' comes from the term for internet scamming). According to these behavioural economists, markets don't always provide what people want – it's more accurate to say they provide what people can be momentarily conned into buying. Chapter by chapter, Akerlof and Shiller take us through the trickery and deception in the marketing of securities, cars, houses, credit cards, food, pharmaceuticals, tobacco and alcohol.

Though it's heretical to say so, more choices don't always lead to greater wellbeing. The standard economist's assumption that people only make choices that maximise their welfare is at odds with the remarkable frequency with which people choose products that (if they had the full information) they could not possibly prefer. A surprising number of people make purchasing decisions that make them miserable. Instant access to credit has resulted in large numbers of people drowning in debts they'll never pay off. Gambling addicts feed the pokies with money they don't have. Other people drink or eat themselves to death.

Akerlof and Shiller write that economic equilibria ensure there will always be a firm available to exploit consumers' weaknesses and facilitate this kind of misery – if one firm doesn't, another firm will. 'Because of competitive pressures, managers who restrain themselves [from taking advantages

of their customers' psychological or informational weaknesses] tend to be replaced by others with fewer moral qualms ... if there is an opportunity to phish, even firms guided by those with real moral integrity will usually have to do so in order to compete and survive' (p xii). The ugly truth is that markets are an economic system that encourages producers to prey on human weakness.

If the profit motive is to take the credit for the butcher, the brewer and the baker providing the things we do want, then it's only fair that the profit motive gets the blame for many of the ills of consumer society.

The authors stress that everyone has weaknesses, everyone lets their guard down sometimes. With so many decisions to make – and so much manipulative information to sift through – it's inevitable that from time to time we'll take our eye off the ball. The behavioural sciences are doing a great job of illuminating the many quirks of human decision-making. One of the charms of the book is the disarming way the authors – both Nobel Prize winners – recount times they've fallen for salesmen's tricks themselves.

Awash in a sea of intentionally misleading information, consumers must be vigilant. Modern market societies make available a cornucopia of delights. But for many people these same societies are also tough, stressful places to live in, full of tricks and traps for the distracted, impulsive or financially illiterate. Another duo of behavioural economists, Sendhil Mullainathan and Eldar Shafir, explain in their book *Scarcity*, (2014), people on low incomes just don't have the slack in their budgets to be able to afford to make bad purchasing decisions. Momentary failures of self-control or attention can have weighty consequences.

Phishing for Phools offers a fresh take on the idea that markets promote innovation. Market-driven innovation is a double-edged sword. Akerlof and Shiller acknowledge the spur competition gives to innovation in the development of new products and production processes. But they are also wise to the way markets incentivise innovation of a less honourable kind. Business people can use their ingenuity to find new products that will satisfy consumers' needs, or alternatively to figure out consumers' weaknesses and create innovative ways of selling them things they didn't really want. The profit motive drives firms to invest in advertising and elaborate sales techniques. Salesmen prey on

the many weaknesses of human decision-making, such as our tendency to think of the present at the expense of the future (what is known to behavioural scientists as 'present bias') and our fear of missing out. Sellers take advantage of buyers' comparative ignorance of their products' features. They develop complicated and overwhelming product packages whose relative merits customers can't properly process.

Highlighting the trickery and manipulation in our economic system illuminates why so many intelligent people work in jobs they have misgivings about. If private companies really were about satisfying people's needs efficiently, wouldn't it feel more satisfying to work in them? Getting paid to find new ways to con the same old people – or finding new people to con the same old way – isn't nearly as rewarding.

Investment banks refer to their own clients as 'muppets', and foist upon them products they don't want. Gyms sell memberships that go unused. Ink cartridges cost almost as much as the original printer. Tobacco companies use health messages to encourage customers to buy products they know will kill them. Akerlof and Shiller's message is that these are not quirky economic aberrations. They cannot be explained away as the work of a few evil people who don't care about their customers. Rather trickery and deception are key to how markets normally work. Sellers find weaknesses in buyers that they can exploit to make a buck. Markets are full of people trying to find ways of inducing people to make decisions that are not in their best interests.

The heroes in this book are the regulators. When consumers succeed in getting the product they actually wanted, some of the credit has to go to the regulatory system – and its standardisation, grading and certification – that makes this possible. When sellers do serve the best interests of their customers this is usually because they are working within limits carefully defined for them by effective government and civil society. Civil society can encourage business people to understand themselves as members of a community, rather than as amoral profit-seekers. Akerlof and Shiller are by no means anti-market: they believe the best arrangement is when the power of markets, government and civil society balance each other. What we must avoid is the disaster of unadulterated markets – a market so poorly regulated that no one can trust anyone grinds to a halt.

Akerlof and Shiller argue that modern economics has failed to take the role of deception and trickery seriously. It was because economists ignored the trickery and deception involved in mortgage-backed securities that they failed to foresee the 2008 world financial crisis. In the lead up to the crisis some economists even naively believed that markets policed themselves. The free market ideology that claims 'government is the problem' emerges in this book as itself an example of trickery – a con that has taken a lot of people in, and wreaked economic havoc in the process.

The take-home message of this book is that when we look at markets we should be on the lookout for the tricks that some innovative firm is bound to have discovered. We should acknowledge the imperative of publicly resourcing regulators capable of putting the brakes on trickery and deception, as well as the importance of protecting the altruistic motivations of civil society from being crowded out by market values. And if we create new markets in new fields we should anticipate that we are opening up new opportunities for exploiting vulnerable people.

There are signs that economists in Australia are not heeding this message – even though we saw the way the profit motive drove exploitation of the vulnerable here in Australia when a new market was opened up in vocational training funded by the government's VET FEE-HELP loan scheme. Unscrupulous operators used dubious sales techniques to dupe vulnerable people into enrolling in online courses they had no hope of completing.

The profit motive also produced unpleasant surprises when a market for privately provided employment services was created in Australia. The contracting out of employment services was supposed to enable jobseekers to receive services tailored to their unique situation, but research shows the profit motive has actually driven standardisation of services. Smaller community organisations with the specialist expertise to help particular groups of disadvantaged jobseekers have proven too small to compete against the big firms. Successful providers of employment services have discovered the most profitable way to run their businesses is by 'creaming', in other words concentrating on the more readily employable people in their case load and 'parking' – effectively giving up on – their more disadvantaged clients. UK research shows parking and creaming are also a big problem in the employment services industry there despite the government's best efforts. The profit motive leads

people to look for loopholes.

The exploitation of the vulnerable by providers of employment services and vocational education should not be considered minor difficulties, but indicators of an inherent downside in pursuing productivity through marketisation. It is concerning that the Productivity Commission appears to be starting with the presumption that the marketisation of the human services should be encouraged, thereby placing the burden of argument on defenders of non-market values. The delicate balance between markets, government and civil society is everywhere under threat.

The political philosopher Michael Sandel, in his book *What Money Can't Buy* (2012), argues that we need more public debate about the incursion of market norms into all spheres of life. The trouble, as he sees it, is that market motivations can crowd out non-market motivations. Behavioural economics has shown that putting a price on a service can make people less willing to do it for free. While conventional economics assumes that financial motivations can be simply added on top of other intrinsic motivations, such as public spiritedness, it turns out that in reality financial incentives sometimes cancel out pre-existing motivations. People are more likely to do honourable things like pro bono legal work, or collecting for charity, if you *don't* offer them a financial incentive. Paying people to do these activities changes their character – it commercialises them – which makes people more reluctant to do them. As Sandel points out, the commercialisation effect has big implications for policy areas where intrinsic motivations matter, such as education, health care or disability care.

This doesn't mean that people should never be paid for the good work they do, such as caring for the sick or the elderly. But it does mean that creating markets in social services comes with risks. Elizabeth Anderson, another philosopher who has explored the ethical limits of markets, argues that commodification need not be all or nothing; it admits of degrees. It matters a great deal whether exclusively market norms govern the design and delivery of a service or whether other criteria, such as compassion and justice, come into play.

While full commodification of human services can be degrading and encourage exploitation of vulnerable people, partial commodification can be a useful way of encouraging investment in socially

valuable activities. The realms of childcare and employment services provide examples. We resist the full commodification of childcare when we insist that the best childcare centre is the one where the children are thriving regardless of whether it is the one that makes the greatest profits. We resist the full commodification of employment services when we insist that more disadvantaged jobseekers deserve to be treated with respect, rather than parked by service providers intent on chasing profits.

If we are to avoid the full commodification of all aspects of human life, governments must recognise ethical limits to the operation of markets. Other considerations important to our society – human dignity, democracy and justice for example – must be allowed to trump profitability. Ascertaining the correct limits to commodification is not a task economists are well placed to perform alone. To understand the moral costs of further marketisation, the Productivity Commission would require the assistance of sociologists, anthropologists, political scientists and moral psychologists. But more than this, assessing the costs and benefits to Australia of marketising the human services necessitates deliberation by the general public. We need a public conversation about what values we – as a society – care about, and what non-market norms are worth preserving.

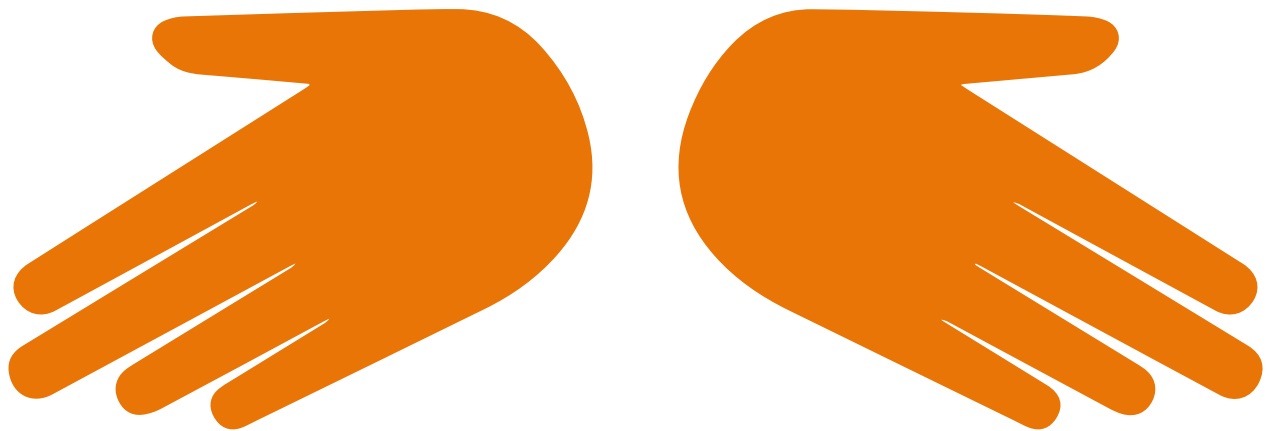
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Social Service Futures Dialogue: Toward an Inclusive Governance Reform Agenda

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Part One

Power to Persuade's dialogue on the future of the social services and community sector could hardly be more timely. As the Treasury-Productivity Commission (PC) line up for their big push into the marketisation of those institutions designed to foster and sustain a just and inclusive society, the signs are that history may be finally calling time on what Mark Considine has humorously dubbed the 'reform that never ends'.

These signs are not so apparent in the current debates over the Harper-PC competition governance model (e.g. will marketisation somehow work in the National Disability Insurance Scheme (NDIS) when it has failed in other sectors?). But – and more importantly for the future of governance – they are very apparent in the new critiques of the 1980s and 90s economic policy model upon which the Treasury-PC governance approach has always depended for its authority. Across two decades of PC inquiries the social sectors have dutifully submitted their policy wisdom only to find that nothing was allowed to seriously disturb these basic assumptions of the market agenda. But now a new economic policy mode is demanding forms of governance which privilege social wellbeing and fairness, equally with economic efficiency. While those pressing on with 'the reform that never ends' may think that nothing is changing, it is inconceivable that governments in Australia will long avoid the demands for a new agenda based on what the OECD calls 'inclusive governance'.

As in the wider field of economic and social policy, model change does not happen overnight. For those in the social and community sectors the immediate question is how to respond to this radical push to fully marketise education, health and welfare. It is important to engage critically with the experience of the market model as it continues to be implemented and, as I understand it, Power to Persuade has numerous contributors preparing

to do just that. But I believe it is equally important for the social sectors to begin now to look over the limited horizon of current government thinking on social administration and to embrace the challenge of constructing the new principles, institutions and practices which will make up the future inclusive governance reform agenda.

In Part One of this background briefing I sketch that wider economic policy shift from the 1980s–90s model to inclusive growth highlighting what are seen as the broad implications for questions of social governance. In Part Two I will show how the Productivity Commission's approach to the reform of social institutions was thoroughly embedded in the old model, and will reconnect with the largely ignored social sector critiques of that model submitted to various Productivity Commission inquiries in order to suggest some starting points for the new reform agenda.

From the 1980s–90s model to inclusive growth

Smyth and Buchanan (2013) offered an early account of the evolution of the 'social investment for inclusive growth' paradigm among both developed and developing economies since the turn of the century. Since then, as the World Economic Forum observed (Samans et al. 2015), there has been a major exercise among the international economic policy agencies, including the OECD, World Bank and International Monetary Fund, aimed at translating the broad aspiration for more inclusive and sustainable growth into Actionable Policy Frameworks. In Australia, the newly launched social policy agenda of the Australian Labor Party, *Growing Together*, demonstrates how the new social policy rubber is hitting the political road.

For the social sectors it is important to grasp that the reasons for this change are as much economic as social. Certainly rising inequality (now at a seventy-five year high in Australia) is seen as creating a crisis of legitimacy for states perceived to be serving the interests of the 'two per cent'. Telling this to social scientists, of course, is like teaching granny to suck eggs. But in recent decades any demurral on social grounds was always trumped by the Treasury-PC line that markets freed from state intervention would always deliver a bigger pie as the basis of greater 'community-wide' welfare. With inclusive growth this central justification for the PC model has imploded. Not only do we need robust social institutions to counter excessive

market inequality as a basis for flourishing societies but also for sustainable economic growth. More generally in the economy, governments are urged to abandon the laissez faire 'nightwatchman' (or – in the contemporary Harper jargon – 'market steward') role and actively intervene where such intervention is likely to improve on pure market outcomes.

For us in the social sectors it is important to be aware that these new intellectual movements are also now in evidence in Australian economic policy communities. The Labor Party's *Growing Together* social policy review is soon to be joined by a complementary Economic Policy Report also reflecting inclusive growth – or 'shared prosperity' – principles (see the Chifley Institute). The wider ferment has been canvassed in several articles by leading policy thinkers. In 'Time for a new consensus', West and Bentley (2016) nicely captured the kind of policy ice age into which the old economics had settled. The economic challenges of today, they say, demand that we snap out of the policy torpor created by the exhaustion of the 1980s–90s model, according to which passive governments should be nothing but market stewards. We need an active government, they write, which can lead strategies to create 'comparative advantages'. While their focus is the traded sectors of the economy they note that 'a similar capability building agenda is required for the successful redesign of social investment, health, education and welfare ... rather than veering between incremental funding increases ... and ineffective attempts to increase "efficiency" by more "contracting out"'. In a somewhat similar vein, Megalogenis (2016) writes of the need for a shift from the 'open model' of the economy (1980s–90s) to one for an 'economy in transition'. He too recognises that much of the vital government intervention embraces social policy in areas such as education and infrastructure, gridlocked cities and growing inequality.

It would be hard to exaggerate the importance of this reassertion of the need for active government in economic policy for questions of social governance. Before the full onset of the 1980s–90s model in the late twentieth century, nobody seriously contemplated the marketisation of our social and community institutions. Its entire credibility rested on its neoclassical fundamentalist assumptions that market mechanisms were always to be preferred to government intervention. Now that the economic mainstream looks to reassert the positive economic

impacts of social intervention in the market, the way lies open for a social policy agenda that can roll back the misguided colonisation of the social institutions by the market. It is time to begin the task of creating inclusive governance structures for the social and community sectors.

Inclusive growth and governance after the 'ice age'

A distinctive feature of the new economics informing inclusive growth is its emphasis on the importance of governance institutions. For example, one of the key factors leading to the overthrow of the Washington consensus in development economics was the exemplary role of active state institutions in engineering the East Asian economic successes. In terms of developed economies, the OECD has observed how the emphasis on efficiency in the 1980s–90s model marginalised objectives of fairness and equality leading to a new emphasis now on institutions for inclusive governance. Good governance is one of the key domains of the new policy frameworks for inclusive growth. However, it must be said after two decades of framing institutional reform in terms of marketisation, the reform agenda remains very much aspirational. Nevertheless, we have some sense of the broad direction as well as indications that some in countries like Australia are readying for change.

In the 1980s we became familiar with the idea of 'structural adjustment' as nations felt the full impact of the push towards neoliberalism. Now we must ready for a new round of structural adjustment, but this time towards a more inclusive pattern of economic development. In her presentation to the United Nations Conference on Trade and Development (UNCTAD), Ortiz (2014) summarised the UN agenda on 'development for all', listing a range of key policy differences between what was the '1980s–90s Orthodox Policy Advice' and the new UN agenda. Here we select a few of the key social policy shifts which are indicative of the restructuring of the development agenda.

- 1980s–90s orthodox policy advice
- UN agenda: Development for all
- Residual social policies – a cost (minimal, targeted to the poor), safety nets
- Social policies as investment – universal policies (for all), redistribution back in the development agenda

- Commercialisation of social services, cost recovery (fees for services)
- Universal public services, e.g. UNICEF school fee abolition initiative, WHO-Bank Universal Health Coverage
- Reforms social security and welfare systems, targeted safety nets, pensions privatisation
- Social protection floors for all and universal public social security systems, reversing pension privatisation
- Privatisation of public assets, services/ minimalist government
- Building state capacity to promote development, public investment, technology.

The new 'structural adjustment' envisaged here will clearly demand very different theoretical approaches and institutions for policy development than that which we have experienced in Australia over the last two decades. A defining feature of that period was the intellectual rigidity and inability of the Treasury-PC policy community to engage creatively with the worlds of social and political (and economic) knowledge beyond the narrow confines of what now appears as neoclassical fundamentalism. In Part Two I shall show how this seeming rigidity was part and parcel of its original remit to assume that social institutions might be treated just like economic markets in the quest for greater productivity.

By putting social and political goals on a par with the market, inclusive growth will change these rules of inquiry fundamentally. In this context government does have to seriously consider whether the Productivity Commission will be fit for the new challenges of inclusive governance. We already have indications that this potentially dangerous anomaly of economists presiding over social governance reform may well be ending. The New Zealand Productivity Commission, for example, recommended that social service governance reform in that country be led by a 'Ministerial Committee for Social Service Reform' heading up agencies representative of the social services; while the Australian Labor Party (ALP)'s *Growing Together* proposes an 'independent social policy oversight body'.

Unravelling the current, belated, Australian push for dissolving social services into 'human service markets' will almost certainly require the creation of some such social service agency with the appropriate knowledge base, links to social sector practice, authority and resources to replace the Productivity Commission as the agency best placed to advise governments on how to progress inclusive governance.

Part Two

Part One of this contribution to the Social Service Futures Dialogue proposed that we are currently in the midst of an economic policy model change from 'market efficiency' to 'inclusive growth' that will inevitably impact our thinking on social governance as equal weight is given to fairness and equality alongside market efficiency. While others are providing much needed discussion of marketisation failure in the social services and community sector, I want to look ahead to the principles and practices which might shape an inclusive governance model. And it is not as though we have time to waste – in a year when the Annual Report of the Council of Economic Advisers (2016) to the President of the United States begins with 'Inclusive Growth in the United States' the idea of an economic model change is not loose talk. A policy window is opening and we need to be talking right now about the new inclusive governance agenda if we want to influence this policy transition.

As social policy scholars we should be trying to develop a new conversation about what constitutes fairness, equality and inclusion. Fast becoming the Australian political question of the moment, it is one which the policy discourse of productivity and efficiency simply cannot address – as Spies-Butcher comments elsewhere in Social Service Futures Dialogue. Interestingly, this challenge is to be taken up in the 2016 UN Development Report with a major focus on what we mean by choice (there being a world of difference between Milton Friedman's market constructed 'Freedom to Choose' and Amartya Sen's understanding of 'Development as Freedom'). As United National Development Programme (UNDP) Report Director, Selim Jahan writes, this discussion demands that we recapture the normative dimension of development: 'social justice, fairness, equality, tolerance, cultural diversity, non-violence and democracy'.

This is, of course, is the bread and butter of social policy. And in this piece I ask what ever happened to this discourse on society and social policy during the Treasury–PC reign? Did the latter have a view on these normative dimensions? After all, in the post-war period of welfare state policy development, these dimensions were informed by fully fledged historical, social and political analyses. While pushed to the margins by the 1980s–90s model, they could not be ignored entirely and in their key points of difference from the Treasury–PC approach we can see some starting points of the new governance conversation.

Demythologising the Productivity Commission

The idea of exploring the normative dimensions of the Treasury–PC governance line would no doubt bemuse if not repel many of its economist practitioners – rather like vegetarians reacting to the offer of a hearty meat pie. Most whom I know earnestly believe that they have been engaged in some kind of positivist, scientific exercise in calculating the most efficient use of scarce government resources. Indeed the Productivity Commission, notably in its self-portrait, *From Industry Assistance to Productivity: Thirty Years of 'The Commission'*, has assiduously cultivated an image of itself as objective and evidence-based, fearlessly employing 'the tools of economic analysis' in an 'independent' and 'transparent' way to promote 'community-wide' wellbeing.

This self-understanding may have been a source of wry amusement in the wider social science community since the inception of the Productivity Commission, but it remains a real barrier to future dialogue. As Carey and her colleague Corr have recently shown in the case of the childcare inquiries (see elsewhere in *Social Service Futures*), it is impossible not to conclude that these reflect what social policy scholarship would recognise as rather radical liberal (small government) assumptions about society and the role of government. While the full corpus of the Productivity Commission's work on social policy might show some variations on these assumptions – after all there has been the presence of one social policy commissioner to instil some balance – on the whole I think that any fair reading would show a set of assumptions which derive from the wider 1980s–90s 'economic rationalist' model.

While not seeking to turn the Productivity Commissions' (2003) self-portrait into a rogues'

gallery, it should remind us of Schumpeter's point that economic theories ultimately reflect a particular 'vision' of society. And the Productivity Commission's own account shows how its 'economic tools' were entirely adapted to the policy project we are calling the 1980s–90s model. Thus in the long durée of Australian history the Productivity Commission locates its work squarely within the 'open market', 'pro-competition' model associated with the Garnaut generation and also aligns itself with Paul Kelly's interpretation of this as freeing Australia from a narrow, protectionist and anti-competitive tradition set in place by Deakin and co. at the time of Federation.

These days, political scientists see the Kelly vision as a political exercise in promoting economic rationalism (Fenna 2012) and by economic historians as a mistaken judgement of the Deakinite tradition. For us it remains relevant for understanding the normative underpinnings of the Treasury–PC's so consistent findings in favour of market over state and community forms of social governance.

Thus the Treasury–PC governance approach was forged first in the economic policy battles of the 1980s involving issues such as tariff reductions and financial deregulation. While some forms of state intervention in the economy certainly needed reform (e.g. excessive tariffs had indeed become a problem from the 1960s), by the 1990s, all forms of state intervention had become the target of a full-fledged neoliberal agenda. From our governance perspective, we observe how this led also to an attack on the kinds of consultative economic planning which had been associated with the accords and with Minister John Button's industry plans. Various industry- based and community policy fora, such as the Economic Planning and Advisory Council (which also had a significant social policy agenda), were dismantled in the period prior to the launch of the reconstituted Productivity Commission in a move seen as concentrating power in the Treasury. Good economic government in the now-neoliberal economic model was to be no government at all in the sense of active intervention in consultation with industry players. Rather it should operate as an upright market steward vigorously policing those economy-wide laws of competition which knew no favourites but, if faithfully followed, ensured the optimum economic outcome for society as a whole.

The 1980s–90s model, Hilmer and the colonisation of social governance

Now until the mid-1990s, no one seriously imagined that this new approach to economic governance would be applied to our social institutions.

The institutions that preceded the Productivity Commission were, by and large, focused on 'economic issues' mainly involving manufacturing but also rural industries. The social sectors only began to find themselves being treated in the same way as 'the economy' with the government switch of emphasis towards 'micro economic reform' and the development of National Competition Policy. Of critical importance to this transition, as David Wishart emphasises, was the Hilmer (1993) inquiry. In Wishart's summary (p. 6), Hilmer 'axiomatically argued that competition was good and that it should displace other ways of doing government business to the extent possible given the public interest. It threw doubt even on that concept, warning against "rent-seeking" in government'. It is to this extraordinary assumption that governments should do nothing that could be done in a competitive process (with those claiming otherwise bearing the onus of proof) that we should trace the Productivity Commission's otherwise inexplicable agenda of marketising our education, health and welfare. Moreover, social policy communities were to be marginalised in the policy making process. As Wishart (p. 7) also points out, the consultative type of policy forums characteristic of the 1980s (such as EPAC) were subsumed into 'expert bodies' such as the Productivity Commission. Here 'consultation was relegated to data gathering or theory testing, rather than consultation as a process generating policy imperatives'.

The reconstitution of the Productivity Commission by the newly elected Howard government was certainly met with perceptions of radical liberal, or 'economic rationalist' bias compromising its independence (with the ALP promising to replace it with a more consultative commission if re-elected). Attempts were made to address these criticisms through the appointment of one commissioner with social policy credentials and a rather ad hoc elaboration of a 'public interest' test. In the social policy inquiries that followed, submissions from the social sectors and some commissioned research revealed key differences between the welfare state legacy and the social model being pursued by the

Productivity Commission. As became the habit of the Productivity Commission, these were selectively noted but largely ignored in the key findings. They do, however, comprise an instructive agenda of unfinished business for those embarking on the tasks of social policy renewal today.

The full story of just how Australia's social governance agenda became colonised by an economic policy commission with a radical liberal political agenda will one day make a most curious chapter in the history of Australian public policy, and, as Carey suggests, one deserving now a comprehensive research study. For our purposes I offer some initial reflections on two aspects. First, we look at the fate of the public interest test, which for the social sectors was the key means to contest the normative social policy dimension being swept aside by the Hilmer test of market efficiency. The second aspect follows on: if there is indeed a public interest, how did the Productivity Commission understand the respective roles of state, market and civil society in achieving it?

How fairness and equality became marginalised

The implementation of the National Competition Policy (NCP) created significant political turbulence, highlighted by the One Nation Party being a lightning rod of rural and regional discontent. A Senate Committee report, *Riding the Waves of Change* (Select Committee ... 2000), and the Productivity Commission's own report, *Impact of Competition Policy Reforms on Rural and Regional Australia* (1990), are indicative of a wider debate raising the question as to whether the competition reforms were truly in the 'public interest'. The gulf in contemporary commentary between the Productivity Commission's approach and that of political and social scientists was so great that it is hard to imagine how it could have been bridged. Here we illustrate.

Responding to the political discontent, the Productivity Commission's Gary Banks (2001) observed how the NCP presumption in favour of competition had been a radical reversal of 'the traditional onus of proof, turning on its head a longstanding approach in this country to policy formulation and reform'. While acknowledging that this had 'proven contentious', Banks responded with the standard economic arguments as to why competition is in the 'public interest'. Former public monopolies had been inefficient. Opening them up to competition had created a productivity

dividend leading to rising average incomes. Sure there might be 'winners and losers' but on the whole there had been no bias against workers or regional areas. If there were losers they could be targeted with compensation. While confident of these positive economic and social outcomes in terms of the 'public interest', Banks did allow that the NCP public interest test which gave equal weight to 'social welfare and equity considerations' alongside efficiency, was difficult to operationalise. In practice, he said, these are heavily normative considerations which 'cannot be easily quantified or valued'. Ultimately they were matters for 'political accountability'. In summary, for Banks, it appeared that while there would always be normative issues involving social equity requiring compensation these would be marginal to the new and overwhelming 'presumption in favour of competition'.

When we turn to the political scientists we enter a conceptual world apart. Michael Hess and David Adams (1999), for example, also thought the NCP presumption in favour of competition a radical step – but in the wrong direction. While the public benefit test acknowledged the importance of social as well as economic aspects, in practice the Productivity Commission was comfortable with the economic but could not handle the social. Matters such as 'social welfare' and 'equity' had been 'pushed to the background of decision-making', a 'wish list to be appended to policy documents'. The root of the problem, according to Hess and Adams, was the attempt to substitute the 'economic reasoning of market competition' for what is the 'essentially political phenomenon of public interest'. This 'conflation' of the economic and the political was out of step with 'centuries of reasoning about public interest'.

They note three general features of past understandings of the public interest. The first arose from the need to address market failures and the second, 'the social impacts of disadvantage'. The third related to the role of the bureaucracy in liberal democracies whereby the public interest was identified with the public services. Here Hess and Adams refer to the post-war development of the welfare state as a time when 'the public interest was seen to legitimately lie with politicians and bureaucrats who promised and provided "more"'. The crisis of the welfare estate in the 1980s produced a new framework for the public interest expressed in the concept of citizenship and social justice, although these were increasingly contested by the new emphases on economic efficiency.

They conclude that to develop a new and effective public interest test the political dimension has to be disentangled from the NCP framing in the narrow economic terms of contestable markets. Here they emphasised the process as much as the policy content, calling for 'an iterative and learning policy process in which policymaking networks become the functional organisational form'. It is through involving those whose lives are most affected in the decision-making that the social dimension of the public interest can be realised.

The public interest: policy and practice before Hilmer

These two views on NCP and the public interest capture what was a truly radical shift in Australian thinking on how to govern in the public interest. They tell us there should be no surprise in Carey and Corr's (2016) finding on the Productivity Commission's conclusions on child care embedded in a radical liberal ideology of welfare. A combination of the 1980s–90s economic model and public choice theory had emboldened a view of the free market mechanism as the best governance mechanism for optimising 'community-wide' welfare, with public intervention relegated to a residual, compensatory role after competition had done its work. With the eclipse of that model it becomes important to re-engage with what had been learned about the public interest in the centuries which had preceded. Here I outline some broad starting points for a constructive re-engagement with this history to inform our Social Service Futures Dialogue.

Let us assume with Hess and Adam that two of the lessons of history had been the role of the public sector in addressing market failures and inequality. Thus Australia's 'Fair Go' in colonial times created what was then the largest public sector in the world in order to accelerate the pace of development and make the right to work available to all. Contra Hilmer, markets and state were seen as having interdependent and complementary roles. This mixed economy was refashioned in the Keynesian period again with the state's macro-economic management roles understood as complementing markets in order to ensure full employment. In a pre-Hilmer Australia then we could safely conclude that in policy terms the social dimension of the 'public interest' was understood chiefly in terms of the 'right to work' and later, full employment and the institutions designed to achieve it. It was the policy expression of middle ground social norms forged

from liberalism and socialism.

In terms of social policy, the public interest twin to this tradition of economic management in the lead up to Hilmer was the welfare state. Its development also reaches back into the nineteenth century with initiatives such as public education and old age and invalid pensions. However, the role of the welfare state became more important in the post-war period when the pursuit of equality switched emphasis from the now taken-for-granted foundation of full employment to the more 'social' agenda of avoiding 'public squalor' in the midst of 'private affluence'. The public interest question for social policy became how big could the new welfare state become before it was a problem for economic efficiency? Comparative evidence showed that the scope for social choice was wide indeed with no simple 'economic' number determining where the limit should lie.

It was in this context that the 'citizenship and social justice' chapter in the post-war history of the public interest was written. Compared to other countries Australia was a late developer in this regard. Much of our thinking about the public interest in relation to welfare had been conditioned by the tradition of 'wage earners' welfare dating back to the Harvester judgement. By the 1970s the inadequacy of leaving social development to the private decisions of individuals in the market had become demonstrable leading to a 'dash' for a social democratic style welfare state, notably in the Whitlam years.

This period brought a deep change in the social norms informing the way Australians thought about what was in the public interest. This was typically expressed in terms of the shift from a charity to a rights-based model. In the former, poverty was thought to be a problem of individual failure or misfortune, with charity the appropriate response. In the latter poverty was thought to be more the failure of social systems with a reorganisation of society the necessary response. This reorganisation required people to articulate an understanding of the social rights of citizenship and the concept of social justice and in ways which could be operationalised by policy makers and service providers. The rich theoretical output of the period is associated with thinkers like TH Marshall and John Rawls and was notable for its diversification to cover issues of gender, race and ethnicity.

In terms of policy making, the social justice agenda was developed explicitly to combat social inequality

between groups and, over two decades, give rise to a major body of legislation relating to racial, sex and disabilities discrimination and policies covering access and equity, multiculturalism, social justice and cultural diversity. Government departments had to report against criteria relating to access, equity, equality and participation. Non-government organisations took a rapidly expanding role within the new social policy agenda. The public service may have been responsible for the macro social planning but the micro politics of the new social governance rested very much with the NGOs and their ability to engage citizens and their communities in the pursuit of a society of equals. NGOs became key institutional sites for the exercise of the social rights of citizenship in a socially just society.

The Australian pursuit of the public interest in social policy during this period had one other very distinctive feature, namely the historical legacy of the Harvester Judgement (1907). The relatively later push for a universal welfare state is explained in part by the way in which the living or family wage had substituted for welfare. The brake on welfare state development arising from the international economic crises of the late 1970s meant that the Australian system became something of a hybrid model with the award wage system remaining central alongside a mix of more or less universal social services (e.g. education) and others simply residual social services (e.g. unemployment benefits). The residualisation of the award wage system in 1993 created pressures for an expansion and modernisation of the social policy system with new social norms to address the new social risks of late twentieth century.

From this short overview it is obvious that the public interest test – as Hess and Adams emphasised – simply cannot be conceived in terms of the few dot points attached as an afterthought to the presumption in favour of competition and with no institutional mechanism for its adjudication. In the case of social policy it is woven through a range of key community, social and economic institutions usually reflecting historic policy settlements of one kind or another. The sheer diversity of these institutions and the social aspirations they expressed highlights just how radical (not to say misguided) was the ideological reach of the 1980s–90s policy model aimed at conforming all government activity to the logic of the market. It is also obvious that there never was a time when

the market economy was not valued. Indeed our major social policies have been concerned either with making up for market failure (employment) or doing collectively what markets were not achieving unaided (development).

While many social and community services have an economic function they also have a social function which had led them to being organised in quite different ways to the market economy itself. Individuals participate in markets but they are also members of families, communities and the wider society which are organised differently to the market economy. Thus the pre-welfare state role of the voluntary sector in developing strong communities was organised around logics of mutuality, reciprocity, altruism and social justice in ways quite distinct from and sometimes in opposition to the competitive individualism of the market. The welfare state itself (and the mixed economy) were built on the principles of citizenship and social justice aimed at ensuring a society-wide solidarity. Within the social justice framework, state and community sectors came together as the mechanism for citizens to have a voice over the decisions affecting their lives. In the post-war period these roles of the welfare state and community sector were understood to be necessary to balance the economic inequality generated by markets. As Marshall himself wrote, the tensions between state, market and society were something of a 'stew of paradox' but one to live with if it meant having the best of each world. Doing away with this paradox in favour of the logic of the market was the truly radical departure of the competition agenda.

Towards the inclusive governance agenda

The terms of reference for the latest Productivity Commission inquiry into Human Services indicate that little has changed in the Treasury–PC paradigm in the two decades from Hilmer to Harper. In that inimitable Deloittean phase, social services two decades after Hilmer are still seen as poised in a state of 'pre-marketisation'. The world still looks as it did when the 1980s–90s model reigned supreme. But as John Howard might say, 'Hello?' isn't there a need for a little reality check here? Since Hilmer, we have had a global financial crisis. And we have had that global policy shift to inclusive growth which is not just a matter of ethical taste but also of economic efficiency.

Market failure and inequality have cut the 1980s–90s model down to size, effectively

repealing that Hilmer writ which established the Productivity Commission as arbiter of good governance in the social services and community sector. From the outset, the practice from the mid-1990s of referring social governance matters to what is basically an industry commission needs to be recognised as a historical anomaly. Certainly social services are important for the economy but their contribution to society goes way beyond what economists might measure and they have to be governed appropriately. Moreover, as we have seen in the case of childcare, what the Productivity Commission measures can too easily disguise a set of small government ideological preferences. Social policy and social governance are disciplined fields of knowledge every bit as rigorous as economics. The formulation of a new inclusive governance agenda must be led first and foremost by people with policy and practice expertise in the social services and community sector (including of course the appropriate social economics).

Social governance needs a new beginning in Australia. As we have seen, 'centuries' of experience have shown the importance of the distinctive roles of the public services and community sector (alongside a market economy) in both articulating and governing in the public interest. And as Hess and Adams showed these are political roles going to the heart of our democracy and cannot be conflated with preference making in a market economy. A first priority for the new agenda must be an articulation of the distinctive roles of state, market and community sector in the achievement of an inclusive society. Until this is done it will be hard to avoid the kind of colonisation of one sector by another we have been witnessing over the last two decades. This must be fully informed by historical and comparative social policy as well as public policy and not appear as the half-baked social policy asides in the Treasury–PC discourse to which we have become accustomed.

A second priority for such a commission would be to establish a process for articulating the new fairness and equality policy imperative. As the agenda for the UN Development Report (2016) shows, once values like 'inclusive growth' or 'shared prosperity' are accepted they actually have to be articulated into robust theory which can be operationalised into policy. Here the post-war welfare state agenda of citizenship and social justice shows us the kind of policy research challenge we face. But our history also reminds us that developing such a policy

imperative is not a one-off theoretical exercise but an ongoing, iterative process across a range of economic and social institutions and the wider society. A profoundly political process this will revalorise the roles of citizens and communities as co-producers of the public interest.

This might seem a large task but politically speaking Australia can no longer afford to have social policy as the 'poor cousin'. Just think of the scale of government effort over the last two decades to refashion the public and community sectors as markets and ask what might be achieved if the same effort is applied to those sectors promoting a society of equals.

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Is the Productivity Commission Still Fit-For-Purpose?

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The Productivity Commission is an interesting body that warrants a great deal more scrutiny and attention that it has historically been given. Nationally, its place as a premier advisory body to government that is non-democratically elected should invite regular scrutiny. Internationally, it is worthy of study because of its unprecedented nature. With the exception of New Zealand's newly established Productivity Commission, no other country has a body in the tradition of the Australian Productivity Commission (Productivity Commission 2003). The Productivity Commission was established in the late 1990s, born out of the Industry Commission within the Bureau of Industry Economics and the Economic Planning Advisory Commission in the 1980s. Since this time its activities have expanded greatly. The Productivity Commission is now routinely asked to conduct research, and provide policy recommendations, on matters related to social policy – both on specific policy areas, and how social services are structured. This means an economic advisory body is now providing advice to government on the scope, scale and structure of our welfare state.

While other contributors to the Social Service Futures Dialogue have focused closely on specific policy areas, I will examine whether the Productivity Commission is 'fit-for-purpose' as our chief advisory body to government on matters of social policy.

The norms and values of the Productivity Commission

In a recent article published by my colleague and I in the *Australian Journal of Public Administration* (Carey and Core 2016), we demonstrated that the economic roots of the Productivity Commission continue to have a strong bearing on the way it conceives social problems. We know from studies in areas ranging from political science to organisational psychology, that organisations have their own memories, cultures and ways of working (Hatch 1997; Powell and DiMaggio 1991; Schmidt 2010). To sum up this expansive body of work very bluntly, organisations tend to be good at

doing what they have done in the past. They are far less effective in taking on new tasks, particularly if these require fundamentally new approaches. This is sometimes referred to as 'path dependency': how organisations operate, the rules and norms that govern the behaviour of individuals who comprise them, is determined by what came before (Kay 2006). The shift from economic advisory body to social policy advisory body is not a simple transition.

Our recent research took advantage of an unusual occurrence in the history of the Productivity Commission – in 2011 and 2015 it was asked to undertake inquiries into childcare. Never before in its history had two inquiries been called on very similar issues by successive Labor and Liberal governments. While these inquiries were obviously not identical, it does provide a window into what the norms and values of the Productivity Commission are. Our research found that its strong economic rationalist position meant that recommendations to government were, at times, based more on its own cultural norms and values than on international evidence (Carey and Corr 2016).

In particular, our research showed that the Productivity Commission strongly favours targeted approaches to social support and welfare provision. This is not uncommon in Australia as we use more means testing in policy than any other OECD country (Whiteford 2010). However, we found that even where governments asked for recommendations on the basis of a universal service the Productivity Commission made recommendations to target service and supports.

What's wrong with targeting?

Australia has, and has always had, a strongly targeted welfare system. Rather than the comprehensive social democratic welfare states of the Nordic countries Australia is what's referred to as a liberal welfare state (Esping-Anderson 1990). Liberal welfare states take a residualised approach to welfare, providing support only to 'the poor'. Some have argued that Australia occupies a unique category of welfare state, with Castles (1985) famously referring to it as 'the wage earners welfare state' unpinned by egalitarian wage distribution and a progressive tax and transfer system.

Despite this, Australia lacks the strong universal services of social democratic welfare states. While we have made the odd flourish in the direction of universalism (such as Medicare), universal policies

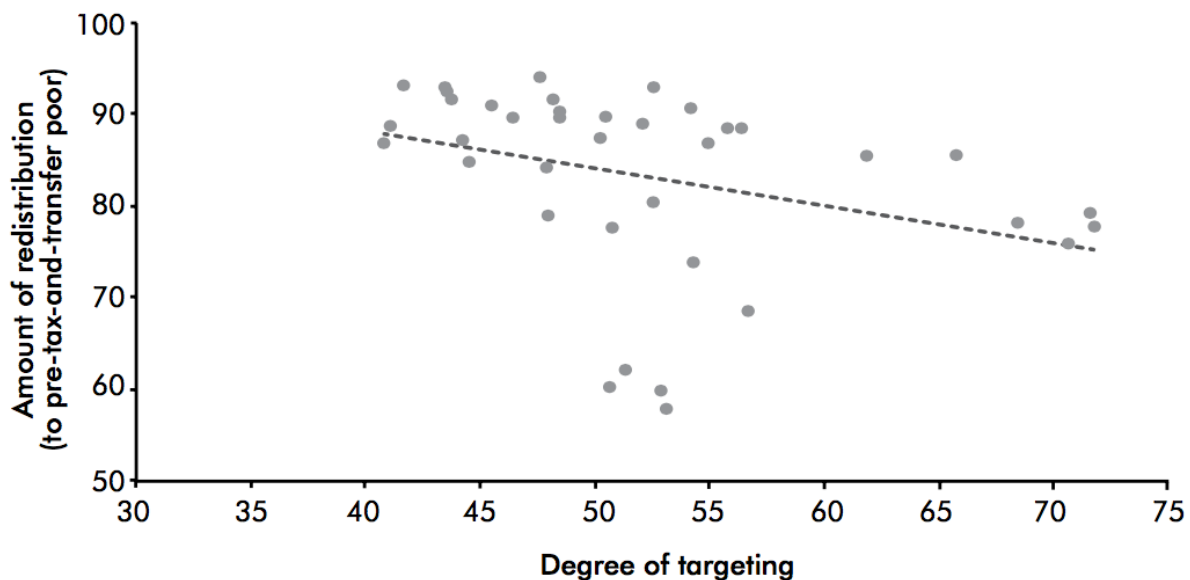


Figure 1. How redistribution varies with degree of targeting, for a group of OECD welfare states from the late 1970s to the late 1990s. Source: Harrop 2012, p. 9

that are implemented come under almost constant political attack (Esping-Anderson 1990; Mendes 2008). Again, Medicare is an apt example. Other policies that we claim are universal are in fact a form of 'false universalism' (Carey and Crammond 2014): the NDIS for example, has funding streams and eligibility criteria, while the Paid Parental Leave Scheme is only available under particular conditions. In the truest sense, these are not universal supports.

Targeting is carried out on the basis that it is a fair way to distribute finite resources and will address inequity by helping those who need it most: '*Means testing is an important tool for targeting government payments to those with most need and for managing the sustainability of the transfer system*' (Treasury 2016). But how does this position stack up against the evidence?

In reality, targeting, and in particular means testing, are expensive and often counterproductive. This is because:

- Countries who use more means testing have more social inequalities than countries that use less or do not means test at all (Harrop 2012)
- Universal policies often have a greater uptake amongst those experiencing the greatest need (Harrop 2012)
- The administrative costs associated with means testing is often more expensive than not means testing and offering a universal service (Mitchel et al. 2000; Whitehouse 1996).

Figure 1 shows very strikingly that the more we target the 'poor', the less resources actually reach them.

While counterintuitive, the best international evidence clearly shows that the economic rationalist belief that targeting saves money and helps those in need the most does not ring true. More importantly, we are finding that it is a harmful way to structure social policy.

Targeting, markets and the role of The Productivity Commission

The issue of targeting and questions over the use of markets in social services are in fact closely linked. When policies and programs are targeted markets are considered a more appropriate vehicle for delivery. It is, after all, very difficult to 'outsource' a service or support for the entire population. But if services and supports are only given to particular 'eligible' groups, they can be more easily packaged for outsourcing within a market context.

Pragmatically speaking, we always have had, and likely always will have, a mixed economy of welfare (Powell 2007; Brown and Keast 2005). Welfare and social supports have always been offered by a combination of government, community and private providers using a different of levels of market-type approaches. The question then become one of emphasis, and who makes decisions about where this emphasis is placed.

The Productivity Commission has gained much of its status and position through claims of objectivity. It is protected by its own Act, which means it is

not subject to the will of particular governments or other actors and can provide independent advice (Productivity Commission 2003). But independent is not the same as value free. This is especially important to realise when dealing with issues that are ideologically contested, such as the provision of social services. Our research on the Productivity Commission shows that it has very strong values – what can be broadly considered as its ‘economic rationalist’ position means that it favours policy targeting and, in turn, means it is more likely to emphasise market solutions.

Markets do have a place in social service provision. The importance of empowerment, choice and control and the ability of individuals to exercise these through a market model should not be underestimated (Needham 2013). But we do need to exercise caution in the use of markets. Not all services can or should be delivered through these mechanisms.

More importantly, at the moment we do not know how to ‘get markets right’. Australia has a poor track record when it comes to using market models. The ill-fated Job Network provides many valuable lessons about the ways in which government-created markets can become rigid and compliance driven, leading to poor quality services and poor outcomes for individuals (Productivity Commission 2002).

Returning to the question I posed at the outset of this piece, we ought to deeply consider whether the Productivity Commission is fit-for-purpose. Can it deliver social policy advice that guarantees the best outcomes for individuals and society? Sadly, the answer appears thus far appears to be ‘no’. An economic body, rooted in economic rationalist values, is not well placed to offer government robust advice in this area. Moreover, our research has shown that the Commission’s values trump evidence when it comes to social service provision – undermining its legitimacy as an independent advisory body.

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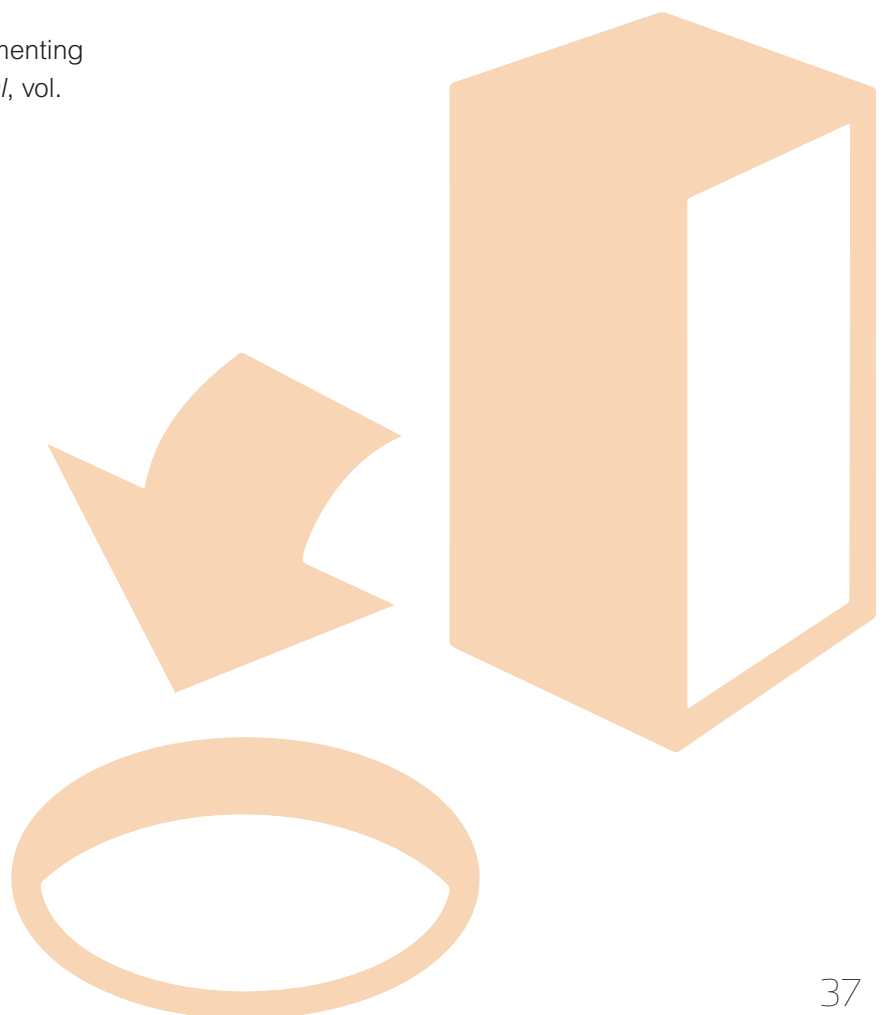
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Case Studies: The Productivity Commission Review in Context

The following section is a collection of case studies and investigations into the marketisation of social services in specific contexts. These range from regional areas, the vocational education and training (VET) sector, the National Disability Insurance Scheme (NDIS), the employment sector and healthcare needs.





Competition Reform of Human Services from a Regional Perspective

David Tennant is the CEO of Family Care



Competition Reform of Human Services from a Regional Perspective

David Tennant is the CEO of Family Care

The Competition Policy Review, chaired by Professor Ian Harper recommended that each Australian Government should adopt choice and competition principles in the domain of human services (Harper et al. 2015, p. 254). In its response the Australian Government agreed and committed to a Productivity Commission review into human services, focusing on the guiding principles of choice, competition and contestability (The Treasury 2015, p. 4).

There will most likely be an election before any review commences – but in a real sense, significant changes are already occurring. At least two of the big ‘C’ guiding principles are having an impact on how community not-for-profit and welfare providers are behaving. Competition and contestability are not benign motivators. In fact they push against the traditional starting positions of ‘for good’, rather than ‘for profit’ services, where sharing and collaboration are counted amongst key performance indicators.

There have been calls from sector leaders for agencies to merge or close. [1] Deciding that approach is helpful without asking what the consequences might be, is a bit odd. It has made some people angry and many fearful, not only because there might be job losses but because the provision of not-for-profit and welfare services usually involves a commitment to address vulnerability and disadvantage.

In regional areas, community service providers take their connection to community seriously. That is not to suggest indifference on the part of metropolitan not-for-profits but in a rural or regional context the implications of removing local options, delivered by local people are different. Geography does matter. Just ask a single mum with a sick baby living in a caravan park in a small regional town with no reliable public transport.

Which brings us to the other and arguably most important ‘C’ choice. After twenty years in the community sector, I have not met many people who enjoy asking for help to keep their families housed, clothed, fed and well. That is not to say there are not very powerful and positive interactions that can

follow – but it is light years away from a shopping trip to the mall.

Many of the people community providers work with do not have choices to exercise. Where choices exist, often the ‘market’ options available specifically target and sometimes aim to exploit the vulnerability or disadvantage that is driving need. It is entirely unclear what additional competitive reform will deliver in this space.

There are some things we know already. Business will not automatically view an opening of human services as an attractive growth strategy. Why not? For the same reasons markets do not always provide safe, fair choices currently. It is hardly a compelling business case to say you are targeting low income people, who have low net wealth, in places and circumstances where they are hard to reach and retain. If that is not off-putting enough, success may include its own disincentive. Being really good might mean your target demographic no longer needs assistance. With not-for-profit providers under increasing pressure to think and behave more like commercial operations, they may be less rather than more likely to respond to their clients.

Government is keen to promote choice as a priority but promotion and actions are not always the same. The leading edge of welfare reform in Australia is taking choice away. Programs of this ilk include the requirement for parents to become job ready whilst still caring for very young children, or risk benefit suspensions; compulsory income management regardless of personal financial habits or needs [2]; and the compulsory cashless welfare card trials in targeted communities. If choice is such a powerful tool in delivering benefits, why is it so absent in tackling the most difficult problems?

People in regional communities are acutely aware of the push to marketise human services. Not many I have spoken to seem to think it is a good idea. Many, particularly people who work for, volunteer with, or donate to community based not-for-profits are deeply concerned about the potential to do irreparable damage to concepts that the Harper Competition Review acknowledged but did not spend a lot of time on. Those concepts go by a number of names – social capital, goodwill, the fabric of community, or the glue that binds people together. These concepts are important all of the time in communities lacking the scale of population, infrastructure and income of major cities. When

additional challenges occur, for example natural disasters, extreme weather conditions, crop failure, disease outbreaks – and so the long list goes on – it is the human connections that are not motivated by market share or profit margins that kick in. They can be and often are vital to safety and survival.

Perhaps it is time to add a third ‘C’ to the guiding principles for any review. Care.

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Endnotes

[1] A series of articles appeared in the online news service of Pro Bono Australia in early November 2015. The ‘merge or close’ quote was attributed to David Crosbie, CEO of the Community Council for Australia in an article by Xavier Smerdon on 11 November 2015 which can be accessed at: <http://probonoaustralia.com.au/news/2015/11/merge-or-shut-down-australian-charities-told/>

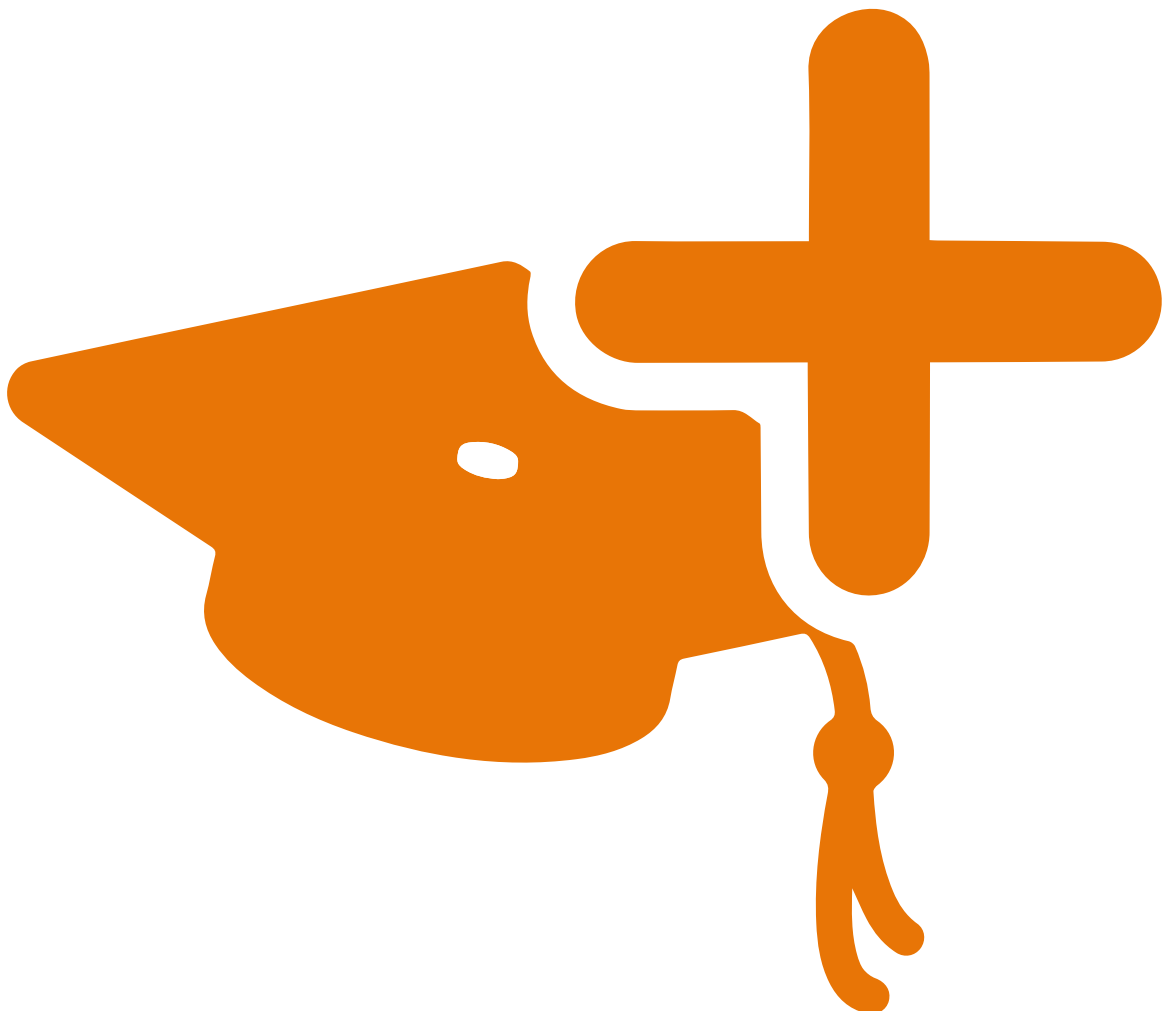
[2] Shepparton was selected as one of ten communities to trial a series of welfare reform measures in May 2011, including a trial of place-based Inc Management which was applied in five of the ten sites. The latest welfare reform measure is ParentsNext which was due to commence on 4 April 2016.





Marketisation and Regulation of Vocational Education and Training

Professor Valerie Braithwaite of RegNet School of Regulation and Global Governance,
Australian National University



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Summary

Vocational education and training (VET) once held a proud place in Australia's education system, providing opportunity along a less academically and more practically oriented path. While interest in and need for VET has not lost currency, the sector has been drawn into a downward reputational spiral. Reforms have been introduced in abundance to reverse the problems of VET, but instead have contributed to loss of status and scandal after scandal. At the heart of the debilitation of the VET sector has been lack of respect for and support for teaching professionalism in the reform process.

Industry and government domination over what was to be taught in VET was intended to create opportunity through growth and jobs, but domination is bound to be doomed when the guardians of delivery and quality are not engaged professionally in the process. In these circumstances, a market methodology is likely to attract markets in 'bads' that repeatedly dislodge markets in 'goods'. Regulation also faces a difficult challenge when it is overlayed on a market where there is deep and persistent internal conflict over the values of the sector. Delivery of quality education and training is much touted, but a schism sits below this mantra. The sector divides in its commitment to professional educators and to the aspiration of being a quality education provider in a highly stratified tertiary sector.

VET in Australia is highly regulated. At the same time, government has been keen to increase competition through encouraging private providers to enter the market. To open pathways into the VET sector, government offered vocational education students a loan scheme (VET FEE-HELP) on a par with that offered to students in universities (HELP) with repayment deferred until their income rose above a threshold level. The scheme was expected to create a more equal playing field and a more integrated tertiary education sector. Registered training organisations (RTOs) approved

by government received the benefits that previously had only been offered to universities: they were able to enrol students with a VET FEE-HELP loan. An expanded and vibrant market in vocational education training was expected to emerge with improved standards of training and easier pathways for students moving between the vocational and university sectors.

Expected benefits, however, have been overshadowed by unanticipated failures (Senate Education and Employment Committee 2015). The reputation of the VET sector has been marred by high incompleteness rates, high student debt, bankruptcy among colleges, and predatory behaviour by RTOs to enrol students and obtain government funding.[1] To outward appearances the intent of a significant proportion of providers has been profit maximisation with little regard for delivering educational objectives. Why has this occurred? Answers can be found by scrutinising both the market and the regulatory system in VET, as both have systemic failings.

What about the market?

Australia's goal is to have high quality skills training that will meet student needs, be valued by employers, and contribute skilled human capital to an economy in transition. To achieve this goal through a market mechanism, the quality of education (acquired skills and job prospects) delivered by various RTOs must be known, credible, and relevant to the choices of potential students and their families (Graham 2002; Fung et al. 2007). Information about quality of training and job prospects will not be used by students, families and employers if there is no discernible variation in quality; if the data available have the 'ring of spin' and are not considered credible; and if the quality of education is less important to those making educational choices than 'liveability' factors, such as cost of living, housing, transport, employment and family responsibilities. In sum, if potential students do not set much store by information on educational quality that is available – for whatever reason, providers will not be receiving the message from the market that quality matters.[2] Providers are therefore denied one of the most tangible rewards for providing quality education – demand for valuable knowledge and skills that translates into increased student enrolments, committed students and reputational capital with employers, other educational providers, government and the

community. These rewards grow businesses.

While RTOs may not always see financial reward in competing on quality of education, they compete on other criteria that can improve their sustainability or profitability (Manning 2016; Chapter 3 Senate Inquiry, Parliament of Australia, 2015). Auxiliary markets have emerged in credentialism (Gatenby 2015) and getting a certificate for a qualification as quickly and cheaply as possible (see Australian Skills Quality Authority (ASQA) strategic reviews for systemic nature of this problem[3]), or in college social life (see higher education documentary film, 'Ivory Tower'), or in eligibility for a residency visa (see Davies 2010), or in gifting an iPad or other inducements to students on enrolment (see Elthan 2015; Manning 2016; Senate Education and Employment Committee 2015), or in luring potential students with other support services such as English language training (Senate Education and Employment Committee 2015).

Auxiliary markets in themselves are not necessarily a problem. They only become a problem when they displace a market in quality education. For instance, students who are not equipped to undertake a course and have little chance of completion are lured into enrolment with the offer of an iPad. Their enrolment attracts government funding that benefits the provider and they are led to believe that they will never have to repay their fees. They are left with debt and no new skills and Australian taxpayers are defrauded in the process (Senate Education and Employment Committee 2015).

The difficulty in creating a meaningful market in quality education in the VET sector should not be underestimated, nor should it be underestimated in the university sector. For-profit higher education has been referred to as the new subprime market (Kroll 2010) with students accumulating huge debts for qualifications that are without substance and are discounted in the jobs market. Australian critics of for-profit tertiary education have voiced their concerns for a long time (Elthan 2015; Quiggin 2004). But for the Australian VET sector there are some additional problems.

In a reputational sense, VET (including the public TAFE system) loses out in 'status' rankings to more academically oriented institutions such as universities. And universities themselves have their own status system that bestows on graduates of elite universities lifelong advantage and privilege. John Quiggin in his submission to the Senate Inquiry

into the Higher Education and Research Reform Amendment Bill 2014 (Quiggin 2014a) observed the strata separation of Australia's hierarchical higher education system. Drawing on work by Marginson and Considine (2000), Quiggin observes that the hierarchy has been stable over decades: at the top of the ladder are Australia's sandstone and red brick universities (G08 and University of Tasmania), next down are the Unitechs (formerly Institutes of Technology), then the gumtrees (post-war universities founded between 1960 and 1975), and then the new universities (formerly Colleges of Advanced Education). Quiggin points out that the relative standings are buttressed by entrenched and long-term sources of relative advantage evident in the institution's history of excellence, successful and/or famous alumni, high quality centrally-located campuses and the like.

Competition may occur on a modest scale within the four status bands, but it is unrealistic to expect competition across bands. Historical reputations outweigh real-time data on performance in delivering quality education. For a period of time, the Australian National University had a marketing billboard at the entrance to Canberra Airport with the message 'Prestige counts'. While disturbing to anyone who believed the market should respond to how well an institution was developing and transferring knowledge to students and society in real time, the message on the billboard reflected a deep truth about education. Where you graduate matters to your future career, regardless of how much you learn in the process or what kind of grades you achieve.

This means that scandals may come and go for educational providers but the status hierarchy holds firm over the long term and resists disruption. The same can be said for prestigious private schools. It is unlikely that enrolments will decline from the most prestigious schools, even in the light of the reputational damage inflicted on several of them in the wake of the Royal Commission into Institutional Responses to Child Sexual Abuse. The reason for this is social. The status of our educational providers becomes a benchmark for assessing the worth of individuals – how bright they are, how well networked they are, how likely they are to be successful and influential. As individuals are competing for social approbation, educational institutions acquire reputations as standards of worth. They take on the character of status bastions. Their role is to define individual identity,

not to have their corporate identity re-defined by what individuals think of the quality of education they offer. Moreover, once individuals claim alumni status, they have a vested interest in preserving the institutions that 'made them'.

Status culture therefore places significant constraints on how a market in education works. Where there is a status culture, there are elites, middle performers and the lower ranks. With this in mind, consider the place of vocational education in the tertiary education status system: VET colleges are at the bottom of the pecking order, below the universities. If John Quiggin is right about the stable nature of the educational status system, providers of VET cannot realistically aspire to improving their position in the pecking order. Some try to move up the ladder through working for accreditation as a provider of university degrees as well as vocational training (Dow and Braithwaite 2013). Making that leap is a strong motivator for improving quality and complying with the higher education standards as well as VET standards. But it is not easy for an RTO to move up to university level. Many VET providers do not have the capacity to make this leap into the higher education space. Their main ambition will therefore likely be to maintain status – not losing their position within their band of 'look-alike' institutions.

This explains another observation that John Quiggin (2013, 2014b) makes and that others have made (Beddie 2010). Competition in the tertiary sector has not brought greater diversity in offerings for students, but rather greater homogeneity. If an educational provider is aspirational, wishing to move up a status band, behaving like others in the aspirational band becomes important. If the most realistic aspiration is to maintain one's position within a status band, it becomes important to do as others in one's band are doing. If this involves cutting corners to maintain a profit margin, then this will become the norm for organisations in this band. Within a well-differentiated class system, there is survival value in taking one's cue from similar others.

What about regulation?

The above description of the higher education system in Australia reveals a cultural system of social regulation. Market ideology has proven unsuccessful in dislodging it. Similarly, the formal regulatory system, imposed on top of the cultural regulatory system, has proven disappointing in

lifting the quality of education in the vocational educational and training sector (Senate Education and Employment Committee 2015).

For regulation to be maximally effective it needs to provide both a safety net at the bottom and an impetus to lift standards at the top, inching standards gradually upwards across the sector. For this to happen, regulatory standards must be central to the activities and aspirations of RTOs, and to the evaluations of students and business. Regulations can be seen as a nuisance and sidelined as unnecessary red tape by those being regulated (Dow and Braithwaite 2013). Compliance audits can become reporting rituals (Power 1997) with a compliance officer assigned to go through the checklist for an organisation before an inspection or reporting period with the job of getting the documentation right to keep the organisation out of trouble. But the purpose of regulation is not to report well, rather to perform the central task of providing education well. For this reason regulation needs to be mainstreamed into how the business operates. If it is to do its job of lifting standards in a sustainable cost-effective way for the organisation, regulation needs to be part of the educational and business culture.

A framework useful for evaluating the success of a regulatory system is a version of a social change program developed by Clifford Shearing and his colleagues (see, for example, Peterson et al. 2015) in the context of environmental sustainability, RAMP: R represents the rewards accrued through compliance (or better still beyond compliance) with regulatory standards; A represents awareness of standards and rules; M represents motives for complying (related to benefits, justice or moral obligation related to enforcement below); and P represents having access to pathways for compliance. The RAMP model brings together a body of research on what is necessary for successful implementation of a new compliance agenda (see Bardach and Kagan 2002; Mitchell 1994; Braithwaite 2004).

The prime *reward* offered by the VET regulatory system is approval for an RTO to enrol FEE-HELP students. Having taxpayer dollars to provide some security for a for-profit educational business venture is a privilege. As the recent Senate Inquiry concludes, the reward has turned into a basic *expectation for operation*. To correct this problem, VET FEE-HELP needs to be restricted to programs offered by RTOs with certification as a high quality

provider based on assessments by government, industry and educators. If VET FEE-HELP is to flow into an RTO, the bar for admission to the scheme should be high, even if this means the market philosophy of an equal playing field is eroded. As we have seen above, there is no equal playing field in education and access to FEE-HELP has not created one. The first principle of RAMP – reward for not just basic compliance but for going beyond compliance to produce quality education provides regulatory authorities with the means to set a high bar and re-define quality in VET. Needless to say, failure to meet these high standards should result in the removal of the privilege of being able to enrol VET FEE-HELP students (Quiggin 2015).

The second RAMP principle of awareness of standards is arguably over-serviced in VET in Australia. The formal regulatory system is intrusive and prescriptive (Dow and Braithwaite 2013). Formal regulation extends from course organisation, stipulating what constitutes a qualification and what qualifications can be issued by an RTO, right through to classroom content of course units and how that material is assessed. Qualifications are defined by the Australian Qualifications Framework (AQF). Training packages developed through industry skills councils detail the skill sets required for various qualifications and propose appropriate assessment procedures to ensure students complete their units or course ‘work-ready’. Training packages are constantly updated and revised to meet new demands. If there is a problem with the VET sector being less aware than they should be of the regulatory standards set by government and industry, it is a problem not of lack of direction but of too much direction, with the result that RTOs turn away and ignore expectations or make mistakes from cognitive overload.

With so many requirements, rules and guidelines, it may be the case that many responsible for compliance in their organisation fail to see the wood for the trees. It is not unusual for an organisation’s compliance officer to become embroiled in some brouhaha about non-compliance around minor administrative details when serious breaches may be occurring elsewhere, for example, teachers are not turning up for classes. One might hope that transparency would serve as a regulatory tool here – someone in the RTO would notice teacher and student absence and would do something about it. Even here, however, what one might call a natural socially based regulatory system has been

supplanted largely by external audits of internal processes of documentation.

RTOs are not left to their own devices to establish priorities and run their businesses. They are regulated through a set of eight compliance standards covering training and assessment, obligations to learners and clients, and governance and administration. These standards ensure the organisation displays financial probity and business viability, offers quality tuition that meets learner and industry needs, provides transparent and accurate information about its services, and has processes to evaluate and regulate its performance. The ASQA regulates RTOs: RTOs must comply if they are to maintain their registration and offer educational services. ASQA also provides strategic reviews of industry segments where there is reason to believe that there are systemic problems in training quality which pose risks to public safety.[4]

On top of these regulatory standards are additional regulatory requirements imposed by licensing boards and professional bodies. In an era where regulation comes from many different sources (e.g. professional bodies, insurance companies and banks, as well as local, state and federal governments), the task of being across all regulatory demands can be daunting. This proliferation of regulation is known as regulatory capitalism (Levi-Faur 2005). Alignment of standards across the various bodies that regulate training in a particular sphere (e.g. optometry, electrical trades) should be encouraged to ease problems of cognitive overload for teachers and RTOs and streamline processes of registration for new graduates. This may help in the ‘awareness’ dimension, which has been observed as a problem for teachers (Harris 2015). Even so, greater awareness on its own is unlikely to solve the debacles that we have seen in VET in recent times.

There are reasons for thinking that the problems in regulation in VET congregate around motive and pathways in the RAMP model. There are many compelling reasons for suggesting that motivation to provide quality education is lacking in the VET sector. Loss of experienced teachers, reliance on a casual workforce, poor rates of pay and low morale are all likely contributors to a poor educational experience for students (Atkins and Tummons 2015; Harris 2015). Feelings of injustice, failure to see benefits in what one is required to do, constant change and cynicism around the whole regulatory effort to enforce standards is likely to de-motivate teachers and trainers and challenge

their commitment to quality teaching. A teaching curriculum, no matter how detailed and prescriptive, is not going to translate into a positive educational experience if teachers are poorly motivated. Revival of a professional culture is synonymous with motivating quality teaching in the VET sector. This raises a further regulatory question, above and beyond factors affecting teaching quality mentioned above: is there a risk of highly prescriptive training packages and course definitions crowding out (Frey 1997) the intrinsic motivation of teachers to innovate and experiment in the presentation of course materials? Is the regulation crowding out the professional culture that leads educators to accept responsibility for the quality of the programs taught and take pride in their course delivery?

For the dedicated teachers in the VET sector who do their best to maintain standards, any suggestion that teachers are to blame for the problems will be repugnant and rightly so. Committed teachers and providers are doing an extraordinary job keeping the sector going in spite of the problems the sector is experiencing (Seddon 2009). Recognition of their efforts, however, does not negate the proposal that there are not enough of them to steer the VET sector out of trouble. This raises the question of pathways. What is it that committed VET teachers can do practically to steer their colleges and their industry into the space they want it to occupy – good quality provision of education that makes a difference to the lives of students, their families and the nation? An effective regulatory system should identify these positive pathways and support them – and reward those taking them every bit as enthusiastically as they close down illegitimate pathways that undermine quality education (Braithwaite et al. 2007). The regulatory mission includes tending the pathway of recruitment and retention of teachers, trainers and managers who have high professional standards. After all, they become the internal benchmark for staff development in the organisation.

These pathways to lifting standards through actively supporting high performers are not discussed in the VET regulatory space. Part of the explanation is policy makers' blind faith in markets. But part is also likely to be regulatory constraints on course structures and delivery that discourages innovative teaching and experimental partnering with industry. Pathways for building professional culture and teaching innovation are obstructed by administrative compliance. Sharing new teaching

and practice methodologies with other providers is not in public view to signal an avenue for collective hope to restore respect to the sector. Peak bodies are locked into a 'few rotten apples' analysis of the sector and defending their patch, rather than openly leading reform of the sector. Terri Seddon (2009) provided a prescient warning for the vocational education sector that still needs to be addressed seven years after the Rudd Government Summit to find ways of improving Australia's productivity: 'Organizational control and authority in VET has denied occupational authority and expertise. The renewal of occupational expertise has been hollowed out by the failure to recognise the 'teaching' expertise required to build capacities for innovation' (p. 57).

The VET landscape seems to be trapped in a pattern of attack and defensiveness, with little trust between those who need to work together to repair the sector: governments (at different levels), teachers and trainers, business and industry, RTOs, unions, the regulators (ASQA as well as the consumer protection regulators), peak bodies, licensing bodies and professional associations. The continuing tussles for dominance between these groups is puzzling because their complaints about the sector are strikingly similar (see Senate Education and Employment Committee 2015). There clearly is less agreement on whose responsibility it is to fix the problem. It seems likely that each of these players resents deeply not having the resources to provide the pathways to quality education. They all want more resources or more power to do their jobs – presumably from government.

In a period where resource gains to one are likely to mean losses to another, and after a decade of control and domination has done little to bring educational quality to vocational education, a radical change of approach has been proposed. Experts in VET have suggested ideas for redesigning curricula and bringing more educational coherence to what has become a modularised skill delivery structure. Along with these reforms, regulatory reforms are necessary to establish a sensibility of best practice training and teaching in the sector. Three stages are begging attention: (a) legitimising ASQA; (b) building a public coalition around ASQA and best practice standards; and (c) using enforcement to sanction poor practice that puts students, government funding, industry and the public at risk.[5]

Underpinning reform is a change of culture from conflict and domination to collaboration and resource pooling. Possibilities for resource pooling are best identified and trialled within the VET sector. The 2015 Senate Inquiry recognised collaboration between ASQA and the Australian Competition and Consumer Commission (ACCC) in relation to the misleading advertising of RTOs and the consumer scams that many RTOs initiated to increase enrolments and access to government funding. But other coalitions are just as valuable when the performance of a whole sector is in such disrepute. The reputation of VET is such that RTOs appear to be dismissing government regulators as bodies that can be 'moved around' rather than listened to. Regulators have failed to build confidence and credibility that they are effective enforcers of standards.

The most important repair job reputationally and substantively is to recognise and praise quality education. In the current situation, regulators can only do so by co-opting professional teachers and trainers onto their panels for site visits and opening up regulatory debriefings to students and other stakeholders when plans of action are formulated for correcting compliance problems. There is no suggestion here that professional educators and trainers and other stakeholders (industry, consumer bodies) replace auditors and business advisers. Expanding the regulatory evaluation team and making their deliberations with RTOs more transparent is the concluding message of this paper. Including others strengthens the regulator's legitimacy as it plays a leadership role in lifting standards in the sector. This is not to challenge the regulator's independence as a decision-maker, which in governance speak needs to be safeguarded. The issue is the process by which decisions are made and how a shared sensibility for high standards is developed and shared, not just in terms of understanding, but also practice. High standards become embedded in the culture. Leadership for protection of this culture then occurs within organisations and outside. At the outset, however, leadership for change demands a resourced alliance of knowledgeable and respected vocational education devotees, in and outside government.

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[2] This is a common problem for market failure in health as well as education; see transparency literature, in particular Graham (2002) and Fung et al. (2007).

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[4] See Endnote 3

[5] Having a suite of sanctions that can be applied in real time to underline the importance of delivering quality education would help the sector regain confidence. Focused regulatory measures such as removing commissions for student recruitment, heavily sanctioning the first RTO discovered to have breached a targeted standard are not the subject of this paper but warrant systematic review though examining ASQA's enforcement process case by case (what was done when with what results, and then the next steps).



Is VET Really an Exemplar for the Marketisation Agenda?

David Freeman has worked on Australian skill reform resources and research since 1993 and is currently in his third term as a Councillor of the Australian Catholic Social Justice Council



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Introduction

Some have suggested that vocational education and training (VET) in Australia provides an exemplar for the further marketisation they urge within health, community and educational services. A reality check seems in order. Overall, VET's marketisation has not gone well.

Over and above vast consequences for individuals, there are three important reasons this is significant:

- the integrity of VET's content, delivery and accreditation goes to the heart of VET's efficacy
- the integrity of VET goes to the heart of the efficacy of multiple other systems that today rely upon VET as bridge, hinge, engine room and building block
- the false, possibly dishonest, conclusion that VET's marketisation has gone well may be adduced as if legitimisation and valid premise for marketisation of other fields across education, health and community services.

Because this is so consequential, getting the analysis right matters. Along the way, honesty will also honour students, teachers, employers, taxpayers and equity groups treated poorly by VET's marketisation.

VET has had several remarkable attainments of the past three decades – notably massification, articulation with other spheres, and multiple equity breakthroughs. Compromised by context, contingency, and topsy-turvy policy and funding ruptures, they are achievements nonetheless. But the positive attainments are scarcely due to VET marketisation. They are largely attributable to massive state and individual investment and persistence, dedicated, gifted individuals in every space and realm, intermittent state problem-solving, and even (the domestic equivalent of) statecraft,

and skill reform's original tripartite governance comprising government, business and trade unions. Over the three decades of skill reform since 1987, VET has been simultaneously triumphant and catastrophic. Marketisation has little to do with the former, and a good deal to do with the latter. That is bankable fact.

Rehearsing latest crises

I unpack momentarily several explanations of crisis. I first establish the field as one ripe with difficulties. Recent mainstream media reports provide a starting place. Serial scandals in the VET sector have triggered alarm bells for most Australians, particularly the last couple of years, which leave most with jaws agape. It is hard to know where to start, let alone where to focus one's alarm. Let's reel off some entrée choices. Federal police raids on VET private colleges have triggered court action by the ACCC against private RTOs for egregious breaches of consumer law. The ACCC is reportedly chasing over \$300 million to be repaid to students and taxpayers (VET FEE-HELP loans). One private provider recently agreed to repay \$50 million. Yes, \$50 million – that's not a typo. Careers Australia billed the taxpayer for \$230 million in 2015. Pursued by the ACCC, it recently agreed as settlement to forego \$160 million in federal funding. Federal Court Justice Nye Perram is currently hearing an ACCC case to recoup \$47 million of VET FEE-HELP funding from Unique International College. On 14 July, Justice Perram observed in court, 'It is a huge number for a small school on top of a shop in Granville'. Quite.

A blowout in VET FEE-HELP debt sees over \$4 billion written off as unrecoverable by the Feds, with the expectation this will exceed \$8 billion. The most common media descriptor alongside 'vocational education loans' is surely 'debacle'. Completion rates in VET courses have plunged to thirty per cent. There has been a rapid decline in the numbers commencing apprenticeships and traineeships. In the four years to 2016, apprentice numbers in Australia dropped from 516,000 to 295,000 – dropping fully twenty per cent in the twelve months to December 2015. One national or state-based parliamentary enquiry after another has documented general degradation of the TAFE system. Public dismay is evident. The Andrews' Labor Government's November 2014 Victorian election victory is partly attributed to promises to revive TAFE.

If VET rarely receives the public, media or political attention it warrants, there has been outstanding investigative journalism around these scandals. Substantial resource investment from multiple media outlets discovered numerous problems and terrible injustices suffered by individual students, taxpayers and sector and educator reputations. We have seen fine pieces in recent months from John Ross, Kylar Loussikian and Julie Hare at *The Australian*, Fran Kelly's AM program on ABC Radio National, Quentin Dempster and Eryk Bagshaw at the *Sydney Morning Herald*, Matthew Knott at *The Age*, Daniel Hurst and Paul Karp at *Guardian Australia*, Michael Atkin on ABC TV's 7.30 Report, and journalists and sector insiders at *Campus Review*. As scandals and media grist go, VET is an equal-opportunity provider. We can recall the Alcoholics Anonymous axiom that the first step is to admit there is a problem. We must be just about there.

Experts and insiders raise a complex list of additional concerns. These are noted in reports by or for federal and state governments, Parliamentary enquiries, the National Council for Vocational Education Research (NCVER), TAFE Directors Australia, the Council of Australian Governments (COAG), and all the rest.

This brief scan illustrates that it is simply untenable to list VET as marketisation exemplar. In just a couple of thousand words, why might this be so? Reasons include the interplay of positive and negative elements within two fields I shall unpack serially:

- factors not specific to VET but often present when a field or industry experiences marketisation
- idiosyncratic factors unique to VET and its marketisation.

A third category of problem can only be gestured toward here, (unforeseen) interactions between these first two categories.

Connecting VET to common tendencies during marketisation processes

We turn to difficulties in VET's marketisation that are non-specific to VET and often present within fields or industries experiencing marketisation.

The first is public fund diversion to private profit. Gavin Moodie observes (*The Australian*, 20 July 2016) that the British Government is moving toward

a rejection of for-profit educational markets and competency-based training, and predicts this will influence Australia. The British conclusion, reports Moodie, is that publicly funded VET should be delivered 'under not-for-profit arrangements', in part so surpluses can be reinvested. He contrasts this with the explosion of privately delivered, publicly funded Australian VET from twenty-nine per cent in 2011 to forty-six per cent in 2015 (69 per cent in Queensland).

Rapid provider proliferation poses profound challenges to regulators and quality assurance. That much of VET has been privatised in the past two decades away from TAFE and toward 5,000 private RTOs means, controversially, that these RTOs are the carriers of a significant proportion of VET public funding, policy, expectations and institutions. Proliferation's rate and extent is unimaginable for Australian universities, suggestive of a status and regard differential for VET students and content. An NCVER report (18 July 2016) found Australia's VET sector vast and unwieldy, with the smallest 2,000 providers creating problems for students and regulators alike. This report found that Australia has a VET college for every 3,000 adults, which is twelve times the provider ratio of universities.

Competition is supposed to bring down costs, provide flexibility and ensure quality. Yet privately provided VET costs to users have ballooned relative to those of TAFE, while quality is at best variable. VET FEE-HELP's vast wealth transfer to private providers (when an equity-related proposal), reads as a B-movie script, so improbable as liable to be dismissed on grounds of extravagant imagination. Did a Michael Moore doco about the American private health system ever have this much material to work with? It is as if there was a conscious desire to demonstrate more pungently than crude 1990s hard-Left globalisation critiques ever did, that globalisation can mean the privatisation of public assets and socialisation of private debt.

In fairness, while the jury is out on flexibility, it may have been delivered rather well by private VET providers. They have been aided by fortuna, because the era of digital transformations enables curriculum delivery and assessment that drives down teacher, assessor and other provider costs. Yet VET is vulnerable to digital education's downside. Without massive pedagogical investment, both VET and digital education can play into competency-based training's Achilles heel, perfunctoriness of skill conception and assessment

that potentially deskills skilling. Preventing this requires expert vigilance and intervention, with the presence of this capacity questionable in an era of small private provider proliferation.

Relative to TAFE, marketised VET has a diminished amenability to coordination. Section 4 that follows makes plain why coordination especially matters in the case of Australian VET. Let me establish in this section a sliver of the conceptual field, place limits around my advocacy of coordination, and pre-empt a Judith Sloan straw-man about wistfulness for the Eastern Bloc or even Sidney Webb. Anyone who supports statism snoozed through the twentieth century. It is not only totalitarianism; consider the self-evident thrust from the title (and disturbing case studies) of James Scott's (1998) *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*. But with a thrust as equally self-evident from its title, simultaneously consider Paul Du Gay's (2000) *In Praise of Bureaucracy: Weber – Organization – Ethics*. These two texts might be usefully deployed here as if counter-narratives, mutually interrogatory creative tension, neither simplistically pro- or anti-state. In this light, the questions become nuanced ones of proper spheres and domains. We might ask: what can only the state do? The question that follows is: of those things that state and non-state actors can both do, what functions, if any, is the state more likely to be able to do well? Du Gay offers something to the present discussion. Du Gay argues vigorously that the bureaucratic ethos that came into existence over a century ago remains integral to democratic objectives and good government. He finds that late twentieth century critiques of the British public service, along with resultant new policy sets, fail critical examination against these standards.

We need Weber's sense of proper domains and spheres. There can be skills and approaches that government and not-for-profits may share, but which markets may be less likely to acquire. Without failure by any party, there can be low compatibility of purpose between projects of commerce and those of health, education and welfare. And the latter can be internally differentiated. Small providers can add value in the not-for-profit human services sector. Being local and community-based can assist credibility, presence, history and relationships. But in education, a critical mass of teachers (therefore institutional size), some with longevity in that institution, builds thick pedagogical mastery and

culture, experience, mentoring, teaching resources and institutional memory. It makes more fit-for-purpose sense for a domestic violence shelter to be a tiny entity than a VET institution. Yet tiny VET providers can accumulate significant public largesse, as was noted by Justice Perram.

Marketisation presumes such staples of orthodox economics as rational, self-maximising homo economicus. But public goods that are then marketised can be subject to commercial advertising processes. Contemporary behavioural economics, the power of advertising, and corporate secondment of behavioural research challenge the assumption that this will avoid tears before bedtime. Slick advertising might sound as if from the same stable, but is no faithful servant of the rational operation of free markets and market choice. It is wicked to frame this observation as an assertion that most people are stupid or cannot exercise autonomy, as if the observation challenges agency or the logic of democracy. Rather, advertising has gamed the discipline of psychology. TAFE would not regard it as conscionable to utilise such tactics, nor divert scarce funds into relentless TV advertising in tandem with simultaneous sophisticated call centre and internet sales tactics. To add complexity, claims by rival private VET providers can be difficult for consumer adjudication, each provider seemingly reliant upon superlatives and stylistic makeovers of career training that fuse the American Dream with New Subjectivity. A consistent revelation in media exposés of private RTOs has seen entire cohorts ruthlessly targeted in that space between individuals and all Australians, such as disabled students and remote Aboriginal students on missions. Those with less historical access to education, and such educational concomitants as critical thinking and consumer rights savvy, had their efforts to expand their educational experience exploited by ... their educational institutions. Is there a single person in Australia who believes TAFE would do this?

A system with disparate parts needs a cohering centre. Providers are VET's centre. How can this centre comprise 5,000 newish pieces (RTOs)? The consequences are revealed more fully in the following section.

Once a public good such as education is privatised, we may no longer contemplate it as a space for citizenship rights and its potential breach. Now, a consumer rights model provides notional protections and redress. Yet there is a problem

of fit. Once VET becomes just one more market, the ACCC comes into play, pursuing miscreant consumer law breaches and commencing lengthy processes to extract refunds. Infinitely better than nothing, and with an abiding respect for ACCC investigators and prosecutors for forensic persistence and profound public service ... but education is different. It is not comparable to the right to obtain a refund for a basketball because a leak appears three weeks after purchase. Students may have invested several years of their life, a vast leap of faith that entrusts their future, self-actualisation, their own or family debt, and lifelong income into the provider's hands. A student may consequently drop out of a course, or be oblivious to their training's inadequacies until seeking or entering employment. The restitutive principles of consumer laws barely suffice. Lost years, possibilities, motivation and workplace merit-building are non-refundable. At the upper end of possibility, an ACCC-triggered student refund may reimburse fees. It would be mute on opportunity cost, future income foregone and expenses incurred. While all students ought to be encouraged toward due diligence, a trusteeship principle is tacitly assumed by students by virtue of regulators allowing a VET provider to trade. We now know that this expectation is presently unwarrantable.

The marketisation of publicly funded services has triggered new forms of governance. Mark Considine's (2001) *Enterprising States: The Public Management of Welfare-to-Work* observed state/market hybridity and boundary shifting. New forms of governmental power can be hybrids, neither bureaucracy nor market, neither private nor public. Full of inter-organisational collaborations, they represent new strategies of public organisation that in some respects exert greater 'transformative authority over other institutions of governance' than do private markets or government bureaucracies. This is true of skill reform for the past twenty-five years. Coordinated in large part by government, it is premised upon multiple forms of employer voluntarism, powers and cooperation. Considine observes that hybrid governance can lack the norms, checks and balances of either governments or markets. This is not the creation, or a failure of, private VET providers. But it is a murky space for skill reform's accountability, governance and ethics, rendered more opaque again by VET's marketisation.

Finally, marketisation's assumption that non-state providers are 'more nimble' has proven specious in VET's case.

Idiosyncratic factors unique to VET and its marketisation

We turn to idiosyncratic factors unique to VET that in turn complicate, and are complicated by, its marketisation. In short, there is a de facto national mega-system around skill formation and assessment. It is premised upon vast commensurability. Its VET and non-VET components are highly dependent upon VET system integrity. To reiterate, new forms of VET provision have recently proliferated, comprising 5,000 young private RTOs. And multiple levels of systemic vulnerability depend for their tenability upon the systemic integrity of other system elements that are themselves vulnerable.

Skill reform since 1987 has conjoined in new ways such key institutions as the nation-state, the vertical division of labour, secondary, vocational and university education, private and public sector employment, welfare, skilled immigration and temporary worker visas. VET is an export industry, in three senses: foreign students studying in Australia, VET IP sold overseas, and VET courses delivered overseas. VET has intermittent soft links with Australia's foreign aid, such as the seasonal worker program for Pacific region workers and advice to other jurisdictions on building a national VET system. Skill reform has triggered new interactions, and new coordination gaps, between federal and state governments, and between three and five ministries in each state and federal government. VET, a competency-based approach to skill, the Recognition of Prior Learning, the Australian Qualifications Framework (AQF) and multiple entry pathways are among the articulating spines. These elements interact, often in modular fashion, so substantively and consequentially as to cumulatively build a mega-system. Their shared imperative is skills for employability. The rationale from 1987 was that this policy set would simultaneously address key requirements of employers, labour and nation into the twenty-first century. The superordinate assumption is postfordism's precept that skill has become the single-greatest predictor of individual, enterprise and national viability.

Over the past two decades, component elements have evolved toward a system of vast complexity and inter-penetration. For example, VET in Schools

has significantly built Year 11 and 12 retention. Approved training programs can meet Centrelink/ Job Search 'Job Plan' requirements for four categories of benefit recipients. VET in Schools and sanctioned welfare-to-work training typically provide accredited training toward Certificates I, II or III. This in turn can provide entry into TAFE, an apprenticeship or traineeship. That can generate a trade qualification or, in many cases, university entry. For instance, Certificate IV can bridge into a diploma or sometimes university entry, with the option later of converting a full or partially completed diploma toward undergraduate degree advanced standing. And so on. Half a dozen key categories of social and economic institution are today highly dependent upon VET processes, systems, qualifications and articulation for their own key performance indicators. This dependence includes such metrics as enrolments, income generation, equity and completions/graduations. Academically elite schools and universities are perhaps the only institutions to remain relatively untouched.

This brief sketch flags half a dozen forms of complex articulation internal to VET, and another half-dozen between VET and other systems. With componentry so modular and articulated, any fragilities or vulnerabilities exponentially increase risk. As the aphorism has it, a chain is only as strong as its weakest link. Given everything that must be held together and commensurable, this would be extremely challenging if there was only a single national provider under government direction – call it 'super-TAFE'. Even just one provider would still be difficult for all the reasons above, and because warranting skill based, and multiple, commensurabilities is technically difficult. The competency approach helps in principle, but in practice may make it more elusive. In either case, it is likely impossible to hold together without a centre. Such a disparate undertaking cannot otherwise be held together; it is just too complex, too diffuse. This is not an ideological position that always defends government and criticises the private sector and competitive markets. Rather, it is an empirical judgement of the consequence of choices made three decades ago: competency, articulation, modularity, national portability and multiple entry points. It is a system that wants to build the total number of credentials, and award them whenever warranted, but to do so with rigour and consistency. This requires intense systemic discipline.

There are multiple large systems around VET whose inter-relationships – often via VET – forever feels its way toward an integrated mega-system without ever acknowledging it. All this is virtually unknown to the public – and at most only partially realised by politicians. Business Council of Australia CEO Jennifer Westacott's September 2014 speech suggested considerable comprehension when observing that 'VET has the most complicated and, arguably, the most important task in the context of economic transition' (www.theaustralian.com.au/higher-education/vocational-training-retooled/story-e6frgcjx-1227060510739).

All this makes ironing out skill reform's kinks, and its links with other sectors, quite the challenge. Marketisation's provider diffusion adds complexity again.

Rules of evidence, and the right to reach and proselytise conclusions

Finally, momentarily contemplate what barristers and judges term 'rules of evidence'. It is insufficient to ignore VET's travails extensively available for perusal in mainstream and specialist media, then blithely assert VET as model for further privatising health, education and community services. Based on what? To be sure,chutzpah and aggressive reinvention can take you a long way. They eventually hit natural limits. Even Donald Trump had to ramp it back a micro-notch when it mattered most, such as accepting the Republican nomination.

How is it possible to propose VET as marketisation exemplar?

Possibility 1: ignorance, fine in and of itself. But consider the hubris required to imagine yourself able to then form reliable conclusions – then vigorously prosecute them.

Possibility 2: the limits of their veracity are known to proponents. But they have a vested interest, or serve those interests, or advocate a consistent ideological line where, in any of these scenarios, factual accuracy is immaterial. A desired interpretation just might fly if repeated often enough, marinated in a projected self-confidence suggestive of authoritative knowledge that relies upon most not knowing otherwise. As Goebbels brilliantly realised, however counter-intuitively, a big lie has greater prospects than a small lie.

Possibility 3: honest difference of interpretation, is ordinarily plausible, even likely. Liberal democracy is predicated upon its ubiquity. As French sociologist Luc Boltanski observes, public debate is often premised upon multiple, competing moral vocabularies rather than a simplistic, self-serving binary of ethical and unethical actor. But it is not plausible here because it is a bridge too far.

The occasional judicial directive to juries seems apposite: VET as marketisation success is 'not a conclusion available upon the facts'. Unless you are a highly profitable RTO, in which case marketisation has gone rather well.

If you can assert as overall public policy assessment that VET's marketisation is sufficiently successful to be exemplary, and imagine this assertion can stand, there are few limits to what can be claimed. To channel Stephen Colbert satirising American politics, there cease to be boundaries around truthiness. Stalin reportedly observed 'he who controls the minutes, controls history'. VET as marketisation's poster child simply foists the wearisome, make-work duty upon those familiar with VET's past three decades and without vested interests in play, to out the outright fabrication.

As flagged at the outset, the (questionable but on balance probably) positive attainments of massification, cross-sectoral articulation and equity openings would have occurred whether delivered by public or private sector. This is because of policy decisions since 1987, vast investment and effort by the state and individuals, and incremental, originally unanticipated, linkages with non-VET sectors. They are not explicable by marketisation. If anything, the precise opposite can be contended: why relatively limited return on massive transfer of public funds?

As flagged in rudimentary form, the take-home message here for policy makers is both *Houston we've got a problem*, and that mission control is run out of a shed.

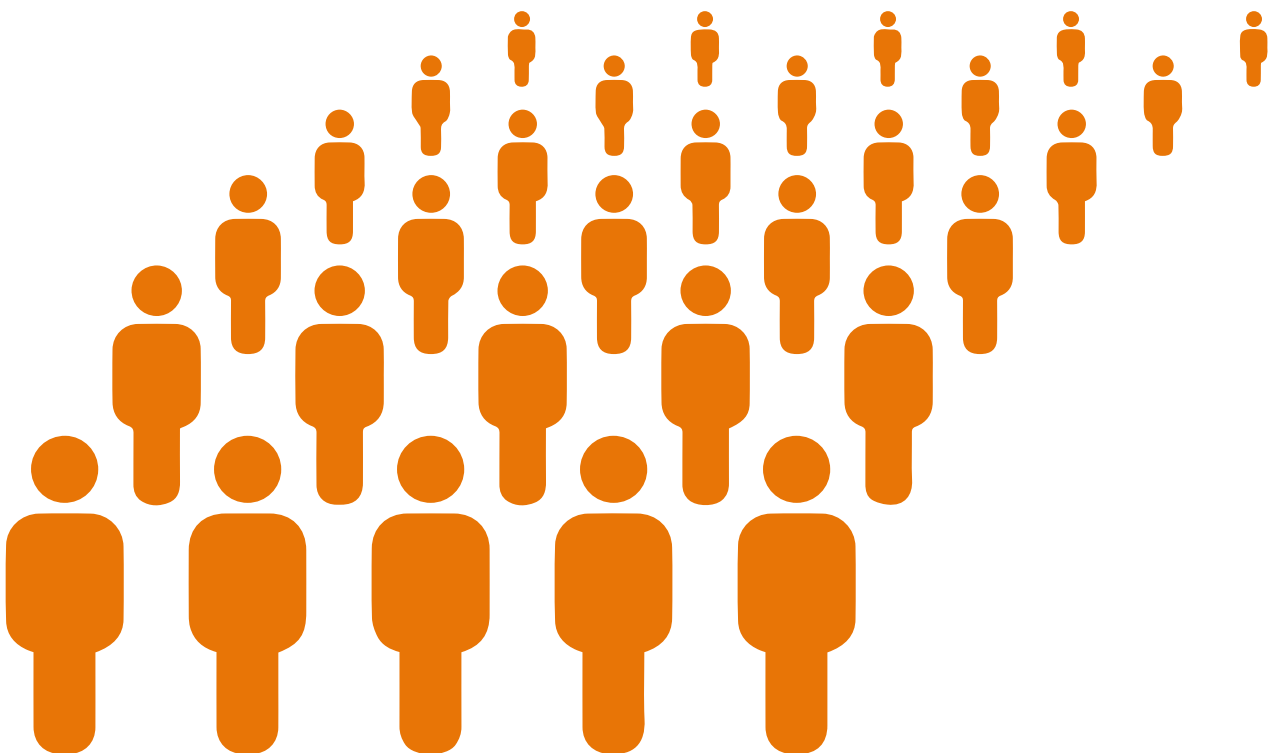
Thought for the day for those in power, their advisers and acolytes: before proselytising VET as exemplar for any proposition, fix it. What you learn while so-doing may provide insights to temper your extrapolations.





The NDIS, Markets and Self-REgualtion: If we Build it will they Come?

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The National Disability Insurance Scheme (NDIS) has been **described** as a once-in-a-generation reform that will benefit all Australians (Gillard 2012). The A\$22 billion scheme is in the process of being progressively rolled out across most of the country.

For many, the NDIS is an incredibly welcome scheme. For too long, Australian disability services have been underfunded, inflexible and built around the needs of the system rather than those of the individual (Department of Human Services 2009). An OECD (2009) study found that Australians ranked lowest in terms of quality of life for disabled people. Other data sources echo these findings, showing that Australians with disabilities have low levels of income (Kavanagh 2016) and labour force participation. People with disabilities experience social exclusion (Mithen et al. 2015) and significant levels of violence (Krnjack et al. 2016). Given these trends something needs to be done to improve disability services and the outcomes and life chances of people with disabilities.

Choice and control are at the heart of the NDIS, reflecting a belief in consumer-led reform supported by market forces. People with disabilities have welcomed this in a context where services have traditionally been underfunded with little flexibility. The existing one-size-fits-all approach was built more around the needs of organisations and the system than people with disability. This follows a broader international trend towards consumer-directed support, in the expectation that this should produce better and more relevant services for consumers through mechanisms of choice and control. Others have also argued that these mechanisms are a more efficient way to spend scarce resources.

The NDIS is in many ways illustrative of the sorts of changes that last year's Harper review spoke of (Harper et al. 2015). This spoke about the need to put consumer choice at the heart of government service delivery, through policies that

will encourage diverse and competitive markets populated by innovative and responsive providers. It argued that consumers are best placed to make decisions about their needs and the role of governments should be to ensure equitable access, minimum quality standards and the availability of relevant information to help consumers exercise choice. Harper argued strongly for the separation of purchasing and providing functions as a way of ridding governments of conflicts of interest and to allow them to stick to their core business. The role of government therefore is strategic – setting out the overall direction and then performance managing against this. It is largely expected that the impending Productivity Commission report into human services will echo a number of these key themes.

Of course, the use of markets in public services is not a new thing. Indeed many in the community sector are presently grappling with the implications of moving from grant-based relationships to contracts. We have seen reforms across a number of sectors that have sought to harness the strengths of markets but these have typically not had the impact that was desired. We need only look at recent experiences around employment services, the VET sector or early childhood education to see that these have not always been a success. These challenges are not confined to the shores of Australia and have also been experienced in other countries. There are various reasons for this, but one of the key factors is that markets simply do not self-regulate.

The argument goes that separating the functions of purchasing and provision and giving more control to consumers will generate competition between providers will ensure that providers are responsive to consumers. Providers will be incentivised to become more efficient and more innovative, finding new and different ways to deliver services. Those who do not deliver what people want will receive no business and will disappear. The market will self-regulate, with consumers getting what they want.

However, in order for this system to work there are a number of principles that must be in place. These relate to the ability of consumers to be able to act with a degree of sovereignty to achieve desired outcomes, that they can do so rationally (meaning that there can be a judgement on the basis of sound evidence), that there are few barriers to entry and that all partners have a reasonable degree of intelligence and information about services. Yet, as

we start to apply these ideas to a public service context we find that they do not hold up.

Many of the kinds of **factors that need to be** in place to drive market forces are not present (Alford and O'Flynn 2012). For example, consumers do not always use their own resources and can have limited sovereignty. While it is nice to think about individuals having choice over a variety of services, people may not have full information over these, or a sense of what they should want or expect in terms of services. Human services are often mediated by professionals who have significant influence over what people seek to choose. We also need to remember that using human services is not always an option that is chosen for some but is chosen for them (e.g. child protection, some mental health services). There can be significant informational asymmetries, substantial entry and exit costs and the ramifications of provider failure can be extreme. We know that some areas will struggle to attract providers or the 'right' sorts of providers at least. It is unlikely that large scale and widespread market failure will be allowed in a human service context in the way that we would see in a textbook version of a market.

One the arguments that is often made in support of market-based reform is that government has failed in terms of provision in human services and should therefore leave it to the market to offer what government cannot. But this seems to negate the fact that there is a far more active role that needs to be played by government in a context of market-based reform.

Markets need to be managed to ensure that there are sufficient providers, providing the kinds of services that consumers want and need, and at the right price. Recent evidence from the UK suggests that some with individual funding arrangements have found that they cannot afford the same sorts of packages of care that were previously available to them as care funding has been reduced in the drive to austerity.

The important point here is that a reliance on the existence of markets alone will not solve the challenges of the system we are currently faced with. Although the logic of market-based-consumer-led forces driving changing is a compelling narrative, we would do well to remember that it takes a lot of effort to develop effective markets. It is not, as Kevin Costner spoke about in the movie *Field of Dreams*, a case of 'we will build it and they will come'.

If we simply think that by having a market and giving consumers some amount of control then significant reform will result then we are likely to be sorely disappointed. If we are to see real consumer-driven reform we will need to see significant steps forward in terms of the ability of governments to operate a **market stewardship perspective** (Gash et al. 2013) – which is also sometimes known as a **commissioning approach** (Dickinson 2015). This is about more than simply contract management and involves significant engagement with a range of different stakeholders.

In doing this there are no magic bullets and it takes a lot of ongoing hard work in order to ensure that the appropriate sorts of systems and processes are in place for that area – and this will look different around the country depending on the particular characteristics of that locale. Many of the lessons for government relate to providing clarity and transparency over systems and processes and constantly collecting intelligence to ensure that nothing significant has changed, that incentives are having the desired effect and systems are operating as expected. For providers it will be more important than ever to be in touch with the mission and values of that organisation and how these play out in business activities. Workforce capacity and capability will need careful assessment, as will ways of working with consumers. In navigating this kind of difficult terrain no one group or individual will have the answers.

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Issues in Market-Based Reform of Human Services: Lessons from Employment Services

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It has been more than twenty years since the Australian Government opened case management services for the long-term unemployed to the market, laying the foundation for its now fully privatised employment services system. The system is cited as a successful model of outsourced service delivery in the Australian Government's response to the recommendations of the Competition Policy Review to ramp up competition in the delivery of human services. Yet the employment services system's measures of success, focused on aggregate outcomes and service delivery costs, mask the adverse impact of its marketisation on 'hard to place' jobseekers and on not-for-profit organisations that have traditionally championed those jobseekers (Gallet 2016). Against predictions and despite calibrated incentives, the prospects of the long-term unemployed moving from welfare to work have not improved through two decades of radical institutional change underpinned by market-based instruments (Considine et al. 2015; DEEWR 2010, p. 10; 2011, p. 13; 2012, p. 13). Arguably, savings in the system have been achieved at the expense of jobseekers most in need of assistance and support to find a job, and the flow-on costs of their persistent unemployment ripple across government. Those costs are not factored into the employment services system's metrics, leaving the public value of the model open to debate (Moore 1995).

We argue that there are internal contradictions in the process of activating people facing multiple and complex barriers to work, stemming from New Public Management (NPM) reforms across the public sector, that expose those jobseekers to exploitation or neglect in services to which they are referred to meet their obligations for income support, exacerbating their labour market disadvantage. For jobseekers facing multiple and complex barriers to work, the adverse impact of the marketisation of activation and employment assistance – in particular, the pursuit of value within

narrowly defined parameters by the bureaucracy and contracted service providers – is evident from the initial assessment of their capacity to work, to the process of addressing their barriers to work, to their poor employment outcomes.

The employment services environment

The *Working Nation* white paper was Australia's first step towards privatising its employment services system, in response to a sharp rise in long-term unemployment that the public employment service was failing to curb (Keating 1994a, 1994b). Since then the system has undergone three significant reforms – *Job Network* from 1996 to 2009; *Job Services Australia* from 2009 to 2015; and the *jobactive* 2015–2020 contract – and has been fully outsourced through a competitive public tender process since 2003. The number of organisations contracted to deliver employment services has fallen from a high of three hundred and six under Job Network in 1998 to forty-four under jobactive in 2015. The system is underpinned by a 'work first' model of jobseeker activation and its funding is tied to outcomes.

Employment services providers are contractually obliged to enforce activity requirements for income support and to help the unemployed overcome issues keeping them out of the workforce. For jobseekers with a large distance to cover to the labour market, the *process* of activation extends beyond the employment services system and its resources. Some of these jobseekers have never worked, some have low levels of education and some have outdated qualifications (ABS 2006, p. 28). Some have little or no capacity to work full time or are only able to work episodically (Department of Social Services 2015, pp. 51, 57). Besides lacking skills to fill available jobs, they may be struggling with mental health issues, trauma, poverty, prejudice, drug and alcohol use, unstable accommodation, anxiety, mild physical and intellectual disabilities, isolation, unreliable transport, care of dependents, complex peer and family issues and intergenerational labour market detachment (Ziguras 2005, p. 19; Goodwin-Smith and Hutchinson 2014). Under the supervision of employment services providers they move around and between a range of federal and state and territory government-funded services to address non-vocational barriers to work or gaps in skills, with the aim of improving their prospects of finding and keeping a job.

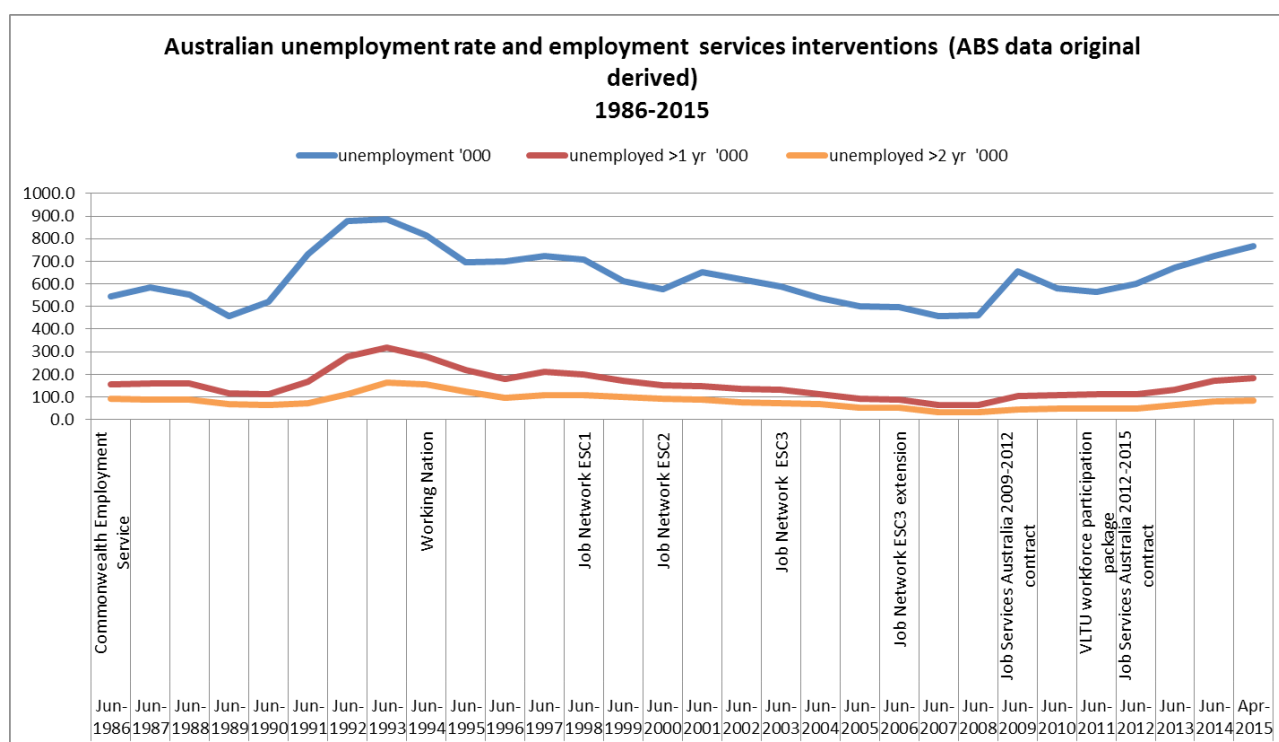


Figure 1: Australian unemployment and employment services interventions 1986–2015. Source: ABS 2001, 2015

The range of actors involved in this process and the design of the system suggests that shared understanding of what is keeping these jobseekers out of the workforce (agreement on the problem) and shared objectives (agreement on the solution) between government agencies, employment services providers, other service providers, employers and the jobseekers themselves, are crucial factors in tackling long-term unemployment.

Evidence of poor employment outcomes for highly disadvantaged jobseekers suggests there are issues on both fronts. There is a limited understanding of the complexity of problems confronting highly vulnerable jobseekers and no consensus or shared approach on how to address these issues. Data on unemployment and employment interventions in Australia from 1986 to 2015, summarised in Figure 1, reveal that long-term unemployment has persisted through global and domestic economic shifts, changes in the characteristics of jobseekers and the job market, changes of government, changes to machinery of government, changes in welfare and labour market policy, privatisation of employment services and over twenty years of continuous economic growth (ABS 2001, 2015; Battelino 2010; Reserve Bank of Australia 2015).

Despite ongoing reform of the employment services system, the majority of long-term unemployed people and people at high risk of long-term unemployment in receipt of income support in

Australia remain unemployed (DEEWR 2010, pp. 5, 10; 2011, pp. 7, 13; 2012, pp. 7, 13). Furthermore, the sustainability of successful outcomes for this group is unclear, as the rate of return of those who do find work to unemployment benefits is not tracked (Department of Employment, Workplace Relations and Small Business 2000, p. 87; DEEWR 2002, pp. 69–70).

In the process of addressing their barriers to work, 'hard to place' jobseekers are referred by employment services providers to services outside the employment services system, tapping into a range of publicly funded services in federal, state and territory government jurisdictions. Contracting out may have improved the efficiency and effectiveness of Australia's employment services system overall, but the model is failing the people most in need of assistance to move into work, and its metrics are not capturing the economic and social costs stemming from their persistent unemployment and ongoing activity requirements for income support. That successive Australian Governments have persevered with this approach for more than twenty years in the face of poor outcomes for the long-term unemployed raises questions about the basis on which the value of the model is assessed.

Issues with the model for highly disadvantaged jobseekers

A key weakness in the model is framing long-term unemployment as an individual problem affecting people on the margins of society, and treating its causes and consequences across a fragmented service system. This harks back to Rittel and Webber's research into 'wicked problems' in the early 1970s, which pinpointed the weakness in efforts to address such problems 'at the juncture where goal-formulation, problem-definition and equity issues meet' (1973, p. 156). As their work predates NPM, this suggests that market-based reforms are not a panacea for wicked problems like long-term unemployment.

When the Australian Government outsourced delivery of employment services, it was seeking innovation, responsiveness, flexibility, understanding of the local environment and cost savings from a diverse range of providers who could shepherd the unemployed from welfare to work using their networks, skills and expertise without the constraints of government bureaucracy (Keating 1994b, p. 129; Maddock et al. 1998, p. 14; Giddens 1998).

From the outset contracts were awarded to a mix of for-profit and not-for-profit organisations, including faith-based organisations with strong track records of delivering state-funded assistance to welfare recipients (Considine 2001; Gallet 2016). The government shied away from specifying processes to help people with multiple and significant labour market disadvantages prepare for and find a job because of the diversity of those jobseekers' motivations and barriers to work, instead adopting an outcomes-based funding model that offered providers financial and performance ranking incentives to work with 'hard to place' jobseekers. But in contracting out responsibility for achieving specified outcomes for those jobseekers in a 'black box' delivery model, the market's inclination to push the boundaries of contracts created a problem for government (Streeck and Thelen 2005).

Its response to providers exploiting weaknesses in the employment services contract by 'creaming' work-ready jobseekers that could generate fast income and 'parking' those that were hard to place, was to increase regulation and oversight of the system. Over time, the innovation and flexibility sought from the market was tempered by explicit and complex rules and regulations on the part

of government and mimetic isomorphism among providers (Considine 2001; Considine, et al. 2011; Considine et al. 2015).

On both sides, the focus on cost, compliance and outcomes sharpened. Jobseekers needing time and high levels of effort and investment to compete in the mainstream labour market were relegated to the sidelines by most providers, receiving enough attention to meet activity requirements for income support but making no real progress towards employment (Considine et al. 2011, p. 828; Finn 2011; Cowling and Mitchell 2003).

This effect, given the system's procurement and reporting framework, is unsurprising. Employment services can increase the probability of someone finding work but provide no guarantee. Ultimately, like leading the proverbial horse to water, providers cannot control the outcome of their interaction with jobseekers because an employment outcome is produced by a jobseeker and an employer. Yet achieving outcomes specified in the employment services contract not only generates providers' income but positions them for success in future tenders for government business. In the quasi-market created through the privatisation of public employment services, contracted organisations are required to demonstrate their competitiveness by achieving the outcomes demanded by the purchaser. Failure to achieve the desired outcomes creates financial instability for these organisations and can ultimately result in a loss of business (Gallet 2016). That is a powerful incentive for providers to focus their efforts on activity most likely to help them meet or surpass their key performance indicators, and to minimise the cost of servicing jobseekers least likely to generate income, regardless of flow-on effects.

In contracting both for-profit and not-for-profit providers to deliver employment services, the Australian Government appears to be seeking balance in the system between efficiency and altruism. Yet it is naive to expect for-profit contractors to put the public good before commercial advantage and to expect not-for-profit providers to be the moral compass of the system while competing in it. All employment services providers, both for-profit and not-for-profit, have their own reasons for bidding for the contract and all test the limits of the employment services regime in different ways to achieve their own objectives.

What is less clear is where they draw the line

between mimicking the behaviour of providers who are reaping rewards from the system and censuring those they believe to be gaming it. Streeck and Thelen (2005) suggest this is part and parcel of institutional change, a process of pushing the boundaries of rules 'making use of their inherent openness and under-definition' until they are revised and then starting the process again (p. 15). However it pinpoints a tension in outsourcing welfare services. O'Flynn (2015) argues that what is reasonable from a commercial viewpoint is less palatable, politically and morally, when organisations are seen to profit from delivering public services to citizens vulnerable to exploitation. Yet not-for-profit organisations like The Salvation Army Employment Plus and Mission Australia generate millions of dollars in revenue each year from this activity to further their own mission. It could further be argued that large, multi-national firms involved in the production of weapons or the building and running of correctional facilities, for example, ultimately profit from the failure of the welfare state. Should such firms be excluded from delivering services within it? For governments seeking immediate cost savings in the welfare arena, striking a balance between value, legitimacy and organisational capability is an ongoing challenge (Moore and Khagram 2004, p. 3).

Where profits from delivering employment services are distributed does not seem to factor into assessment of the public value of outsourcing them in Australia, suggesting that efficient delivery of services is a higher priority for the authorising environment. However in practice, the pursuit of efficiency can limit access to services for some citizens, shifting costs and challenging traditional conceptions of citizenship (Somers 2008, pp. 134–135; Freedland 2001, p. 1). The long-term, flow-on costs of governments failing to protect citizens who are 'hard to service' and vulnerable to neglect or exploitation in the market can be high. In the employment services system, there is ample evidence that preparing some jobseekers for work comes at a cost the market is unwilling to bear, and equally ample evidence that the fallout ripples across government and impacts on the economy and society.

While employment services providers are clearly motivated by their contract to move jobseekers into work quickly, incentives for the other actors to contribute to that goal are less clear. This gives rise to internal contradictions in the activation process. There is no requirement or incentive for

service providers within or outside government to consider the consequences of their interaction with the long-term unemployed beyond their individual key performance indicators, and no overarching authority steering or coordinating their activity or capturing meta-data on its impact. This is a significant weakness in the institutional architecture of activation and employment services. While the barriers to work faced by the long-term unemployed are complex and intertwined, governments' efforts to address those barriers are not mutually reinforcing. Every service provider interacting with the long-term unemployed and people at risk of long-term unemployment – both within government and working under contract – is working towards achieving key performance indicators tightly bound to the critical success factors of its funding sources. This is an enduring legacy of NPM reforms.

Implications

The abiding foundations of reforms to Australia's employment services system are mutual obligation, stemming from Mead's work on poverty and its causes (Mead 1992; 1997); and marketisation, embracing private sector style approaches to designing and delivering public services to be more responsive, accountable and efficient (Hood 1991; Osborne and Gaebler 1993; Giddens 1994). Successive governments have adhered to these doctrines in tackling long-term unemployment despite lack of evidence that either has a significant or enduring positive impact on entrenched labour market disadvantage. They continue to reform and adjust the welfare-to-work system through a complex mix of centralised and decentralised processes, markets, quasi-markets, sanctions and incentives designed to change the behaviour of the unemployed and the services they access.

In the welfare-to-work arena, market-based practice is pervasive in services delivered directly by government as well as outsourced services. In theory, this model promotes responsiveness, flexibility and mutually reinforcing practice at a local level to achieve common or complementary outcomes. In practice, the business rules and metrics for each service are tightly bound to the critical success factors of their funding sources, which remained siloed. The key strength of market-based approaches to delivering public services – calibration and interplay between providers' sources of revenue, sources of legitimacy, individual governance structures, the regulatory environment

in which they operate and their relationships with their clients and other organisations – is lost or diluted in risk management and the pursuit of narrowly defined key performance indicators.

The rise of NPM was attributed to political leaders and the community becoming dissatisfied with the service they received from the public service under traditional, bureaucratic models of administration, which they viewed as tied up in process and out of touch with reality (Hughes 2003). Now agencies working with the most vulnerable members of society in Australia argue that the state's approach to marketising public services, including employment services, is in turn tied up in process and out of touch with reality. We argue that in the process of activating people with a long distance to travel to the labour market, the proliferation and fragmentation of government programs, service contracts and regulation focused on producing value and reducing risk within narrow parameters has exaggerated the divide between the problem structure and the institutional structure, rather than bridging it. The pursuit of value within narrow parameters and short timeframes by each service involved the welfare-to-work market are barriers to both defining the problem of labour market exclusion and finding the solution.

The search for a model of delivering employment services that balances accountability and efficiency and protects vulnerable service users from exploitation or neglect continues. Neither a 'black box' approach nor heavy government oversight of employment services providers has improved employment outcomes for people with multiple and significant labour market disadvantages. Those jobseekers offer little potential reward for effort to employment services providers in a payment-by-results system focused exclusively on moving jobseekers into work. While the profits of success in the employment services system have been privatised, its metrics ignore the socialised economic and social costs that flow from its shortcomings. The 'work first', outcomes-based funding model and metrics for employment services dictates how providers interact with jobseekers, employers and with other services, and the process and patterns of referral of 'hard to place' jobseekers to other services. The key question for governments is whether there is public value in addressing issues around the treatment of the long-term unemployed. That assessment can only be made by weighing up the full economic and social costs of particular groups of citizens being excluded from or avoiding participating in the labour market.

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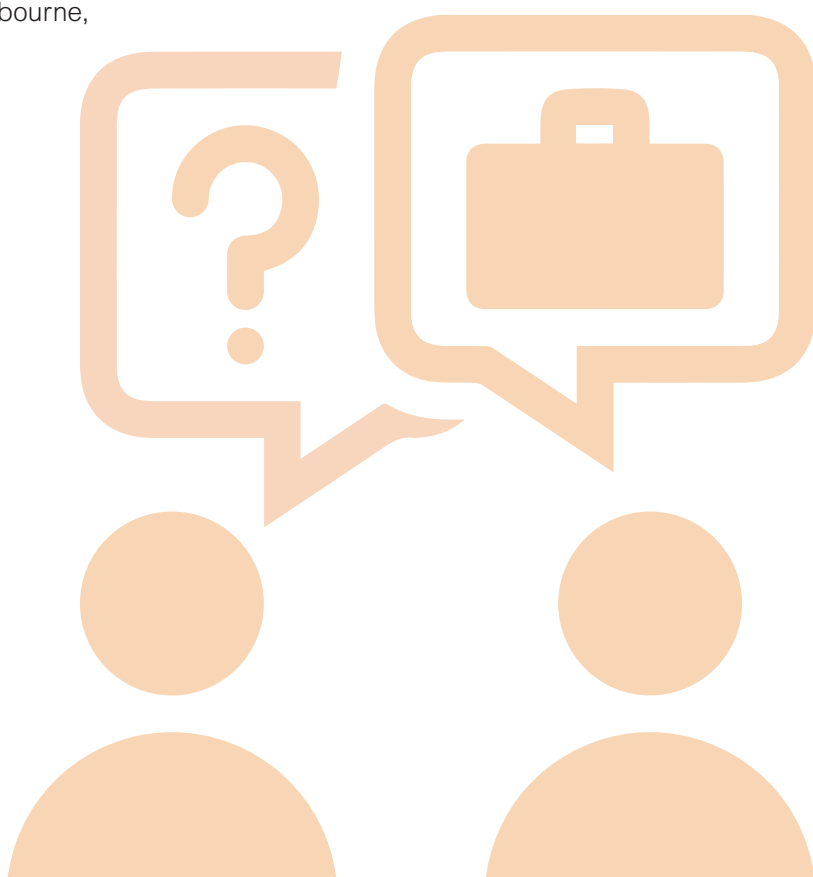
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The Marketisation of Healthcare Services: When Political Mantras win out over Evidence and Patients' Needs

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In its November 2015 **response** to the **Harper Competition Policy Review (CPR)**, the Australian Government stated its intention to commission a Productivity Commission review to explore how competition principles can be applied in practice to the human services sector. This further review has not yet been implemented – it's not clear if there has even been any consultation with the states and territories on the terms of reference – and it's unlikely to be put forward as a Liberal National Party campaign issue in the looming federal election, but if the Turnbull Government is returned, we can expect to see the topic of the marketisation of healthcare services reappear.

To investigate what the Government might ask the Productivity Commission to do, we should look first at the recommendations made by the CPR.

The CPR panel did take on some sacred cows – pharmacy, health insurance and aged care – but it also largely accepted the standard arguments for privatisation and for market-based commissioning and procurement. Key among these are that lowering barriers to entry can stimulate a diversity of providers which expands user choice, and competition will drive gains in productivity in the healthcare sector.

Some examples of what might be achieved through public-private partnerships to run hospitals and commissioning as operated by the UK National Health Service are cited without any recognition of their failures. Certain statements simply fly in the face of reality; for example, the report finds that for-profit providers of healthcare services such as medical and dental professionals are 'likely to face stronger incentives to minimise cost, including through adopting new technologies and innovative methods of service delivery'. Some key areas of healthcare policy are simply ignored. The most obvious of these is the 'closed shop' that operates

in specialist medical care, eating into government budgets, reducing patients' access and adding to out-of-pocket costs.

The overarching premise of the review is that more competition, by giving greater choice, will help people meet their individual healthcare and aged-care needs. The report does include some discussion about what consumer/patient choice really means in health and human services, but offers no effective solutions for what should be done when people are unable or unwilling to exercise choice and to protect people from the consequences of making the wrong choice. However – importantly – the CPR does recognise that choice is not the only key objective to be achieved in the provision of healthcare services: equity of access, quality, and a focus on outcomes and value rather than outputs and costs are also critical.

There is clearly room for considerable debate on this approach to healthcare, but to date this is an issue that is almost always **argued** on the basis of political philosophy (often disguised in phrasing about choice and personal responsibility) rather than evidence and public demands and needs. The failure to engender a thoughtful and substantive public discussion about the role of markets and competition in healthcare inevitably means that such proposals as are put forward are short-sighted, lead to unintended consequences, and lack full stakeholder support.

The financing and provision of healthcare services in Australia has always involved both the **public and private sectors** (Australian Institute of Health and Welfare 2014) but no government has ever properly articulated the rationale for this and how these sectors are to work together or compete against each other – a situation which makes developing a competition framework fraught with conflict and difficulty. The conservative side of politics has **undermined public confidence** in its genuine support for a universal public healthcare system with talk about budget unsustainability, efforts to reduce Medicare to a safety net for the less well-off, and push for private health insurance (Barnett 2014). Much of the shift from public to private that has taken place in recent years has been done surreptitiously via efforts such as increased co-payments, the abolition of bulk billing incentives, and the freezing of Medicare fees to doctors. Out-of-pocket costs are the **fastest rising part** of the healthcare budget, but despite the **growing**

evidence that costs for care in both the public and private sectors are an increasing barrier to care for many Australians, nothing is done to address these, and indeed thresholds to access safety nets for Medicare and the Pharmaceutical Benefits System continue to rise (Commonwealth of Australia 2014).

To date, the Abbott/Turnbull Government has done little to implement even the most modest of the CPR recommended changes. As part of the **Sixth Community Pharmacy Agreement**, an enquiry into the archaic pharmacy location rules has been established, although there is no guarantee that these will be overturned and no changes can be made before 2020 (Department of Health 2016a). The Government is also engaged in **consultations** focused on the value of private health insurance for consumers and its long-term sustainability (Department of Health 2016b), but that has not stopped the **approval of substantial premium increases** for 2016 (Kozioł 2016). There's a **boast** in the CPR that the Australian Government Hearing Services Program has introduced a website and portal to allow people to search a directory of contracted providers and to enable Voucher Program clients to lodge applications electronically.

A distinguishing feature of the Primary Health Networks (PHNs) introduced by the Abbott Government is that they will adopt a **commissioning approach** to procuring healthcare services (Department of Health 2015). There are legitimate questions which will not be answered for some time about the capacity of PHNs to develop and organise care in a range of areas – mental health, Indigenous health and chronic disease management – using a contestability model and **concerns** that these new commissioning requirements will add to administrative costs in programs with capped budgets (Penter 2016). Moreover, as the CPR report warns, commissioning decisions are generally structured to achieve best value rather than best outcomes, and the decisions are not made by consumers. It's all too easy for commissioned providers to keep down their costs by limiting access or services in ways that deliver short-term financial savings but longer-term costs elsewhere in the system. Little is currently known about what 'effective commissioning' is and how it can be achieved in practice, especially in the Australian context.

And finally a **grim story** is slowly emerging about the consequences of introducing contestability into

the way non-government organisations (NGOs) that deliver healthcare and related services are funded (ANMF 2015). In particular, **Indigenous NGOs have been defunded** or funding has been given to mainstream services, with severe impacts on the provision of culturally safe and acceptable services to Aboriginal and Torres Strait Islander peoples (Reconciliation Australia 2015).

An important aspect of the funding and delivery of healthcare services is to ensure these are effective, efficient, represent value for money, are responsive to consumer/patient needs and take account of social inequalities and inequities. The first three of these issues can potentially be delivered through the market place, the fourth is often posited as a rationale for increased competition although the **evidence to support this is poor** (European Commission 2015), and the final issue is one which always suffers if this approach to healthcare services is instigated.

The wish to contain costs is an important driver of change. However only in very sophisticated systems is it **recognised** that healthcare costs and benefits are spread more broadly and access to healthcare affects employment, productivity, and rates of utilisation of the justice and social welfare systems (Council of Economic Advisers 2009). In Australia this siloed approach to the health budget means that efforts to address the disparities and inequalities experienced by our most vulnerable citizens are floundering.

The United States is unique among first world countries in the extent to which it has relied on the market place to determine the allocation of healthcare services. But these services are not simply commodities, and the failure to deliver them equitably has consequences for individuals, communities and the nation. It was the **growing cost** of this marketplace failure that drove Barack Obama's healthcare reforms. Here in Australia this push to competition could well lead to the very situation the United States is working to undo.

There is no example of a free market in healthcare and there is no fixed set of conditions that will ensure that competition improves health system performance. A **European Commission report** that looked at examples from different European countries found that the introduction of (or an increase in) competition in healthcare provision will not always be the best instrument to achieve health system goals, it will not solve all health

system problems and it may have adverse effects (European Commission 2015).

Kenneth Arrow (1963), who is credited with inventing health economics, wrote that 'the laissez-faire solution for medicine is intolerable'. He and others (e.g. El-Sayed 2012) have listed the major market distortions for healthcare services and products:

1. The need for healthcare services and the type of services needed is unpredictable. This means that in an unregulated market, healthy people don't buy insurance until they are sick, setting up an economically unsustainable situation for insurers who make a loss when someone needs to use their insurance.
2. There are necessary barriers and constraints to entry to the healthcare market place (e.g. safety and efficacy requirements for prescription medicines, ongoing training requirements for healthcare professionals).
3. The importance of trust and ethics in the patient–doctor relationships. Healthcare is complicated and it is very difficult for patients to engage in comparison shopping. Informed intermediaries are needed.
4. There is a huge asymmetry in the information available to patients, providers and payers. This means that there is little transparency in terms of patient need vs making a profit.
5. Access to care is too often contingent on ability to pay rather than need, and usually those with the least access have the greatest need.
6. People often fail to understand and value the consequences of their actions around their health, especially when it comes to making decisions with impacts well into the future. This particularly applies to preventive health initiatives such as smoking, exercise and cancer screening.
7. There are idiosyncrasies in the way healthcare is paid for: this is generally done after care has been received and often after emergencies that did not permit any patient decisions or choice.

In Australia the situation is further complicated by the control the Federal Government exerts over the prescription pharmaceutical market, its investment in the Private Health Insurance Rebate, and the fact that government funds are the major source of innovation in healthcare services. The Australian Government must retain a market stewardship function because of the substantial investment of taxpayers' funds and to oversee the impact of policies on users. As the CPR noted, 'Governments cannot distance themselves from the quality of services delivered to Australians'.

The private sector is keen to invest in healthcare, but in a very limited way. They see healthcare as immune from the up-and-down cycles of business with consistent demand for services and, for at least some segments of the population, an area where people are willing to spend large sums, even money they don't have, for what they perceive as the best care. However the private sector is much less willing to accept the risks inherent in financing such services. Hence their **risk management strategies** are usually based around dollars, not patients' needs (Andre and Velasquea 2015). The largest risks and costs such as those for long-term high-intensity care, the indigent and the geographically isolated are consistently left to the public sector.

There is little guidance as to how competition can improve poor system performance and enhance integration rather than leading to balkanisation. Addressing this issue is imperative as there are already serious problems caused by the silos of physical health, mental health and substance abuse services. It is not clear how increased competition in these areas, or even the commissioning of services, will lead to better integration and care coordination across sectors. Those Australians who have the greatest need for health care (and usually the fewest resources to obtain this) have complex and ongoing care needs and they need the right mix of services to meet these needs. Their needs usually include issues beyond treatment and care such as education and employment, housing, post imprisonment services, domestic violence and poor nutrition.

It is interesting that the Government has shown little interest in the one area of competition that could be quickly and inexpensively implemented and would really empower consumers/patients – the provision of more information about healthcare providers. Although the CPR acknowledges that 'markets work

well when consumers are engaged, empowering them to make informed decisions', it places little emphasis on the role informed healthcare consumers can play in driving competition and efficiency. A greater availability of healthcare data would help drive informed decision-making and enhance competition. Efforts in this regard are more advanced in aged-care and disability services, but much more needs to be done in health care. If patients know that the top ten per cent of some specialist doctors charge half again more than the next ten per cent, for example, and there's no evidence that they are delivering better care, it's likely that some excessive charging practices – and the huge out-of-pocket costs that patients bear as a consequence – would diminish. That has certainly been the case in the United States.

In conclusion, it is clear that markets and competition are not easily installed in social services in ways that do not undermine healthcare as a social good and the core social commitments that a society like Australia should have. Some cautions from private consultants with expertise in this area should help to set the tone for future efforts. A 2010 review from McKinsey found that the level of provider competition that is healthy varies depending on the clinical setting (Dash and Meredith 2010). A recent Australian Deloitte report, *Contestability in Human Services*, is supportive of the ways in which contestability can be used to improve service delivery but cautions that there is much more sophisticated work to be done, especially by governments, in terms of agreeing the right outcomes, appropriate measures, and realistic timeframes.

Most critically, there is a significant difference between introducing greater consumer/patient choice and increasing the patient-centredness of healthcare and expanding healthcare markets and driving greater privatisation. At the heart of the problem is one simple fact – the commodification of healthcare is never about the patient, regardless of the fine words invoked. The Australian Government should proceed with caution.

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