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The Bulk Funding of Teachers' Salaries: A Case Study in Education Policy

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In the education policy document *Investing in People – Our Greatest Asset*, which was attached to the July 1991 Budget, the Minister of Education announced that schools would be able to “opt in” to a voluntary scheme in which teacher salaries funding would be devolved to individual schools. Details of this scheme were announced two months later, in mid-September. The devolution of funding for teacher salaries has become, over time, the most contested aspect of the Tomorrow's Schools reforms. There are two sets of reasons for the continued (and increased) contestation over this aspect of the policy. First, the policy itself has been altered over time, and second, the political context in which the policy was to be implemented had also been transformed. A policy area which was initially unpopular became, between 1988 and 1991, a major site of struggle.

To document the bulk funding issue as a case study presents many difficulties. This is because this policy is deeply embedded in broader political trends and has, to some extent, become a key battleground for control over the direction of education and, more broadly, of the limits of state action. Issues of democracy, educational aspirations, equity, industrial relations and indeed of the notion of a welfare state society are intimately tied up with the bulk funding policy.

This article aims to provide an overview of the inter-relationships between all these factors and the bulk funding of teachers salaries. Drawing on other literature, I will begin with a necessarily brief examination of the state, aiming to answer the question of why the bulk

funding issue is so important, that it be pursued in the face of widespread opposition. The following two sections deal in turn with the “history” of the bulk funding issue within its larger political context, and with responses from, in particular, teacher unions and boards of trustees. The conclusion focuses on the bulk funding of teachers' salaries as essentially a political problem, and considers a range of possible outcomes.

The State, Neo-Liberalism and the New Model of Public Management

There is a great deal of evidence that the recent restructuring within the state has been driven largely by the move away from demand based Keynesian welfare state economic policies towards a form of neo-liberal monetarism (e.g., Boston et al., 1991). Opinions differ about whether these reforms were driven by fiscal or ideological rationales. Codd, Gordon and Harker (1990) claim that they were essentially responses to a fiscal crisis, itself driven by the cumulative effects of an increasing crisis of accumulation in capitalist production. Nash (1989, p. 113), on the other hand, argues that the reform of educational administration was the result of a crisis of legitimation within the state, based on “Labour's electoral need to satisfy popular demands for community participation and by its own governmental need for enhanced powers in certain crucial areas of state management.” Boston (1991, p. 1) notes that: “Also important was the general ideological shift to the right and the consequent enthusiasm amongst parties of almost all political persuasions for commercialisation and privatisation”, although “fiscal imperatives were (also) a decisive influence.” Whether the basis of the current reforms was primarily fiscal or ideological (and indeed, the two cannot properly be separated), and what the nature of the legitimatory discourses were (see Gordon, forthcoming), it is clear that reforms in the state sector, including education, were informed by and linked to broader economic policies.

However, Boston sees another rationale for state reforms which was relatively independent of specific fiscal and ideological concerns. This related to broader issues of the processes and accountability of state action in the period before the reforms were introduced. In relation to education, Ramsay (in press, p. 1) notes that concerns about the bureaucratic processes of the centralised education system provided the

impetus for the Picot Committee's proposals for a total overhaul of the administrative systems of education. These concerns can be seen as relatively independent of the New Right's attack on education, although they provided fuel for the arguments of agencies such as Treasury (1987) for a total restructuring of education. Barrington provides a historical account which demonstrates clearly that even from a strong Keynesian welfare state perspective, the processes of educational administration were subject to much criticism, and that calls for more autonomy for schools go back more than 30 years (Barrington, 1990).

The restructuring of the state cannot simply be explained with reference to monetarist economic theories. The vision of the free market society with only a minimal state may have provided an ideal for state reform, but it certainly does not reflect the outcomes nor the intent of the reforms. As much as anything, this reflects the tension between the adoption of monetarist theories and the need for the state to legitimate its actions. Rudd (1991, pp. 162-3) notes that: "... governments may trim and pare at the edges of the welfare state, which will probably make specific governments electorally unpopular; fundamental reforms to the *nature* of the welfare state as opposed to its *administration*, however, are not acceptable." In his paper, Rudd documents attempts by the Labour Government to reduce the size of the state, and their failure to effectively achieve this aim. Even the National Government, who, unburdened by the pursuit of equity ideals, have launched much more enthusiastically into cutting back state services than Labour were able to, in the process marking themselves as the most unpopular Government in the history of Aotearoa, has only begun to disturb the basic mechanisms of the welfare state (as yet), even though their "trimming and paring" has been vigorous and has had relatively disastrous consequences.

If it is not merely monetarist ideals that have underpinned the changes to the state sector, then what principles have guided these reforms? It is clear that a set of principles exist, and have been applied across the whole state sector. Boston (1991) argues that the reforms have been based on an analytical framework incorporating at least four "theories", all derived from aspects of management theory, albeit closely linked to economic theory. These are: public choice theory, agency

theory, transaction cost analysis and the "new public management" (Boston, 1991, p. 2). A central feature of these "theories", taken together, is that they provide a quasi-privatised environment within the state, even where no privatisation can or will occur. In other words, they share the free market ideals of monetarism but do not rely on the destruction of the welfare state for their implementation. Further, the implementation of these theories within the state forges a reshaped political terrain that makes the eventual destruction of the public sector more likely (Jessop et al., 1990).

The amalgamation of these management theories leads to a distinctive approach. A central factor relates to the view of human behaviour as essentially self-interested as individuals and in groups, hence "government officials are believed to maximise their departmental budgets, while politicians seek to maximise their votes" (Boston, 1991, p. 3). Hence, these theories stress the need for firm contracts between "principal" and "agent", the separation of policy from operations (so that those making policy will not have a vested interest in the outcomes of their deliberations) and a series of mechanisms which will ensure that the state does not grow unduly due to bureaucratic capture. The "new public management" model promotes managerialism as the most effective means of achieving these ends. Managerialism provides the basis for overcoming the problem of self-interest. These managers, in their pure form, are interested solely in the problem of effective management, and thus provide a disincentive (it is argued) for self-seeking behaviour within the public (or private) sphere.

The implementation of these theories throughout the public sector, including education, is evident in any analysis of the changes that have taken place. One consequence has been to import new hierarchies as a central facet of state organisations. This is not to imply that hierarchies did not exist previously; they did, but their rationale varied depending upon the goals of the agency. As a result of the reforms, a single rationale, based on the concepts of efficiency and effectiveness, is promoted in every state agency. There are particular problems in this outcome in relation to equity. The new managerialism is based upon a view of individuals, and of society, that relates particularly to male experiences. Sue Middleton (1990) points out the difficulties faced by Treasury in trying to account for the relatively altruistic behaviour (in

their terms) of women who choose to bear and rear children, in light of the theory that all people strive to maximise their economic advantage in society. If we take this further, it does seem that the view of all people as necessarily self-interested has a number of flaws. If, as Court (1990) argues, women take their essentially *affiliative* (and thus collaborative) experiences in the domestic sphere into their work, then the style of management evident in the new managerialism may be alien to them, and act as a barrier to their advancement or the development of potentially more effective management alternatives. The radical individualism that forms the new management model may also prove alienating to Maori, particularly in the light of attempts to build new *whānau* based movements and agencies within Maori society, which depend primarily on a concept of collectivism and working for the common good.

According to Boston (1991, pp. 14-15) there is evidence that the notion of individuals being primarily self-interested has little or no explanatory power across a whole range of circumstances, and indeed many counter examples from within the public sector can be offered. This has particular significance when related to the actions of teachers and teacher unions in terms of the subject of this paper: the bulk funding of teacher salaries. The central argument used against teacher claims is that they are an understandable self interested reaction to the policy; and further that the policy is intended to aid parents, pupils and the education system, not the interests of teachers: "Because of the extent of professional/union capture that exists in the education sector, we doubt that the Minister can expect to receive advice that is objective and balanced" (State Services Commission, 1990, p. 8). Hence, teachers' arguments against bulk funding have been discounted and devalued because they are seen to arise from a position of self-interest which is anathema to the new managerial model of the state sector.

Despite the flaws in the new managerial model, it is clear that the "self-interest" arguments have been a powerful tool in shaping the inputs to state policy processes, by effectively discounting the views of any group with an interest in a specific policy. Policy decisions made in the managerialist state are said to be rational only when made by those with no apparent interest (and this is interpreted primarily as an *economic* interest) in the outcomes of the policy process. Thus, policy

advice or contestation emanating from educators within the Ministry, from teachers and from students can be delegitimated simply because of its source. On the other hand, advice from agencies such as Treasury or the State Services Commission (and these two agencies in particular) is legitimate simply because under this model it is neutral, in the sense that those proffering that advice have no discernible interest in the outcomes (according to this definition of interest). If this is coupled with two other factors, namely that both agencies promote policies which will lead to a cut in funding for education (very attractive to a Government with a self-proclaimed fiscal crisis) and that the new management model has close ideological links to neo-liberal economic theories, and thus favours outcomes that fit these theories, it is quite easy to understand how New Right policies have become, and remain, pre-eminent in state policy, including education.

However, the dominance of neo-liberal theories should not be over-estimated. Their fatal flaw lies in their essentially anti-democratic processes, which deliberately exclude the kind of contestation and claims that New Zealand has become used to in relation to state policy and provision. Claims from civil society may be "managed" (Offe, 1985), but they cannot simply be ignored. In Britain, Thatcherism's greatest triumph was not the restructuring of the state (New Zealand has gone further and faster in this respect than the UK was able to), but in the articulation of a popular politics which presented an authoritarian regime as "in the interests of" the masses (Jessop et al., 1988). In New Zealand, the Labour Government attempted to align neo-liberal state reforms with a discourse of equity and community participation; that is, with quite a radical notion of democracy. Because the new structures of the managerialist state were, by definition, anti-democratic, this led to enormous contradictions. As a result the Labour Government was soundly beaten in the 1990 election, replaced with the biggest National Party majority in history. Labour's dualist stance, however, led to equivocation on a number of policy issues, such as the bulk funding of teachers' salaries. Thus, their failure to implement this policy stands as a reflection of their contradictory political position.

National came to power with no such social democratic commitment. Since the election, the National Government has proceeded to uncouple the "equity" goals from those of "efficiency"

(Middleton, 1991). In terms of bulk funding, the crucial area has been that of industrial relations. The introduction of the Employment Contracts Act (1991) dismantled an industrial relations system built up over more than 100 years, and clearly articulated within a Keynesian “social contract” framework, by reducing all employer/employee relationships to an individualised contract. There is an evident commitment by the Government to impose private sector “discipline” on the public sector, and the most effective way this can be achieved is through devolving the responsibility for negotiating and paying the salaries of state sector staff. One of the biggest groups of state sector employees is teachers, and about 75% of school budgets are made up of teachers’ salaries. The devolution of the bulk funding of teachers’ salaries is thus crucial to the National Government in two respects. Firstly, it distances the state from issues of teacher salaries and conditions, and thus individualises as far as possible school industrial relations. Second, that distancing also provides the opportunity for greater control over, and possibly further reductions in, school budgets, whilst the responsibility for running schools is left in the hands of boards of trustees. This would inevitably put pressure on schools to reduce the salaries of teachers; evidently an intended, although not overt, consequence of state policy (see below).

The issue of the bulk funding of teachers’ salaries, then, is a crucial one in terms of the Government’s broader agenda for the state; an agenda framed and articulated by Treasury and the SSC. However the National Government, like its Labour predecessor, is struggling to implement anti-democratic policies in a way that appears democratic. Overall this Government is so far losing this political battle; public opinion polls show it to be the most unpopular Government in the history of Aotearoa. However, whilst unpopular policies such as cuts in welfare benefits can be implemented unilaterally, the bulk funding issue is somewhat different. The new system of education relies on a supply of about 25,000 volunteers to make up the boards of trustees of schools around the country. As Graye Shattky, President of the School Trustees Association, commented (Dominion Sunday Times, Education Times, 19 May 1991, p. 14):

School Trustees recognise with increasing clarity that it is their voluntary commitment which now underpins the education system.

It is by no means certain that the Government fully appreciates that, in matters of school management, it is hostage to the goodwill and cooperation of schools boards.

In terms of the new model of public management, I would argue that the Government and state agencies are very aware of this. It is ironic that the need (under this model) for the devolution of the control of educational administration has provided the conditions for the development of a crucially strong, and extraordinarily large, new “interest group” in the sphere of education.

The Policy Background to Bulk Funding

This section reviews the history of the bulk funding issue, covering the period from the Picot Report proposals to the 1990 general election, when National succeeded Labour as the government, which marked a significant change in the context, content and processes of implementation of the policy.

The Picot Report and Tomorrow’s Schools

The *Picot Report* was primarily directed at giving schools more administrative flexibility and autonomy. John Barrington (1990) notes that the claim for more school autonomy in matters of expenditure is not just a recent phenomenon produced by the move to monetarist policies and new models of state management, but has a long history in education reports. In other words, the notion of less central control was a common theme even within the bounds of a Keynesian social democratic state. The fact that such reforms were not undertaken previously should thus not be taken to indicate that they could not be; merely that, for a variety of reasons, they were not. This is important because, as Ramsay (in press) notes, the new structure of educational administration provided the potential for more school autonomy within the boundaries of the social democratic goals of equity and a fair distribution of resources; in other words, the new system was not necessarily wedded to the concept of a competitive free market. The Picot Report itself represented what Ramsay refers to as a “complex compromise” between “the educationalists, the businessmen and the Treasury and State Services Commission officials. These divisions are

reflected in a number of tensions to be found within the report itself".

One of these tensions related to the bulk funding of teachers' salaries:

The businessmen and officials in supporting bulk funding of salaries based their arguments on the fact that in excess of 70% of all expenditure was in that area. If the newly formed Board of Trustees did not have authority over teachers' salaries as well as other areas of expenditure, then the possibilities of virement would be severely limited. The supporters of bulk funding of teachers' salaries also argued that the Board of Trustees should have the right to establish the rate of teachers' pay and where teachers should start on a given salary scale. (Ramsay, in press)

Contrary to what is now claimed for it (see Lockwood Smith, Education Times, 15 September 1991), the Picot Report did not recommend the free and full devolution of teachers' salaries to schools. The relevant paragraphs of the Report state:

5.2.22 *The bulk grant will have two distinct components: one based on salaries, and one based on all other expenditure.*

- *The teaching salaries grant that the institution receives will have been calculated as follows: a notional staff roll for each school (including prescribed limits on the number of senior-scale staff) is decided according to a nationally determined formula; weightings are calculated to take account of an institution's individual needs; and this is combined with nationally negotiated pay scales to give the salaries grant for a particular institution. The board can then decide the number of teachers, and at what step in the national salary scale they start*

5.2.23 *While the bulk grant has two distinct components, each based on its own separate funding formula, the board has some discretion in the use of these funds. It has, for instance, some leeway in the numbers of teachers it will hire, and at what rate in the salary scale it will do so. The board may decide*

that an extra teacher is a priority, and may use funds from the operational activities grant to create another teaching position – or to subsidise two part-time positions. Similarly it may decide that, given the objectives set out in its charter, it should forgo a teacher position and instead use funds to buy a computer or other high technology teaching aids.

Ramsay argues that this paragraph meant that "schools might like to use one teacher's salary for purposes other than employing teachers *and that was as far as we were prepared to go*" (Ramsay, 1991; my emphasis). However, a careful reading of this clause reveals that it does not, in fact, prescribe the limits of flexibility in relation to the use of the teacher salaries for other purposes. The compromise which Ramsay (in press) describes in relation to the Picot Report meant that many ambiguities were present, and Ramsay's interpretation is not the only possible one. Wilson (1991), in his insightful thesis on the discourses contained in the Picot Report, demonstrates that participants on the Committee had very different interpretations of a number of clauses, dependent on their pre-existing views. Although this clause was not examined, it is likely that some would attach an interpretation of more flexibility than Ramsay was prepared to offer.

The policy document *Tomorrow's Schools* reproduced these clauses almost word for word (Lange, 1988, pp. 12-13), thus extending the ambiguity over the use of the teaching salaries grant into the policy itself. A further clause was also added: "Schools will not use fundraising income to augment staff salaries or staffing positions" (ibid, p. 13).

Submissions on the Picot Report were made by both the NZEI and the PPTA. The NZEI saw the bulk funding proposal as an attack on the national award:

The Institute is implacably opposed to any manipulation of a teacher's salary entitlement which is based on service and grade of position and would have no hesitation in filing injunctions against any Board following this practice (of using a teacher salary in order to purchase equipment). (NZEI, 1988, p. 11)

The PPTA contested a range of issues relating to bulk funding, including some technical problems that it would raise:

[It] must lead to a situation where, if the board is acting conscientiously, it will have to weigh up the relative merits for students of extra materials or other resources, or extra teachers. What criteria will be used? If there are no general criteria there is potential for massive divergence between schools, which will call to question the basis for determining the Teaching Staff Grant in the first place... The Association therefore recommends that the discretion for boards to transfer funds between grants be removed. (PPTA, 1988, p. 14)

The PPTA submission goes on to consider difficulties in calculating the schools grant because of major variations in service and seniority between the teaching staffs of various schools (a problem which was later removed by Lockwood Smith's proposal to base funding on pupils rather than teachers – see below). Both submissions express fear that devolving the responsibility for employing teachers, and setting starting salaries, to individual boards would undermine the national award and have a number of negative implications, for example on equal employment opportunities.

The implementation process

As we have seen, these submissions had no effect on the adoption of Picot's proposals on bulk funding by the Government. Following the release of *Tomorrow's Schools* in August 1988, there was a period of just fourteen months until the new system of educational administration was to be implemented in October 1989. A number of working groups comprising mainly officials of the Department of Education were set up to work through problems relating to the policy. These were called implementation committees. The Minister of Education, David Lange, had been angered by the negative responses of the teacher unions to the *Picot Report*, and at first refused to have teacher representatives on the working groups. He changed his mind as a result of pressure from the large number of teachers in the Labour Party, and specifically those attending the fortuitously timed 1988 Labour Party Conference in Dunedin in late August.

The PPTA were determined, through their representative on the funding working party, to prevent the salaries component of bulk funding being devolved to schools. A number of factors were in their favour, including the complexity of working out the allocation of both

operational and teacher salaries components of the bulk grant to individual schools. In June 1989 the funding working party released an interim report which revealed many difficulties in calculating bulk grants. In relation to the salaries component of the bulk grant, there was a major split within the working party between "direct" and "indirect" approaches. The indirect approach argued that salaries would remain largely centralised, although "each school could still decide the number and mix of its teaching staff within limits". (Draft report of the funding working group to the implementation unit, 24 April, 1989, p. 38). This would avoid the problems of constraints on appointment by lack of funds, for example in a school which has a very stable workforce and thus higher than average staffing costs: "Schools with a stable staff will find their salary bills being pushed above the national average over time, while only receiving funds for staffing at the national weighted average" (ibid, p. 40). An example given was of four schools which each had an entitlement to 31 basic grade teachers. The salary difference between the most and least expensive of these schools was \$132,838. The differences between schools would, through indirect funding, be covered by a process of cross-subsidisation. Essentially, the "indirect" approach argued for a more flexible management of staffing within schools, but the maintenance of centralised funding procedures. The "direct" approach argued for a policy of devolution as outlined in *Tomorrow's Schools*:

A minority of the working group favour the direct approach. This group consider the indirect approach would compromise an important feature of the reform – decisions should be taken by accountable boards of trustees on the optimal mix of factors to achieve the charter objectives. If teacher salaries are funded at actual cost, boards of trustees do not have an incentive to take account of the true cost of any teacher it may wish to appoint. At the same time, if funding for teacher salaries does not meet the actual salary bill of the teachers a Board of Trustees chooses to employ, then the difference can be met from operational component funds. This requires boards of trustees to forgo expenditure on other less important items. To ease disruption, a transition period would assist schools to make any necessary adjustments. (Draft report of the funding working group to the implementation unit, 24 April, 1989, p. 46)

In a memo to the funding working group, Nick Hill (Treasury representative) argued that "the 'direct approach' reflects the policy as laid out in *Tomorrow's Schools*." Hill goes on to identify that under current central awards, "schools have virtually no control over what a teacher is paid. Control over staffing by schools is also fairly limited. It is virtually impossible to reduce staff numbers at a school if no staff member wishes to leave." Thus, in supporting the direct approach, Hill recommends "transitional arrangements for the teacher salary grant until such time as the desirable management flexibility is achieved". In other words, Hill did not see the possibility of direct bulk funding of teacher salaries working effectively until the national awards were removed.

In response to this report, David Lange announced that the salaries component of the bulk funding grant would not be devolved to schools until the beginning of 1991. In the meantime, he stated, schools would be given a test funding allocation covering the operational grant: "They have until September to work out a budget for their school's running costs and see whether the funds allocated will be sufficient" (PPTA News, 10, 8, July 1989, p. 1).

Had these test budgets been unproblematic, it is likely that the bulk funding of teachers' salaries would have proceeded in 1991. However, the process was anything but smooth, with many schools claiming to be significantly underfunded. As a result, another report was commissioned on the calculation of operational grants and the criteria were altered significantly. At the same time, the new boards of trustees were struggling to complete their charters. There was a great deal of suspicion by boards of trustees that the Government was trying to use the new funding system to cut educational expenditure. This suspicion was fuelled by unilateral changes to the charter framework in January 1990 by Phil Goff, Associate Minister of Education (Codd and Gordon, 1991, pp. 28-29). The resulting contestation reinforced the difficulties of full devolution, and in February Goff announced that legislation was being introduced that would delay the devolution of the salaries component of bulk funding (Education Amendment Act, no. 60, 1990). The Act introduced a series of "transitional" arrangements which deferred the devolution of the teacher salaries component of the bulk grant until 31 December 1991, and allowed for a further postponement if necessary.

There was a feeling by mid-1990 that the Government was backing off the commitment to the devolution of the teacher salaries grant to schools (personal communication with a field officer of the PPTA). This view was shared by agencies who had been involved in the original policy processes and who were committed to the changes outlined in *Tomorrow's Schools*. Boston (1989, p. 73) notes that "the Treasury has gained something of a reputation in recent years for wanting to 're-litigate' policy decisions which it has lost." It was argued earlier in this paper that the *Picot Report* represented an uneasy compromise between the Treasury view of education and that promoted by the educators on the committee, and that as a result the final report contained a number of ambiguities. If *Picot* represented a stalemate in the race to gain control over the direction of education, the implementation committee process was a clear victory to the educationalists. The managerialist tendency (Codd, 1990) of *Tomorrow's Schools* was heavily watered down by the working parties, and many of the proposals were altered quite markedly in favour of retaining central control over key areas, including teacher salaries.

By the end of 1989, then, it was being widely claimed within certain state agencies that the educational reform process was now subject to bureaucratic capture. Evidence cited for this came from the relative lack of success in reducing the size of the central bureaucracy of education. Particular concern was expressed at the size and scope of the Education Review Office which, far from being a small audit agency had developed into a broadly based educational review and support organisation (Lough, 1990).

The Lough Report, the SSC and delays in implementation

The Lough Committee was set up in early 1990, and reported in April of the same year. The review process and assumptions of the Committee represented a classic case of the application of the management theories identified by Boston (1991), and quoted above, to the education sector. Codd (1990, p. 21) notes that "Significantly, *education* is hardly mentioned. The report is all about *management*." Indeed, it does appear that the main role of the Lough Committee was to provide a counterweight to the growing strength of educationists in controlling the new system. The Lough Committee welcomed the "delay of the full

responsibility for administration of teachers salaries for 12 months" (Lough, 1990, p. 22), apparently because of a "lack of skills currently within schools to manage the task" (ibid). It does appear that Lough goes significantly further than Picot or *Tomorrow's Schools* in envisaging that the devolution of the salary component will also involve a large amount of personnel work by Boards of Trustees. The report, for example, notes that "discretion to transfer funds between personnel and operating budgets", and the "introduction of pay flexibility" (ibid) are necessary changes to existing practices in order to further devolve personnel matters to schools. The *Lough Report* appears to foreshadow a more flexible industrial relations system such as that since introduced as the Employment Contracts Act (1991), although no such legislation was envisaged at the time by the Labour Government.

As the general election loomed closer, it appears that little attention was given to the issue of introducing the bulk funding of teachers' salaries. Certainly, having delayed the implementation until at least 1992, the urgency was removed from the debate. Once the election was over, however, renewed activity was evident in this area. In the State Services Commission briefing papers on the compulsory education sector, a scathing criticism was launched of the implementation process, and in particular the working parties, arguing that "the original intent of a number of the specific policies.... has been weakened and overturned during the implementation process." (p. 1):

The large number of such groups and the intensive nature of their work meant central agency officials had only limited influence on the process. Chairpersons appear to have been appointed primarily on the basis of the respect they commanded in the education field, rather than their independence or objectivity. It was obvious from some of the policy papers that were rejected, that some working group members were opposed to the reforms and very few members had direct knowledge of the Government's policy formulation process or of its objectives for the state sector as a whole. In fact, because individual members were often chosen as representatives of particular organisations rather than on the basis of personal qualities, they apparently used the working groups as a negotiating forum or as a means to preserve the status quo. (SSC, 1990, Annex B)

The influence of the management theories outlined above by Boston, in particular public choice theory, is very evident in this statement. "Independence" and "objectivity" apparently are synonymous with agreement with the policy, even though the Government, in allowing teacher union representatives onto the working groups, was aware that disagreements existed. The SSC accuses these groups of relitigating policy issues in the implementation phase. This is clearly true. But what is equally clear is that the *Lough Report*, and the SSC briefing papers to the incoming Minister, are equally guilty of a renewed process of relitigation, cutting across ongoing negotiation in a number of areas, including bulk funding. The struggle over the directions of the educational reforms was continuing and, more importantly, the 1990 election was to begin a new stage in the process of policy decision-making over the bulk funding of teachers' salaries.

The SSC briefing papers also re-affirmed a devolved process of salary payments. Like the *Lough Report*, however, the SSC appeared to go somewhat further than Picot in relation to issues of industrial relations. The briefing papers argue that:

It has been claimed that compared to similarly qualified white collar workers, teachers and education bureaucrats have traditionally enjoyed better levels of remuneration and conditions of employment. They also enjoy a relatively autonomous form of employment and there are no significant mechanisms to hold them accountable for results. (p. 6)

The early phase of the educational reforms has been relatively free of attacks on the pay and conditions of teachers. The new phase, marked by the election of a National Government, was to see more shifts in both the policy of bulk funding itself and in the political context of the reforms, notably with the new government's drive for a reduction in state expenditure and in its industrial relations legislation. Both of these factors had a profound influence on the context of the bulk funding issue.

The Agenda of the National Government: Towards Self-management

The Ministry of Education's first report

In a letter to the PPTA in February 1991, Lockwood Smith announced his intention to "proceed with the development of the policy for the bulk funding of teachers' salaries." Enclosed with the letter was a copy of a Ministry of Education report on bulk funding, and an invitation for the PPTA to participate, along with other agencies, in a consultative group convened by the Ministry. Dr. Smith, in a speech to the School Trustees Association Conference in May, stated that "the final but major component of self-management... is the devolution of the teacher salaries grant." The Ministry report, the first of two (the second report was presented as one of the seventeen reviews of education commissioned by the incoming Government), spelt out a series of mechanisms by which bulk funding could be achieved. Two major subgroups – teacher-based and pupil-based funding – were identified, and within each subgroup were three funding options. As well, all funding could be delivered either directly or indirectly.

The Picot Report had specified a teacher-based model; that is, calculated on the number of teachers, based on nationally negotiated pay scales, and taking into account the individual needs of an institution. The PPTA had argued that, if any form of bulk funding was to be introduced, it should be both teacher based and delivered indirectly to maintain national relativities. The Ministry's first report did not recommend any particular mechanism for bulk funding, but identified the advantages and disadvantages of each.

This report made two points which were crucial in the next phase of policy development. The first was related to likely changes to industrial relations, with the introduction of the Employment Contracts Act. The Report states:

Depending on outcomes resulting from the eventual passage of (the Act) ... it may be necessary to make substantial changes to the structures which could possibly be used for the bulk funding of teacher salaries. (1991, p. 29)

In other words, the broad industrial relations framework within which teachers were located would crucially affect the choices able to be made

about which bulk funding options were available. Because of the likely combined effects of the Employment Contracts Act and salaries bulk funding on the national negotiation of salaries and conditions of work for teachers, the education sector led a series of stopwork meetings and protests in April 1991.

The second issue raised by the Ministry was the political problems relating to the implementation of the policy. In a section on implementation, the Ministry noted that "the introduction of salary bulk funding will be a very major step along the path to devolution of decision-making to schools." Thus, the implementation process would have to be gradual and careful (1991, p. 32). The Report identified two ways in which this could be achieved: "trialling" and "phasing in". The essential political difference between the two was that: "'trialling' does not require, as a precondition, a firm commitment to the universal introduction of the bulk funding of teacher salaries", whereas "'Phasing in' requires... a fairly firm commitment to the universal introduction of the (scheme)" (1991, pp. 32-33). This "commitment", of course, would need to be displayed not just by the Government and central agencies of the state, but also by (crucially) boards of trustees and (preferably) education workers.

Whilst teachers' opposition to the introduction of bulk funding was vociferous, the response by boards of trustees was rather more muted and difficult to assess. Graye Shattky, President of the School Trustees Association, in March advised boards to "stay neutral ... till clear proposals could be presented to boards for objective assessment". This advice was given in response to apparent concerns by boards, and some outright opposition to bulk funding (Dominion Sunday Times, Education Times, 3 March 1991). In Cathy Wylie's (1991) study of primary and intermediate schools, she found that there was widespread opposition to the introduction of teacher salaries bulk funding: "79 percent did not want it; 11 percent were unsure, and only 9 percent were in favour" (1991, p. 66). The reasons given for this response were, ranked in order of popularity: workload already big enough; Government's responsibility, not trustees; we are amateurs/part timers; negative effects on our relationship with staff; will increase inequity between schools (ibid, p. 67). Note that there were a mixture of administrative and political rationales for rejecting bulk funding, and

that the administrative reasons were most pressing. In the Budget (Smith, 1991), the Minister would present a scheme that aimed to overcome the administrative problems of implementing full bulk funding into schools, thus possibly opening the way for support of a bulk funding scheme.

Competition: the new ideological agenda

Until Smith's intervention in 1991, the arguments about bulk funding had been presented politically as a way to empower school communities, by giving them greater control over the local policies and direction of their schools. The period from April or May 1991 onwards saw a major shift in the justification for bulk funding. Instead of empowerment, competition became the central ideology. The ground was prepared for this in a number of ways, the most visible of which was the de-emphasis of all issues to do with equity. The equity components of the charter were to become voluntary; the new national curriculum framework for schools barely mentioned Te Reo Maori; and the Minister simply dropped references to equity issues from his speeches. On the other hand, invoking in particular the Porter Project, he promoted a strong image of competition in schools "to enable our young people to meet the challenge of the competitive realities in the modern world, and the international marketplace on which our future standard of living depends" (Speech notes, STA Annual Conference, Nelson, 17 May 1991).

In the same speech, Smith spoke scathingly of the "bureaucratic stupidity" of centralised teacher pay mechanisms, the "irrational" staffing arrangements of schools and the "inflexibility" of the control over salary expenditure. He also promised that the Employment Contracts Act would provide "the potential for negotiated changes (in employment arrangements) in the future".

The New Zealand Business Roundtable, through the release of the *Sexton Report* (1990), had added impetus to the arguments for a more competitive schooling system. The *Sexton Report* was heavily criticised by Marshall, Peters and Smith for its total failure to recognise the basis of Maori issues relating to schooling in Aotearoa (1991), as well as on a number of other counts. As Jesson notes (1991, p. 2):

The *Sexton Report* was greeted with scorn and derision from many in education. It was considered to be superficial, not reflecting the reality of the New Zealand educational situation and poorly researched, and was dismissed as just propaganda. However ... The Business Roundtable was setting its sights on Education (which) ... was to be constructed as a market commodity.

In March 1991, Roger Kerr, the Executive Director of the Roundtable, invited a number of educationalists to join a group that became known as the "Education Forum". This group later defined itself as representing "middle New Zealand", but in fact was mostly male, white, middle class and "concerned with maintaining the traditional meritocratic education" (Jesson, 1991, p. 4). At this first meeting, a Business Round Table report on the bulk funding of teachers' salaries was tabled and, in the words of Roger Kerr in a submission to the Minister of Education, "There was unanimous support for the principle of bulk funding, subject to suitable transitional arrangements being devised" (Letter to Lockwood Smith, dated 2 May 1991).

The report itself was couched in the language of the new model of public management discussed in the first part of this paper. Urging the adoption of a particular model of bulk funding, the report refutes many of the criticisms:

Most of the objections raised against bulk funding are considered spurious. They appear to have little to do with educational goals. Rather, they reflect the self-interest of teacher unions and central bureaucracies in maintaining their power and resisting moves to transfer control to the local level. (NZBR, 1991, p. 2)

The report argued that there were two reasons for moving to a bulk funding approach: "parents and local communities have stronger incentives ... to determine education needs" and this system "allows greater competition between schools and greater parental choice". The particular model of bulk funding preferred by the NZBR was pupil-led, direct funding; diametrically opposed to the staffing led, indirect funding model proposed by the PPTA. Amongst reasons forwarded in the report in support of this approach to bulk funding, the NZBR argued that: boards would be able to make more efficient decisions over staffing; there could be total flexibility between operational and teacher

salary aspects of bulk funding to enhance choice, and further funds raised by schools could be spent on either staffing or operations; school-staff relationships would be strengthened and teacher incentives improved; financial control over educational expenditure at the central state level would be improved; allocations to schools would be fairer; and:

Bulk funding would provide a basis for a subsequent review of teacher employment arrangements. There is a good case for moving away from inflexible, centrally determined awards, in line with the general employment changes being promoted by the government with the Employment Contracts Bill. (p. 2)

Finally, the NZBR identifies bulk funding as one issue which “would be enhanced by other changes to the environment in which schools operate” (ibid, p. 3). The report identifies three areas in particular: problems of continuity of boards of trustees and conflicts of interest that may arise if “staff representatives or parents engaged as teachers at the schools are engaged in employment decisions”; a need for more monitoring of school performance, through external examination, information on school achievements and the reintroduction of an inspectorate; and:

Ways of increasing competition between schools, such as the current moves on zoning and moves to per pupil or voucher-based funding which would allow direct competition between public and private schools.... However, these are separate issues which would not be prejudged by a move to bulk funding. (ibid, p. 4)

The new model of public management is clearly evident in the NZBR proposals. First, the input of interest groups is negated simply because they have an “interest”. Second, the model of school management envisaged in the report is clearly in line with public choice theory, agency theory and the devolution of models of managerialism. Policy is separated totally from funding, the emphasis is on the outcomes rather than the inputs, within the set boundaries agencies are free to act (assuming they “choose” to act competitively) and, because agents cannot be trusted to work in the interests of the central state’s goals, an inspection mechanism must be inserted.

What is striking about the NZBR report is the extent to which competition between schools, and forms of competitive industrial relations within schools, are coupled together; both equally dependent upon the winning of a pupil-based, indirect model of salaries bulk funding.

Salaries bulk funding, for the NZBR, the Treasury and the State Services Commission, would provide the final mechanism for the production of a genuinely competitive schooling system. Schools would compete with each other, both for pupils and for performance in terms of easily specifiable outcomes such as exam passes. Teachers would compete with one another for status in individual schools, and with boards of trustees for a share of the bulk funding.

From the teacher union point of view, the inevitable outcome, as noted above by Nick Hill, of direct salaries bulk funding would be the breakdown of the national agreement over teachers’ pay and conditions. In the end, it would not be possible to maintain a system where individual boards of trustees have to pay teachers, but have no say over their salary levels or conditions of work. Hence, the Minister’s comment in a number of speeches between May and July that “there are significant issues of management and industrial relations still to be resolved” (Speech notes, NZCER Self-Managing Schools Seminar, 4 July 1991). As well, however, teacher unions saw the competitive agenda of the Government as undermining the effectiveness of the New Zealand schooling system which is based heavily on teacher input into policy, curriculum development and collegial staff relations.

As a result, the NZEI and PPTA sought alliances with each other and with boards of trustees against the bulk funding proposals. The basis of their arguments was that bulk funding would not improve the education offered to young people in schools; indeed, quite the reverse. Citing evidence from other countries, notably England which has adopted the system closest to that proposed in Aotearoa, the PPTA argued that: it would be the cost of the teacher, rather than level of expertise or qualifications, which would drive appointment processes; administrative costs would rise in schools; there would be “unequal treatment of equal needs”; parents would contribute towards teacher salaries costs; planning would become more difficult; it would be easier for the Government to further cut funds to schools; and the

relationships between teachers and boards of trustees would become conflictual because of pressures on boards to negotiate contracts with staff, appoint inexperienced staff and increase the workloads of staff.

Other commentators (Lauder, 1991, whose report was commissioned by the Council of Trade Unions) argued that the creation of a market model of education would inevitably lead to further inequalities between schools, based on existing social inequalities which, under the extant system, were partially offset and even compensated for by state policies of redistribution. Lauder (1991, p. 5) argues that "the mirroring of extremes of wealth and poverty in terms of educational provision will not provide an appropriate context for the development of democratic values". In other words, the Minister's competitive schools would translate into stratified schools, organised largely according to the class and ethnic composition of each school. If, as in Britain, schools were allowed to "fail" when they were not competing adequately for students (certainly a model attractive to the New Zealand Business Roundtable, see Sexton 1990), those failures would necessarily reflect existing social differences in the composition of schools. Moreover, under full local management, parents in wealthy schools would be able to supplement their schools' existing advantage by paying for extra teachers through school fees or fundraising.

By mid 1991, then, the strategic situation relating to salaries bulk funding was as follows. The change of Government had signalled a renewed emphasis on achieving this policy aim, underpinned by a move away from equity issues towards a stated desire to see schools become more competitive, both internally and in the education sector as a whole. The implementation committee's processes had been heavily criticised by the State Services Commission, and the Ministry had been asked to produce a report on options for bulk funding; to be followed by a second report as part of the general reviews of education. Outside of the central state, the Business Round Table had signalled that it would take a stronger line in influencing political processes in relation to education, and had attempted this in two ways: the creation of an apparently "neutral" group, the Education Forum, and the release of its own report on bulk funding as a lobbying instrument. Whilst the Business Roundtable were attempting to influence the policy process from within, the teacher unions had launched a campaign vigorously

opposing the policy, which had the effect of marginalising them further in the policy process; however, given the new managerialism in the state, and its inbuilt opposition to interest groups, this was probably their only possible response. In this respect, it is fascinating that the Business Roundtable could use the creed of the new managerialism to deny the claims of teacher unions, whilst constituting their own advice as rational and neutral! Finally, boards of trustees were in a somewhat more complicated situation, compounded by their isolation from each other and by the equivocal stance of their national body, the School Trustees Association. On the one hand, this Association had stated that its stance was neutral, whilst urging boards to keep an open mind on salaries bulk funding. On the other hand, the President of the Association, Graye Shattky, had earned the wrath of teacher unions by stating his own preference for full bulk funding, and through his involvement with the Business Roundtable's Education Forum. The only research evidence available showed that the overwhelming majority of Trustees did not want bulk funding (Wylie, 1991), but their reasons tended to be administrative rather than political. Teacher unions were working hard to develop and maintain alliances with boards all around the country.

This, then, was the context of the announcement on Budget night that the National Government would proceed with a trial of salaries bulk funding in 1992, to include a number of schools on a voluntary basis (Smith, 1991).

The 1991 Budget: towards inequality

The Budget document on education policy laid out very clearly the political context of the bulk funding policy:

The Government accepts that bulk-funding of teacher salaries, as foreshadowed in "Tomorrow's Schools", is integral to the evolution of full self-management by Boards of Trustees The government has recognised that school trustees are not unanimously in support of the introduction of salary bulk-funding. (Smith, 1991, p. 21)

Taking the advice of the Ministry that a trial would be the most effective way to bring in bulk funding where there is significant opposition to the policy, Smith announced that such a trial would be brought in for 1992.

Boards would have to “opt in” for a minimum of two years (later extended to three, then even later apparently abandoned as schools objected to this condition). Recognising that the opposition of many trustees centred on concerns about the extra workload, boards participating in the trials would continue to pay teachers through the central payroll. Financial incentives were also given to encourage participation.

The second Ministry report, one of the 17 reviews of education, was released along with the Budget documents. This report revealed disagreement between members of the review group (comprising Ministry, Treasury and State Services Commission staff) although, unlike some other reviews, Treasury and the SSC did not formally state their differences – these were instead incorporated into the report. Two areas of difference: over direct versus indirect funding, and between staffing-led and pupil-led models, were particularly strong. As a result, the report failed to make a recommendation on the model to be adopted, preferring instead to consider the advantages and disadvantages of each.

In the event, the Minister announced that the model for bulk funding would be calculated on roll numbers (i.e., pupil-led), and would be given directly to schools. In other words, the model proposed by the New Zealand Business Roundtable and the State Services Commission, and the one most hotly contested by teacher unions, was to be adopted.

The Minister presented salaries bulk funding as the final step towards “freeing” schools so that they could be fully self-managing (Smith, 1991, p. 20). The particular form of bulk funding outlined in the 1991 Budget, and in details provided to schools in September 1991 (Ministry, *Towards Self-Management*, 1991), opened the way for significant contestation in the industrial relations area (Ministry of Education, 1991, the second report p. 56), and for increasing inequalities between schools. These were both, it appears, intended consequences of the policy. Other approaches to bulk funding could have been selected; and indeed, administratively it appears that the most difficult one was chosen (*ibid*, e.g., p. 54 on small schools). This decision was *political*; it met the demands of public choice, agency, and contractual theories for a strong central state with decentralised responsibility; it neutralised the “interests” of teachers and bureaucrats; and, finally, it

promised further fiscal control at the centre. The related project to drive down the wages of teachers over time was augmented by two further decisions: to make teacher registration voluntary and allow schools to employ unregistered teachers; and to enable full transfer between salary and operational grants by boards of trustees, as well as allowing boards to use fundraising money to pay teacher salaries.

The teacher unions reacted very strongly to the Budget proposals, stating that they would blacklist any school which entered the voluntary scheme, and at the same time arguing that very few schools would do so anyway. Recognising that the model chosen was the “most extreme one” (PPTA, memo to Executive 19 August 1991), the unions have combined to try and ensure that Boards do not “opt in” to the scheme.

Conclusion

Just before Christmas 1991 it was announced that 45 schools would participate in the bulk funding trial in 1992. It is quite clear from Ministerial speeches that the purpose of the trials is not to see how the system works, but to provide a means of imposing an unwanted policy onto schools, in such a way that the resistance of boards of trustees will be negated. Thus, trialling is merely a political mechanism for persuading a somewhat recalcitrant and independent education sector that bulk funding is in its best interests. We can expect the trials to be run like a sophisticated public relations exercise. A research component identified by the Minister to accompany the trials will actually provide propaganda to persuade other schools to take part (e.g., the Minister stated that evaluation of the policy in practice *would show* the benefits of bulk funding to schools (Christchurch Press, 24.12.91). The extra money that many schools will get will ensure that the scheme runs smoothly from day one, because it is the level of funding which will determine how schools will run under the new system. Pressure for individual contracts for teachers, or replacing experienced teachers with inexperienced ones, or employing unregistered teachers, or having to use teacher salaries to cover the shortfall in the operational budget simply will not appear in the trials; these elements can be brought in only once the scheme is fully operational, with all schools compulsorily tied in.

In the first part of this paper I identified three interconnected factors that could explain recent state reforms: the fiscal crisis of the state, the development of an ideological framework for state action and the implementation of a new model of public management that would bring a particular kind of private sector discipline into the public sphere. Through a consideration of the changing political context of the bulk funding issue, this paper has argued that two factors provide the best explanation for the introduction of a scheme to trial the bulk funding of teacher salaries in 1992. The first is the need to impose a more stringent industrial relations framework on teachers, and in particular to break the national collective agreements currently in force. Likely effects of this were identified as lower wages, more work (for example bigger staff/student ratios and longer hours) and less job security. The second is to introduce a new system of education that marks a significant break from the social democratic guarantee of equality of opportunity for all students. Competition between schools presupposes that schools will be unequal; either because of different specialisations (rare in New Zealand's homogeneous schooling system) or because of inequalities of outcome. The latter form of competition is the most likely one, as, if schools are to become more like the private sector, this means importing a model of inequalities, perhaps even, as in Britain (Ball, 1990) allowing schools to fail, into the schooling system. If schools are failing, pupils are failing also.

These changes in education merely follow those in other parts of the state. The privatisation of state enterprises, the dissolution of monopolies such as Telecom and the introduction of contestability in areas such as health are all symptoms of the spread of the new model of public management and the individualistic economic neoliberalism that underpins it. The new model of public management reveals itself as the old model of private sector management, which, under the new industrial relations environment has already revealed its exploitative nature.

Rudd (1991) has argued that attacks on the structure of the welfare state are politically unacceptable in Aotearoa. Yet the combination of the new competitiveness between institutions and the attacks on the wages and conditions of public servants, together with proposals on targeting put together by the central state (i.e., the report of the Change Team),

are arguably bringing about a qualitative change in the welfare state that will inevitably change its nature. Certainly in education, the retreat from fifty years of equality of opportunity, and its replacement with the catch-cry of competition for all, signals a major change of direction for the state.

The issue of the substitution of equality with competition is not a peripheral one; it is central to our democracy. If the devolution of bulk funding of teacher salaries is, as the Minister claims, the final aspect of policy needed before the new competitive system can finally operate, then the decision on implementation should not hinge on a small number of boards of trustees, who have made their choice on the basis of local administrative issues rather than national political ones. The decision on whether to abandon a relatively homogeneous system that at least provides the possibility of equality of opportunity (if not, in practice, equality of outcomes) is one for the nation as a whole. That state agencies such as the State Services Commission and Treasury, and pro-finance capital groups such as the New Zealand Business Roundtable, believe that major political changes can be treated as if they were mere administrative efficiencies is a clear expression of the anti-democratic nature of the new public management that has engulfed the state sector.

For many years, considerations of equity have dominated the academic and policy literature on education in Aotearoa. It is hard to fathom that the new model of competition being promoted politically actually denies any form of equality as an educational aim. The policy of the bulk funding of teacher salaries is not driven by fiscal imperatives, even though the opportunity to gain greater control over educational expenditure, with a reduction in the responsibility for educational outcomes, must be politically attractive in the current context. The policy is certainly not driven by the needs of government to legitimate its own actions; it is a highly contested policy area and one which promises ongoing struggle. The whole force of these reforms is to turn the schooling system into an image of some esoteric ideal of the private profit-making business; driven by competition, subject to high levels of accountability; with a workforce forced to accept reductions in wages and conditions of work; and with a new emphasis on "winners" and "losers".

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