

## **DEFINING SERVICE INDUSTRIES, PRICING SERVICES AND DESIGNING EDUCATION TO PROMOTE AUSTRALIAN SUSTAINABLE DEVELOPMENT:**

### **SECOND SUBMISSION ON THE PRODUCTIVITY COMMISSION REPORT OF THE REVIEW OF AUSTRALIA'S CONSUMER POLICY FRAMEWORK (2007)**

This is my second submission to the Productivity Commission Review of Australia's Consumer Policy. It logically follows my first, which was made primarily to support the Productivity Commission's recommendation 5.1. This called for the COAG to instigate and oversee a review and reform program for industry-specific consumer regulation. Recommendation 5.3 called for a single consumer protection regime for energy services to be developed and implemented under the auspices of the Ministerial Council on Energy. In the light of the Commonwealth government election promises for COAG to implement deregulation and sustainable development, I argued recommendations 5.1 and 5.3 should be adopted early and could also provide the most obvious method for consultation and related necessary investigation and report on many related issues.

The current submission seeks primarily to provide answers to the following questions in this context, in order also to identify and meet the interests in sustainable development of Australian consumers, employers, workers and their surrounding industries, communities and natural environments:

1. How are services and related industries defined?
2. Can service industry work be valued and priced better?
3. How may skills and education acquisition be improved?

The submission addresses management of service industries and the identification and ideal valuation of their principal outputs (service outcomes and product outputs?), as they may occur in many highly varying environments. The discussion provides examples from health care service to suggest general directions on how some other services may perhaps be better conceptualised, valued and developed. This process logically includes development of more open, flexible education which is also designed to promote Australian service quality and expansion by also helping to reduce all service shortages and cost. Mine are preliminary suggestions. I am sure the Australian Bureau of Statistics (ABS) has many highly expert and practical people working in line with internationally accepted statistical requirements, who could provide further advice to the Council of Australian Governments (COAG) and others, for their consideration on all issues raised.

Industry and community based investigation appears necessary to identify and meet skills development and education needs in a way which is also designed to improve industry and community outcomes generally, towards triple bottom line accounting (environmental, social and financial) in the light of the Prime Minister's call to improve the natural environment, to cut red tape and to create an education revolution. These all go together.

The current Garnaut Climate Change Review Issues Paper 1 entitled Climate Change: Land Use – Agriculture and Forestry seeks to answer the question of how the need for Australian adaptation to climate change should occur. I argued that a coordinated regional and related industry and community development approach should logically be taken to the protection of the natural environment. This includes the need for reduction of greenhouse gases. The treatment of agriculture, forestry, national parks and other private, government or indigenously owned lands together, seems a logical management grouping. I also argue that industries, governments and communities should cooperatively establish coordinated, consultative and transparent planning, risk management and related fund management structures, to support sustainable development within all environments. The WWF Climate Solutions Vision for 2050 seems ideally implemented in such broad industry and related community contexts. Its first recommendation is to break the link between energy services and primary energy production. The second is to stop forest loss. The third is concurrent growth of low-emissions technologies. The fourth is developing flexible fuels, energy storage and new infrastructure. The fifth is displacing high carbon coal with low carbon gas. Carbon capture and storage potential are finally considered. The City of Sydney is now implementing its Environment Management Plan to record progress for the first time, against the State of Environment Report 2006/07.

## **HOW ARE SERVICES AND RELATED INDUSTRIES DEFINED?**

Service is defined by my pocket dictionary as ‘work carried out under or for another’. This is recognition that service is work which may be performed either for an employer or for a consumer, or for both an employer and a consumer. My dictionary defines a ‘product’ as the result of a process of manufacture. The report of The Committee on Economics, Finance and Public Administration inquiry into the current and future directions of Australia’s service industries (2006) refers to ‘The Economist’ magazine as defining services as ‘things you cannot drop on your foot’. It also states that services are usually defined as those parts of the economy that are not agriculture, forestry and fishing; mining or manufacturing, which appears also to be the practice of the ABS. The Australian Services Roundtable defines ‘services’ as follows:

Services deliver help, utility or care, an experience, information or other intellectual content. The majority of the value of that activity is intangible rather than residing in any physical product (2006, p.5).

It is not a particularly helpful practice to define a word by repeating the word which is ideally being defined. However, the statement recognizes the accumulated knowledge which often resides in the persons who may provide services (and/or produce products).

In ‘The Language of Money’, Carew states that the term ‘product’ once used to mean something tangible, which resulted from creative effort and usually involved physical energy and machinery. However, in the language of finance, ‘the word ‘product’ now means something that can be sold, bartered, taken advantage of or just talked about’ (1996, p.263). Her book does not define a service, but I guess that financial services are called

products to give what may be highly speculative and intangible forms of value a spurious air of dependable solidity for mum and dad investors – just like me. Whether they are called financial products or services, however, the provision or promise of money normally supports all other forms of production, whether of goods or services. We must understand this system to make it work for those operating in the economy whose efforts we most support, rather than inadvertently helping our enemies to impoverish us through their secrecy or deception. ('Ask why, asshole' – as we are told Enron managers joked.)

The Standing Committee on Economics, Finance and Public Administration strongly supports the ABS use of the Australian and New Zealand Standard Industrial Classification system (ANZSIC) and the Australian and New Zealand Standard Classification of Occupations. I assume we all should. Do academics? The service industries outlined by ANZSIC (2006, p.6) are:

- Electricity gas and water
- Construction
- Wholesale trade
- Retail trade
- Accommodation, cafes and restaurants
- Transport and storage
- Communication services
- Finance and insurance
- Property and business services
- Government administration and defence
- Education
- Health and community services
- Cultural and recreational services
- Personal and other services

The Australian Services Roundtable complains that tourism does not clearly appear as an industry in the above headings. However, the Standing Committee report indicates that the Tourism satellite account (ABS Cat. No. 5249.0) draws upon air and water transport; accommodation; cafes and restaurants and education as major industry components. I assume the ABS also has a similar appropriate method of dealing with legal services and related occupations, although I could not find it easily on a quick perusal of the ABS site. However, my experience of the ABS suggests that we would all probably do better if we understood and applied its services much more than we do, in order to improve our work. I would be surprised if others have better ways of classifying work performance. Do they?

### **CAN SERVICE INDUSTRY WORK BE VALUED AND PRICED BETTER?**

It is interesting that the ABS lists construction as a service industry, since one may tend to think first of the principal products (eg. houses, factories, hotels, etc.) the builder has produced, as in the manufacturing industry. I guess builders have a fairly clear idea before construction starts of what their costs and prices will be for various common types of

construction products. The production outcome is clear for all to see and evaluate. This is by no means true of all areas where services are provided. However, one may be struck, as I have been, by superficial similarities between a building site and a hospital, in that good outcomes may strongly depend upon effective management of a range of different specialist contractors whose work is a necessary contribution to construction of a building on one hand, or to the cure of a patient on the other. A range of management changes have been discussed in health care provision with a view to improving regional management of health in hospital and community settings as effectively as possible. Such approaches to valuing and pricing health related services may be appropriate in many other service areas.

For example, in 2004 the NSW Premier called for information about legal costs. As a subsequent Legal Fees Review Panel (2004) paper pointed out, the concepts 'value' and 'quality' are elusive terms, which ideally should be evaluated by the client. Hourly rates are the standard fee structure for law firms. Under the time sheet system the only thing that determines whether it has been a good or bad day is the number of billable hours recorded. Nothing but the size of the bill supposedly reflects how well the lawyer has performed. The concept of value or quality which is attached to this leads to the assumption that the longer the lawyer toils the more valuable the work is. From the perspective of the customer this may be ridiculous. 'One thousand plodding hours may be far less productive than one imaginative brilliant hour. A surgeon who skilfully performs an appendectomy in seven minutes is entitled to no smaller fee than one who takes an hour and many a patient would think he is entitled to more.' (Legal Fees Review Panel 2004, p11.) Open ended systems send wrong incentives and have been revised in health care.

Prospective payment systems in health care generally entail a fixed-fee method of reimbursing hospitals for treatment which is based on patient diagnosis. They have recently been adopted in Australia in an attempt to establish better management, where the particular outcome and related effectiveness of health services can also be estimated better. With the introduction of the 'casemix' system the Commonwealth and the states committed themselves to work in partnership to establish a nationally consistent Australian National Diagnosis Related Groups (AN DRG) funding, management and information system which should serve as the foundation for a national health information network, developing health goals and targets, and developing national health care quality measures. Service contracts between insurers, hospitals and doctors are ideally negotiated on the basis of payment for the provision of a specified casemix. This system also delineates the roles of service purchasers and providers more clearly to compare service outcomes better.

Hospital billing to Medicare was previously based on the number of days a patient spent in hospital, with additional payments made to the hospital, according to their intensive care requirements. Payments were also adjusted according to the level of sophistication of hospital facilities. An additional payment was made for the type of treatment provided, as indicated in the Commonwealth Medical Benefit Schedule (MBS) – a service price list. Other tests and procedures carried out by a range of specialists had historically been billed separately, consistent with expectations of professional autonomy. The system provided economic incentives to increase the length of stay in hospitals, to provide many tests, and to increase the technological sophistication of hospital services, without providing any

indication of whether this was the best use of resources in terms of providing cost effective access and quality outcomes to patients. Neither government, health funds, nor individual patients could control such costs or make adequately informed judgments about the relative merits of various treatments and facilities. Complex Commonwealth/state responsibility for funding public hospitals also increased the difficulty of comparing public and private health services to identify their outcome and cost.

The newly introduced casemix system is designed to allow comparative examination of treatment episodes. Hospital activities are divided into five major kinds and funded separately. The main activities are classified as acute inpatient; non-acute inpatient; research; teaching and other. The acute inpatient category is the major focus of attention in the hospital casemix system, and is based on a principle (and perhaps secondary), patient diagnosis. With the exception of payments to the doctors for labour, all costs of patient care are ideally included in an average price which has been set for treating a specified diagnosis appropriately. A major point of the system is for purchasers of health services to be able to compare providers, taking into account their outcomes and service prices for treatment of a range of diagnoses. Hospitals are to be paid for throughput of particular diagnosed conditions, according to prices which are based on the average cost of treatment of specified diagnoses. This is also designed to promote specialization of hospital service delivery in areas where their comparative expertise and treatment advantage is greatest. Ideally this also promotes more effective use of expensive technology. Data is captured about the procedure provided as a result of the diagnosis, and information about the age, gender, and situation on discharge of the patient is also obtained. Although casemix approaches were pioneered in hospitals they appear useful in a wider range of health, community care and related services. Diagnoses may be narrowly or broadly classified.

If a hospital treats a patient at less cost than the casemix payment it receives for their diagnosis, the hospital will make money, but if the treatment costs more, it will lose money. A valid criticism of the casemix approach to service provision has been that it could lead to hospitals discharging patients 'quicker and sicker', especially if the patient is hard to diagnose or has extra health problems, because of their age, family responsibilities, or lack of family support. On the other hand, casemix has been promoted as a means of reducing hospital waiting lists through more effective throughput, as well as containing cost. The casemix system also provides a capacity for health information gathering, analysis and choice by government and consumers which did not previously exist. It also provides a basis for further health related research through the identification of 'at risk' patients, whose treatment patterns and costs are not typical and who require additional support from community services on discharge. However, achievement of this depends upon effective collection and dissemination of service outcome and related patient data.

Ideally, a doctor or related health care provider is expected to identify a patient's problem and to apply appropriate treatment after consideration of the relevant body of scientific evidence. However, the treatment may vary as far as this appears to be necessary to meet the specific health needs of a particular individual's situation. The reasons for deviation from the generally expected expert practice should be documented. This may then contribute to a body of related information which is broadly studied to improve the general

treatment. This approach is consistent with the expected use of codes of practice under state occupational health and safety acts. Codes of practice should be followed unless another course of action seems safer, according to the specific requirements of a particular situation. To promote clear, efficient and equitable management of all injury, consistent protective approaches are ideally taken to those who are injured at work, or allegedly by a product or service provider, or through a related misfortune experienced in the community.

Task-based legal billing was favourably discussed by the Legal Fees Review Panel (2004). This is defined as reporting the cost of legal services by tasks, using billable codes to describe them. The lawyer ideally provides a budget in advance of performing the particular task and may not exceed the budget without prior agreement. This form of billing appears to be ideally consistent with Medicare expectations and with the casemix (diagnostically related group) funding model that is a vital part of the identification of value and price in health service provision. There is little or no systematic information in reports on legal aid, or in other reports on access to justice, about the social problems which are dealt with by the courts. This lack of comparative information about types of dispute, their treatment, and their outcomes is typical of legal practice and can be unfavourably compared with the situation in health care. The health practitioner gathers evidence of apparent problems, records a diagnosis and implements recommended treatment. Ideally this is applied with the variations the practitioner considers necessary in the light of all relevant evidence about the particular case or situation. Ideally, data recording is designed, both nationally and locally, to drive improvements in the quality of all treatment outcomes and to prevent re-injury. Record of typical and atypical patient situations, treatments and outcomes, provides a broad data pool in which diverse situations and practices can then be studied, in order to improve all future activity (Johnson 2002). There is a single client record! This quality management approach seems broadly relevant to contain service cost in other areas and to improve all service quality. What is better? (I see worse coming if Australian Law Reform Commission recommendations on client legal privilege or Australian Greenhouse Office views on risk management go ahead.)

The report of the Review of the Skills Base in NSW and the Future Challenges for Vocational Education and Training, which was produced by the Independent Pricing and Regulatory Tribunal (IPART 2006), provided useful and apparently supporting recommendations in this context. Students who go to technical and further education (TAFE) institutes pay for qualifications or for a short course specifically to develop a skill. This confuses statistical estimates about current and future needs for skills development. The Tribunal discussion of costs (p.111) indicated that Access Economics calculated its estimates of future TAFE costs by projecting the current unit cost of vocational education delivery scenarios forward and applying them to the generational projections of the Australian Intergovernmental Report and related target scenarios. Tribunal Recommendation 7 called for funding and accountancy systems which are primarily based on the purchase of qualifications/competencies, rather than the purchase of hours of teaching. This approach also appears to be important to reduce a problem which may currently occur in universities, which is that some controlling collegiate cultures may have a vested interest in over-teaching in some areas, and reducing the diversity of the student experience in others, to ensure that educational funding is not directed beyond the

colleagues to whose interests they are closest. Recommendation 7 also encourages the institutional move towards program budgeting. This is necessary for research and educational transparency, for improvement in education quality and related general service gain, as well as triple bottom line accounting for sustainable development.

## **HOW MAY SKILLS AND EDUCATION ACQUISITION BE IMPROVED?**

Neoclassical economists have traditionally assumed the price of products and services is determined by the relationship between their supply and the demand for them. However, Drucker (1999) noted the 20<sup>th</sup> century growth sectors were government, education, health and leisure and that none operate according to traditional supply and demand. Human capital economists have focused on the cost of the skills embedded in the workers who produce a product or service as the determinant of its price. Following Bell (1973) and Drucker (1993), Florida (2003) argued knowledge is now the major means of production rather than capital, natural resources or labour. From this perspective, skills and education determine a significant part of the value of any service or product and when workers with particular skills or education are in scarce supply this is likely to increase the cost of the service or product they produce. One way to lower costs of services or products therefore seems likely to be to provide more flexible, cheaper, more effective forms of skills development and related education as broadly as possible. Open up curriculum content!

Skills development and education involve acquisition of knowledge. Skills are usually improved at work, through repetition and increasing practical understanding whereas education is normally thought of as requiring broader knowledge and related conceptual approaches to solving problems. Relevant vocational knowledge is ideally developed and directed according to the specific needs of the community, industry, employers and students, as groups and individuals. Skills and broader education may be separate or linked, depending on the skill shortages and related occupations under consideration.

Historically, the key role of TAFE was to provide industry approved education for apprentices, such as in manufacturing, construction, energy and other public utilities. Universities traditionally provided education in arts, the humanities, sciences and also to meet the needs of self-accrediting professional service providers, such as those in law, accountancy, medicine or engineering. Many bureaucrats and teachers were also produced. However, as secondary and tertiary education expanded to service broader economic development and a growing welfare state, students in many related fields, such as in business, psychology, allied health, welfare and communication expanded in both universities and TAFE. Original distinctions between the two post-secondary Australian education sectors appear increasingly untenable because of the growth of industries where students may be educated either in TAFE or in universities, without a clear indication of what is actually taught in either sector or why the differences occur. The costs and benefits of either form of education are comparatively unclear for the society, for industry and for the individual student. Much more open education is needed. What is going on in there?

Since 1990 the Council of Australian Governments (COAG) has sought national standards for health and environment protection, related occupations and their supporting education.

Mutual recognition legislation was then passed by the Commonwealth and all the States. It used the word 'occupation' to cover the traditionally self employed professions as well as other forms of work. All forms of education, communication and related technology must now be considered in a new global context in which education for sustainable development needs to be promoted as widely and effectively as possible, along with other skills development. How this is done in classrooms is very important and should be transparent. More effectively coordinated, open approaches are needed to the development of education. This seems likely to be undertaken most effectively on an industry basis in which the most desirable organizational relationships between TAFE, university and other forms of education are also investigated. Skills development and better education for sustainable development seem likely to proceed most rapidly through open collection, consideration and dissemination of relevant curriculum content, related steps to improve service transparency and to support individual and community development goals better.

Florida argued that knowledge production is different to other forms because its value to the community multiplies and increases through its creation, spread and use, rather than the product being used up or the production destroying the 'global commons' for private gain, as is the case in agriculture, mining or manufacturing. He claimed that because a good idea produces more value for the community the more it is used and built upon it also produces increasing returns on production rather than the diminishing returns which traditional economists think is normal. He claimed that traditional societies overprotect intellectual property and reduce opportunities for creativity, which he conceptualised as the useful combination of new forms out of existing knowledge. From this perspective, which I share, the broader the reach of education, the broader is also the dissemination of knowledge and all related productive and creative strategies. The quality of education is partly in the eye of the beholders who consume it depending on their personal capacities and needs. Education openness may therefore logically be seen as a necessary but insufficient test of education quality. The more one knows about education beforehand, the more one may judge if it is worth consuming further. Certification of student competency to practice safely and effectively is a separate matter, which may be managed by the most relevant institutions according to various specifications related to the stakeholder and broader community requirements.

In 2006, in the TAFE Futures National Inquiry, Kell asked 'What are the desirable futures for the public TAFE system in the context of its history and contemporary pressures? It is difficult to answer this question until TAFE and university education content and outcomes are better coordinated and compared to estimate the costs and benefits of both modes of education for communities, industry and students. This is also necessary so that both education modes can be developed together more effectively in future, to promote education quality, flexibility, work access and personal advance for all. The report of the Review of the Skills Base in NSW and the Future Challenges for Vocational Education and Training, (IPART 2006), provided research and apparently sensible recommendations in this context. Many of these appear to apply to universities as well as to TAFE institutes. The IPART report refers to the operations of around 90 publicly funded, TAFE institutes, which deliver training at more than 1300 campuses. It also refers to community providers



delivering training at over 1,100 centres and over 3,300 other registered organizations, including private providers receiving government funds (p.136).

Industry based consultation with universities and other relevant education providers is necessary with a view to improving all education and research quality and flexibility while reducing cost, through increased transparency. IPART sought projections of educational need and the cost of addressing them from Access Economics. The Tribunal stated the Australian Intergenerational Report data suggests that, under the continuation of present policies, the cost of vocational education training in NSW is expected to increase from the current cost of \$1.5 billion per annum to \$2.0 billion by 2010 (p.111). The Tribunal's key draft recommendation is that the number of students and hours of training be increased at an average of 2.5% per annum over the next twenty years, compared to an average annual increase of only 1% if present trends and policies were maintained. I think that better education results would be produced for much less cost through cooperative industry ventures with suitable institutions of the kind I recommend in the attached discussions. Economies of scale in delivering some education may also support other niche markets.

The Tribunal's conclusion is that increased levels of vocational education and training should be a key element in a 'whole of government' strategy designed to increase the supply of skilled labour. Yet young Australians are currently faced with the choice between TAFE and university education. They need to know the potential benefits of taking comparatively cheap forms of education (TAFE), in comparison with the benefits of forms of university education which may be very costly indeed and leave them with major debts. More transparent program budgeting is necessary in both sectors in order to provide more information about the costs and benefits of study in either area. Major TAFE reports should normally be assessed in universities as well as by TAFE and industry, to assess how recommendations relate to all tertiary education institutions and their stakeholders.

The IPART report calls for 'broader, more sophisticated responses than traditional approaches to skills creation' and wants to ensure that skills are 'used and applied in the real world of work.' It also calls for a shift in focus from vocational education and training to the newer concept of 'workforce development' (p. iv). The report later notes that 'a collaborative approach between government, employers and training organizations is needed, to achieve viable long-term participation of individuals in the labour market and sustainable productivity and economic growth. It suggests the state will need to expand its role from being a provider of funds and training to also being an enabler whose function is to help, encourage and support its partners to play a greater role in future workforce development' (p.39). In this national context, which seems equally applicable to universities, it is a pity that discussion of the role of the latter was addressed only in a short passage about the need to establish and enhance their links with TAFE and schools (p. 107). There are many ways that universities and other higher education providers may collaborate or compete with each other. This potential should be discussed further.

The explosion of information technology has meant it is easier than ever before for education content to be disseminated through a wide variety of media and to be responded to quickly. This has also meant that there is a greater need and potential than ever before

for the rational development of open education content and for effective workplace based supervisors to assist in the assessment of competencies. We need a learning culture, not people who hide their work or create confusion to get ahead. In the light of continuing developments it seems to me that a desirable future for the TAFE system is to assist effective coordination of all post-secondary education to promote education transparency, quality, accessibility, flexibility and cost containment, in order to assist achievement of the national and international goals of sustainable development in the interests of all Australians. It should also assist development by providing and disseminating education content to meet skill shortages and related emerging needs identified by communities, industry and government. Setting standards, examining and providing certification of competency for skills and education which may have been received through a wide variety of channels are also vital in this context. How likely to fit into this low risk industry development scenario is the business trip Kim Beazley recently led to Stanford University to see their model of information technology and business development (Sydney Morning Herald, 14.1.08, p.13)? Not very likely, is my guess. What do you think? Why not ask?

Thank you for the opportunity to make this submission.

Yours truly

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