Free market education

Recent years have seen the emergence of a new free market orthodoxy in the economics of education.

This free market orthodoxy stands for selling education in the market place, for private universities, for tuition fees in tertiary education, for private training rather than Technical and Further Education, for the continued privatisation of schooling and for a radical reduction in direct public funding of education — although

We have recommended that students at universities, CAEs and TAFE should be charged fees equivalent to the estimated marginal social costs of their places. We have argued that the external benefits captured by (the students themselves) from tertiary education are considerably smaller than the benefits that are enjoyed by the community at large so that the appropriate fees are roughly equal to the estimated direct and marginal costs of the services. We have recommended that students at universities and TAFE should be charged fees equivalent to the estimated marginal social costs of their places. The community at large enjoys considerable benefits from tertiary education.

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Hence Smith favoured private education, which in any case was the dominant form of education provision in this country. One hundred years before the first systems of universal primary public education were established. The argument is that education is a process of individual investment in human capital and that its social value could be reduced to its economic value, measured by adding up the increased earnings the individual would earn by being educated.

The new free market orthodoxy has gained many adherents.

They are supported by most academic economists and business organisations, and well publicised in the media. It has a growing influence in Canberra.

Free market arguments about the desirability of competition in the education market (rather than social) nature of the benefits of education, and the alleged inefficiencies and inequalities arising from public provision are entering the language of education debate as a sort of new common sense that all parties to the debate are meant to take for granted.

But orthodoxies are not always right. A close examination of the policies of some leading free market thinkers shows just how disastrous they would be if fully applied to the education system.

Adam Smith and the origins of the free market line

Vocational and professional schooling are forms of human capital. By investing in human capital, which we defined as productive skills or knowledge, it generates additional income and the marginal benefit of the marginal investment is the marginal cost.

Milton Friedman on education

Milton Friedman argued that education was a process of individual investment in human capital, which generates additional income. By increasing the marginal benefit of the marginal investment, education increases earnings resulting from education and training.

Adam Smith's view, that social prosperity was maximised when individuals were free to compete against each other without state interference, had a major influence on the economy of education.
regarded as zero, with the possible exception of research, and the non-economic production of students, the elementary schooling years — although he admitted that the relevant data on external effect on students of quality was incomplete.

Hence in his "first best" policy proposal, the Committee for Economic Development of Australia (a major corporate think-tank) has urged that private schools receive the same level of funding as public schools.

It would be unaware to assume that the highwater mark of the privatisation in this context would be reached by the Committee for Economic Development of Australia (a major corporate think-tank) has urged that private schools receive the same level of funding as public schools. In May 1984, the National Reform Commission policy on schools urged that a voucher system be introduced in the form of education credits that extra credits would be provided to private school students from needy families, thus providing parents with an incentive to switch from public to private sectors. The draft coalition policy also proposed the expansion of religious school resources at the expense of public school resources. The four-year plan for the 1980s included the establishment of some private schools in the early years of schooling. The last proposal arose because, as Friedman, a noted critic of compulsory schooling, put it in 1980, "real education is not compulsory, it is voluntary." 

Realising that his first best policy was unlikely to be implemented, Fairbairn’s fall-back position was voucher funding of secondary students. For this, the notion of privatisation of schooling, tertiary fees by means of a "real social marginal cost of the places," the complete abolition of tertiary student assistance and open market student loans rather than a subsidised loan scheme.

"To finance research, Fairbairn recommended that the existing wages of academics be reduced by one quarter and that all academics receive three months unpaid leave. Academics would then be able to compete for this money in order to cover their research activities."

To finance research, Fairbairn recommended that the existing wages of academics be reduced by one quarter and that all academics receive three months unpaid leave. Academics would then be able to compete for this money in order to cover their research activities. Fairbairn’s most original suggestion was an uncompromising development of the human capital approach: the establishment of a market in tertiary places.

On the basis of Year 12 stores, students would be allocated a ticket; the higher the score, the higher the value of the ticket. Students would then be able to sell their entry ticket — their party developed human capital — to the highest bidder. 

He argued that this would encourage students to compete in the courses with highest value and encourage all students to value education more than at present. 2. Lower level of participation in education

It would be a lower level of participation in education, especially in higher education, that would become an increasing feature of private school education. This would reduce effective demand for education. For private education to continue to be food, housing, clothing and basic health. Participation in education is declining directly with declining economic conditions. Throwing away many educationally impoverished schools in the longer term, some private school students have been producing labour shortages in the lower or middle income. The reduced participation would be supported by at least some free market human scale. For private education to continue to be better-off parents link their children elsewhere. To some extent, this "reallocation of public schools is already occurring under the present impact of privatisation. The difference is that in a deregulated system these weaker schools would no longer be backed by the direct government resources and would face bankruptcy and educational collapse."

It is often claimed by advocates of privatisation that their policies would increase quality by quicker responses and penalising weaker products, but the historical record shows some stronger producers inside weak producers.

Further, educational innovation would be risky in market terms, discouraging improvement. As Blaug said, "To argue that competition will necessitate innovation and education as it has improved the quality of automobiles in more ways than one."

5. Privatisation is bad business

A privatised system would actually be economically dysfunctional in a number of ways. An effective general education is necessary to vocational training and earlier and greater specialisation in education and training would result in less flexibility and adaptability. The elimination from education of many of the present students would lower the general educational level of the workforce, which would contribute to a reduction in productivity. The immediate financial interests of individual "investors" in education do not always coincide with the long term interests of the economy. But the absence of comprehensive Government policies would make it impossible to effectively address new economic needs until they had started to directly and visibly affect demand for labour.

Lead times in education are long; it takes some years to establish new institutions and new curricula and, to meet the needs, and unlike a properly planned system, a market system would be unable to absorb the rapid shifts in labour in advance. The nature of the business cycle, supply of skilled labour and demand for skilled labour would be directed by outside by government action. Access to education would be directed by outside the system. In such a system those social groups already disadvantaged politically and in access to the total education system (women, aboriginal students, students from non-English speaking background, poor students) would clearly become more disadvantaged.

Given that access to credentials is one factor influencing labour market outcomes, the development of non-formal education would increase inequality in access to the labour market, all else being equal.

7. Democracy and freedom would be reduced

Finding a system in which education was treated as a private good (rather than a public good that everyone’s right) would lead to a reduction of social and individual freedom, as well as potential political and economic freedom. As Walske has stated: Critics concentrate on the restriction placed on the individual by government laws and regulations but fail to see the new positive opportunities to exercise freedom that privatisation has also provided. It was the intervention of government that gave the bulk of people the freedom to make their own life choices by liberating them from the fear and the reality of extreme poverty, from the threat of economic hardship, from the burden of industrial deaths and diseases, from the fear of the exploitation of their labour, and from consumer fraud. The growth of government intervention means that private education has to be seen in the context of socialisation to make sure that these individual choices are meaningful.
Freedom of information and universities - in the courts!

Implicit in the views expressed . . . is a fundamental assumption that, if any change in the University’s Ph.D. examination system is to be made, it should not be imposed upon the University from outside but result from change initiated by it. This is how the matter is . . . inconsistent with the requirements of the FOI Act. (The Administrative Appeals Tribunal in Helby and ANU.)

The days when universities could be seen as . . . independent fields of knowledge with independent faculties are drawing to a close. (The Hon. Justice M.D. Kirby CMG, Chancellor of Macquarie University)

Footnotes


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