Open Letter
To Public Marketeers
Public Service and the Limits of the Market

In many Western nations, and nowhere more so than in New Zealand, organisations traditionally associated with public service are increasingly required to defend and justify themselves. Are they accountable? Are they efficient? Do they offer value for money? These challenges are nowadays thrown down to almost every institution, and I believe they should be welcomed. It is very much in the interests of public institutions—and of course of those whom they seek to serve—that they are able to respond positively to these questions.

Two public institutions in particular—health care and tertiary education—have been the focus of attention in recent years. Both have been caught up in the atmosphere of growing hostility to the whole concept of public spending and provision, and have been substantially affected by an increasing belief that market solutions are the only proper instruments of policy. New Zealand has in some ways come rather late to this position but the smallness and openness of our political system means that, once the pendulum begins to swing, it can swing very far and fast—as tertiary education and health care have discovered to their cost.

As Vice-Chancellor of a New Zealand university I am acutely aware of the pressures to conform to the prevailing trend. I believe I can also recognise the limits of the market—the point at which the market ceases to be helpful to universities—and I see a marked parallel between these limits and the limits of the market in health care.

It is in the interests of universities to show that their stereotypical image as ‘ivory-tower’ institutions, remote from the real world, is entirely misleading. However, as in other areas of public provision we should be careful to distinguish those legitimate calls for improved performance from the forced changes imposed in the name of ideology rather than practicality.

‘We should distinguish legitimate calls for improved performance from those imposed by ideology’

We who work in the university sector should on the one hand be keen to show that we manage our resources efficiently and that the taxpayer gets good value for every dollar spent. We should take the lead in providing quality assurance so that those who invest their time and money in our university system can be assured that New Zealand universities are meeting the best standards established internationally. We should accept and embrace the new responsibilities to educate a much wider sector of the population than was hitherto thought able to benefit from a university education. Furthermore, we should continue to ensure that what we teach is as relevant as possible to the social, cultural and economic needs of modern New Zealand.

In all of these ways the universities should promote the reality as well as the image of institutions which do not need to be told where their future lies. We do not need to be dragged kicking and screaming into the 21st century. As institutions at the leading edge of new academic endeavour, we should get there before anyone else. All these obligations are exactly paralleled in the public health service, which should also aim to offer the best possible international standards tailored to the local context.

However, this is not to say that universities and health authorities should accept without demur the whole of the agenda being mapped
out for us by our political masters. There are, for example, important issues on which the universities must take a stand. These are, I suggest, the question of funding and the issue of academic independence.

‘Having obligations to the public does not mean accepting the whole political agenda’

For the time being, the universities continue to be funded on a bulk-funding basis, but we are being driven inexorably to reporting what we do in terms of ‘outputs’. I have no doubt that in due course these outputs will each bear a price tag and we will in effect be required to offer them for sale. Initially, the customer will be the Government which will choose to buy so many of one product from one supplier and so many of another from another supplier. Eventually, in an odd reversal of the Marxist prediction about the ‘withering away’ of the state, the ideologues who make policy no doubt envisage the Government dropping out of the picture and the universities selling their product directly to the student consumer.

Now, there is nothing wrong with markets. Indeed they provide by far the most valuable and important tool we have for organising economic activity. They have the irreplaceable virtue of stimulating innovation and enterprise. One of the claimed virtues of the market, however, is that it allows for failure. Indeed it is that very prospect of failure which stimulates enterprise and innovation. By definition, therefore, the marketplace is at any given moment partly failing as one supplier yields to another who is more efficient.

‘There is nothing wrong with markets if one is buying and selling baked beans’

That is fine if one is talking about suppliers of baked beans. It is not such a good idea, however, if what is being provided is a once in a lifetime chance to receive a decent education or proper medical treatment. There are not many students who would be content with working for three or four years for a degree in an institution which was in the process of failing and which eventually folded up. It is in the nature of universities—and hospitals—that they should be relatively permanent institutions offering continuity and stability, rather than the more immediate entrepreneurial virtues of the fly-by-night operator.

In other words, the market has some defects when it comes to the provision of tertiary education. The Government seems at least to be vaguely aware of this difficulty. After all they have before them the American model of private providers which shows that standards vary enormously and that there are many institutions which fail to meet an acceptable level.

The Government’s response to this problem reveals the paradox in current Government policy—that at the same time as the universities are being told that they must compete in a free market, they are subject to an ever more direct and oppressive central control. The universities have never been more tightly constrained in terms of their budgets, what they can pay their staff, and what they can teach. The emphasis is increasingly on central intervention, particularly in terms of course content and quality, because the Government recognises that the vagaries of the market place do not provide the consumer with an adequate guarantee of quality.

‘State imposed markets generate the paradox that as universities are told to compete they are subject to ever more oppressive control’

That is why, contrary to the rhetoric of the free market, the universities are being forced more and more into a straitjacket of qualifications authorities and reporting of outputs. We are in danger of getting the worst of both worlds—the uncertainties and confusion of the marketplace combined with the increasingly heavy hand of direct Government intervention.

There are considerable threats to the future viability of the universities if this course is to be pursued. The most obvious of these is the deliberate Government intention of scaling down (and perhaps one day removing altogether) the level of Government funding for