

Chapter 3

Competition in tertiary education

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ABSTRACT

In this chapter we examine the issue of competition, another of the four main elements which make up corporatisation. The importance of competition is underscored in recent policy making by an unshakeable faith in the free market. Free market advocates argue the virtues of competition from two perspectives. First, there is a moral point of view which suggests that competition is the very basis of a free society. Freedom, in this view comes as a result of being able to choose between rival institutions. The second point of view stresses the practical benefits of competition in the provision of goods or services. Students, or 'consumers,' gravitate towards institutions which provide the best service at the least cost. In a situation where the financial life and death of an institution hangs on attracting students, incentives to reduce costs and increase quality become very strong. In this paper we provide a more detailed account of attempts to introduce competition in the areas of research and teaching. We also place the apparent benefits of competition under scrutiny.

In the previous chapter we addressed the issue of user pays. Against current Government philosophy, we provided arguments for rejecting the notion that higher education is a private good. Furthermore, we questioned some of the supposed practical benefits of user pays, such as efficiency, responsiveness, and increased student performance.

In this chapter we examine the issue of competition, another of the four main elements which make up corporatisation. The importance of competition is underscored in recent policy making by an unshakeable faith in the free market. Free market advocates argue the virtues of competition from two perspectives. First, there is a moral point of view which suggests that competition is the very basis of a free society. Freedom, in this view comes as a result of being able to choose between rival institutions. The second point of view stresses the practical benefits of competition in the provision of goods or services. Students, or 'consumers,' gravitate towards institutions which provide the best service at the least cost. In a situation where the financial life and death of an institution hangs on attracting students, incentives to reduce costs and increase quality become very strong. In this paper we provide a more detailed account of attempts to introduce competition in the areas of research and teaching. We also place the apparent benefits of competition under scrutiny.



Competition in the university system

The importance of a competitive environment for both the current and previous Governments cannot be over-estimated. In fact, it would probably be true to say that competition is the most important element in the project designed to make public institutions behave like private sector enterprises. There are many examples which show how the State has attempted to introduce competition between tertiary institutions. Some of the better known are:

1. The establishment of the New Zealand Qualifications Authority (NZQA);
2. An equivalent full-time student (EFTS) funding system;
3. Allowing universities to set their own fees;
4. A proposed system of asset taxation or capital charging;
5. The establishment of the Public Good Science Fund.

The establishment of NZQA resulted from the recommendations of the *Hawke Report* (Hawke et al, 1988). Originally termed the National Education Qualifications Authority (NEQA), the role of the NZQA is primarily to specify national standards and provide Government recognition for those courses of study which meet these standards. Consisting of seven to eight ministerially-appointed members, NZQA has the power to develop and validate guidelines for use of the terms 'degree', 'doctor', and 'master'. Previously, the curriculum committee of the University Grants Committee had this power. After protest by academic staff and the Vice-Chancellors, however, the power to validate courses for public universities was given to the Vice-Chancellors' Committee (Education Amendment Act 1990: 98-104). Nevertheless, this still left NZQA with the power to grant university status to new tertiary institutions and allow other institutions, such as polytechnics and colleges of education, to provide degree courses. Since 1990, degree courses at polytechnics have proliferated and on~ private institution - Asia Pacific International-had been granted university status. This increase in the 'supply' of degree courses means that the established universities must now compete with other institutions for a market share of customers.

For competition to be effective, however, funding to tertiary institutions must be directly related to the number of the students they attract. Universities continue to receive their bulk grant. However, the size of the grant is determined by 'capitation' funding. Funding for individual institutions, in other words, is now based on a Government subsidy per EFTS which is supplemented by student tuition fees. Thus if universities lose a percentage of their students, they also lose a corresponding amount of their funding.

In 1991, the National Government extended the process of constructing a more competitive environment. Claiming that the previous Government had 'compromised the autonomy' of tertiary institutions, the Minister of Education announced that institutions would be able to set their own fees from 1992 on a 'competitive' basis (Smith, 1991:23). This has since happened. Another important element in the process has been to provide students at private institutions with Study Right assistance. In the Review of Study Right (1991: 19) it is noted that, 'the entitlement to Study Right should not discriminate between students studying approved courses at private training establishments and those studying at public institutions.' In order to offset the possible increase in Government spending that this may cause, it is further recommended that subsidies at public institutions be 'marginally' reduced to compensate. Thus, private providers will be more competitively placed in relation to public institutions by a gradual transfer of public funds to the private sector.

Attempts are also being made to make the costing structures of tertiary institutions similar to those in the private sector. This is to be achieved by imposing a capital charge or asset tax (Smith, 1991:27). Essentially, a capital charge refers to a tax on all assets of the institution and not just land and buildings. Already a number of Government departments pay the Crown a fee of 13% of the value of their physical assets. Capital charging is seen as an incentive for institutions to use their assets more efficiently. In particular, it encourages them to ensure that their facilities are being used

to the full or alternatively to sell or lease out those assets which are not being used. Furthermore, it is seen to balance out the competitive advantages and disadvantages between 'asset rich' and 'asset poor' institutions by the resulting net transfer of wealth to the latter (*Review of the Structure of Tertiary Institutions*, 1991 :49). It is further seen to encourage an environment in which private sector tertiary institutions can more realistically compete with public institutions for Government subsidised students. Capital charging is to come into effect from 1995.

Following the recommendations of both the *Hawke Report* (Hawke et al, 1988:63), and the now defunct Science and Technology Advisory Committee, a contestable fund for research has been established. Initially, the Public Good Science Fund was to command such a vast resource base (including \$130 million from universities alone) that universities would have to attract funds through a bidding system in order to meet their salary costs. However, the scheme was later made voluntary with universities negotiating an 'entry fee' for access to the fund. An agreement between the Vice-Chancellors' Committee and the Ministry was reached in mid-October 1992 with the Vice-Chancellors committing \$10.7 million of 'non-teaching' related funds to the contestable pool. While this figure seems massive, it represents a reduction of over \$20 million dollars from the fee suggested earlier by the Ministry of Research, Science and Technology (*New Zealand Vice-Chancellors' Newsletter*, July 1992).

An assessment of the case for competition

As noted above, arguments for competition are often ideologically loaded with appeals to democracy and freedom. Competition, in brief, implies greater choice and greater choice implies a more democratic society. As the ardent supporters of free market economics often assert:

There are only two basic approaches to consumer interest: the planned economy, welfare state way, on the one hand, and the free market, private ownership, limited government way, on the other. In the final analysis, the issue is between coercion and freedom (Read, 1971:68).

The rhetoric of greater freedom is also echoed in Government policy documents and is often attached to arguments about increasing the 'responsiveness' of education to student demand. In the *Review of the Structure of Tertiary Education* (1991:9), for example, it is argued that resources should be allocated to institutions according to student choice. Student choice, however, is taken as given - decisions over courses in this view are invariably informed by labour market 'signals'. In other words, given the correct information, students will always choose courses which lead to the highest paid occupations. Since the highest paid occupations are those for which occupants are in greatest demand, tertiary institutions must, through the pressure of student demand, comply with the needs of industry. Choice, therefore, rests on the happy coincidence between the needs of students, the requirements of the labour market and a 'responsive' tertiary education system. As the Tertiary Review Group note:

The primary determinant of how resources should be allocated should be the demands tertiary institutions face for different courses by students. If institutions are too slow or too weak in their response to changing student demand, they will fail to produce the types of education for which the labour market is signalling the greatest need. The consequent bottlenecks could reduce the ability of the economy to grow. Tertiary education will also fall short in meeting the aspirations of individuals and the wider society. (*Review of the Structure of Tertiary Institutions*, 1991:9)

This view, however, assumes that individuals are naturally greedy or possessive and ignores important aspects of the environment in which decisions are being made. Students' decisions, for example, are now made in a context of impending debt. Under the present system, it is a fairly easy matter to incur debts of \$20,000 for a three-year degree. Repayments of debt are only made once the income of the borrower reaches a set threshold. However, this threshold is extremely low and falls below even the minimum wage (Reid, 1992:157). Courses, therefore may not be chosen 'freely' but on the basis of providing the most apparent relief from debt.

The model of individual subjectivity on which the arguments in the *Tertiary Review* are based also ignores the fact that the expectations and decisions made by individuals are influenced by their gender, socio-economic status and ethnic background and that the labour market is part of the patriarchal, racist and class-divided society which helps to produce these expectations and decisions (see Bowles & Gintis, 1976 for example). This has a number of important implications. For instance, if tertiary institutions conform slavishly to the labour market signals, they will merely continue to reproduce inequalities inherent in society. Such an outcome is clearly at odds with the need to solve the problem of under-representation of those from disadvantaged socio-economic backgrounds, Maori and women (particularly in the case of post-graduate studies) and demonstrates the failure of the Tertiary Review Group to think through its own stated principles (*The Review of Study Right*, 1991:11).

Given that the under-representation of certain groups in universities is part of a wider social problem it is difficult to see what universities can do to solve it. Nevertheless, rather than respond passively to the labour market, universities could take a more active role in responding to social inequalities. This could be done, perhaps, by actively pursuing a policy of recruitment of those from disadvantaged backgrounds and by conferring the same status on Maori culture and the achievements of women that they have traditionally conferred upon western science. Problems also arise when applying competition or contestability in the area of research. Contestability refers to a situation where enterprises or institutions continually face the threat of losing their clients (in this case, the State) to potential competitors. However, as Easton (1989:38-39) argues, the characteristics of research do not lend themselves well to this environment. In particular, research often requires sets of specific skills which require years to obtain. According to one view, it takes 7 to 10 years to train a scientist and 3 to 5 years for a fully qualified scientist to change fields in order to compete for new funding (Sissons et al, 1989:2). Because of the highly specialised nature of certain skills and the difficulty of finding competitors at short notice, a truly competitive system of funding would be difficult if not impossible to establish. This perhaps would be different if Government priorities and market demand remained stable for decades. Given the constantly changing social and economic climate, however, this is a most unlikely scenario. The most likely result is a system which merely ensures that scientific activity conforms to short-term market or Government-driven directives.

If such a system was introduced on a broad scale, it is likely that the quality of research would suffer. For example, in a situation where scientists are increasingly forced to compete for funding, important knowledge could be withheld from other members of the scientific community for fear of the loss of a competitive advantage. It has also been argued that those who fund research in this way expect or demand useful results (McIntosh, 1989: 33). This could lead to the practice of conducting 'safe' research with easily predictable results at the cost of innovative, exploratory work. At its worst, scientific research could be 'skewed' to produce results which conform to the interests of sponsors. In the United States, where researchers are increasingly being forced to compete for corporate funds, there are suggestions that this does in fact happen (Buchbinder & Newson, 1991:21).

In New Zealand, the Health Research Council (formerly the Medical Research Council) has operated under a 'competitive' system for allocating research funds for a number of years. This has required researchers to pick up skills which allow them to 'market' their research proposals successfully. At times, according to one commentator, the best packaged research proposals have received more favourable ratings than other proposals which demonstrated better scholarship. As McIntosh (1989:33) notes:

Grantsmanship is a very real entity and it is distressing to see lower marks awarded the application of a researcher with an excellent publication record who appears to have rejected, not understood or inadequately mastered the skills of scientific salesmanship.

Given the importance of ensuring that groups such as women and Maori receive an appropriate amount of funding for research, it is surprising to find that none of the documents pertaining to the

establishment of Public Good Science Fund (eg. STAC, 1988; Beattie et al, 1986; Hawke et al, 1988; *Learning for Life II*, 1989) sets out specific guidelines for ensuring an equitable distribution of the research funds. Later documents (eg. MORST, 1992; STEP, 1992) appear to provide some recognition of Maori issues. But, given that the key theme in science priority setting is that of 'adding value' to economic processes, equity issues surrounding Maori, women and socio-economic status could easily be forgotten. Perhaps, as Wylie (1989:62) notes, a separate funding pool would be needed to ensure that groups researching these issues receive the funding they deserve.

Finally, there is the question of whether a competitive system of research funding would truly be more cost-effective. We have already argued that the threat from competitors is likely to be more apparent than real. In addition to this, such a system will invariably involve additional costs because of the extra administration required. First, there is the cost of establishing and maintaining an organisation to administer the fund and, second, scientists will have to divert much of their attention away from research in order to formulate detailed, possibly unsuccessful, research proposals. Furthermore, in order to ensure that universities do not subsidise their Public Good Science Funds by drawing on EFTS funding (and hence gain an unfair competitive advantage); they are required to include *all* overheads in proposals, such as rental for office or laboratory space. This has required universities to establish separate accounting and management structures in order to handle Public Good Science Funds.

At this point, the possible dangers of a competitive research fund administered by the state appear to be minor, given the relatively small amount of research funding which universities have allocated to the Public Good Science Fund thus far. While there is no indication at present that more funds might be shifted from universities to this pool, there is the possibility that this could happen at some later stage. Ultimately, universities could be forced to compete for salary as well as research costs.

Turning to the issue of efficiency in general, the Tertiary Review Group argues that competition and the ease with which new suppliers can enter the market is a greater incentive for cost-effectiveness than profit-making or private ownership status (*The Review of the Structure of Tertiary Institutions*, 1991: 16). In other words, as long as non-profit organisations are subject to competitive pressures they will become or remain as efficient as privately-owned, profit-oriented firms.

Curiously, the Tertiary Review Group cites only one study (Pauly, 1987) to support this claim. This study, however, is based on aspects of the American medical system and does not contain the type of systematic empirical comparison of competitive and non-competitive organisations one might expect. Instead Pauly's (1987 :260) claims on this issue are based on earlier study by Newhouse (1970). Like Pauly (1987), however, Newhouse's (1970) study deals only with the American health system and again provides no clear evidence to show that non-profit organisations in uncompetitive environments differ from their competitive counterparts. Because the Government is going to such lengths to promote competition, it seems extraordinary, even scandalous, that the wholesale restructuring of the tertiary education system should be carried out on such shaky grounds.

Conclusion

In order to create competition in the provision of teaching and the funding of research far reaching changes are being brought about in the tertiary education system. According to the supporters of competition a more competitive education system will bring about efficiency, greater choice and will help to make tertiary institutions more responsive to the requirements of students and the labour market. The efficacy of a competitive system has been questioned on a number of grounds. First, it is doubtful whether competition in the area of research will do more than just make research programmes conform more closely to the aims of the Government and big business. At its worst it

could create a new type of science; one which comes designer packaged, but produces trivial results that fit snugly with the Government ideology of the day.

The notion of increased choice and democracy, as envisaged by supporters of a competitive system of education, is a farce. This is because choice is seen on one hand as the option to pursue wealth in the market place and on the other as the action of rationally autonomous individuals who make decisions untainted by the influence of gender, ethnicity and socio-economic status. The role of the university system in this scheme of things, therefore, is to reproduce passively not only these social inequalities but also a trained labour force capable of docilely fulfilling its role in the division of labour. Finally, given the unshakeable faith held by the previous and present Governments in the efficiency of such a system, it is remarkable that their policies are based on such limited and inconclusive research findings.

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