

Public Subsidies for Students in Private Tertiary Education

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Abstract:

Private training establishments are a growing sector in New Zealand tertiary education, although their students receive lower subsidies than do those at public institutions. The determination of public subsidies for private tertiary education students is complex and is based upon philosophical arguments, trends in demand and the capacity of private and public sectors. This issue has gained prominence in New Zealand since the release of the Government Green Paper on tertiary education last year, which suggested equal subsidies for students in private and public tertiary education. This paper reviews the general arguments and overseas examples in this area, before examining the New Zealand situation and outlining options for the future.

Government subsidies for students at private training establishments (PTEs)¹ and the tertiary education institutions (TEIs – polytechnics, universities, colleges of education and wananga)² in New Zealand are distributed in quite different ways. While subsidies for targeted training programmes and industry training are generally distributed on a competitively neutral basis, there are clear differences in subsidies between PTE and TEI students in the area covered by Equivalent Full-Time Student (EFTS) funding.

A study by Baker and Guerin (1997) showed that subsidies for PTE students were considerably lower (20%-35% of course income in 1995) than those for TEI students (65%-75% of course income in 1995) for similar courses. Course income was defined as fees and EFTS subsidies. Given the high subsidies per student provided to TEIs, the PTE sector has been largely crowded out of this market because of the higher student fees they must charge.

However, the differences between the courses offered by PTEs and TEIs, where there is competition in the EFTS funding area, are limited. These differences often reflect emphases in the curriculum, rather than substantive course-based differences that would justify the funding patterns. This suggests that other factors are responsible for the differential subsidies, and raises the following questions:

1. What are the key issues and practices relating to public subsidisation of students in private³ tertiary education⁴ in New Zealand and overseas?
2. How do these issues and practices differ in relation to levels of tertiary education?
3. What options should be explored for public subsidies of students in private vocational and higher education in New Zealand?

These questions need to be considered in the context of the Tertiary Education Review Green Paper (Ministry of Education, 1997b), which includes an option allowing equal access to Government funding for both PTE and TEI students.

Underlying Issues

Funding and Provision of Tertiary Education

Under a neoclassical economic analysis, tertiary education can be assumed to be a purely private good consumed by private individuals. Many governments take a different view, however, justifying their financial support for tertiary education by using a broader public good definition, defining education as a merit good (Boston, 1988), or by pointing to the externalities created by investment in tertiary education. For the purposes of this article, it will be taken that tertiary education should be financially supported, at least to some extent, by the state.

While government *funding* is assumed to be justified, government *provision* is quite a separate matter. For instance, basic housing and health needs are often seen as merit goods (those that society deems should be provided publicly), but government finances are directed towards doctors in private practice, private contractors who build state houses and low-income citizens who receive accommodation supplements. The Government may choose to provide a good in some instances, but the extent and nature of this provision will vary from situation to situation.

Specifying Outputs and Distributed Funding

New Zealand governments have attempted over the last fourteen years to increase the specificity of what they fund, purchase or subsidise. This is by no means unique to New Zealand, and relates to broader theories of New Public Management (NPM). As identified by Boston et al. (1996), this includes a shift from relational to classical modes of contracting, from process accountability to output accountability, and towards a preference for private ownership, contestable provision and the contracting out of most publicly-funded services. These factors had the potential to fundamentally alter the provision of tertiary education, but in practice their implementation has been adapted, mainly because of issues relating to output definition.

Accountability for outputs can be a difficult concept in education because it is difficult to reach agreement on the appropriate outputs to measure, and the measurement itself provides a new set of challenges. The key outputs of tertiary education are graduates, research, and community service, although not all of these outputs are generated by all providers, nor are they generated to the same level. This article is particularly concerned with subsidies for students' tuition costs, and so output definitions for graduates will be considered first.

Labour market programmes are often evaluated by measures of the numbers successfully completing the programme, and of the success of graduating students in entering further education and training or employment. These measures are transparent, are closely related to the objectives of the programmes, and are largely accepted by providers.

Course completion rates, course pass levels, and graduate destinations are all valid measures for success in vocational and higher education, but they are not sufficient as indicators for designing a funding system. Measuring such factors is complex, and may create inappropriate incentives for an institution. Funding based on the proportion of students graduating could, for instance, lead to grade inflation, as management may be tempted to pressure teachers to pass more students. Performance measures may also have an undesirable effect upon academic freedom. Although few tertiary teachers would argue against the worth of such performance measures, they are likely to protest against undue emphasis on such factors at the expense of equally important, but more intangible, measures of success.

The need for measurement of outputs and the difficulty of specifying and measuring these in education has created real problems

for governments. Many, when faced with this problem, have chosen to use student demand as the funding driver – often measured in terms of equivalent full-time students. They have bundled funding for other outputs, such as research and community service, along with funding for tuition.

Funding based on student throughput can make resource allocation explicit, especially in comparison to systems where funding is based upon inputs. Currently enrolments, rather than other factors, are seen to be the trigger for resources flowing to public institutions. When output specification is combined with a preference for contestable provision, the monopoly held by public institutions on student subsidies becomes harder to justify. Unless it can be shown that public provision of tertiary education is different from private provision – and that the differences are positive and unable to be reproduced by private providers – a Government following NPM philosophies will take a contestable contractual approach. This approach will usually be supported by regulation to assure government and students of the quality of the institutions' offerings.

Differences between Public and Private Institutions

Some of the key ways in which it is argued that private provision may differ from public provision are: academic freedom; diversity; community service obligations; and ownership and governance.

Academic freedom and diversity

Public and private provision of tertiary education can be supported by arguments relating to both academic freedom and diversity. It can be argued that publicly-provided tertiary education is the best way to foster diversity and openness within tertiary education, while avoiding parochialism. This model can veer towards supporting "universal" values, imposing these values on all groups in society.

Kelsey (1993) has argued that private institutions may limit academic freedom because they place strong pressures on staff to direct their activities in accordance with the factors driving the owners and managers of those institutions. This argument has its merits, but it can easily paint public institutions as comparatively valueless organisations, ignoring the pressures exerted upon them by their owners and by dominant groups within society.

Proponents of privately provided tertiary education often argue that it affords different groups in society a chance to develop their own brand of tertiary education. Private tertiary education enrolments tend to be more polarised than public institutions, enrolling more students from rich or poor backgrounds, of a particular religion or gender, or from a particular geographic location. Wananga are an excellent example of this approach in New Zealand, arising from private initiatives. So are the PTEs that have opened up tertiary education opportunities for groups with lower socioeconomic status.⁵ Opponents might argue, of course, that such systems could lead to socioeconomic inequality or societal fragmentation.

After reviewing eight private higher education sectors, Geiger (1986) noted that private higher education can, alongside the public sector, play an important role in maintaining cultural and academic pluralism within a society that values such ideals. It can help counteract the pressures of democracy and bureaucracy that can dull the innovative edge of public institutions without some external challenge to their activities. Geiger found that those countries with repressive political regimes or strong socialist ideals were less likely to allow a private tertiary education sector to operate.

Community service obligations

Community service obligations (CSOs) are activities carried out by institutions that do not have an explicit commercial rationale – such as outreach programmes or community education. The CSOs of public institutions are often cited as the key differences between themselves and private tertiary education institutions. This often goes along with the claim that open competition may reduce the ability of public providers to meet those obligations.

These assertions touch on an important area, and deserve a balanced examination. Generally, the obligations of public institutions to the community are not clearly specified, and the obligations of private institutions to both wider and more specific communities are unacknowledged. In addition, different approaches by either sector to cater for unmet needs are seldom explored in depth. These issues must be examined if the debate is to avoid a descent into unhelpful generalisation. Sowell (1981) advised that the label attached to an organisation should not be used as a proxy for its outcomes. It may be an unrealistic expectation that a “for-profit” firm should make profits, or a “public interest” law firm should always act in the public interest.

Similarly, it is necessary to examine the actual processes that an educational institution employs before stating whether it provides broader services to the community.

Ownership and governance

Governance and ownership are very important in assessing the differences between public and private tertiary education. Geiger (1986) suggests there are three broad potential ownership forms:

- *State* – best for stable situations where little flexibility is required and generic, bureaucratically applied solutions are appropriate, but where private provision may generate sub-optimal social returns;
- *Market* – best for situations where demand is heterogenous and fluid, but explicit values for goods can clearly be determined;
- *Voluntary/Third Sector* – best for situations where demand is heterogenous and fluid, but information is asymmetrical, that is, where one party has greater knowledge than the other about the transaction. The customers prefer an organisational form less likely to capitalise on their own lack of knowledge.

There are advantages and disadvantages to each form, and different areas of tertiary education are better suited to some rather than others. Market forms dominate provision in highly job-specific areas, where closely-defined outputs are required, while state or third sector forms are the main vehicles for higher education. In practice, in any particular area organisations operate with a mix of different forms.

Summary of Underlying Issues

The main underlying issues are that:

- There is pressure from governments to specify outputs in tertiary education, and student throughput is often used as a proxy for outputs;
- Basing funding upon student throughput makes it easier to highlight any disparities between subsidies provided to different groups of students;
- Consequently, public institutions need to demonstrate that they provide a form of education that is different from that provided by private institutions and that that difference is sufficient to justify disparities in subsidies.

Additionally, the capacity of the private and public sectors, and the institutions within them, is often an important factor in determining policy for those institutions. The ability of a sector to enrol students within a field of study, the presence of a target group, or whether there is a cap on expenditure, will all influence the government's role. The time and place of the decision will often have a stronger effect than the long-term benefits of the different options, requiring an examination of how governments have approached this issue both overseas and in New Zealand.

Overseas Tertiary Education

Higher Education

Geiger (1986) carried out a large study on the operation of private tertiary education sectors in eight countries in Asia, Europe and North America. He found three key patterns in private higher education, described with examples in Table 1. Where parallel public and private sectors operate, the differences between the two sectors often became blurred.

Table 1 Patterns in Private Higher Education

Pattern	Description	Examples
Peripheral	Private sector fills niche roles	Australia – Bond University, University of Notre Dame have niche roles
Parallel	Private sector has equivalent status to the public sector	Belgium – Catholic and “liberal” universities exist alongside the state sector
Mass	Private sector dominates enrolment numbers	Japan – mass private sector competes with a few elite public universities

Levy (1986) reviewed the relationship between higher education and the state in Latin America, finding a general trend towards greater private sector involvement in higher education over the 20th century.

Catholic universities had operated in parallel with the public sector, for centuries in some cases, and over time had almost become public institutions. New Catholic institutions and right-wing elite institutions were established in the 1950s and 1960s as the public universities became both politicised (by the left wing) and overcrowded. Later still, a number of non-elite “demand-absorbing” private institutions were formed, of lower quality but greater flexibility.

In a study focused on Chile, Jofre (1991) found that over 260 private institutions had been established over the 1981-1991 period, after regulations were relaxed. A small proportion of these received public funding at the same rate as the public institutions, but this figure changed as the funding system was adjusted to fit the new enrolment patterns.

After the demise of communism, higher education faced major changes in the former Communist Bloc countries. Limited budgets, corrupt practices, workforce planning⁶ and intellectual decay affected most public institutions to some extent, creating opportunities for private higher education institutions. In the early 1990s, good quality private (or public) institutions were rare because of loose or nonexistent quality assurance regulations and a poorly informed market. This led to a tightening of regulations in countries such as Poland, Belarus, Mongolia and Romania. Catterall and McGhee (1996) provide a case study including all of these elements in Azerbaijan, while Weidman (1995) offers an example of a successful private higher education sector in Mongolia. There are now significant private higher education sectors in most Eastern Bloc countries, operating on a parallel basis to the public sector.

Vocational Education

In Australia there has been considerable debate over the last five years about the role of private providers of vocational education. Anderson (1994) provided a comprehensive review of the regulatory and competitive environment facing private vocational education providers in Australia, and compared their performance with the Technical and Further Education (TAFE) sector. He found that participation by both types of provider improved choice and diversity in the training sector, and that they each brought different strengths and weaknesses to the area. Anderson (1995) later found that private training providers accounted for between five and ten percent of vocational education in

Australia. Their numbers had increased, due to their success in tendering for contestable funding pools, and the creation of a National Framework for the Recognition of Training that gave their qualifications greater credibility.

In the United States, Lee (1997) noted that proprietary schools had 6.1 percent of all post-secondary enrolments, and that while this group had a lower level of prior education than community college students, they were more likely to achieve their qualification goals. On the other hand, in two reports for the United States General Accounting Office (GAO), Blanchette showed that some incentives facing proprietary schools were inappropriate, leading to higher student defaults on federal loans and over-enrolment in some occupational areas (Blanchette, 1997a, 1997b). The GAO recommended changes to the regulatory system to correct the incentives that schools faced, including improving information on school placement rates and job opportunities for students.

Summary of Overseas Examples

These examples of overseas private tertiary education sectors address many of the underlying issues raised earlier. Geiger's categorisation of private higher education sectors is a useful tool to map the different types of private sectors. The Latin American examples demonstrate how systems can evolve over time to meet new needs, and show the part private sectors can play in that process. The examples from the former Eastern Bloc highlight the responsiveness that private institutions can achieve in a short time, and also the importance of well-designed regulatory systems if the government is to achieve its desired outputs. Lastly, the Australian examples show how countries similar to New Zealand are approaching this issue.

New Zealand Tertiary Education

Policy Development

Historically, private tertiary education providers only serviced niches within the tertiary education market, as noted by the Department of Education (1987). That situation has now changed.

1. In the 1980s, private providers entered, and later dominated, the market for labour market programmes such as Access and MAccess (now Training Opportunities Programme and Skill Enhancement);

2. The Education Act 1989 provided for formal recognition of PTE's quality management systems (registration) and courses (approval and accreditation), thus establishing an external quality mark for clients;
3. A limited EFTS funding pool was established in 1992 to fund PTE courses similar to those offered by TEIs;
4. Subsidies decreased and fees increased in public tertiary education which, along with access to student loans and allowances for private students, levelled the playing field for PTEs and TEIs.

Higher and Vocational Education Funding

Although those trends shaped the current PTE sector, PTEs were an extremely marginal vocational and higher education sector in the early 1990s. The *Learning for Life* reforms had not explicitly dealt with what was to become the PTE sector, except in the reforms to Regional Employment and Access Councils (REACs) and Access. A working party on Iwi Authorities Special and Private Institutions met, but private institutions were barely mentioned in the first *Learning for Life* report (Ministry of Education, 1989). A few PTEs, such as the New Zealand School of Drama and the New Zealand School of Dance, received ongoing subsidies through Section 321 of the Education Act 1989, but most received no subsidies for courses outside of Access.

The EFTS Funding System for PTEs, which funded vocational and higher education, was established in 1992 (at \$2 million), operating under strict financial and regulatory restraints. This was essentially a pilot scheme, but there were no clear objectives or evaluative criteria for the scheme. It has supported the education of a great number of students since 1992, despite its inauspicious start.

Even with the new EFTS funding pool, the Ministry document *Education for the 21st Century* (Ministry of Education, 1993) portrayed PTEs as the "second chance" sector. The text excluded PTEs from both industry training and the "formal" tertiary education sector. The EFTS funding pool was clearly only a small win for the sector.

Two years later, both of the main options in Todd (1994) proposed increased funding for PTEs. Instead of making the bold move recommended by the Todd Report, the Government chose to allocate a portion of the tertiary education sector's growth funding to the PTE EFTS funding pool each year. The pool reached \$7 million by 1996 – the level where it remained for 1997 and 1998.

Labour market programmes funding

While little progress was made in the EFTS funding area, PTEs continued to expand their provision of labour market programmes with the assistance of the Education and Training Support Agency (ETSA). ETSA has supported PTEs by:

- Raising its expectations of them (by tying funding to NQF accreditation);
- Encouraging local responsiveness (ETSA aims to purchase from a large number of providers);
- Encouraging the formation of local PTE associations to share information.

This support of the PTE sector can be seen as favouring a particular group, but PTEs have also been required to meet clear output measures. As a sector, they have achieved above-average results against these measures (see Baker & Guerin, 1997). This mix of guided development and pressure for results helped ease the PTEs' entry into the EFTS funding pool and commercial training.

Development of the PTE Sector**Sectoral changes**

The PTE sector now accounts for a considerable proportion of tertiary education enrolments. According to the Ministry of Education (1997), out of the 242,637 students enrolled as at July 31, 1996 (PTE figures cover July 29 -August 4, 1996):

- Universities enrolled 47%;
- Polytechnics enrolled 36%;
- PTEs enrolled 12%;
- Colleges of education enrolled 5%;
- Wananga enrolled less than 1%.

Enrolments from 1991 to 1996, cross-tabulated by level of qualification studied, show changes in the tertiary education sector more clearly, particularly the relationship between the PTE and polytechnic sub-sectors. In the summary below, statistics have been grouped into four categories – certificate, diploma, degree and postgraduate – down from the 20 reporting categories used by the Ministry (Ministry of Education 1991, 1997).

Over the 1991-1996 period, polytechnic enrolments at the certificate level dropped from almost 94 percent of all enrolments to only 63 percent. Enrolments increased significantly at diploma and degree levels. In absolute terms, polytechnics enrolled almost 16,000 fewer students at certificate level in 1996 than they did in 1991.

This difference appears to have been made up by the PTE sector, which in 1996 enrolled exactly the same percentage of students in certificate level courses (94%) as polytechnics did in 1991. The actual number of students enrolled by PTEs was 26,495. There are no comparable PTE enrolment figures for 1991, but given that they enrolled about 12,000 Access students and very few other students at that time, it is reasonable to suggest that PTEs have largely taken over those tertiary education roles that polytechnics have vacated. PTEs' activities in different sub-sectors are outlined in the next three sections.

Higher education

Currently, there are few examples of private higher education in New Zealand, with the sector forming a peripheral role to the public sector. Those institutions that do exist serve niche markets, offering a small number of degree programmes. Examples of such providers are shown below, with the first three being not-for-profit institutions, while the last operates for profit:

- New Zealand School of Drama – school for actors, producers, directors and technicians;
- Bible College of New Zealand – theology college operating from many different sites nationally;
- Whitecliffe College of Art and Design – specialist fine arts college;
- Auckland Institute of Studies (AIS) – specialist business and language institute.

In 1997, the School of Drama received subsidies for its Diploma students through Section 321 of the Education Act 1989 to the value of \$17,817 per EFTS. The last three institutions offered bachelors and masters programmes. The Bible College received no subsidies because its courses were not a priority for EFTS funding. Whitecliffe and AIS received about \$2,500 per EFTS through the EFTS funding pool for PTEs.

Vocational education

PTEs have had more market penetration in vocational education, especially in short courses that are highly job specific. In these areas,

PTEs can overcome the subsidy differences by providing employment-focused courses. In other areas, especially longer courses and those requiring high capital investment, there is less involvement by the private sector.

A study of hairdressing, nannying and tourism courses at PTEs and TEIs by Baker and Guerin (1997) found that PTEs offered courses that were different in several respects from those leading to the same qualification at TEIs. PTE fees were higher but, when their lower Government subsidies were taken into account, average course income (fees plus subsidies) at PTEs and TEIs differed by less than 5 percent in each of the course areas.

Where a course could be compressed, such as in travel, PTEs tended to offer shorter courses while TEIs stretched them out, possibly because more of their funding came from time-based EFTS funding. Where a course needed to be a year long, PTEs tended to extend the course length beyond the minimum required for full EFTS funding and add more content, while TEIs offered courses of minimum length. The completion and pass rates of PTE students were also comparable to, or slightly higher than, those of TEI students. The market pressures of charging considerably higher fees seem to have encouraged student-focused responses from the PTEs.

In the Skill Enhancement programme, designed for low-skilled Maori and Pacific Island youth, PTEs have rapidly enlarged their share of the programme over the last four years, moving from 5 percent of courses in 1994 to 52 percent of courses in 1997.

Labour market programmes

In 1995, PTEs enrolled 89 percent of Training Opportunities Programme (TOP) trainees, a figure that had increased from 76 percent in 1990 (Baker and Guerin, 1997). In terms of results, PTEs had 5 to 10 percent better employment and further education and training outcomes for their trainees than did polytechnics, in both 1994 and 1995. PTEs also charged ETSA prices that were 5 to 7 percent lower than those charged by polytechnics in 1994 and 1995. These price differences were probably due to the higher level courses offered by polytechnics within TOP, but the differences in PTE and polytechnic trainees' outcomes appeared to be due to a mix of better courses, closer employer and industry links, and stronger student support by PTEs.

Future Directions in New Zealand

The Government's Proposals

The Government's Tertiary Education Review Green Paper (NZ Government, 1997b) put forward a funding option under which PTEs would be funded on the same basis as TEIs. Under this premise, tuition funding would be driven by student demand, either directly through an entitlement system, or indirectly through an adjusted EFTS system. Given that approach, it is not surprising that one of the reasons advanced for equal funding is that the current practice "disadvantages students enrolling in PTEs as they receive considerably lower subsidies from the Government than students in TEIs." (New Zealand Government, 1997b, p. 23) A second problem is that funding does not move between the PTE and TEI sectors. The paper goes on to suggest that, if PTEs met quality and information requirements, a neutral resourcing system could be implemented.

Responses from the Sector

The public tertiary education student and staff unions are strongly opposed to any public subsidies for students in private tertiary education (NZUSA, 1997; APSU, 1997; Ledgerton, 1996).

The TEI representative bodies take up the middle ground, with the Association of Polytechnics in New Zealand (1997) wary of PTEs undercutting the polytechnics because the PTEs do not have to meet community service obligations. The New Zealand Vice Chancellors' Committee (1997) is happy with some PTE funding, but only within niche areas that existing providers do not cover. The New Zealand Council for Teacher Education (personal communication, October 10, 1997) has decided in principle to make membership open to PTEs and takes no stand about public subsidies for PTE students.

The supporters for common subsidies for PTE and TEI students include the New Zealand Association of Private Education Providers (1997), one of several PTE associations, which supports sharing the existing funding across all providers and between all students. There are no organisations representing PTE students.

It should be obvious that all of the parties cited above have a direct pecuniary interest in this issue. Their views are valid, although the depth of their analysis varies enormously. However, it would be desirable if other views could also be drawn upon. Unfortunately, there

is little academic research in this area within New Zealand, largely because the growth of the PTE sector has been a recent phenomenon. Stakeholders, such as employers, unions, parents and broader community groups, have also made a limited contribution to this debate.

A Way Forward

The tertiary education sector has not come to any consensus on the issue of subsidies, but the predilections of the Government and the nature of the PTE sector provide greater guidance.

Subsidisation of students in private tertiary education is supported by the current Government preference for New Public Management policies. While some areas of tertiary education have been exposed to tendering practices, others have had the relative stability of the EFTS funding system. The recent Green Paper has a strong focus on harmonising resourcing systems within a market-based approach. It appears likely that this will include opening up the resourcing pool to PTEs.

PTEs have also been very successful in their operations over the last decade. They have performed well in the TOP, Skill Enhancement and EFTS areas while operating within clear quality assurance bounds. Such success tends to undermine the views of those who suggest that there is a horde of low-quality providers waiting to storm the gates. Success is also important because the growing enrolments in the PTE sector make issues of equity across student groups more significant. The political impact of 10,000 PTE students receiving lower subsidies than TEI students is quite different from that of 1,000 PTE students in a similar situation.

The development of the PTE sector is the factor most likely to lead to neutrality in the allocation of student subsidies. As noted earlier, Government reports have supported neutral funding throughout the 1990s, but until now there has been little evidence for Ministers to see how private provision would actually work. Accordingly, they have responded conservatively by slowly increasing funding and adjusting regulations. Politicians of all parties are now much clearer on the nature and the results of the PTE sector, and the present Government may well reach a decision to increase subsidies for private tertiary education students.

If the Government does choose to provide subsidies on a competitively neutral basis, then some consideration of the three main steps listed below will be necessary. It will need to:

- provide Government subsidies to students regardless of the ownership status of the provider with which they enrol;
- identify and, where possible, quantify the CSOs currently met by PTEs and TEIs so that those providers that are chosen to meet them can be adequately funded for those activities that are required on an ongoing basis;
- analyse the likely impact of neutral resourcing mechanisms on the viability of TEIs, and develop appropriate transition and ongoing protocols to support institutions or to allow institutional failure.

The first step is the key, while the others support its implementation. All three steps are listed under the assumption that a range of other measures will be put in place to assure the quality of courses, ration funding and provide information to students.

Identifying CSOs will expose a number of shortcomings in the performance of PTEs and TEIs where inappropriate incentives have resulted in adverse results. This analysis is crucial, however, in determining what they do well, and in designing funding systems to ensure they continue to provide those services.

The modelling work on the effects of change on TEIs is also important, as it will guide the exact timing and nature of policy implementation. There is little value, either political or theoretical, in making policy that will cause the current TEIs to suddenly fail. One or two of these institutions may fail, or be closed, over the next five or ten years, but any sudden closure would have serious effects upon staff, students and the local economy.

Once the work on CSOs and the effect upon TEIs has been completed, a staged process of evolution could be designed for the tertiary education sector. Meeting the current and immediate future demand for PTE student subsidies would be relatively cheap and manageable for the Government. The rapid expansion of the PTE sector in the early 1990s occurred in the TOP area where polytechnics were becoming less active. Any growth in fee-paying student enrolments will be in direct competition with TEIs and is likely to be gradual, given the strength of those institutions' reputation and finances.

Essentially, the balance of the New Zealand tertiary education sector is changing. Organisations with non-profit and for-profit forms are entering the sector because they have advantages in particular areas. They will not dominate the sector, but they do reflect a gradual change in the needs of the broader community. That change should be recognised in the allocation of public subsidies for students.

Notes

1. PTEs are defined in s159 of the Education Act 1989, as amended by the Education Amendment Act 1990.
2. TEIs are defined in s162 of the Education Act 1989, as amended by the Education Amendment Act 1990.
3. Where private tertiary education is referred to in the text it generally refers to private ownership and includes both "for-profit" (proprietary) and "non-profit" (community) institutions. This definition is used because ownership is often the basis for differentiating between institutions within tertiary education funding systems.
4. Tertiary education has been classified according to the following three areas within this article:
 - labour market/targeted training programmes (e.g. TOP);
 - vocational education (e.g., Industry Training Fund and EFTS);
 - higher education (e.g., EFTS).
5. For instance, Baker and Guerin (1997) show that PTE students (even though they have a younger age profile) are more likely to access student allowances than are students in any other tertiary education sector, except for wananga. Student allowances eligibility can be used as a proxy for socioeconomic status, indicating that PTE students come from lower income backgrounds.
6. Pol (3/1196) explains how the allocation of state sector graduates to government positions has spurred the growth of self-funding students in public and private higher education across the former Soviet Union (a similar situation applies in China). A major driver for private enrolments in Belarus is the threat of placement in the unpopular Chernobyl region!

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