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POLICY POINT

Biting education bullets

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A politically impossible problem

The teachers are right. Attracting more of the country's best and brightest into teaching would require paying new teachers more. But as things stand there is no way of substantially raising the pay of new teachers without substantially increasing spending, or allowing newly hired teachers to earn more than their more experienced colleagues, or allowing salary differences based on teacher performance.

That makes the Minister of Education's position particularly unenviable.

Unfortunately for the Minister, the combination of expectations built up during Labour's time in opposition and the constraints of the government's fiscal commitments make for high stakes.

What they want

The Ministry of Education's 2019 appropriation, in the last budget, totalled just over $12.25 billion: the third largest spending line item after the Ministries of Social Development and Health. Core roll-based funding for primary and secondary education totalled $5.6 billion,[i] of which some $4 billion went on teachers' salaries[ii] - just under four percent of total government spending.

The government has offered salary increases of 9.3 to 14% over three years – an offer rejected by the teachers' unions. A handy number then to keep in your head: if total salaries are around $4 billion, every 10% increase in salaries costs $400 million – or just under half a percent of all government spending. It is also equivalent to about a third of a percentage point increase in the GST rate (from 15% to 15.3%), or a quarter of a percentage point increase in each of the personal income tax rates.

A 25% increase in salaries would cost about $1 billion – just under one percent of all government spending. This is equivalent to an increase in GST from 15% to 15.8%, or two-thirds of a percentage point increase in every personal income tax rate. Other tax increases or cuts to spending could also be considered. For a sense of scale, the *entire* PHARMAC budget is just under $1 billion.

Why so expensive?

In other sectors, paying more to attract new staff and to retain current staff is a bit less complicated. In markets where salaries are increasing, or where a more enticing offer is needed to attract new hires, those new hires - and staff with competing job offers - can negotiate to earn more than other staff.

That does not happen when a single employer employs nearly everyone in a profession, and when collective agreements ensure that salaries move in lockstep. Paying more to attract new staff then requires across-the-board salary increases which are far more expensive. The cost of the next thousand teachers is then not just their salaries, including any pay increase required to attract them. It is also the cost of providing a proportionate salary increase to some sixty thousand[iii] other teachers.

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Pay and Performance

Raising salaries to the levels required to attract and retain the best teachers is very expensive when the same salary must be provided to all teachers. Again – about four dollars of every hundred dollars of government spending already goes toward teacher salaries, and the government faces spending pressure across many areas.

Setting a higher salary schedule for incoming new teachers would allow the government to offer much more money to attract new teachers. Doing so without offering existing teachers the opportunity to progress to the higher salary schedule would likely cause resentment and greater exit from the profession; allowing current teachers to apply for promotion to a higher salary schedule raises the fraught issue of performance-based pay.

Another way

Linking pay to performance is contentious. Teachers' contributions to pupils' performance are hard to isolate and there are no perfect measures of performance. But every other service industry has found ways of providing the flexibility for employees to negotiate salaries; teaching really is not so fundamentally different. Many options are available, from providing principals with budget authority and permission to negotiate salary uplifts with individual teachers, to more formalised performance assessments.

Through a small change to the way salary schedules are framed – as minimums only - and trusting principals to manage their budgets, schools could better compete with other employers for the brightest and the best. Schools in low decile communities could use their decile-funding to pay teachers more. Teachers who go the extra mile could be duly rewarded. Teachers of shortage subjects could attract a premium.

Where to from here?

The teachers are right that compensation in the profession is inadequate to attract and retain the calibre of teachers that New Zealand students deserve.

But paying all teachers enough to attract and retain excellent ones will be very expensive, requiring either tax increases or spending cuts elsewhere. Limiting costs by only offering higher salaries to new teachers may be considered inequitable by excellent experienced teachers. Offering a performance-based path to higher salaries would be politically challenging. However, a system of salary schedules with negotiated uplifts might not only overcome the current impasse but also improve incentives and signals across the system.

The teachers' unions are probably wise to want to lock in gains before the remaining fiscal headroom available to the government is awarded to other groups instead. They would be wiser still to also propose schedules as minimums, with budget freedom to negotiate uplifts.

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[i] See lines 682 and 692 of the Estimates of Appropriations 2018/19.
[ii] Teacher Salaries Funding to Schools data available from Education Counts. which reports that teacher salaries in state and state-integrated schools in 2017 totalled just over $3.8 billion.
[iii] Teacher headcount data available from Education Counts.