

**Address to the Education Foundation's
1997 Awards in Education**

by

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I'm both surprised and pleased to be invited to join you at this important occasion for the public education system in Victoria.

Surprised, because economists - especially those working, as I do, in the financial markets - are usually regarded as being somewhat hostile to public spending in general, and to spending on education in particular. That perception is probably neither wholly accurate nor completely fair, but I accept that it exists. And that's why I'm also pleased, because it provides an opportunity to correct that perception, if only in a small way.

In attempting to do so, I would be less than honest if I did not acknowledge at the outset that I have previously argued for reductions in the level of public spending on education in Victoria. Back in 1992-93, when Victorian Government spending was more than 15% above the level required to provide state public services at the average level of all States and Territories¹, after allowing for differences in needs and in the costs of providing services, and State taxation was already some 7% higher than the national average, it seemed to me both inevitable and desirable that reductions in public spending play a greater role in returning the State's finances to a sustainable position than increases in taxation.

And since Victoria's spending on education (which in 1992-93 accounted for around 24% of total recurrent spending) was at that time some 8% higher than would have been required to provide education services on the same standard as the average of all States and Territories - without it being at all clear that Victoria's educational outcomes were commensurately superior - it seemed to me that education could not be exempted from the decisions which were, in general terms, necessary if the parlous financial position in which Victoria then found itself were to be remedied.

That was a judgement which I had no intellectual difficulty reaching at the time, and nor do I now with the benefit of hindsight.

Let me stress however, that it reflected a judgement based on the facts as they were at the time, rather than the result of any particular prejudice against the public education system.

At different times, when the facts have been different, I have been quite willing to take a different view. I've been equally willing to argue that Tasmania - which is my home State and about which I continue to care a great deal - should be spending more on public education than it currently does, which (as far as primary and secondary education is concerned) is below what's required to match the all-States average in circumstances where educational outcomes in Tasmania are demonstrably inferior to those of every other State².

Likewise in Victoria today, where State Government spending on education has now fallen to some 4½% *below* that required to provide the same standard of education services as the all-States average, and where there is at least some evidence of deteriorating conditions in

¹ These and other inter-state comparisons of State spending and revenue-raising are based on 'level of service provision ratios' calculated by the Commonwealth Grants Commission and published in its *Report on General Revenue Grant Relativities - 1997 Update* (AGPS, Canberra, 1997).

² *The Nixon Report - an Appraisal*, Address to a 'Tasmania 2010' Forum sponsored by the University of Tasmania, 25 August 1997.

classrooms, though not (as far as I am aware) of declining educational outcomes, there is a respectable case to be made for some increase in State spending on education.

Let it not be said, therefore, that economists are at all times and in all places opposed to increases in spending on the public sector education system.

Indeed most economists recognize - as I certainly do - that a significant part of spending on education, by individuals and by governments, is appropriately viewed as a form of investment. It goes almost without saying, of course, that education contributes substantially to people's enjoyment of life and to their ability to function as citizens in a modern community. You don't need an economics degree to recognize that.

But education is also increasingly seen as an important source of potential economic growth. As Harvard Professor Michael Porter, in his well-known book *The Competitive Advantage of Nations*, asserts, 'there is little doubt ... that education and training are decisive in national competitive advantage'³. The Lausanne, Switzerland-based Institute for Management Development, incorporates eight different measures of the education system in each country (including pupil-teacher ratios, public spending on education, and average achievement of eighth-grade students in maths and sciences) into its annual assessments of the international competitiveness of 46 countries⁴.

Moreover, research by the World Bank suggests that the social and private returns to investment in education are much higher at the primary and secondary level than at the tertiary level⁵.

East Asian countries have not spent significantly more, as a proportion of their national incomes, on education than other developing countries. What they have done is to direct a much higher proportion of what they do spend to basic (as opposed to higher) education. They have also been much more successful than other developing countries in eliminating gender gaps in school enrolments.

And, as the World Bank shows, the priority given to universal basic education has been a key element in the relatively faster growth rates sustained by East Asian countries than in other parts of the developing world⁶.

The World Bank explicitly nominates Thailand as the one East Asian country where 'serious shortages of educated workers have begun to threaten continued very rapid growth'⁷ - an observation which, though made four years ago, perhaps assumes greater importance in view of Thailand's role as the epicentre of the financial crisis which has dominated Asia's headlines in recent months.

³ Michael E. Porter, *The Competitive Advantage of Nations* (The Free Press, New York, 1990), p. 628.

⁴ See International Institute for Management Development, *The World Competitiveness Year Book*, 1997, pp. 458-461.

⁵ George Psacharopoulos, 'Returns to Investment in Education: A Global Update', Policy Research Paper No. 1067 (The World Bank, Washington DC, 1993).

⁶ The World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (The World Bank, Washington DC, 1993), pp. 43-46 and 197-200.

⁷ *Ibid.*, p. 44.

In Australia's case the long-term downward trend in the unit value of our traditional commodity exports, the inexorable shift of production activities embodying a low skill content to developing countries, and the growing importance of trade in products incorporating a high knowledge content means that the contribution of primary and secondary education to this country's growth potential will become more, rather than less important.

However I suspect that the shape and health of our public education system will also have a significant bearing on how effectively we are able to deal with the on-going problem of unemployment, which I have no hesitation in nominating as the most important economic policy problem confronting Australia today.

I am pessimistic about Australia's prospects of reducing unemployment to tolerably low levels in a short period of time without, among other things, an acceptance of greater flexibility in our labour market arrangements than we currently have. I have no doubt that many of you here tonight will disagree with me on that, and so do a number of well-respected economists. But when I compare the unemployment rates, over long periods of time, of those countries which have highly regulated labour markets and high levels of public expenditures, including on labour market programs, with those which do not, I personally find it difficult to reach any other conclusion.

Many of you who do disagree with this conclusion will point to the considerable inequalities of income and wealth in the United States (in particular) as an argument against such a conclusion. And it's a good argument. I would also be uncomfortable about such disparities existing in Australia.

However I think Australians are inclined to jump too readily to the conclusion that the inequalities of income and wealth which they observe in the United States are the result of that country's labour market arrangements.

In fact, one of the major reasons⁸ for the much greater disparities in wages and salaries in the United States than in most other countries (including Australia) is that there are much greater disparities in individuals' educational attainments there than elsewhere. And that in turn derives from the fact that, to a much greater extent than in other countries, primary and secondary education in the United States is a responsibility of local governments, financed essentially out of what we call 'rates', without the extensive financial support from the Federal Government (or from state governments) which we in Australia take as a matter of course.

So, to an extent that we would not countenance in this country, the standard of education which a child receives in the United States depends on the neighbourhood in which that child lives - its tax base, the importance which its citizens ascribe to education, and the extent to which those who do not themselves have children in the public school system are prepared to pay taxes to support it. And, as a result, students emerge from the public system in the United States with much greater differences in competencies and skills, which their pay once employed then reflects.

⁸ This isn't the only reason - others include the much greater extent of racial division and bitterness in the US, and legal and social attitudes to gun ownership and drug use.

While I do not pretend for a minute that there are *no* inequalities in access to education based on residence or socio-economic status, one of the great strengths of our public education system is that those inequalities are a lot less than they would be if we financed our school education system along the same lines as the United States.

Thus, if we are to continue the shift towards more decentralized methods of determining pay and conditions - as I believe we will have to if we are serious about reducing unemployment - then strengthening our public education system must be a core element (along with reforms to the tax system) in addressing the social issues which such a shift is likely to raise.

That I'm able to arrive at a position of support for a strong and well-resourced public education system - which is presumably shared by everyone here tonight - from starting points which some of you may not endorse - underscores the confidence which you're entitled to have in the conclusion that the public education system is important in the economic and social development of this country and this state.

Tonight is first and foremost an awards night. I often feel that Australians have something of a double-standard when it comes to recognizing and celebrating excellence - we do it instinctively and unhesitatingly when it comes to sporting achievements, but we are peculiarly diffident about recognizing achievement or excellence in other endeavours. So it's a particular pleasure to conclude by extending my personal congratulations to the teachers and schools involved in the five programs whose achievements are being recognized tonight. May others, many of whom are expected to achieve extraordinary results in trying and difficult circumstances, be inspired by your efforts and your achievements.