

Australia's Universities: Last of the Great Socialist Enterprises

Steven Schwartz

Higher education is confronting changes that amount to nothing short of revolution. This feature looks at how the Australian higher education system works, why universities will be forced to change, and what the Australian higher education system will look like in the future.

A few months ago, I checked into the Park Hyatt Hotel. When I arrived, a concierge met my car and greeted me at the door. She escorted me to a comfortable chair, and offered me a welcome drink. She already had my details on computer, so she had pre-printed the necessary documents and key card. All I had to do was sign the credit card slip. I was then escorted to my room where I found my bags waiting for me. The elapsed time was about five minutes and the stress level was less than zero.

One of Australia's most successful private hospitals has modelled its admission procedures on those of the Hyatt. All the forms are pre-printed. And porters carry patients' bags to their rooms—which, by the way, have mini-bars and cable TV. The average time for admission is about seven minutes. The stress level is a bit higher than the hotel guests' (after all these people are sick), but at least their condition is not exacerbated by the admissions process.

Let's compare the hotel and the hospital with the ordeal faced by students who wish to enrol at a typical Australian university. You don't have to take my word for what I am about to tell you. The process was hilariously documented in a charming Australian film called *Love and Other Catastrophes*, which enjoyed some success a few years ago.

Students begin the enrolment process by getting a faculty adviser to sign their enrolment form; this indicates formal approval of their study program. In the film *Love and Other Catastrophes*, the hapless student chased her adviser around campus for the best part of a day. When she finally found him in his office, he was unable to sign her form because he had died. All she found was a corpse. The student, being resourceful, decided not to report the death because that would mean beginning the entire chase

all over again with another adviser. Instead, she simply forged the dead adviser's signature.

Although it may take some time, most students do manage to locate a living faculty adviser, but—because advisers have many students to advise—the queues can be quite long.

One of the reasons that queues move so slowly is that almost every student's enrolment form must be corrected by the faculty adviser. This is not because students are too dumb to fill out an enrolment form. It is because the forms are often incomprehensible and most university handbooks are impenetrable. I once worked at a large Australian university that regularly produced a 1000-page handbook with no index.

Obtaining the adviser's signature is an important step forward, but it is not the end of the enrolment process: it is just the beginning. The student must then take the signed form to a 'great hall' where the information on the form is entered into a computer.

In many cases, the person operating the computer will be unable to get it to accept the information on the form because the corrections made by the faculty adviser are also incorrect. It is almost impossible for advisers to keep up with constantly changing regulations. Thus, an adviser may recommend that students enrol in courses that are not currently taught or for two courses that are taught at the same time on the same day. Untangling these problems takes some time, so the queues at the computer can be quite long.

Once the student completes these two steps in the enrolment process, it is time to walk across campus to the



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library and join another queue to obtain a photo identification card. For some reason, there is generally only one camera operating for thousands of students, so the queue inevitably moves slowly.

When the student finally gets an ID card, it is time to cross campus again, this time to the security or parking office to stand in another queue to obtain a parking permit. Then it is on to yet another queue to pay fees to the cashier and then to the Student Guild. Students who stick it out to the bitter end will have spent the best part of a day in a process that should take no longer than the time to get the adviser's signature, and probably only a little longer than checking into the hotel. Worse still, they may have to come back on another day to complete the process.

The Hyatt did not ask me to go to one queue to complete a registration form, a second to collect my key, and a third to arrange credit facilities with the cashier. So why are universities different? They also have student details. So why can't advising, data-entry, payment of fees and issuing of library cards and parking stickers be done all at once—a one-stop shop—just like a hotel?

The answer is they can, and sometimes, rarely I admit, but sometimes, they are. A few universities do enroll students efficiently; a small number even permit enrolment over the telephone or the Internet. So, if it can be done, why isn't done all the time? This question turns out to be more profound than it may first appear. As you will see, the answer tells us much about Australian universities today, and how they will evolve in the future.

In this talk, I will cover three main points. First, I will explain why archaic, customer-unfriendly enrolment procedures are simply symptoms of a deeper problem—a centrally controlled, provider-driven mentality. Second, I will discuss why current international trends will inevitably force universities to change. Finally, I will try to describe how our universities will evolve in response to these inevitable changes.

Let me begin by returning to the issue of enrolment. The reason that enrolment is such an ordeal is neither staff stupidity nor indolence. The vast majority of university employees are dedicated professionals who work long hours for below-average salaries. Most love their work and their institutions, and they want to see universities thrive.

The real problem is philosophical and systemic. The people who work in hotels and private hospitals operate

in a competitive, market-driven environment. They know that their livelihood depends on pleasing their guests and patients and keeping them out of the hands of their competitors.

Universities are different. In an era when electricity suppliers, telephone companies, airlines, hospitals, tram companies, and even prisons are required to compete on service standards and price, higher education remains the last of the great socialist enterprises.

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How the Australian system works

A small group of undergraduates, around 10%, pay the full cost of their education. The average course fee is over \$11,000 per year, but it can be much higher for courses such as medicine. These fee-paying students are mainly international students although a small number are Australian. In either case, full-fee paying students do not receive taxpayer support. There are also postgraduate fee-paying students studying in courses such as the MBA.

The remaining 90% of undergraduates have their university education subsidised by the Commonwealth. Universities receive around \$10,000 for each of these students. The Commonwealth recoups part of this funding from the students, either as an upfront payment or through a surcharge to their income tax once their income reaches \$21,000 per year. In other words, students borrow the money and pay it back through their taxes. Although the loan is supposedly interest-free, students who pay upfront receive a 25% discount. It is important to understand that the money recouped from students is not set aside for universities; it goes to consolidated revenue. It is also important to understand that these arrangements are not related to family income. The son or daughter of a heart surgeon pays the same fees and receives the same subsidies as the son or daughter of a taxi driver.

The Commonwealth Government, after consulting universities, determines each university's share of the subsidised undergraduate places.

No matter how good they are or how weak they are, no matter whether they teach obscure courses or popular ones, no matter how well they treat students or how poorly, every university in the country receives an allocation of subsidised places. This number becomes the university's enrolment target. The government extracts a heavy penalty from universities that fail to

reach their targets, so most deliberately overshoot. The extra students are funded by the government at a low marginal rate, currently \$2500 per student. At present, there are so many marginally funded students at our universities, they could easily fill a new large-sized university.

Because of their prestige, location, or range of subjects, students clearly prefer some universities to others. However, because a university has only a fixed number of subsidised places, it cannot expand its intake to meet the demand. The result is that students may not be admitted to their preferred institution. Students excluded from their first choice of university, usually on the basis of their secondary school performance, then try their second choice, or third choice, or even fourth choice.

In other words, by giving each institution an enrolment limit, the government protects the less popular universities and the less popular courses. Students excluded from their preferred university wind up at a less preferred one. Because they too must meet their targets or risk penalties, the unpopular universities cannot reduce their intake in response to low demand. The result is that they may be forced to admit students who have little chance of completing their courses successfully.

Because every university has a monopoly on its share of government-funded places and because the Commonwealth decides how much students should pay (and how much of their fee should be given to the universities), it is difficult for universities to think of their students as customers. They are a necessary part of the higher education system. Universities would be quiet without them, but they are hardly a controlling force.

Now, some of you may wonder why, if students are not perceived as customers, do universities appear to be spending a great deal of money advertising their courses in newspapers and even on television. The answer is that university advertising is different from commercial advertising. It is designed to protect the providers more than the needs of the consumers.

Instead of building overall market share, most university advertising is designed to entice students into unpopular courses that lecturers like to teach, but students do not wish to study. Advertisements are also used to remind students that unpopular universities have spots available should they find themselves unable to get into their preferred institutions. Prestigious universities and high demand courses such as medicine rarely spend money on advertising.

To summarise so far, it is not the market acting through students that determines what happens in universities, it is a combination of government administrators and academics who decide how many students will be admitted, what subjects universities will offer, and how and when they will be taught. In some universities, academic staff believe they have a right to teach a course in their particular interest area even if there are no students who want to enrol in it. Hence, all of those advertisements.

So, the real reason that it takes a whole day to enrol is because students are simply bit players in a system controlled by the Commonwealth and the providers. Remember when Telecom took weeks to install a phone? Remember when bank tellers would go to lunch leaving a queue of people standing at the desk? This is how government monopolies behave. To many outsiders, and to many insiders, universities remain large public works projects with guaranteed lifetime employment.

Thus far, all attempts to change the current system by giving funding directly to students have been resisted by a coalition of academic and student unions in collaboration with an odd mixture of Labor and National politicians. But the pressure is inexorable, and change is inevitable.

Why universities will be forced to change

Higher education is increasingly an international enterprise. With the advent of the Internet, satellite television, mass recruitment of overseas students, and the establishment of campuses in distant locations, every university in the world can reach students any place in the world. Our universities are now in a global competition, and with formidable competitors.

Let me give you an example. I spent the early years of my career at the University of Texas, in the medical school. I still receive the campus newspaper, the *Daily Texan*, 22 years after leaving. Recently, the newspaper contained an advertisement for a business manager for the Department of Obstetrics and Gynaecology. The advertisement went on to describe the department. Among other pertinent facts, it noted that there were 90 academic staff and that the department budget exceeded US\$27 million.

These are astonishing figures.

All of the departments of Obstetrics and Gynaecology in all Australian Universities combined would not even have half that number of academics, and we run entire medical schools on budgets of less than \$27 million. This is the kind of international competition we face.

Now, it is true that Australia is a clever country. Just like young Einstein experimenting in his Tasmanian backyard, we can do much with little. Even the Bible notes

that the race is not always to the swift and the battle is not always to the strong. But, as Damon Runyon has said, that is still your best bet. At last count, the University of Texas had an endowment fund of more than US\$7 billion, way more than the total reserves of all Australian universities combined.

If Texas decided to beam courses into Australia via satellite television or to teach to Australian students over the Internet, or even to open a branch campus in Australia, we could not stop them—and we should not be surprised if that is exactly what they decide to do. The famous MIT (the Massachusetts Institute of Technology) has opened operations in Singapore and in Cambridge, England.

What applies to teaching also applies to research. Cutting-edge research requires enormous resources. Universities without these resources will simply be left behind. The result will be the migration of Australian academics to higher paid and better-resourced positions in America, Canada and Britain. If you want to see how many brains have already drained, then make plans to attend the famous Australia Day picnic held in the snow in Boston each January. The last time I was there, more than 100 Australians attended from Harvard, MIT and other local universities. Add those who do not like the cold and it makes you realise just how much talent we are losing.

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To make matters more desperate, we are not only under pressure from rich research universities, but also from low cost, high volume, private universities. The largest private university in the USA is the University of Phoenix, which enrolls more than 40,000 students at campuses around the country. These students study at night in easily accessible, rented office accommodation. To make things simple, students study one subject at a time. All of the subjects are popular ones—business and IT mainly. The staff consists of part-time teachers who work for casual rates;

they teach from standardised curricula and they are not paid to do research. There are no sports facilities, student lounges, or refectories, so the University of Phoenix has a low cost structure. This means it can charge modest fees and still deliver a profit to its shareholders.

To summarise, Australian universities are being squeezed from both directions. Our salaries and facilities do not compare with those offered by prestigious international research universities, nor can we compete on price with low cost private providers such as the University of Phoenix. If we want to survive, then we have no choice but to change. Deregulation of the university system will be the engine that drives change.

What Australian higher education will look like

Australian higher education currently exists in a policy vacuum. We seem unable to have a sensible debate about its future. No one seems to have noticed, but a demographic time bomb is ticking away. Without any increase in the proportion of the population attending university, my own state of Western Australia will need to enrol 30,000 new students in the coming two or three decades. The present funding arrangements will not be able to accommodate this avalanche of new students and muddling through will not work. To prepare for the future, we must change now.

First, we need an explicit policy decision. Are we going to make higher education available to all Australians who can benefit, or will we continue to restrict access to universities. Higher education for all Australians sounds impossibly utopian. How can we afford it? But restricted access also has costs. In today's world, an educated population raises the standard of living of the whole community. Limiting access may turn out to be more expensive for Australia, and more destructive of our economic and social aspirations, than opening education to everyone with the desire and ability.

If we decide to expand access to higher education, then we have to tackle the question of who pays. The current system where some students are subsidised while others are either excluded or must pay the entire cost from their own resources is simply not equitable. A system that gives everyone who can benefit from higher education access to a means-tested entitlement to funding is fairer and will allow more people to attend university.

But this change alone is not sufficient. A workable funding system must put power where it belongs, in the hands of the consumers. I realise that the politics will be tricky, and there will be many details to argue about, but I believe that Australia will eventually wind up with some form of means-tested entitlement system in

which students will have considerable influence in a university's funding.

When this happens, universities can be cut loose from regulation and allowed to teach what they wish and to charge students what they wish. Equity can still be preserved through scholarships, government subsidies, and income-contingent repayments, but in a deregulated environment, there will no longer be any monopolies. Universities, private and public, will compete on an even playing field. Some will go for high price and restricted access, some will deliberately go for low price and high volume. Some will find a middle way. Whatever they do, universities will have to be market- and customer-oriented.

What will happen then? Despite the fears of National Party politicians, the regional universities—a term applied to any university that is not in the middle of a capital city—will probably fare well. They are often the only game in town and command great loyalty. Their costs are lower than those of universities in large cities, so they can compete by recruiting local students as well as city dwellers attracted to residential education at relatively low prices. Some regional universities will also benefit from their unique locations. For example, those in wine growing areas will be a natural destination for students interested in a career in viticulture. Kalgoorlie will remain a good place to study mining. In any event, in the Internet age location is less of a disadvantage, so some may elect to offer their courses worldwide, or to be agents for overseas universities.

Some regional universities are already in financial difficulty. Deregulation is not likely to make their lives any easier. Yet it is difficult to argue that this is a reason to maintain their current monopoly on student places. Australia does not benefit from artificially forcing students to attend specific universities. If a university is not attractive to students, then it should either change or be allowed to fail.

The older, city-based universities will also benefit from a deregulated system. They will be able to expand in some areas to meet student demand, or they may contract their undergraduate numbers to build up their postgraduate areas. My guess is that some of our older institutions will combine with other universities to approach the size and strength of their state and provincial counterparts in the USA and Canada (say 35,000 to 50,000 full-time students).

Because of their prestige, they will command higher fees, which will translate into higher salaries for their staff.

Because many are already the first choice of most students in their states, the former technical institutes are also likely to do well in a deregulated environment. Their courses are popular with students and most will be able to expand their intake to give them needed economies of scale. I expect that these universities may gradually give up their attempts to offer liberal arts subjects as they will have difficulty competing with the older research universities. Instead, they will grow their strong areas of engineering and technology. Many will also do well in business studies, although they will face competition from private providers who will be attracted to the low cost of teaching business subjects.

Private universities modelled after the University of Phoenix will do well from deregulation because they will be able to exploit their low cost structures to offer education at low prices in high demand areas such as business and information technology. Private universities that currently do not have full access to government-funded students should also benefit from a deregulated environment because they will be able to compete with public institutions for public funds.

The universities that will face the greatest challenges in a deregulated environment are the universities of last resort in cities with other available universities. They may lose students, and therefore funding, to more popular institutions unless they can carve out a market niche and demonstrate that, in their chosen areas of specialisation, their quality is equal or better than that of competing institutions. Some may choose to become much smaller by turning themselves into boutique medical, law, dental or veterinary schools. A few may be absorbed into larger universities, giving both greater economies of scale.

In conclusion, a deregulated environment should lead to a much changed higher education landscape. There will be fewer institutions. Most will be larger, but a few will be smaller. Customers will have greater choice and greater control over what gets taught and when. The country will benefit from having stronger institutions.

Oh yes, and one more thing. Enrolment queues will certainly disappear.

Policy

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