

The Unchained University

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Foreword

Knowledge, skills and ideas are vital tools for success and prosperity in the global economy, and may play an even bigger role than that once played by natural resources and physical labour. Universities play—or should play—a major role in creating and passing on knowledge and skills as well as encouraging openness to ideas. Sadly, Australian universities are not fulfilling this role as well as they could.

While it is widely agreed that the higher education system is under mounting pressure, it is not well understood *why* the situation is so bad. The problems are particularly acute in undergraduate education, where staff to student ratios are increasing, student surveys report dissatisfaction with teaching quality, and thousands of students miss out on their preferred course every year.

This policy monograph arose from The Centre for Independent Studies' (CIS) Liberalising Learning programme, of which Andrew Norton is the Director. CIS started the programme to help explore the problems in higher education, and inform the public about what can be done to fix them.

One of the main problems is funding. Many commentators have called for increased flows of funds to the tertiary education sector, but without substantial institutional reform, this may only compound the existing problems. The federal bloc funding model tends to encourage institutional uniformity when what is needed is greater diversity. Universities only have one source of discretionary funds, and this comes from research. So the incentive is to focus on research, more often than not at the expense of teaching and vocational training.

Government funding has also been declining, and despite the hopes of some university interest groups, it is unlikely that we will ever see Whitlamesque levels of funding for higher education again. The political reality is that public spending on universities is not as important to the Australian electorate as government funding of schools, health and welfare. The dilemma for the higher education sector is that government spending per student has been decreasing while costs have been increasing, in particular salaries. Such public funding stringency cannot be defended without enabling universities to develop private funding sources, such as charging local undergraduates fees.

The funding reforms discussed by Andrew Norton in this book would re-invigorate university independence, for it is surely a lamentable state of affairs when our universities cannot function without being almost wholly dependent on government. As one former Vice-Chancellor recently pointed out, universities display all the vices of public ownership: buildings are badly maintained, facilities are often inadequate, processes are out-of-date, and customers/consumers, the students, just have to put up with what they get. A market-based system would serve us so much better.

Another serious problem is the inability of universities to adjust supply to demand. In an anachronistic arrangement reminiscent of Soviet-style central planning, the government allocates to each university a set number of so-called 'fully funded' undergraduate student places. If the university enrolls less than its set number of Australian undergraduates, it is penalised; if it enrolls more it receives around a quarter of average full funding.

As Andrew Norton points out in Chapter Two, this has created an absurd situation whereby 'the main criterion determining the total number of places is not the desire of students to attend or industry's requirement for graduates, but the government's overall Budget situation. Similarly, 'the main criterion determining the number of fully-funded places each university receives is not how well it is performing or how many students want to go there, but the number of places it received last year.'

The federal Education Minister Dr Brendan Nelson is currently considering a number of reform proposals involving a market system along the lines lucidly discussed by Andrew Norton in the pages that follow, with student places allocated according to demand and prices set by universities. But the reasons for making this change, and the likely consequences, have only been dealt with sketchily. *The Unchained University* puts market proposals into the context of what we expect universities to achieve and shows why criticisms of higher education markets are wrong or exaggerated. It is, to the best of my knowledge, the most comprehensive examination of the arguments for markets in higher education ever to be published in Australia.

Australia has done very well on many fronts in recent years. Its economic performance has been ahead of almost all comparable countries. A compounding of this success can occur with the sorts of reforms discussed by Andrew Norton in this book, for higher education is one of the few areas of the Australian economy where consumers have not benefited from competition policy. Any further delay will be costly to us all.

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Acknowledgements

This book has its origins in the two years I spent working as an adviser to Dr David Kemp MP, during his time as the Minister responsible for higher education. The Minister's office provided an excellent opportunity for learning about the higher education system as a whole, and I am grateful to Dr Kemp for giving me this opportunity. I am also grateful to the staff of the Higher Education Division of the Commonwealth Education Department in its various incarnations, who quickly and professionally answered the many questions an adviser has, and through this gave me a knowledge of the workings of higher education policy that would have been difficult to acquire in any other way. In particular I would like to thank Karen Sandercock, who as Departmental Liaison Officer from 1997 to 1999 had to answer the largest number of questions. They are all professional public servants, and so while some of the statistics used in the book are theirs, the views expressed are mine.

After working for Dr Kemp, I took two jobs, as a Research Fellow at The Centre for Independent Studies (CIS), and as Policy and Government Relations Adviser to Professor Alan Gilbert, Vice-Chancellor of the University of Melbourne. CIS did some early work on higher education reform, and I thank Greg Lindsay, CIS Executive Director, for letting me pursue this issue in much greater detail. Alan Gilbert is one of a handful of Vice-Chancellors able to think beyond the current system, and I thank him both for speaking out in favour of change and for giving me a role assisting him with the political difficulties all universities face in a very unfavourable regulatory environment, and particularly a university determined to innovate. My time at the University has helped me see the problem on the ground, as well as from above as a Ministerial adviser. The book, however, is produced under the auspices of CIS, and neither my proposal for reform nor any particular argument should be attributed to Professor Gilbert or the University.

I want to thank a number of people who helped directly in various ways with the book. Peter Saunders, Barry Maley and an anonymous referee read the manuscript and provided helpful advice. Roger Wilkins, Richard Grant and Richard Tooth provided useful comments on parts of the manuscript. Christian Gillitzer helped me on several statistical points, and through countless conversations helped me refine my ideas. All errors, omissions, and opinions are, however, mine.

Parts of this book have appeared, in often rather different form, in *Policy*, the *Australian Economic Review* and *Agenda: A Journal of Policy Analysis and Reform*.

Introduction

Gloom and Australia's universities are longtime companions. The National Library's catalogue records half a dozen publications on the 'crisis' in universities, published in 1952, 1965, 1970, 1980, 1994, and 2001. In the Australian Public Affairs Information Service's database, the records don't go back as far, but there have been seven articles on university crises since 1986, along with various declines, dumbings, demises and deaths. If you added in discipline-specific crises and downfalls the count would be higher still.

Hyperbole aside, I don't dispute that Australia's universities have serious problems. In one respect, I think there are more problems than even the crisis crowd make out, since I don't believe all would be better if only Canberra dug deeper into taxpayers' pockets to finance higher subsidies, and if university administrations stopped behaving as if they were in charge. Australia's universities are chained down by outdated, inconsistent, and often crippling legislation.

Yet things are far from hopeless¹. Serious as they are, universities' problems are largely the creation of policy, and not rooted in deep-seated social or economic malaise. Unlike crime, or family breakdown, or the plight of indigenous communities, it isn't difficult to find reforms that could produce significant improvements in relatively short periods of time. If we removed the regulatory obstacles to investment in higher education financial pressures would ease, and if we introduced market signals, we would allocate the investment more effectively and give universities better incentives to focus on teaching. In Chapter Two I outline a proposal to achieve these goals, but there are various other models that incorporate one or both of these ideas.² Details of my proposal could be altered without much loss. Its main function is to act as a specific example that enables me, in subsequent chapters, to elaborate on how markets would work to enhance Australian higher education.

The major obstacle to improving Australia's universities is not, then, a lack of ideas. The roadblock is political rather than intellectual. There is a powerful coalition opposing change, including most Vice-Chancellors through the Australian Vice-Chancellors' Committee (AVCC), the National Tertiary Education Union (NTEU), the Australian Democrats, the ALP (especially its Socialist Left faction) and the National Union of Students (NUS). In part, this is just conventional interest group politics. The AVCC is a cartel which does not want competition, the NTEU doesn't want its members facing the pressures and uncertainties of a market, and the NUS wants to maintain and increase taxpayer subsidies to its members.

While higher education displays these routine interest group obstacles, solving its problems is not just a matter of finding some compromise deal. Australian higher education is also a deeply ideological subject, and values are much less easily compromised than interests. The leaders of these interest groups, along with Australian Democrat and Socialist Left politicians and other prominent players in the higher education debate, genuinely believe that giving markets a greater role is not in the public interest. They fear that markets would have negative effects on access and equity, on rural and regional universities, on equality, and on the Arts and Sciences. The AVCC and NTEU are so sincere about this that they prefer the financial pain the current system inflicts on their members to change.³

Some of these fears, I suspect, are at least partially shared in the wider community. As I show in Chapter 10, there is a feeling that government rather than students should pay the cost of increasing funding to universities (though there is not the corresponding willingness to pay extra tax). One study of *Who's Who*-listed baby boomers found that many 'listed government scholarships and free university education as the most important social developments to influence their career path'.⁴ Along with being glad they did not have to pay for their education, they may also remember with pleasure a time in which universities had much higher funding per student than they have today. I

suspect that these boomer sentiments disproportionately influence public opinion about higher education.

While government funding is popular, at least until people realise it might mean higher taxes, the interest groups' opposition to student choice does not have majority support. The common term for student-choice driven subsidies is 'vouchers',⁵ and a 1997 poll showed clear majority support for them: 25% of those polled said they were strongly in favour and 32% said somewhat in favour, making 57% in favour. In contrast, 14% were strongly against and 9% somewhat against, making a total of 23% against. Those in favour outnumber those against by more than two to one, with only minor differences between the major parties on the issue—60% of Coalition voters were in favour, and 57% of Labor voters.⁶ This result may be due partly to confusion over what system we have now. Since students can apply to more than one university, they are probably unaware how their choices are constrained by Commonwealth quota decisions. Chapters Three and Four discuss student choice in detail.

Whether or not all the higher education reform opponents' fears are currently widely shared, there is potential for scare campaigns. It is likely that regional universities would be able to incite politically significant local constituencies to oppose greater student choice, on the grounds that it may undermine their viability. As is explained in Chapters One and Five, advocates of a traditional university education, even if they lack a large constituency, can certainly create doubt through noisy campaigns. The ALP spins stories about \$100,000 degrees under a less regulated system,⁷ a potent fear when so many people now aspire to attend university.

Much of this book is spent working through the logic of these objections and the evidence for and against. While I think there is a powerful case that a market-driven higher education system would be more efficient and much less crisis prone than the one we have today, unless these objections can be dealt with getting political acceptance for reform will be difficult. Though many people seem spooked by their own scare campaigns, in all cases their concerns appear, on more careful examination, to be either baseless or greatly exaggerated. While in Chapter Eight I do discuss a major philosophical difference between myself and some opponents of reform over the importance of equal outcomes, in all other cases there is no need to go this deep—I think they are just wrong on empirical grounds.

Though I engage directly with reform opponents throughout this book (I dislike straw man arguments, so wherever possible I cite individuals when criticising a point of view), it isn't principally aimed at them. I don't expect people to reverse their publicly stated views. Instead, my main target audience is all those who encounter anti-market arguments but do not know what to make of them. On many of these topics, even a diligent search would not come up with more than a passing reference to why the objections to market reforms are mistaken, so I think this book will be useful in both expanding on the arguments and putting them together in one place.

The book is structured as follows. Chapter One briefly reviews the 'idea of the university' debate, concluding that the day in which we could sensibly talk of a single 'idea' of the university is long gone. Instead, we need a system which lets several types of university co-exist. Chapter Two outlines such a system. Subsequent chapters detail the consequences of unchaining Australia's universities. Chapter Three argues that the current system of centralised control doesn't have the information or the incentives to allocate higher education investment efficiently. Chapter Four continues with this economic theme, looking at how markets would affect university quality. Chapter Five considers what effect markets would have on the Arts and Sciences. Chapter Six sets out the likely impact of a market system on access. Chapter Seven discusses university education in rural and regional Australia. Chapter Eight, as mentioned above, deals with philosophical differences between my approach and those supporting the 'equality project'. Chapter Nine goes through the arguments for and against subsidising higher

education. Chapter Ten points out that whatever merit subsidies have, the political reality is that the amounts given will always be limited. A Conclusion ends the argument.

I've tried to write the book so that it can be read as a whole or in individual chapters separately. This recognises that potential readers may be interested in only aspects of this debate, and do not want to read about subjects irrelevant to their needs. This is achieved more in the earlier than the later chapters, but throughout I think individual chapters can be read while experiencing only a few loose end references to other chapters. To make the chapters completely self-contained would have created boring repetition for those reading all the way through. It would, however, help comprehension to read Chapter Two, which sets out my proposal. Some chapters link more than others, with people interested in one likely to be interested in the other(s) – in particular Chapters One and Five, for those interested in traditional ideas of the university; Three and Four, for those interested in more economic arguments; Six, Seven and Eight for those interested in access and equity issues; and Nine and Ten for those interested in subsidies.

There aren't more than passing references to either postgraduate coursework or research. For postgraduate coursework, that's because most of the structural problems have been solved. Student numbers and prices are largely set by universities, not by government. There are some remaining matters, particularly surrounding access to the loans scheme for students at private colleges and universities, and weak incentives for those who can pay up-front to do so. Compared to the problems facing undergraduate education, however, these are minor difficulties.

Research raises different issues. While curiosity driven research can produce commercial or other benefits, the outcomes are typically too speculative to attract strong private investment. Similarly, there would almost certainly be too few research students if they had to pay the full cost of their degrees, which particularly in laboratory-based subjects are high. Salaries for graduates with research degrees are typically lower than salaries for graduates with postgraduate coursework degrees.⁸ Consequently, it is doubtful that private rates of return are high enough to attract students to research degrees.

Government policy already works to correct these problems. Research funds are provided through block grants to universities and other research agencies, as well as on a highly competitive project basis through the Australian Research Council and the National Health and Medical Research Council. The Research Training Scheme finances research students. Unlike for HECS-liable undergraduates, there are minimal artificial obstacles to private investment, with various incentives encouraging investment, rather than obstructing it as occurs with undergraduates. Performance is rewarded through the competitive grants and the formulas used to award block grants.

Despite endless criticism of research funding levels, and of aspects of the funding system's design, the basic structures are in my view about right. Indeed, I think the relatively good policies for research funding are part of the problem for undergraduates. Later in the book I will argue that incentives biased toward research are one reason undergraduate education in Australia is deficient. If I can achieve some refocusing of the debate away from the interests of researchers toward the interests of undergraduates I will have achieved at least one of my goals.

¹ See for example Peter Karmel. 'Funding Universities', in Tony Coady (ed.) *Why Universities Matter: A conversation about values, means and directions*, Allen and Unwin, Sydney, 2000; Dr Kemp's leaked 1999 Cabinet submission, available http://www.apf.gov.au/senate/committee/eet_ctte/public%20uni/report/e04app4.pdf; Department of Employment, Education, Training and Youth Affairs, *Learning for Life: Review of Higher Education Financing and Policy*, DEETYA, Canberra, 1998; Paul W. Miller and Jonathon Pincus, 'SuperHECS: A Proposal for Funding Australian Higher Education', in *Funding Higher Education: Performance and Diversity*, Department of Employment, Education, Training and Youth

Affairs, Canberra, 1997; Industry Commission, *Industry Commission Submission to the Review of Higher Education Financing and Policy*, Industry Commission, Canberra, 1997.

² I expand on the stance of higher education interest groups in 'The Topsy-Turvy World of Higher Education Politics', *IPA Review*, December 2000, pp. 11-12.

³ Anne Riggs and Bryan S. Turner, 'Pie-eyed Optimists: Baby Boomers the Optimistic Generation?', *Social Indicators Research*, Vol. 52 (2000), p.78.

⁴ Though in open access proposals such as mine, bits of paper called 'vouchers' are unnecessary; the public subsidy is just paid to the university on the basis of enrolments. See the Afterword for more detail.

⁵Catherine Armitage, 'Vouchers Lose Fightback Stigma', *The Australian*, 10 May 1997.

⁶ Australian Labor Party, 'Kim Beazley's Plan for Our Universities', ALP, Canberra, 2001; Jenny Macklin, '\$100,000 degrees in Australia: Howard says all options are on the table', <http://www.alp.org.au/media/0602/jmmsdia200602.html>.

⁷ Graduate Careers Council of Australia, *Postgraduate Destination Survey 2000*, GCCA, Melbourne, 2001, p.34.

Executive summary

Two of the four university funding models put forward in Education Minister Dr Brendan Nelson's higher education finance discussion paper propose a market system, with student places allocated according to demand, and prices set by universities. The reasons for making this change, and the likely consequences, are dealt with only sketchily in government documents. *The Unchained University* puts market proposals into the context of what we expect universities to achieve, describes the failure of the current central planning model, explains why letting universities and students drive the system would produce better results, and shows why criticisms of higher education markets are wrong or over-stated.

- Undergraduate teaching at Australian universities today is expected to achieve at least three major goals. It trains for a workforce which increasingly requires highly skilled workers, stores and passes on knowledge valuable for its own sake, and acts as a vehicle of social mobility.

Some higher education commentators believe that only the second goal is a valid one. While genuine issues about the traditional role of universities as custodians of culture, science and objective criticism cannot be dismissed, Chapter One argues that the day in which we could sensibly talk of a single 'idea' of the university has long gone.

- Long-term change in the labour market is the most powerful force against the traditional idea of a university. In particular, there has been a huge increase in jobs requiring high skill levels, as reflected in the number of professionals that make up the Australian workforce: by 2000 there were 1.6 million professionals in the Australian workforce, up 38% in a decade.
- Most people attending university nowadays do so at least partly for practical reasons. In a 1999 survey by the Australian Bureau of Statistics, some 96% of students cited vocational reasons for attending university. For many students, a 'traditional' university education is now an unaffordable luxury.
- Chapter Two outlines how the current system works, and my proposed alternative (see box for more detail). The goals of the proposal are to remove the regulatory obstacles to investment in higher education, introduce market signals to allocate the investment more effectively, and give universities better incentives to focus on teaching.
- Chapter Three argues that centralised control of university places produces sub-optimal results, particularly in matching universities with courses and students, and both with labour market needs. A system that was demand-driven, and in which prices were set by universities, would be more effective.

The universities possess only a limited capacity to adjust supply to demand, even in the medium to long term. Under our current planned system, the number of local undergraduate students is more contingent on the government's political and budgetary considerations than the university's or student's educational aspirations. This is why the number of undergraduate commencing places can fall while the number of Year 12 students is rising.

There is a potential role for education brokers who, unlike careers advisers, specialise in a small number of fields, so that they can provide discerning advice to

prospective students. Such services, both non-profit and for-profit, have developed for the vocational training market and have generally been successful.

- Existing surveys of students, discussed in Chapter Four, suggest that they believe the quality of teaching is often mediocre. There is also significant disagreement between academics and employers over the attributes they want to see in graduates.

That universities have not given the needs of students anywhere near the priority they deserve is the entirely predictable consequence of the funding system. If the total number of places is kept below actual demand, and those places are distributed by political decision rather than demand or performance, and if all price signals are abolished by charging a flat tax instead of fees, an industry is created that is completely producer-dominated, rendering the consumer or student near powerless.

To make matter worse, the only real incentives the government does create, in research funding, further bias the system against students. Since universities can improve their financial position by improving their research performance, but can't improve their position through teaching government-subsidised students better, the incentive is to focus on research rather than teaching.

As for claims that markets compromise academic standards by leading to 'dumbing down' practices to increase throughput, these practices are much less likely to exist in a fully deregulated system, due to potential reputational costs. The strength of a market in higher education is not that there is no risk of low quality, but that it creates incentives to meet quality expectations.

- There is a cultural pessimism that assumes that without the constraints of central planning there would be disastrous declines in degrees not attached to clear career paths. The available evidence, discussed in Chapter Five, does not support this view. Intrinsic interest is a major driver of course choice, and many students do not see their courses as narrow exchanges designed to achieve exclusively utilitarian goals. Because some students currently lack this intrinsic interest, total numbers of students in these disciplines may fall slightly. Yet far from being a disaster, removing uninterested students would improve the intellectual experience of those who remain. American-style liberal arts colleges are the ideal way of teaching Arts especially, and a more market-oriented system would enable them to be established. By contrast, the current system makes it very difficult for the various ideas of the university to co-exist.
- When the Whitlam government abolished tuition fees in all Australian universities in 1974, it was seen as a major step toward changing the middle class nature of higher education. Yet although the absolute number of students from lower skill backgrounds rose, as a strategy of changing the social composition of universities themselves, free education failed. The proportion of students at university with middle class backgrounds did not diminish after 1974.

Chapter Six explains why price hasn't been the main factor affecting the number of low-income people at university. With income-contingent loans, the proportion of low-income young people going to university has steadily increased, despite price rises since 1989. Instead, the driving forces are availability of places, weakening job prospects for those without degrees and the availability of more part-time jobs and other forms of income support. Key remaining problems for low income people are

relatively poor preparation for tertiary study, inadequate support after enrolment, and a shortage of places. A market system would ease these problems.

Those who argue that charging fees would deter low-income young people from attending university over-rate the significance of the headline price of going to university, and under-rate the significance of the study/work trade-off, the availability of income support while studying, and the lure of a better job at the other end.

- Chapter Seven argues that in a deregulated system the feared shift of students from regional to city universities is unlikely to occur, due to factors such as the desire of students to study near home, limited options due to poor Year 12 scores, and price advantages of regional universities. Regional and small universities also do better in teaching surveys, another plus in the student market.
- Chapter Eight addresses fears that market reform of higher education would lead to a more unequal society. While the Australian system is unlikely to produce disparities of performance or prestige as large as those that exist in the United States, a market system may produce a less equal system than the one we have today. The negative effects of this, however, are likely to be small, while the benefits of improved education under a market system are considerable.
- There is a good case for more spending on higher education, but it is much less clear that this money should come from the government. Chapter Nine argues that the current policy of indiscriminate subsidies, to all HECS students in all disciplines, cannot be justified on public good or equity grounds. For most disciplines, the returns on full fees are good even without any subsidy. Indeed, there is good reason to believe that subsidies are income redistribution to the relatively rich when income is calculated over a lifetime—most obviously for graduates of high-income earning courses such as law, medicine, engineering and computing. These professions may benefit the public, but if so, this is just a beneficial by-product of commercial activity. There is no need to pay people more to do what they would do anyway.

Subsidies may still be needed to support specific disciplines. These could include fields like nursing and teaching, where the public benefit is high but wages are relatively low, and strategic courses such as some sciences and languages. The process of introducing markets will clarify which areas are genuine cases of market failure. Reforming subsidies, however, is less important than fixing other aspects of the system.

- There are increasing signs of strains in the higher education sector. These cost pressures will not ease. Chapter Ten explains why adequate public funding of our universities is unlikely ever to occur. Higher education funding is being squeezed both because there is resistance to paying higher taxation, and because there are other more pressing spending priorities for governments conscious of their electoral popularity.

After a false start in 1999, the Howard government now looks serious about reforming Australia's higher education system. Unless reform comes soon, universities face serious financial and educational difficulties.

Chapter One

Ideas of the University

Contemporary discussions of 'the idea of the university' tend to be denunciations of those who betrayed it. Professor Tony Coady, for example, in introducing the book-length complaint *Why Universities Matter*, condemns the 'myopics' who see universities 'as no more than corporate operations aimed at generating products' and who are 'fixated on bottom lines' with a 'natural tendency to flatten the variety and multiform values of human life into the one dimension'.¹ Robert Manne, similarly, declares the traditional idea of the university dead and bemoans Vice-Chancellors who 'regard themselves not so much as fellow academics but as CEOs of businesses of a special kind.'²

For traditionalists like Coady and Manne the distinction between education and training is an important one. It is the difference between truth pursued as an end in itself and acquiring knowledge and skills to serve some other extrinsic purpose. Coady believes the 'myopics', in their own time at university, must have missed something that others did experience. That 'something', according to Coady, is 'the element of expansion of understanding, of being among people for whom learning, ideas, clarity, criticism and exploration of significant, difficult thinking really matter. It involves being inducted into a dialogue with the great thinkers of the past and the impressive thinkers of the present day.'³

I have some sympathy for the Coadys and Mannes of the world in mourning the loss, or at least serious deterioration, of a certain type of higher education, one which prized intellectual experience for its own sake as well as for whatever rewards it might bring later in life. There was still a sense of this tradition at Monash University when I was an undergraduate there in the 1980s, even if it was only a subculture amidst a large majority of people attending university for more practical reasons. In the early 1990s I had my own brief and part-time experience as a university teacher at the Australian Defence Force Academy, an institution set up with very specific careers in mind. Unsurprisingly, even the small student intellectual subculture I found at Monash was absent. My students showed no signs of the excitement I had felt when I understood new ideas, or when writers I read or teachers were able to draw connections between things I would never have seen on my own, or when further on in my studies I was able to start drawing some connections myself.

Sympathy for the traditionalists must, however, be tempered by awareness of their shortcomings. Any 'myopia' of CEO Vice-Chancellors is at least matched, and probably exceeded, by the traditionalists' tunnel vision. Their single-minded defence of one idea of the university leaves little space for serious policy thought about the implications of large-scale economic and social changes that have massively increased the significance of higher education. The time in which we could speak sensibly of *the* idea of the university is long gone. The changing circumstances of higher education require several *ideas* of the university.

The most powerful force against the traditional idea of the university is long-term change in the labour market, and in particular a huge increase, in both absolute and relative terms, in jobs requiring high skill levels. Some idea of the scale of this change can be seen in a study by Elizabeth Webster of the types of jobs held by men aged 35 to 39 in four birth cohorts, 1911-1915, 1931-35, 1946-50, and 1961-65. For the eldest generation, who reached their mid to late thirties in the late 1940s, just over 10% worked in high skill occupations as managers, professionals, para-professionals and technicians. For the next generation it was slightly more than 20%, for the next nearly 30%, and for the youngest generation around 35%.⁴ By 2000 there were over 1.6 million professionals in the Australian workforce, up 38% in the decade, just over a million

associate professionals, up 16% in ten years, and more than 600,000 managers, a stable number.⁵

The implications of these trends for the higher education system were observed by governments as far back as the Murray report in the late 1950s. The report told its readers that 'the proportion of the population which is called upon to give professional or technical services of one kind or another is increasing every day; and the proportion of such people who have to be graduates is increasing also'.⁶ This is a theme reiterated and expanded upon through successive reports into higher education, culminating in the 1998 West review's recommendation that 'all Australians should have access to some form of postsecondary education'.⁷

The most important government statement on higher education, the one that most clearly challenges the idea of the traditional university, was then federal Education Minister John Dawkins' White Paper of July 1988. The White Paper acknowledged 'the importance of the arts and humanities, as well as the sciences, in the overall spectrum of higher education activity', but its emphasis was elsewhere, on the economy and equity.

The White Paper set out clearly the economic imperatives Australia faced, especially, in the years after Treasurer Paul Keating's famous 'banana republic' warning, the need to achieve a more favourable balance of trade. Success in rapidly changing international markets would require the 'conceptual, creative and technical skills of the labour force', to be fostered by higher education.⁸ To ensure this occurred, the government would use its funding powers over the universities to ensure they gave 'priority to national, social, economic and industrial development needs'.⁹

This economic imperative is the most denounced aspect of the Dawkins reforms, but it did its damage to the traditional university in concert with the White Paper's other major theme, equity. The White Paper itself says that 'equity concerns have been central to the development of the policies outlined in this Statement'.¹⁰ It argued that education was a principal means of achieving personal independence, economic advancement and personal growth, but that in the past the benefits of higher education have been disproportionately enjoyed by the 'more privileged members of our community'.¹¹ It suggested that growth in student numbers was crucial to spreading the benefits of higher education. Graduate numbers should increase from their then levels of about 88,000 a year to 125,000 a year by the turn of the century, and that 'credit transfer, cross-sectoral arrangements, external studies and staffing reforms will be crucial to achieving national equity objectives'.¹² The White Paper saw its economic and equity objectives as mutually supportive, as failing to develop the skills of disadvantaged groups was a source of economic inefficiency.¹³

What these two new emphases did was radically change the culture of university campuses. The total number of students increased rapidly, from just under 420,000 in 1989 to more than 500,000 in 1991, to around 600,000 by the late 1990s.¹⁴ It is unlikely this represents any sudden preference for further study and intellectual inquiry. Government rhetoric about a changing economy and the need for young people to educate themselves turned out to be all too accurate, with the number of full-time jobs for teenagers dropping by more than 50% between 1988 and 1998.¹⁵ Universities became refuges for many who might in very recent history have preferred a job, but now knew they had an extra step to take before earning a regular income.

The vocational orientation students now have is very evident in polling results. A few years ago the Australian Bureau of Statistics did a survey of students enrolling in higher education, and found that, overall, 96% were there for vocational reasons, higher even than the 94% there for vocational reasons in the more formally vocational TAFE sector. In some areas of study, such as architecture and building or education 100% of students were there for vocational reasons, and only in what the ABS calls 'society and culture' did the proportion drop below 90%, to 89.6%.¹⁶

We can safely assume that these students are typically less interested in a traditional university education than were earlier generations of students. While over this

immediate period there was no significant change in the proportion of students doing Arts, the longer term trend is downward. In 1959, 32% of students were enrolled in Arts, and 12% in Economics and Commerce.¹⁷ By 2000, the figures were 22.9% Arts, 24.2% Business, Administration and Economics.¹⁸

Even for students interested in a traditional university education, the thirty years since 1970 have made that a less affordable luxury. In the early 1970s getting a job after university, whatever degree you had, was not difficult. Underemployment, counting those with part-time jobs but looking for full-time work, was around 2.5% in early 1974 for the people who finished their degrees in 1973.¹⁹ By the 1980s going to university, while still a better long-term option than finishing education at Year 12, no longer insured against short-term unemployment. For a period during the early 1990s graduate underemployment reached nearly 30%, and in more recent years it has hovered around 20%, with rates in some areas of the humanities and sciences exceeding 30% up until the late 1990s.²⁰

This should not cause the traditionalists to despair. As I will show in Chapter Five, there is still strong demand for their courses, which persists despite poor vocational outcomes because students pursue their broader, and not just financial, interests. Vocational issues are dealt with partly by further study, with nearly 40% of humanities graduates doing further study on completion of their pass degree,²¹ and most doing so over the medium term.²² But it does mean that Arts students today cannot take employment for granted in the way earlier generations of students could.

To believe the traditional idea of the university should have survived as the exclusive or dominant form of higher education in the face of large labour market changes and consequent social change is, in my view, no more than fantasy, and an unpleasant fantasy at that, given its consequences for the legitimate aspirations of so many people. The world has changed, and the ideas of the university must now include economic performance and social mobility, or equity as it is called in government reports.

As the United States shows, diversity in higher education is possible. Some universities there, especially the top research institutions and liberal arts colleges, do live up to the traditional idea of the university, to the great benefit of America and the world as custodians and generators of knowledge. Others, like the University of Phoenix, are very much focused on the current needs of working professionals, as are 'corporate universities' like McDonald's Hamburger University and Motorola University.

Unfortunately, Australia's highly regulated higher education system meant that the universities never had any hope of adjusting well to multiplying ideas of the university. The Dawkins White Paper mandated a 'Unified National System' just at the time when diversity was most needed to meet the increasingly varied goals of higher education. Regrettably, Australian governments continue to work toward making the system more rather than less uniform. Partly as a reaction to dodgy internet 'universities', the Commonwealth and the States have established new 'national protocols' on what constitutes a university. The criteria include the 'creation of new knowledge through research'.²³ We need research-intensive universities, but there is also a strong case for teaching-only universities, whose staff are engaged in scholarship but not necessarily research. As I will argue in later chapters, this could have considerable benefits for students.

Those insisting on the research requirement seem to believe they are defending the 'real university'.²⁴ Ironically, they may be making it more difficult for the type of institution where the traditional idea of the university perhaps flourishes best, in the many small American liberal arts colleges. Research adds a layer of costs that reduces the financial viability of such institutions. To operate in Australia they would have to use the term 'college', which is not a problem in America, but here is the name now used by many high schools. This would make them less attractive to students.

The liberal arts college could not survive under the Dawkins model either. In the *U.S. News and World Report* ranking of these colleges the most prestigious for 2000,

Swarthmore in Pennsylvania, has fewer than 1400 students, while the second most prestigious, Amherst in Massachusetts, has just over 1600 students.²⁵ Under Mr Dawkins' proposals, colleges like this, with fewer than 2000 students, would have had to merge in the name of wider course variety and reduced administration costs.²⁶ Institutions with between 2000 and 5000 students were urged by Mr Dawkins to 'give serious consideration to their future as independent institutions'.²⁷

Dawkins' merger mania was driven by a central flaw of the Australian higher education system, its dependence since 1974 on Commonwealth grants for undergraduate teaching. While this dependence was never a good idea for reasons explained in subsequent chapters, it was only the changing role of higher education, and the arrival of John Dawkins, that exposed the full cost of universities selling their souls to the state. Adequate funding per student was not a huge burden on government when education was just for the 'more privileged members of our community'. When it became something for the masses, for many hundreds of thousands at a time, strong measures had to be taken to control costs, and in Dawkins' eyes economies of scale were an obvious means of control. Hence the mergers.

In a less regulated system, with the ability to charge full fees, or top-up fees in addition to government subsidies or scholarships, there would still be pressure to control costs, as there must always be when providing a service with price-sensitive customers. A more flexible system however, not driven by the overall Budget situation, has the capacity to make its own decisions. A liberal arts college, with a low student-staff ratio, might seem like an unjustifiable luxury if it is competing for the Budget dollar with institutions essential to social mobility and economic growth. But if the students themselves, or their parents, are paying the cost it is much harder to see how anyone could object.

The traditionalists, however, do not publicly acknowledge this rather obvious point, since the idea of fee-charging is heresy in most university departments, at best a very undesirable necessity in some cases. The traditionalists only strategy is endless whingeing about the loss of an idea of the university that cannot, and should not, be resurrected as the dominant idea in a one-size-fits-all system. They need to do a fundamental policy re-think about how all the reasonable ideas of a university can be achieved.

A major argument of this book is that *none* of the ideas of the university are well-realised by the current system. There is chronic mal- and under-investment in human capital, less social mobility than could otherwise be the case, and, as the traditionalists keep telling us, older ideas of intellectual inquiry are under severe strain. A more market-based system would serve us much better.

¹ Tony Coady, 'Universities and the Ideals of Inquiry', in Tony Coady (ed.) *Why Universities Matter: A Conversation About Values, Means and Directions*, Allen and Unwin, Sydney, 2000, p.10.

² Robert Manne, 'The Death of the University', in Paul James (ed.) *Burning Down the House: The Bonfire of the Universities*, Arena Publications, Melbourne, 2000, p.17.

³ Coady, 'University and the Ideals of Inquiry', p.11.

⁴ Elizabeth Webster, 'Occupational Profiles of Men Since 1947', *Melbourne Institute Working Paper No. 23/99*, Melbourne Institute for Applied Economic and Social Research, Melbourne, 1999, p.13.

⁵ Mark Wooden, 'The Changing Skill Composition of Labour Demand', *Australian Bulletin of Labour*, Vol. 26, No.3, September 2000, p.192.

⁶ cited in D.S. Anderson and A.E. Vervoorn, *Access to Privilege: Patterns of Participation in Australian Post-Secondary Education*, Australian National University Press, Canberra, 1983, p.22.

⁷ Department of Employment, Education, Training and Youth Affairs, *Learning for Life: Review of Higher Education Financing and Policy*, DEETYA, Canberra, 1998, p.49.

⁸ John Dawkins, *Higher Education: A Policy Statement*, Australian Government Publishing Service, Canberra, 1988. p.6.

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- ⁹ John Dawkins, *Higher Education*, p.31.
- ¹⁰ John Dawkins, *Higher Education*, p.21.
- ¹¹ John Dawkins, *Higher Education: A Policy Statement*, Australian Government Publishing Service, Canberra, 1988.
- ¹² John Dawkins, *Higher Education*, p.21.
- ¹³ John Dawkins, *Higher Education*, p.7.
- ¹⁴ Department of Education, Science and Training, *Students 2001 (Preliminary): Selected Higher Education Statistics*, Canberra, 2001, Table 8.
- ¹⁵ Philip Lewis and Ben Mclean, 'The Youth Labour Market in Australia', *CLMR Discussion Paper Series 99/1*, Centre for Labour Market Research, Murdoch University, Perth, 1999, p.18.
- ¹⁶ Australian Bureau of Statistics, *Education and Training in Australia*, Catalogue 4224.0, ABS, Canberra, 1999, pp.64-65.
- ¹⁷ David Macmillan, *Australian Universities*, Sydney University Press, Sydney, 1968, p.84.
- ¹⁸ My calculations from Department of Education, Science and Training, *Students 2000: Selected Higher Education Statistics*, Canberra, 2002. Available from <http://www.deetya.gov.au/highered/statistics/tables/students2000.htm>
- ¹⁹ Graduate Careers Council of Australia, *First Destinations of 1973 Graduates*, GCCA, Melbourne, 1974, p.9.
- ²⁰ Graduate Careers Council of Australia, *1998 Graduate Destination Survey*, GCCA, Melbourne, 1999, p.24.
- ²¹ Graduate Careers Council of Australia, *2000 Graduate Destination Survey*, GCCA, Melbourne, 2001, p.48. This will be a mix of Honours, other bachelor degrees as part of double degrees, postgraduate courses and TAFE.
- ²² Toni Waugh, 'The Role of Further Study in the Transition to Work and Career Development of Liberal Arts Graduates', *Journal of Institutional Research*, October 2001, pp.79-81.
- ²³ Ministerial Council on Education, Employment, Training and Youth Affairs, *National Protocols for Higher Education Approval Processes*, available www.dest.gov.au/highered/mceetya_cop.htm, Point 2.14.
- ²⁴ See for example, Emmaline Bexley, 'Preserving Integrity of Our Universities', letters page, *The Age*, 11 February 2002, p.14.
- ²⁵ U.S. News and World Report, *America's Best Colleges 2000*, pp.36, 178, 253.
- ²⁶ John Dawkins, *Higher Education*, p.42.
- ²⁷ John Dawkins, *Higher Education*, p.45.

Chapter Two

The Proposal

For some time during 2000 the start of a workable proposal for higher education reform could be found in a rather unexpected place—the website of the Australian Labor Party. Unfortunately it was not their policy, but former federal Education Minister David Kemp's leaked October 1999 Cabinet submission, presumably evidence of the Coalition's outrageous plans for the sector. Its web life continues courtesy of the Democrat/ALP Senate Inquiry into higher education, and for the same reasons.¹

The Kemp plan was always going to be difficult to sell. In the lead up to the 1998 federal election, the government walked away from the West review of higher education, which it had announced while cutting universities' budgets in 1996. Since the West review favoured radical reform, it made political sense to avoid higher education becoming a major political issue. The downside was that an opportunity was lost to show why the current system couldn't perform well and needed changing. As few people know how higher education is organised, that was a task that needed doing. Before outlining my own model for the higher education system, I must first describe how it works today.

Leftist commentators talk of the 'formal creation of a market' in higher education,² but that is true only at the margins. In the universities' core business of educating Australian undergraduates, the major institutions exist today under something resembling a broken-down version of Soviet-style central planning. Under this system, the government allocates to each university a set number of so-called 'fully-funded' undergraduate student places. If the university enrolls less than its set number of Australian undergraduates it is penalised; if it enrolls more it receives about \$2,600 each, around a quarter of average 'full-funding'. It is doubtful that 'full-funding' actually covers the annual cost of educating an undergraduate, which explains why many Vice-Chancellors spend much time in Asia recruiting full-fee paying students, securing the revenue needed to cross-subsidise local students.

Real central planning makes some serious, if in the eyes of most economists doomed, attempt to forecast the demand for university places, the location in which they should be provided, and the disciplines they ought to cover. In practice in Australia this is done only intermittently. The main criterion determining the total number of places is not the desire of students to attend or industry's requirement for graduates, but the government's overall Budget situation. This is why the number of undergraduate commencing places can fall while the number of Year 12 students is rising. The main criterion determining the number of 'fully-funded' places each university receives is not how well it is performing or how many students want to go there, but the number of places it received last year.

Even planning by discipline has pretty much collapsed. You will look in vain through the annual *Higher Education Report* published by the federal Education Minister for any mention of government student number targets by discipline. The regular complaints about shortages of nurses, and predicted shortages of teachers, may yet see this kind of planning introduced, but for the moment the universities largely set their own priorities.

These priorities, however, are distorted by the way the government funds the 'fully-funded' students. In the late 1980s there was some rough relationship between the cost of putting on a course and the subsidy paid. This relationship has since atrophied, with new student places often funded at an average cost, and adjustments not made for internal shifts between disciplines. This creates an incentive to offer cheap-to-provide courses, since that way you can reach the minimum number of students set by the government at least cost. Universities don't ruthlessly follow economic incentives. They are driven also by their own educational and research priorities, by their internal politics, and by the constraints of

existing staff. It is noticeable, though, that over the 1990s the number of commencing places in cheap-to-provide courses increased at more than double the rate of expensive-to-provide courses.³

As well as controlling numbers the federal government controls the cost of higher education to students. A few exceptions aside, universities cannot charge their domestic undergraduate students anything more than an amenities fee for non-academic services. Instead, students are charged under the Higher Education Contribution Scheme, known as HECS. HECS charges for the Year 2002 are divided into three categories, based on discipline. The cheapest category, covering fields like Arts, Education and Nursing, has a charge of \$3,598 a year. The middle category, covering fields like Business, Science and Computing has a charge of \$5,125 a year. The most expensive category, covering Law, Medicine, Dentistry and Veterinary Science has a charge of \$5,999. Students can defer paying these charges, with repayment levels contingent on their income. Repayments start at an income of \$23,242 a year, at which point the student (or graduate) has to pay 3% of their total income. There is then a scale of increasing payments based on income, to \$41,838 a year, at which point 6% of annual income must be paid.⁴

HECS charges are not price signals. There are no differences in charges between universities, and even if there were it would not influence university behaviour, since all the revenue goes to the government. In effect, HECS is a form of taxation. Increases in HECS charges are good for the general taxpayer, but make no difference to universities. This high dependence on the government to fund undergraduate education means that universities have few options when government per capita subsidies decline, as they did in twelve of the seventeen years to the end of 2000, with a cumulative reduction of 12% in real terms. Overseas students have, as I noted, made up some of the difference, but we have still seen undesirable trends such as significant increases in student to staff ratios, up from about 13 to 1 in 1990 to nearly 19 to 1 in 2000.⁵

These restrictions interact in ways that exacerbate their damaging effects. If the universities could charge fees the collapse of central planning would be less serious, because universities could reduce the number missing out by taking more students at a fee, and would not have to increase student-staff ratios or bias their intake to cheap-to-provide courses. Unfortunately, the interacting restrictions compound higher education's difficulties.

It was this set of deep structural problems that Dr Kemp's Cabinet submission was designed to fix. Unfortunately, it had to be sold to a public largely unaware of how higher education is organised, or why, as I will argue in subsequent chapters, the current system could never produce impressive results. The failure of public discussion to progress beyond familiar rituals meant the electorate was unprepared for change.

Though the Cabinet Submission's politics were risky, in policy terms it went a long way, though still with some flaws, toward removing the higher education system's structural faults. Nothing from the current system except student subsidies and income-contingent loans was set to survive.

Under the proposed reforms, the higher education system would be opened to both new universities and extra students. At present, there is an arbitrary list of higher education institutions that receive government funding. Some religious institutions are on the list, but most are not. Catholics living in the Eastern states can access a much wider range of subsidised courses than those in Western Australia, because the Australian Catholic University's undergraduate courses are all publicly funded, while those of the University of Notre Dame are not. The government has announced plans to extend its postgraduate coursework loans scheme to the private Bond University, but Bond's undergraduates receive neither subsidies nor loans, even though school leavers are typically in a worse

financial position than postgraduates. Governments are inflating university start-up costs by tightening the requirement that research be carried out, even though several existing universities carry out negligible research.⁶ These anomalies would end, to be replaced by consistent rules based on achieving appropriate quality control mechanisms, perhaps monitored by the current Australian Universities Quality Agency, rather than quirks of history. Opening the system up would increase choice and competition.

Just as the government would no longer set the number of universities, it would not set the number of student places, either for the system as a whole or for particular universities. The total number of places would be the sum of all students accepted by higher education institutions, a bottom-up rather than top-down way of setting place numbers. This would bring higher education into line with secondary education, where every prospective student accepted by a school is entitled to a place and, after a period of universities expanding their capacity, largely eliminate the problem of unmet demand, of thousands of qualified students annually missing out on a place⁷ ('largely' because there will still be some students who believe they are qualified, but no university agrees with them).

The strongest objection to this is that it would lead to 'over-education'. There is some evidence that over-education does occur. In 1997, for instance, 9.5% of clerks, 6.6% of sales people, and 2.6% of labourers were graduates.⁸ About 19% of employed graduates believe somebody with less education could do their job.⁹ Due to the unpredictability of the labour market, and the individual preference of some graduates for less intellectually demanding work, this phenomenon will always exist to some extent. In Chapters Three and Four, however, I explain how a different system would reduce mismatches of courses and students, and give universities better incentives to improve their students' skills.

Each student enrolling in a higher education institution would be entitled to two things.

First, there would be a subsidy paid by the Commonwealth. Under Dr Kemp's 1999 proposal, the subsidy was going to be by discipline. Other ideas for subsidy systems include government and student paying set ratios of the total cost, or subsidising particular students rather than particular courses. There are several difficulties with set ratio subsidies. They erode price discipline on universities, which know that students will discount price rises by whatever percentage the government is paying. This encourages overcharging and increases costs for the government. Set ratios also undermine the government's ability to use subsidies to support specific disciplines. These could include fields like nursing and teaching, where the public benefit is high but wages are relatively low, and strategic courses such as some sciences and languages. Subsidising particular students, such as those from poor backgrounds, may have merit in some circumstances, but with income-contingent loans available there is little reason to believe this is necessary to increase access, and good reason to think it is income redistribution to the relatively rich when income is calculated over a lifetime. Subsidy amounts, at least initially, should be similar to current levels, to ease the transition to a self-financing, market-driven system. These issues are discussed in Chapters Six, Nine and Ten.

Student choice systems of higher education subsidy are often referred to as 'voucher schemes'. While the system proposed here shares the student choice element with vouchers schemes, there would be no bits of paper called vouchers. The government would pay its subsidy directly to the university, so the student would never see it except through prices being lower than under a full fees system. As I argue in the Afterword, 'The free market case against vouchers', vouchers also seem to imply a government restriction on numbers that doesn't exist under Dr Kemp's 1999 proposal or what I suggest here.

While my basic intention is that the Commonwealth subsidise higher education, there is no reason why State governments should not resume direct subsidy of higher education, a role they had until the early 1970s. The immediate problem prompting this suggestion is

that the States are the major employers of teachers and nurses, but have little control over the number of students studying in these fields. Despite the States repeatedly expressing concern about future labour shortages in these areas, the Commonwealth has so far done little. If the States are going to be held accountable for teaching and nursing, it makes sense for them to have powers matching their responsibilities. Possibly they could providing teaching and nursing students with financial assistance to study, with the students then being obliged to work in the public sector for a set period of time. More generally, States have a direct interest in ensuring that their universities work well, unlike the Commonwealth, which is relatively isolated from local political pressures. In the United States, where university teaching is mainly subsidised at a state level, this allows competition between the states on the quality of their higher education systems.

The second thing each student would be entitled to under this system is a Commonwealth government loan to pay any extra fees universities charge in excess of Commonwealth or State subsidies. The benefits of fees are detailed in Chapters Three and Four. In effect, HECS as a flat tax based on discipline would be abolished, and replaced with fees set by the university. These extra fees have variously been called SuperHECS, premium HECS, and top-up fees. The current amenities or union fee for 'non-academic' services that all students must currently pay direct to universities, in addition to HECS, would be absorbed into this loan. Its current separate status is an anomaly of the funding system, creating an artificial distinction between support services directly funded by the university from Commonwealth grants, and support services funded by the university from the amenities fees. The total charge students pay would be the amount the university wants to charge, less the subsidy, plus a debt charge, to be discussed below.

The economic rationale for government lending is at least a partial market failure in the capital markets. As Milton Friedman, the 20th century's most prominent free market economist, wrote more than forty years ago, it is very difficult for banks to secure an investment in human capital. As he put it, 'In a non-slave state, the individual embodying the investment cannot be bought and sold. Even if he could, the security would not be comparable. The productivity of the physical capital does not depend on the cooperativeness of the original borrower. The productivity of human capital quite obviously does.'¹⁰ While banks do lend to some students, such as those with collateral as security or with demonstrated earning potential, many prospective students have neither. To avoid this outcome, undesirable for both the prospective student and for the society that would miss out on his or her full contribution, governments have a role lending money to students.

The reason for making loans from the Commonwealth is the proposed method of repayment, which is via the income tax system after the debtor's income reaches a certain point, as with HECS now. This method of repayment has a couple of advantages. It recognises that while graduates typically earn more over their lifetimes than other workers, this income advantage normally occurs after graduation. For the typical graduate, income contingency puts payment into the period of higher earnings, ensuring a more even cash flow over the life cycle. Income contingency also controls risk, encouraging prospective students to enrol by limiting the losses they can suffer if they are not successful in the labour market. The bad debts that accrue because of this policy are an additional subsidy by the Commonwealth, but worthwhile to make higher education a source of social mobility.

A problem with the 1999 Cabinet submission, though one of omission, was that it left in place a low threshold at which point HECS debtors must start repaying their loan. As part of the 1996 Budget, the income level at which the HECS debt must be repaid was significantly reduced, and after subsequent indexation now starts at the figure mentioned earlier—3% of the HECS debtor's total income once it reaches \$23,242 a year. For people on incomes that low, even a repayment like that—about \$700 a year—could cause financial problems. It

undermines the original idea of removing course costs as an obstacle to university access. A better idea would be to take the repayments out of the premium earned from possessing a degree.

Assessing this premium in each separate case is too complex, but we can put a reasonable figure on it by looking at average full-time earnings for those without degrees, and only requiring repayments from graduates earning more than that amount. The added rates of tax could be higher than those levied now if government cash flow is an issue. Possibly the average full-time earnings figure could be that of the debtor's age group, to take into account the fact that older people are more likely to have family financial commitments, or a direct adjustment could be made for family size. This would help reduce the deterrent effect on mature age students who already have incomes, and therefore may have to start repaying their student debt before completing their course.

A controversial issue with loans schemes is whether students should incur a debt charge, and if so what kind of charge. Lending students money is a cost, just like direct subsidy of course costs, and we should make rational decisions about how to spend the total amount available to higher education (which is always limited; see Chapter Ten for reasons). Offering loans without debt charges means that the Commonwealth is effectively subsidising those who are able to pay up-front. Take, for example, a three year course with annual fees of \$10,000, and a prospective student with enough money to pay up-front. If there is no debt charge, it makes sense for the student to borrow money interest-free from the government to pay university fees, and to invest the money he or she already has available. For the sake of simplicity, assume that the student can earn 5% interest from a bank, and the Commonwealth pays 5% interest on its outstanding debt. This means that for every year the student defers each annual fee he or she earns \$500 and the Commonwealth loses \$500. It would be much better for the Commonwealth to put that \$500 towards something of public benefit, and find a way of encouraging people with enough money to pay up-front to do so.¹¹

In New Zealand, this problem was solved by introducing interest rates on student loans, set at 7% in 2000-01.¹² There are various provisions for interest-write offs, but overall the NZ system is designed to minimise the scheme's cost to taxpayers. There was a similar proposal in Dr Kemp's 1999 proposal. At the time of the Cabinet submission's leak the political focus was on the fact that the interest rates were real (as opposed to the current inflation indexation on HECS debt), but this misunderstood the problem. The current system already involves a real charge for debt. This is because if you pay HECS up-front you receive a 25% discount. The real HECS charge is effectively the discounted rate, and the difference between the discounted rate and the advertised price is a debt charge. This debt charge is equivalent to deferring students paying an advertised price a third more than students paying up-front. For example, round the current HECS Law price from \$5,999 to \$6,000. A 25% discount brings the price down \$1,500 to \$4,500. \$1,500 is one-third of \$4,500. On top of this, their debt is indexed to inflation. Whether or not this is a good deal for the student is highly sensitive to the rate of repayment. Students who defer their HECS charge and then pay it off quickly through the tax system could end up paying a higher effective interest rate than people in New Zealand.

The potential difficulty with the proposed system was not that the interest rate was real, but that the debt costs were variable. With a variable debt cost, debtors are vulnerable to shifts in interest rates, and as rising interest rates normally slow down economic activity, the debtor could be squeezed between rising costs and falling income. Those who spent time out of the workforce, whether through unemployment, ill health, or to raise children, could face their total debt increasing even though they were receiving none of the financial benefits of their degree. Variable debt costs may for some students be less costly than a flat

debt charge, but they do introduce risk, and conflict with the risk-minimisation feature of income-contingent loan repayment.

So that the system retains a high level of risk minimisation, I favour retaining a flat debt charge option, such as exists under HECS now, though some students confident of their earning capacity (mature age students, for example) may find it cheaper to pay up-front with a discount, and borrow the money they need with a variable interest rate. Offering a flat debt charge balances the need for the government to recover some loan costs with the desire of students to have some certainty about the total amount they will owe. As indicated above, an appropriate debt charge is sensitive to forecast rates of repayment. A one-third increase on the fee charged by the university (after deducting the subsidy) would match HECS, but a precise level needs to be calculated after repayment rates are determined.

As I indicated in the Introduction, the proposal outlined in this chapter is not the only workable option, and its details could be varied without much loss. It is broadly consistent with the Cabinet submission prepared for the Minister by the federal Department of Education, the model suggested by the 1998 West review *Learning for Life*¹³ and the principles for policy reform of the Group of Eight research intensive universities.¹⁴ Setting out a proposal gives focus to the arguments for moving to a market system as detailed in the chapters that follow. It takes off the agenda full-fees for all undergraduates or up-front fees for anyone, regular features of anti-reform scare campaigns, and allows the basic arguments for market reform to be assessed on their own merits.

¹ http://www.aph.gov.au/senate/committee/eet_ctte/public%20uni/report/e04app4.pdf

² Simon Marginson and Mark Considine, *The Enterprise University: Power, Governance and Reinvention in Australia*, Cambridge University Press, Melbourne, 1999, p.233.

³ Figures calculated from Department of Education, Training and Youth Affairs, *Students 1999: Selected Higher Education Statistics*, Canberra, 1999, p.25.

⁴ For more information see: <http://www.hecs.gov.au/faqs.htm#1>

⁵ Funding per student and student to staff ratios can be found at the web site of the Australian Vice-Chancellors' Committee, http://www.avcc.edu.au/policies_activities/resource_analysis/key_stats/kstats.htm

⁶ See Brendan Nelson, *Higher Education at the Crossroads: Ministerial Discussion Paper*, DEST, Canberra, 2002, pp.80-81.

⁷ See the Australian Vice-Chancellors' Committee data: http://www.avcc.edu.au/policies_activities/resource_analysis/key_stats/access/index.htm

⁸ Les Andrews and Tiemin Wu, *The Labour Market Experience of Higher Education Graduates over the Last Decade*, DETYA, Canberra, 1998, p.7.

⁹ Mariah Evans and Jonathan Kelley, 'Why Is Education Rewarded—Necessary Skills or Arbitrary Credentialism?', *Australian Social Monitor*, December 1999, pp.37-38.

¹⁰ Milton and Rose Friedman, *Capitalism and Freedom*, The University of Chicago Press, 1962, p.102. The book was based on lectures given in the 1950s.

¹¹ There is a lesser version of this problem with the current Postgraduate Education Loans Scheme (PELS), which at least indexes the student's debt to the CPI. See Bruce Chapman and Tony Salvage, 'Australian Postgraduate Financing Options', *Agenda* Vol. 8 No. 4 (2001), esp. pp.359-363.

¹² Inland Revenue, *Student Loans Scheme Annual Report 2000/01*, <http://www.ird.govt.nz/aboutir/reports/slsannual2002.pdf>, p.12.

¹³ Department of Employment, Education, Training and Youth Affairs, *Learning for Life: Review of Higher Education Financing and Policy*, DEETYA, Canberra, 1998, esp. pp.113-36.

¹⁴ Issued in August 2000, available at <http://www.go8.edu.au/code/policy.htm>

Box: The current funding system

For universities: There are 38 universities entitled to receive Commonwealth subsidies for undergraduate students, plus four other higher education providers. Entitlement is a political decision, and not based on objective criteria. Institutions receive funding for set numbers of Australian HECS-liable undergraduate students. If they enroll less than this number they are penalised; if they enroll more they receive about \$2,600 each. This is less than 25% of average funding. The total number of places funded is less than total demand from eligible applicants, creating 'unmet demand'. Since 1998, universities have been able to offer full-fee paying places to Australian undergraduates when they have filled all their HECS-liable places. Such students may not exceed 25% of enrolments in any course. However, there are no limits on the number of overseas students.

For students: Since 1989 Australian undergraduates have had to pay for their education under the Higher Education Contribution Scheme. Current charges range from \$3,598 to \$5,999 a year, depending on degree. These charges are set by the government and go to the government. Students can pay up-front and get a 25% discount; about one in five take this option. All the others defer payment, beginning their repayment when their earnings reach \$23,242 per annum, when they must pay 3% of their total income. Repayment rates reach 6% of income for those earning \$41,838 or more. Students taking full-fee positions receive no loan. However, postgraduates taking full-fee positions can get a loan under the Postgraduate Education Loans Scheme, known as PELS. Degrees are tax deductible in the year of expenditure, if paid up-front and related to the student's current job.

The proposed funding system

For universities: The number of universities and other higher education institutions is not set by government. Instead, they must all meet objective criteria for accreditation, and are then treated equally. There is no upper or lower limit on student numbers, either for individual universities or for the system as a whole. The government pays universities a subsidy per undergraduate student based on discipline, and the university can charge a fee in excess of that. Much of this money will still come from government in the first instance, which will recover it as students repay education loans.

For students: Students will pay a fee set by the university, which for undergraduates will be less than full price due to discipline-specific subsidies. Students can take out a loan for the fees, but will pay a debt charge for doing so, similar in effect to HECS now. They begin repaying when their income exceeds the average earnings of a non-graduate. Subsidised courses remain not tax deductible, but courses relating to the student's current job and paid up-front with no subsidy are deductible in the year of expense.

Chapter Three

Investing in Education

Under John Dawkins' vision, the university system should give 'priority to national, social, economic and industrial development needs'.¹ As I argued in Chapter One, it is perfectly legitimate to expect universities to be responsive to such needs, though not exclusively devoted to pursuing them. To do so, we need a higher education finance system able to direct the right levels of investment to the right people at the right time in the right place. In the jargon of economists, we need to achieve allocative efficiency.

Dawkins had no reason to believe that the universities, with long histories of traditionalist education, would meet these national priorities on their own accord. Fortunately for him, he had the lever he needed to make them shift direction. While universities like to talk about university autonomy, by the 1980s their high dependence on Commonwealth funding, making up more than 80% of university revenues, meant that autonomy was little more than an indulgence of the government.² Dawkins curtailed that indulgence. In future, as a condition of Commonwealth support, universities' student profiles would have to help meet the government's assessment of national needs. Through this planning, Australia could ensure a ready supply of graduates to fill the rising number of jobs with high knowledge requirements.

This kind of comprehensive vision is rare these days.³ Workforce planning is an issue for individual organisations or particular occupations, but rarely discussed for the economy as a whole. Yet though there is little enthusiasm for the idea of planning, there is no strong push to abolish the institutions enabling a planned system, the quotas and the annual profiles meeting between the universities and the Commonwealth Education Department. When shortages of people with particular skills are raised as an issue, the typically suggested solution is not to let universities respond directly to market demand, but for the government to organise more graduates in that field.⁴ While this is a practical approach for professions suffering from labour shortages, as it is easier to request a small change than a large change, it means that very little thought is given to whether centralised control is the most effective way of allocating educational capital. In this chapter I outline why central control produces sub-optimal results.

Knowledge problems

No allocative system can entirely solve the myriad knowledge problems involved in matching universities with courses and students, and both with labour market needs. There are uncertainties at every level. It is difficult to predict precisely which skills the labour market requires even in the medium term, let alone over the forty-year working life of school-leaver undergraduates. For example, in the early 1990s we couldn't have predicted the boom in Internet-related activity that occurred just a few years later, or the partial collapse that followed. That not all graduates will end up working in the jobs they might have expected when first enrolling is a certainty; many will need to acquire additional qualifications over their working lives.

Even if it is possible to predict general employment growth areas, it is another thing to know which university will be best to teach them; there are both internal difficult-to-determine factors (how well they will recruit, abilities of staff, and so on) and external hard-to-estimate factors (the students willing to attend, local employment opportunities). Prospective students themselves are sometimes uncertain about their abilities and aptitudes, and it can also be difficult for others to judge them. Year 12 results and other admission tests give us information that is, on average, useful, but they are far from infallible guides.

It isn't that we know nothing about any of these things; there is information around. The question is how we successfully collect and coordinate the information we have, and in a way that lets us adjust what we are doing when new knowledge comes to hand. My

argument is that markets, while by no means perfect coordinators, would do a much better job than the current system of centralised control. One feature of markets is that decisions are made by those with the greatest incentive to acquire and use information, because they are the ones that will suffer the consequences if they get it wrong, or accrue the rewards if they get it right. In this case, that is principally the universities and their students.

Well-informed student choice?

In an ideal market, the consumer makes well-informed choices about his or her purchases. As is often pointed out, becoming well-informed about higher education options is not easy. Gabrielle Baldwin and Richard James, for example, note that much of what occurs in a university education is intangible and non-observable, and outcomes are long-term.⁵ John Quiggin says that competition spurs innovation and high quality when well-informed consumers make numerous repeat purchases, but this situation is absent in higher education, where students and their parents must rely on the professionalism of academic staff.⁶ Harry Clarke makes a similar point when he argues that higher education involves an 'information asymmetry', meaning that academic producers know more than student consumers. This is particularly serious for new courses without alumni or market reputation.⁷ Empirical evidence supports the view that students experience a knowledge problem. A survey of school-leavers showed that many do not class themselves as very well-informed, even about important matters such as academic services for students or employment outcomes.⁸

The fact that there are information problems in higher education does not, however, mean prospective university students are unable to make intelligent choices. Students' interests predispose them toward particular courses, and tests of students' interests are reasonably good predictors of the course they will end up doing. People with artistic interests tend to apply for visual arts and music courses; people with social interests apply for childcare, community service, and health studies; people with investigative interests apply for engineering, computing, and applied science; and so on.⁹ These consistent interests are displayed in the way students fill in their applications to attend university. They submit a list of preferences, and many applicants put down multiple similar courses rather than a variety of different courses. While of course not everyone has well-defined interests, or a clear idea of which interests to pursue, the fact that many do narrows the information problem to issues of which particular course (or combinations of courses) and which university. Making the right enrolment decisions does not, then, require stripping prospective students of choice, but supplying them and their parents with better information and encouraging them to use it. The financial services industry emerged to provide information for people making long-term investment decisions in a state of considerable uncertainty, and services advising on human capital must do the same.

In the United States advising students is already a competitive industry in itself, with each guide taking a different angle in helping prospective students decide. The most famous is the *US News and World Report America's Best Colleges* with its ranking system's widely reported annual contest for the top spot among America's best institutions (for 2001, Princeton reclaimed the number one position from the California Institute of Technology, and held it for 2002). The ranking is of course controversial, but the magazine publishes each institution's performance in the various criteria that together make up the rank. It also ranks according to region, type (such as liberal arts college), campus diversity (proportion of minority students) and field (best accounting, best e-commerce, best chemical engineering, and so on). Time's *Princeton Review: The Best College for You*, by contrast, encourages its readers to 'resist the lure of brands and rankings', and gives its college of the year award based on schools that are improving the education of their students and setting examples for others. They recognise innovation as much as the inherited advantages of the Ivy League. The *Templeton Guide*

rates colleges according to how well they encourage their students to 'lead ethical and civic-minded lives'.¹⁰

In Australia, the potential information flow is in some ways better than in the United States. All Australian universities participate in the Graduate Destination Survey (GDS), which reports on employability and starting salaries, useful information for students enrolling for vocational reasons. The information is available free from the Graduate Careers Council's *Gradsonline* website and from the Commonwealth Education Department's website in its *Which Course? Which University?* section, and via a starring system in the commercial *Good Universities Guide*. This kind of system-wide information is not available in the US. The GDS is conducted around four months after completion, and while longer-term information is more difficult to obtain, the Australian Bureau of Statistics publishes data on unemployment by field of study,¹¹ and some statistics on proportions of graduates working in jobs unrelated to their original field of study.¹² Academic studies provide information on the average long-term returns graduates received on their higher education investment.¹³ In the United States there is more information about financial returns by type of institution, and it would be useful to collect such information in Australia.¹⁴

While in a flexible labour market there is no guarantee that historical experience is an accurate guide to the future, the available information on labour market performance is nevertheless useful for prospective students. The fact that some fields of study have for many years had poor employment rates, and high proportions of those in jobs working in areas unrelated to their degree, is information that ought to be better known than it is. It would be useful if publications such as the *Good Universities Guide* included more details on these matters.

All Australian universities also participate in the Graduate Career Council's Course Experience Questionnaire (CEQ), which gives prospective students useful information about how very recent students rate their educational experience. There are considerable differences between universities, and these are also reported via a starring system in the *Good Universities Guide*. CEQ data, along with other implicit performance information such as pass rates and attrition rates, is also available from the Commonwealth Education Department.¹⁵ While *America's Best Colleges* does provide guides to performance such as freshmen retention rates and alumni giving rates, it is only recently that the US National Survey of Student Engagement has started to offer information similar to that found in the CEQ. But it does not cover all institutions and only releases aggregate data, leaving disclosure decisions to individual universities and colleges.¹⁶

While Australia's information flow is good, long-term institution-specific income data aside, there are obstacles to its effective utilisation. The Australian Vice-Chancellors' Committee, for example, diminishes its use with a code of conduct stating that no institution can use the CEQ or GDS data to 'knowingly undermine the reputation or standing of other institutions'.¹⁷ The data should of course not be used in any false or misleading way (as the code of conduct rightly insists). But if an institution is performing badly prospective students are entitled to know, and other institutions should be able to say so.

As prospective students do not always know enough, and universities do not always disclose enough, we need middlemen to bridge the gap, such as education brokers. Existing research on what influences school leavers in their higher education choice shows that personal sources of information, such as material given to them by careers teachers, and what they learn at university open days, rank highly among the strong influences.¹⁸ A broker should replicate this interpersonal element, helping to win trust. The major difference between a broker and a schools career adviser is that brokers would specialise in one or a small number of fields, so that they could provide discerning advice on different courses in the same field, so as to best match a course with the particular abilities, aptitudes and ambitions of the prospective student. Good brokers

should warn students off university where appropriate, and advise on various pitfalls of first year life, such as not adapting to new learning styles, social isolation, and time allocation.

In relatively recent times broker services have developed for the vocational training market, and have generally been successful. One study of their operation in regional Australia endorsed public support of them, on equity grounds for their value in bringing low-income people to education, and for their role in promoting efficiency through better matching training and provision.¹⁹ In the training sector, there are both profit and not-for-profit broking services. However provided, brokers are likely to be money well spent through reducing costs to students from wrong choices.

Well-informed universities?

The information problem affecting the enrolments process is far from one-sided. While critics of markets focus on the students' limited knowledge, they overlook the ignorance and indifference of universities. In the case of most applicants, universities know only their marks, the subjects they have completed, and their course preference. For some courses interviews or auditions are also conducted, but in most cases little other information is collected to ascertain the student's suitability for the course, or whether they are fully aware of the course's requirements or employment prospects on completion.

Under the current system, there is little incentive to collect or disseminate such information. With quotas, and with demand exceeding supply, there is no great need to worry about the prospects of any one student. A certain number of drop-outs is expected and planned for, and with demand exceeding supply universities can, to a certain extent, use the first year intake to adjust total numbers so as to achieve the Commonwealth's quota. Collecting extra information about students, so as to make better-informed enrolment decisions (including refusing enrolment), would just be another cost the universities have no means of recovering. For them, it is much cheaper just to enrol anyone who meets bureaucratically determined requirements, and let the taxpayer and the student who drops out bear virtually all the costs of errors.

Little effort is put into monitoring how much these enrolment process misallocations cost. One study of completions estimated that about 80% of commencing students complete an award.²⁰ As there are no regular surveys done of prematurely exiting students, it is impossible to know what proportion of the 20% who do not finish would have with a better match between them and their course, or between them and their university. An easier figure to use is the finding that around 17% of students change faculty or course in their first or second year.²¹ This figure is better because it eliminates people who have left university for personal and other reasons, and focuses on those who seem to have picked the wrong course (or been pushed into a second or lower preference) first time around. Taking 17% of the commencing students and multiplying that by the average government subsidy (net of HECS) arrives at a cost of around \$365,000,000 a year. The figure should be discounted for people who retain credit in their new course for work they have done in their old course, but enlarged for those who drop out entirely for course-related reasons. A precise figure for misenrolment costs is impossible to calculate, but it is certainly in the hundreds of millions of dollars annually.

There are also costs to the student. There is no discount on HECS for making the wrong choice, and of course there are various other expenses involved in attending university. One study of the private returns to education looked at the effect of taking four years to complete a three-year degree. Taking into account the added expenses of being at university for a year, the income forgone by being out of the labour market, and the shift-down in the age-earnings profile reduced the rate of return from 14.5% to 9.5%.²² If the student was switching from a degree with weak income-earning capacity

to a strong income-earning capacity obviously this result would not apply, but there would still be average costs of \$15,000-\$20,000 in direct expenses and lost income.

If the higher education system became more market-driven, not all the expenses of misenrolment would fall on taxpayers and students. Students dropping out would cost universities more if they could not just replace those going with more first year students the following semester. In the American student guides, retention rates are one component of the reputational index, because high retention rates indicate students are satisfied with their experience. Retention rates have also been published for Australian universities, with statistical adjustments to compensate for characteristics of the student body that may, independent of actual performance, affect the numbers who drop out.²³ In a more competitive system, this kind of information could feed into student preferences, further financially affecting the university. This creates incentive to both choose students carefully and to treat them well after they enrol.

The current centrally controlled system cannot even make use of the information we do collect through the applications process. Each year, Year 12 students, plus others wanting to go to university, apply through state-based agencies for a university place. As indicated above, each applicant has the opportunity to put down several preferences. This means that if they miss out on their first preference they have a chance at their second, and so on. This process collects an enormous amount of information about the educational and career aspirations of prospective university students. For the universities, it provides feedback about how they are perceived. If a university has many applications it is a sign that they are doing something right. That something may vary from person to person. It could be that the courses are in fields with good employment prospects, or they might have a good reputation, or there may be other more incidental reasons, such as the university being located near the applicant. The university may need to do market research to find out, but for our purposes it is enough that we know what prospective students would like to study and where they would like to study it. Even within a planned system, which values ensuring minimum numbers in certain disciplines above satisfying student preferences, the application process collates valuable information about how students perceive the various packages universities offer.

In our current system much of this valuable information about the demand for student places at each university is lost because it cannot be acted upon. The universities possess only a limited capacity to adjust supply to demand, even in the medium to long term. They have their difficult to change government quota, and if they go above it they earn only about \$2,600 per student, typically below the cost of providing courses. So even if a prospective student wants to attend a particular university, and the university wants to accept the prospective student, the quota system means that the university has a strong financial incentive to reject instead of accept. Even when the planning system operated more effectively than it does now, the profiles process occurred *before* applications were submitted, so there was at best a twelve-month lag between information being acquired and it being acted upon, by which time it had already been superseded by the following year's applications.

Under a market system like that proposed in the last chapter, there is an incentive to respond to the information provided in the applications process. Some universities with more applicants than government-funded places may be able to take extra students in response to demand. Under the current system situations arise when universities have government-funded facilities but too few government-funded places to use them to full effect. Anomalies like this could be quickly remedied under a market system. For demand greater than can be met in the short term, a market system allows universities to expand freely, if they are confident of sustained student interest. Under a planned system, expansion, as least for local undergraduate students, is more contingent on the government's political and budgetary considerations, than the university's or student's educational aspirations.

Absent pricing

The absence of a pricing system has the further potential to distort the courses offered. As mentioned in the previous chapter, there is only a loose relationship between the cost of teaching a course and the subsidy received, and no automatic adjustment for putting on a course that is more expensive for the university to provide. Within the constraints of the quota system, this means that there is no incentive to put on courses that may be better than those available now, but which have higher costs. In these days of very tight university finances, it is even worse than there being no incentive; it is simply not feasible.

We can see a possible effect of not having adequate study-finance mechanisms in labour shortage figures. In health-related fields, where the costs of teaching tend to be relatively high, the annual number of commencing students is up around 12,000 between 1989 and 1999. In engineering, where costs are also high, the number is up around 4,600. In lower cost areas the increased numbers are much higher—business related courses up 36,600, arts and social sciences up 24,200, law up nearly 7,000.²⁴ According to 2001 skills shortages data, there are wide-ranging shortages of health professionals, with national shortages in fifteen specialities. In engineering, there is a national shortage of electronics engineers and regional shortages of civil and electrical engineers.²⁵ As with any labour market outcome, many factors are likely to be at work, most notably salaries in these fields. It does however seem significant that there are shortages in areas of sluggish growth in student numbers. Whatever the original cause, the current system has no capacity to significantly boost student numbers in these fields to avoid long-term undersupply.

Making the subsidy system flexible would go some way to fixing this problem, though it could still cause places to be undesirably taken from other areas. The flaw, though, in a subsidy system with no scope for top-up fees is that it takes the decision as to how much to invest away from those who have the most information about cost and the best incentive to invest enough to cover the cost, namely universities and students. Universities are in a better position than anyone else to know the expense of putting on a course, since they have, or can create, the necessary financial information. If costs rise above subsidies in the current system, numbers need to be cut back. Under a fees system, numbers can continue to rise according to demand, as determined by the applications process. Since students are higher education's principal beneficiaries, they have the most powerful incentive to invest the money needed to do the right course for them at an acceptable quality level.

If we had a pricing system, if universities were allowed to charge and students to pay, clear and widely acknowledged problems in the way education is delivered could be fixed. One of the current system's clearest shortcomings is the lack of individual attention. The CEQ asks completing students whether they agree that staff put a lot of time into commenting on their work. Only 9% strongly agree, and a further 25% agree, though less strongly. The rest ranged from a neutral response to strongly disagreeing.²⁶ The problems show up even more clearly in a 1999 survey of first year students. While they think the academic staff are approachable (62% agreeing), this seems to be only in the unlikely event that they can find them to approach, with 38% saying that academic staff were usually available to discuss their work, a decline from 45% in 1994. The response is poorer still on whether they get helpful feedback on their work (25%) and whether most academic staff take an interest in their progress (21%).²⁷

These poor survey results would suggest that student to staff ratios should be reduced. In fact, as we have seen, over the last decade student to staff ratios escalated from an average of around 13 to 1 in 1990 to about 19 to 1 in 2000.²⁸ Few would think such levels acceptable, and some Australian universities would surely have tried to emulate the American Ivy League universities, where the ratios are more like seven or

eight to one.²⁹ Yet under the current system students and staff are near powerless to bring about significant change, because they have no say in the allocation of finance.

As well as financing more staff, top-up fees could pay for better staff. With this income, universities would not be so easily outbid for the top staff by overseas institutions and the domestic professions. The book *What Jobs Pay* provides something of a guide to average local pay differentials, though averages greatly understate total pay for those reaching the peaks of their professions. It puts the average lifetime earnings of a university lecturer at around \$2.3 million. Other university graduates, however, can earn more. Pharmacists average around \$2.5 million, as do electrical engineers. Computing professionals are a bit higher at \$2.6 million. Geologists hit the \$3 million mark, as do lawyers, and general practitioners and corporate treasurers reach \$3.6 million and \$3.7 million respectively.³⁰ While academics do tend to be motivated by the intrinsic rewards of the job, that motivation is weakest in areas most necessary to professional training. In business and administration, for example, 66% say they are motivated by intrinsic interest, compared to 81% in the humanities and social sciences.³¹ About a third of business academics are open to temptation from business. It is surely not completely a coincidence that it is the areas of study with high-paying professions recruiting from the same talent pool that are rated worst for teaching by their students.³²

An effective pricing system would give universities an opportunity to remedy many problems. It is important to emphasise that these opportunities would not exist if we simply increased HECS charges. Because HECS goes to the government and not the university, increases in HECS charges are effectively just tax rises, and produce no benefits at all for students. By contrast, money from fees can go toward producing economic benefits for the students. In the United States, one recent study found that each \$1,000 increase in tuition expenditure was associated with increases in male earnings of about 2%.³³ While clearly not just any expenditure will produce these benefits, if Australian universities had the option to maintain or increase expenditure through top-up fees the recent history of Australian higher education and its graduates is likely to have been rather different.

Even if HECS increases did go to the universities, this is likely to result in lower economic benefits than the equivalent sum coming from students, for all the information reasons discussed in this chapter. The government simply does not know where to invest, in whom, or how much. It is a market's capacity to draw out this information that makes it a superior investment mechanism.

Barriers to student entry

One possible way in which a centrally controlled system may satisfy student demand more than a market system is through forcing some universities to take extra students. In most markets, producers take a 'bigger is better' approach. This is because their objective is profits, and more customers usually improves profitability. Most universities, however, are not motivated by profit, though of course they are concerned with their financial position. Provided they are financially secure, they can pursue other goals.

In universities with traditional academic aims, the intellectual quality of their staff and students will be a major consideration. Such universities are motivated by academic prestige; money is just one way of advancing prestige, and not an end in itself, as it is for commercial organisations. This is why these universities emphasise their research activities, which indicate that their staff are able researchers. It is also why they emphasise high entry standards, since they signal students in the top range of intellectual ability. The University of New South Wales, for example, says on its website that 'it has built a reputation based on merit and reflected by such criteria as *high entry requirements* ...'³⁴ The University of Melbourne reports on what proportion of the top school leavers it attracts, and the rising median score required for entry.³⁵ In the United

States, where the *US News and World Report* magazine ranks universities and colleges, measures of rank include scores on the SAT test used for university entry and 'selectivity'; that is, what proportion of applicants they reject.³⁶

High prestige universities attract many applicants, usually considerably more than the number of available places. This inevitably means that some students cannot secure their first preference. For the prestige-oriented universities themselves, this is not a problem, since high rejection rates increase prestige. But for the disappointed students, it is a problem. They must go somewhere else. From their point of view, a government-controlled system could have the advantage of forcing these universities to take more students, up to their physical capacity. Arguably, this has occurred in Australia, where universities aspiring to prestige have in fact grown considerably over a long period of time. Five of the members of the prestige-seeking Group of Eight research universities are also in the top eight universities ranked simply by size.³⁷ Their large number of student places has substantially reduced the rejection rates they might otherwise have had.

While this means less student disappointment, it isn't necessarily a good outcome, in terms of the overall allocation of resources. For universities seeking to offer the best educational experience, there is evidence that bigger is not better for students. The CEQ finds that students rate smaller campuses more highly for both teaching and overall satisfaction,³⁸ and American research confirms that smaller institutions provide more supportive environments, students have more interaction with each other and with staff, and the level of academic challenge is higher.³⁹ We can only speculate on why this might be the case, but both students and staff may feel more a part of smaller institutions, where governance is less remote, and it is possible to know a higher proportion of people on campus.

Greater selectivity may in itself improve teaching. Forty per cent of Australian academics report that there is a too wide range of abilities in the students they teach.⁴⁰ If they teach so as not to lose the less able students, they bore the bright students; if they teach at the level of the top students, they create confusion among the others. Each group may be better off with peers of more similar ability, so as to better match teaching styles with their needs.

As I will argue in the next chapter, the pursuit of prestige, especially in the research field, certainly isn't an unambiguous good from the point of view of students. However, in terms of the allocation process it—perhaps not entirely intentionally—puts more students into appropriate campus and classroom environments.

Planning in a democracy

Even in the best of circumstances, a planned system doesn't have the information and incentives strengths of a market. While I think these problems on their own are fatal to the idea of central control, there is another layer of difficulty. A planned system is a politicised system. To a large extent it must be. When there is no market accountability, there must be democratic accountability for the way taxpayers' money is spent.

While political control is unavoidable, the logic of the political process will almost inevitably interfere with the logic of the planning process. Democratic governments are rarely so secure that they can offend large numbers of people, or miss a chance to bestow largesse on potential supporters. While the original social or economic policy considerations are rarely completely displaced, and usually remain prominent in rhetorical justifications, they are not over-riding. Central planning was more suited to the communist nations in which it reached its peak, as they could crush or ignore the dissent that might undesirably diversify the planning system's goals.

So if student places are allocated in a political process, it is near-certain that they will be allocated for political reasons, and not those the planning system's creators thought relevant, such as meeting social or industrial needs. In the days when the rural sector was an economic force, elections would trigger a flurry of dam building. In these days

when knowledge industries increasingly dominate the economy, an offer of a new university campus or more students for the local area can prove just as attractive. Cynics did of course point out that new places and a medical school for James Cook University, announced during the 1998 election campaign, might be related to their benefits for the marginal Coalition seats of Herbert and Leichhardt.

Good central planning does not just hand out new student places to universities needing them most; it shifts them from universities needing them less. In democratic countries taking places away triggers protest, making it all too easy to consider the transfer too hard. Unsurprisingly, the profiles process of negotiating between universities and government rarely sees a university involuntarily losing undergraduate places. During Budget cuts, places are generally lost according to formulas based on treating universities consistently, rather than on an analysis of student or labour market demand. This is largely what happened when the total number of government-funded places was reduced following the 1996 Budget. By decentralising decision making through a market, the scope for political interference is greatly diminished.

Conclusion

Higher education is one of very few areas of the Australian economy in which quotas and price controls dominate the allocational process. These have been abandoned elsewhere for a powerful reason—they are incapable of doing a good job. Despite high rates of return to investment in higher education, the total investment in Australian undergraduates is stagnating. We will let our young people spend money on almost anything except what will help them earn their living—their university education. It is a perverse and bizarre policy. And even with the inadequate pool of funds the government provides, the quota system assists in misallocating it, wasting large amounts of time and money while students find the course they really want to do.

¹ John Dawkins, *Higher Education: A Policy Statement*, Australian Government Publishing Service, Canberra, 1988, p.31.

² Financing figure: Tom Karmel, *Financing Higher Education in Australia*, Department of Education, Training and Youth Affairs, Canberra, 1999, p.5.

³ For a rather difficult to follow argument in favour of 'co-ordinating university boards' see Len Bahnisch and Iean Russell, 'Merit in Getting Our Act Together', *The Australian*, 7 November 2001, p.32.

⁴ A number of shortages are briefly discussed in The Senate Employment, Workplace Relations, Small Business and Education References Committee, *Universities in Crisis*, Senate, Parliament House Canberra, 2001, pp. 55-56.

⁵ Gabrielle Baldwin and Richard James, 'The Market in Australian Higher Education and the Concept of the Student as Informed Consumer', *Journal of Higher Education Policy and Management*, vol. 22, no.2, 2000, p.142.

⁶ John Quiggin, 'How to Strangle Education', *The Australian Financial Review*, 3 August, 2000, p.40.

⁷ Harry Clarke, 'Asymmetric Information, Public Goods and Central Control: A Critique of the West Review's Education Policy', *Australian Journal of Education*, vol. 44 no.1, 2000, 76-90.

⁸ Richard James, Gabrielle Baldwin and Craig McInnis, *Which University?: The Factors Influencing the Choices of Prospective Undergraduates*, DETYA, Canberra, 1999, p.27.

⁹ Adrian Harvey-Beavis and Gerald R. Elsworth, *Individual Demand for Tertiary Education: Interests and Fields of Study*, DETYA, Canberra, p.79.

¹⁰ Available at: <http://www.collegeandcharacter.org/>

¹¹ Australian Bureau of Statistics, *Education and Training in Australia*, Catalogue 4224.0, ABS, Canberra, 1999, p.41.

¹² Australian Bureau of Statistics, *Australian Social Trends 2001*, Catalogue 4102.0, ABS, Canberra, 2001, p.112.

¹³ Jeff Borland, 'New Estimates of the Private Rate of Return to University Education in Australia', Department of Economics, University of Melbourne, 2001, <http://www.ecom.unimelb.edu.au/iaesrwww/mipub/mied2.pdf>

¹⁴ See Robert A. Fitzgerald and Shelley Burns, *College Quality and the Earnings of Recent College Graduates*, National Center for Education Statistics, Washington DC, 2000; and William G. Bowen and Derek Bok, *The Shape of the River: Long-term Consequences of Considering Race in College and University Admissions*, Princeton University Press, Princeton, 1998, esp. Chapter 5.

¹⁵ 'Higher Education Outcome Indicators. <http://www.dest.gov.au/archive/highered/statistics/outcomes/default.htm>

¹⁶ National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, Indiana University Center for Postsecondary Research and Planning, Bloomington Indiana, 2000.

¹⁷ Graduate Careers Council of Australia, *2000 Course Experience Questionnaire*, GCCA, Melbourne, 2001, Appendix B, p.2.

¹⁸ Richard James, Gabrielle Baldwin and Craig McInnis, *Which University*, p.15. The strongest influence was the tertiary admission centre guides, but these do not evaluate courses.

¹⁹ Sue Kilpatrick and Helen Bound, 'Training Brokers: Networks and Outcomes in Regional Australia', *Australian and New Zealand Journal of Vocational Educational Research*, vol. 9, no. 1, 2001, p.66.

²⁰ Mark Urban et al. *Completions: Undergraduate Academic Outcomes for 1992 Commencing Students*, DETYA, Canberra, 1999, p.1.

²¹ Craig McInnis et al., *Non-Completion in Vocational Education and Training and Higher Education*, Department of Education, Training and Youth Affairs / AusInfo, Canberra, 2000, p.27.

²² Jeff Borland, *New Estimates of the Private Rate of Return to University Education in Australia*, Table 3.

²³ Department of Education, Training and Youth Affairs, *The Characteristics and Performance of Higher Education Institutions*, DETYA, Canberra, 1998, pp. 73-82, 152.

²⁴ Figures calculated from Department of Education, Training and Youth Affairs, *Students 1999: Selected Higher Education Statistics*, Canberra, 1999, p.25.

²⁵ Data from Department of Employment, Workplace Relations, and Small Business, <http://165.12.249.82/WP/CDA/Files/WP/SkillshortageLists.pdf>

²⁶ GCCA, *2000 Course Experience Questionnaire*, p.7.

²⁷ Craig McInnis, Richard James, and Robyn Hartley, *Trends in the First Year Experience in Australian Universities*, DETYA, Canberra, 2000, p.48.

²⁸ Available at http://www.avcc.edu.au/policies_activities/resource_analysis/key_stats/student_staff_ratios.htm

²⁹ U.S. News and World Report, *America's Best Colleges 2000*, p.30.

³⁰ Rodney Stinson, *What Jobs Pay 2000-2001*, New Hobsons Press, Sydney, 2000, pp.34-39.

³¹ Craig McInnis, *The Work Roles of Academics in Australian Universities*, DETYA, Canberra, 1999, p.11.

³² Graduate Careers Council of Australia, *1999 Course Experience Questionnaire*, GCCA, Melbourne, 2000, p.14. Another explanation sometimes given is that vocationally-oriented courses contain more material that is necessary but dull, which affects teaching satisfaction. While there may be some truth to this, the actual questions try to focus attention on the teachers; for example, asking students to agree or disagree with the statement 'The teaching staff worked hard to make their subjects interesting'

³³ Robert A. Fitzgerald and Shelley Burns, *College Quality and the Earnings of Recent College Graduates*, p.33.

³⁴ <http://www.unsw.edu.au/courses/whyunsw.html>, emphasis added.

³⁵ The University of Melbourne, *Strategic Perspective 2000*, Melbourne, 2000, p.26.

³⁶ See for example U.S. News and World Report, *America's Best Colleges 2000*, p.31.

³⁷ Brendan Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, DEST, Canberra, 2001, web edition, section 1.1.1.

³⁸ Graduate Careers Council of Australia, *1999 Course Experience Questionnaire*, GCCA, Melbourne, 2000, pp.24-29.

³⁹ National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, Indiana University Center for Postsecondary Research and Planning, Bloomington Indiana, 2000, p.8.

⁴⁰ Craig McInnis, *The Work Roles of Academics*, p.34.

Chapter Four

Competition and Quality in Higher Education

In Australian higher education, quality has largely been left to the universities themselves. They are self-accrediting institutions, so they determine curriculum, establish the standards that must be met, and organise teaching and other student services. This reflects the insight that much of the knowledge relevant to these tasks exists at the local level, and contrasts with the top-down allocational process discussed in the last chapter. While the official line is that all universities are of equivalent standing, this system of self-management allows considerable variation between them. It implicitly recognises that 'quality' can mean different things to different people, and that one-size-fits-all bureaucratically determined standards would undermine the system's capacity to meet the diverse demands placed on it.

While university self-accreditation utilises local knowledge, it requires us to trust the universities to do the right thing by their students, and by the general community that finances them. We rely heavily on the consciences of academics and university administrators rather than incentives, in the form of rewards or sanctions. Bureaucratic supervision of classroom activity or course content has, historically, been light, though intensifying over the last decade, including institutional incentive funding for quality in the early to mid 1990s, and leading up to the recent establishment of the Australian Universities Quality Agency.¹ Through much of Australia's educational history there were no market disciplines either, with the original universities in each capital city enjoying long periods as monopoly providers. Though now there are at least two universities in every capital city except Hobart and Darwin, competition is still constrained by the quota system.

In this chapter, I will argue that less constrained competition would, on balance, improve quality, at least as measured by key stakeholders such as students and employers.

How good (or bad) are Australia's universities?

Until the 1990s, there was little systematic work on student perceptions of the quality of their higher education experience. Since the graduating class of 1993, however, every completing student has received the Course Experience Questionnaire (CEQ) survey from the Graduate Careers Council of Australia. This provides a time series of survey results, revealing a general picture of how students perceive their university experience.

There are problems with the CEQ, as academics and universities are, for reasons that will become apparent, ready to point out. One of the most significant, from my point of view, is that students must do a mental averaging of the many subjects they will have done in their degree. In my own undergraduate study years in the 1980s, I had teachers ranging from the terrible to the brilliant. Putting a low assessment on the CEQ doesn't mean that every teacher was bad, but that enough were to undermine overall perceptions. Another difficulty is that response rates to the CEQ are now below two-thirds, though respondents roughly match the completing students in relevant characteristics.² It isn't clear whether the response rate introduces an upward or downward bias in satisfaction rates, though perhaps the dissatisfied are more likely to want to have their say. On the other hand, as the CEQ is only sent to people who complete their degrees, it means that those who are likely to be most dissatisfied—people who have dropped out—are not included. Still, for all these caveats, the CEQ provides the most reliable data we have, and is a welcome balance to the anecdotal assessments that otherwise underpin quality evaluation.

In the CEQ there are six questions covering the interaction between students and staff. Students rate their agreement with various propositions on a five point scale, from 'strongly disagree' to 'strongly agree'. On only one question do bachelor degree students

give their teachers a pass mark—that is, at least half of them circle one of the top two points that indicate clear agreement. Some 50% of students agree that ‘the teaching staff worked hard to make their subjects interesting’. Four other questions, on staff motivating students to do well, making an effort to understand student difficulties, normally giving helpful feedback, and being good at explaining things had agreement scores between 40% and 48%. Only 34% agreed that ‘staff put a lot of time into commenting on my work’. In other areas the results are better, but still show room for improvement—49% agreed with the statement ‘it was often hard to know what was expected of me in this course’, while 60% agreed that ‘to do well in this course all you really need is a good memory’, not a good outcome if universities aim to develop understanding and thinking skills. The only set of questions in which there is reasonably strong agreement (over 60%) involves students’ self-assessment of their own abilities.³ If you discount for development that would have occurred anyway as they matured, and for students’ understandable tendency to rate themselves highly, even these results won’t look so good. It is impossible to avoid the conclusion that universities are not doing one of their central tasks—teaching—very well at all.

As we saw in Chapter One, the overwhelming majority of university students hope that their degree will improve their job prospects. Yet there are very wide disparities between the attributes employers want to see and the attributes academics want to cultivate. In a survey done in the mid-1990s, and covering twelve attributes, business ranked ‘communication skills’ as number one. Academics rated communication skills as number seven. Business put ‘capacity to learn new skills’ at number two. Academics placed this attribute at number five. Business saw ‘capacity to cooperate’ as the third most important attribute, academics the eighth most important. The only things they agreed on were that general business knowledge, specific work skills, and broad background general knowledge were all relatively unimportant attributes.⁴ A more recent survey of employers found that more than two-thirds of graduate applicants were unsuitable for the position they applied for or any other position in the organisation.⁵ Of the graduates they did employ, the employers were least satisfied with the skills of problem-solving, oral communication, numeracy and interpersonal relations with other staff.⁶ Universities shouldn’t simply prepare people for the world of work, but the wide disparity between what employers want and what academics want is cause for concern.

Incentives biased against students

It is safe to say that, despite signs of improvement that I discuss below, universities have not given the needs of students anywhere near the priority they deserve. This is the entirely predictable consequence of the funding system. If you keep the total number of places below actual demand, and you distribute those places by political decision rather than demand or performance, and you abolish all price signals by charging a flat tax instead of fees, you create an industry that is completely producer-dominated, and render the consumer, or student, near powerless. To make matters worse, the only real incentives the government does create, in research funding, further bias the system against students. The government bases its research funding on performance, as measured on a variety of criteria such as winning competitive grants and publications. Since universities can improve their financial position by improving their research performance, but can’t improve their position through teaching government-subsidised students better, the incentive is to focus on research rather than teaching.

The effects of this incentive system are very evident in the internal organisation of the universities. University teaching is not a profession in the way that school teaching is a profession. Unlike teachers, most academics do not receive training at the beginning of their careers, and when they do they typically receive much less of it. A 1999 survey of academics found that only 44% of early career academics had received training at the start of their career, and that figure dropped to around 30% for mid and late career

academics.⁷ The standard qualification needed for a career as a university teacher, the PhD, does not prepare you for a teaching career. In Australia the PhD is usually based entirely on a dissertation, encouraging intellectual narrowness rather than the breadth desirable in a teacher. It does not value the real-world experience that can be an asset for teachers. Three or more years in academic solitary confinement to write a doctorate does nothing to develop the skills necessary to handle large groups of students. Perhaps academics rank 'communication skills' and 'capacity to cooperate' lowly amongst graduate attributes because these are not skills their training develops, and so they feel ill-equipped to pass them on.

Nor do academics receive much incentive to improve their teaching. A survey of academics carried out in 1994 asked which factors were valued when they were being assessed for promotion and tenure. Research and publication were clearly top of the list, with 85% saying the quantity of research and publication was valued 'to a large extent/a great deal', and 71% saying the quality of that research and publication mattered. By contrast, only 27% said undergraduate teaching mattered, and fewer still thought the quality of students' learning (22%) or their own qualifications in teaching (15%) would affect their prospects.⁸

The 1999 survey also asked academics about their time use, and compared its results with a 1993 survey. It found that—despite an intervening increase in student-staff ratios—the amount of time spent weekly on teaching and teaching-related activities went down by 1.3 hours and the amount of time spent on research went up by 1.1 hours.⁹ Nearly two-thirds of academics believe their teaching load hinders their research,¹⁰ providing a neat symmetry with the roughly two-thirds of students who don't think their teachers put a lot of time into commenting on their work.¹¹ Academics are rationally responding to the incentive structure, and their students are paying the price.

There are, however, some signs of change, if we compare the 1999 survey on rewards for teaching with the 1994 survey. In 1999, 44% of academics thought that their effectiveness as a teacher was rewarded in promotions. If the nearest question from the 1994 survey was 'quality of students learning' it suggests that universities put about twice as much emphasis on students in staff promotions as they did five years before. While this still ranked well below 'research / scholarly activity' at 91% and 'ability to attract external funds' at 82%, it represents an improvement.¹² All universities now have awards to recognise good teaching.¹³ The changed incentive system appears to be showing in the CEQ results. While they are still poor, since the mid-1990s there has been a modest but consistent upward trend.¹⁴

Why have universities started to change their incentive structures? The greater awareness of quality issues fostered by government programmes in the first half of the 1990s probably helped. But I think the answer lies mostly in the addition of a market-driven student body to the majority government-subsidised and regulated group. An unintended positive consequence of severe funding constraints over the 1990s, which would otherwise have had an entirely detrimental effect on the student experience, is that universities have become far more interested in recruiting financially viable students, principally full-fee paying students from overseas. Over the 1990s, there has been a significant increase in their numbers. In 1992 there were 34,076 overseas students and by 2000 the number had risen to 95,607.¹⁵ These are students the universities cannot take for granted in the way they can take local students for granted. Unlike Australian students, who are traditionally reluctant to travel to study, the overseas students are in a global market, with Canada, the US and the UK popular destinations along with Australia. Australia's greatest strengths are its geographic proximity for Asian students and relatively low prices, but within the group deciding to go to Australia they have many fewer locality constraints than domestic students. There is real competition to secure their custom, and continually dissatisfying overseas students can easily lead to financial loss. Universities show signs of responding to the

changed incentives, but there would be a much larger culture shift if no student could be taken for granted. The obvious conclusion is that the quota system should be abolished.

Price flexibility would also have positive effects on the quality of university teaching. At the moment, universities cannot be rewarded for doing a good job. They receive the same government subsidy whether their students are highly satisfied, indifferent, or highly dissatisfied. It is easier (and less expensive, in a world of very finite budgets) to opt for mediocrity. The message the subsidy system sends them is that quality doesn't matter. A pricing system sends different signals. People pay more for quality; higher prices both finance services of a higher standard and reward those who provide them.

At present, the federal government is pursuing the bureaucratic path of quality improvement, through the Australian Universities Quality Agency. This may prove useful in highlighting defects in universities' quality assurance processes. But it is not enough. Even aside from the current incentive system, there is a culture that values research over teaching. In the 1999 survey, 42% of academics agreed with the statement that 'I have a much stronger career interest in research than teaching', a problem that is likely to increase over time, with younger academics more likely to agree.¹⁶ We need a powerful incentive system to ensure students' interests heeded, and competition is the way to achieve that.

This view finds some limited support from within the sector. This is what the then AVCC President, Professor Ian Chubb, had to say in his speech to the National Press Club on 14 March 2001, when advocating a shift from the rigid targets of the quota system to a numerical range of places:

Students would have more capacity to follow their preferences; so universities will need to offer real services, and real quality in order to attract and retain the number of students they choose to enrol.¹⁷

Regrettably, the AVCC's position as an interest group stops them taking this logic too far. This statement was followed by:

I should emphasise that the overwhelming majority of Vice-Chancellors does not now, nor has it ever, supported a voucher system. But we do believe that students wanting to attend a particular university should not be excluded simply on the basis of strict enrolment targets set by the Commonwealth.

The fundamental issue is that universities need to have a greater degree of policy and funding stability and predictability—while being able to develop their unique characteristics as they comply with their particular mission.

At least the AVCC understands the logic of competition, even if they do not want it to be applied too vigorously to themselves.

Academic standards

There are few claims that competition itself leads to lower quality teaching, though obviously not everything taught in competitive circumstances is necessarily of a high quality. The strength of a market is not that there is no risk of low quality, but that it creates incentives to meet quality expectations. However, there are claims that markets cause academic standards to be compromised. This complaint takes three basic forms—that the academic content of a degree is too low, that admission standards are too low, and that people who ought to fail are being passed. I will discuss all three.

Academic content

The most common version of the academic content complaint centres on postgraduate coursework, where market influences are greatest. Restrictions on charging fees for postgraduate coursework degrees were lifted in 1994, and HECS-liable postgraduate

coursework places have become less common. Consequently, the proportion of postgraduate coursework students paying full fees has increased from less than one-third to nearly two-thirds since the Howard government took office.¹⁸ Since this is one of the few areas where universities can make money, they offer more courses. Between 1994 and 2002 the number of postgraduate courses increased by around 50%, from 4,250 to about 6,000.¹⁹

Some critics of markets, such as Bradley Smith, who went from being President of the Council of Australian Postgraduate Associations to being an adviser to the Australian Democrats, say that this need for money has ‘forced universities into dumbing down practices to increase throughput: reduced subject load, including undergraduate subjects in postgraduate programs, lower entry standards and time frames.’ He says one Masters course is as short as six months.²⁰

Smith does place these practices in the context of funding pressures that are, in my view, much less likely to exist in a fully deregulated system, but his view reflects a general suspicion that corners will be cut if universities operate in a market. Due to potential reputational costs—discussed in more detail below—I do not think that this is likely to be a systematic problem. However, given the information problems inherent in higher education, there is a good case for regulating the titles given to various qualifications. That way, students and employers are both clear on what they are buying.

Fortunately, the nomenclature of degrees is, in fact, already standardised under the Australian Qualifications Framework (AQF) and degrees should match the descriptions set out under the Framework.²¹ According to the AQF, a Masters degree requires advanced knowledge, high order skills, and the ability to solve complex problems. A precise time is not specified, but the AQF website says that ‘most’ are of two years duration, though they can be shorter if a Bachelor Honours degree or a Graduate Diploma has already been completed. The six month degree that Smith refers to may have existed at some stage, but I can find no Masters degree listed in the comprehensive *The Good Universities Guide to Postgraduate and Career Upgrade Courses* that is less than one year. Most are in the one to two year range, with a few longer courses where professional employment is combined, but none that are shorter. Given the rather leisurely pace of academic life, with only six months of teaching in the normal academic calendar, there is probably no reason why a course could not be taught intensely in less than a year, but there is no evidence that this is a current practice. Nor is there anything inherently wrong with mixing undergraduate Honours students and Masters students, particularly if the latter face higher assessment standards. Honours subjects are often quite specialised and demanding, as a Masters subject should be, and combining the two creates economies of scale that widen choice for students.

If universities do offer ‘Masters’ courses which fail to meet the AQF requirements, the desirable solution is hardly to abolish the market, and all the other benefits that can bring. Rather, the solution is to fix that particular problem. One possible remedy is existing law under the Trade Practices Act prohibiting misleading or deceptive conduct. The Australian Competition and Consumer Commission has already taken legal action in the Federal Court against a private education provider which claimed that it had approval from universities for its courses when it did not.²² Portraying courses to be at a Masters level when they are not would also be a case of deceptive conduct.

Entry standards

Under a programme of the Howard government, once universities have filled their government quota of student places they are able to offer a limited number of fee-paying places to Australian undergraduates. A number of universities have done so, letting in fee-paying students on entry scores slightly below those of students in HECS places. This has proved to be very controversial. Labor condemned the policy, saying it contravened the merit principle.²³ *The Sydney Morning Herald* ran a campaign against it, saying that it was ‘not only unfair, but potentially damaging to the university itself and for the

maintenance of university standards generally'.²⁴ This precise controversy would not arise under the reforms proposed in this book, because there would be no quota of subsidised students for universities to exceed. However, it is important to discuss the misconceptions about merit and money embodied in the critique of the policy, since they would carry on into a less regulated system.

It is a common myth that university entry scores represent 'standards'. In fact they only rarely indicate the minimum entry score necessary for an enrolling student to cope with and complete the course. Rather, the scores needed for entry into a particular course usually represent the intersection of supply and demand. For most students, getting into university is a bit like an auction, except that instead of bidding with money you bid with marks. Those with the most marks have the greatest choice, just as those with the most money have greater choice in the property they can purchase.

This system does have the virtue of being relatively simple for students to understand and for universities to administer. It is not, however, necessarily the best system. To understand why not, we need to go back to the three purposes of the university. For universities dedicated to principles of 'equity', or wanting to facilitate social mobility, this strict 'merit' principle of giving places to those with the highest marks is quite inappropriate. Students from low socioeconomic backgrounds—as I discuss in more detail in Chapter Six—often do not do especially well at school, at least as compared to middle class children, especially those in private schools. Despite this, even the most prestigious universities let some students from disadvantaged background in on lower scores than other students. If merit as defined by Labor was rigorously enforced, it would be a devastating blow to all these people—surely an unfortunate case of unintended consequences, and hardly consistent with the ALP's support for the underprivileged.

Once we accept that universities should foster social mobility, they are not inevitably places just for the academic elite (though some particular institutions could be). Universities can value-add even where they cannot turn out first-rate thinkers. Unless school education improves considerably, mass higher education necessarily means that entry scores are not always high. One analysis of NSW entry scores found that the score above which 90% of students were admitted ranged from 46.4 to 75.2, with an average of 64 (out of 100).²⁵ Many of these students are not brilliant, but while students with better Year 12 scores are more likely to complete their degrees, even students with very poor school results have a better than 50% chance of completion.²⁶ Another study, of a single university (RMIT), found no significant difference in academic performance for students admitted in the 40 to 70 range, and not consistently bad performance for even those admitted below 40.²⁷ There is therefore no set score that constitutes 'academic standards'. In the right course, and with the right help, even students with unpromising school results can get through.

If we accept that a purpose of universities is to build human capital, similar arguments apply. Possibly we would want well over 50% completion rates, but provided there is a reasonable chance of completion there should be no in principle reason to insist on any particular score (though there may be practical reasons, such as too wide a range of abilities in the classroom). Indeed, within a range of scores preparedness to pay more may in fact be a relevant selection criterion (remember that this money can be borrowed under the scheme proposed here). This willingness indicates that the applicant is very keen on the course and career, a positive attribute from a human capital perspective, and is not just doing the course because he or she 'got the marks'. Indeed, provided a prospective student has sufficient ability to complete the course – and there are very small differences in completion rates among the top 30% of school leavers²⁸ - introducing money as a criterion may improve human capital production by lowering drop-out rates and increasing study motivation.

The only idea of the university for which high entry scores have real meaning is the traditional one, for it is this version of the university that prizes intellectual ability and

achievement above all else. Even in its case, the kinds of differences in entry scores we see now between the HECS-liable and fee-paying students are generally too small to be significant. This is a case in which being too motivated by money, or too concerned with the plight of the socially and economically disadvantaged could, in *The Sydney Morning Herald's* words, be 'potentially damaging to the university itself'.

The narrow view of 'merit' displayed in these debates shows just what a hold the traditionalist view of the university has on people's minds, even though traditionalist education has long since ceased to be norm. In the ALP's case, it blinds them to the fact that this view is an obstacle to social mobility. Fortunately, this is an area in which practice is well ahead of theory, and most universities are quite flexible in their admissions. Indeed, many people are surprised to learn that only just over half of all commencing students are admitted on the basis of their secondary school results.²⁹ Adding money, in the right contexts, would be a small advance on this admissions tradition which understands that entry criteria are not things that exist in isolation from institutional goals or capacities, and can therefore legitimately vary widely.

Exit standards

Admission standards are contingent standards, but completion standards are much less flexible. On admission, potential is enough, especially if the price of failure is primarily paid by parties to the transaction, the student and the university, or the taxpayer when there is some public policy objective being pursued. On completion, the university must certify that a graduate meets certain minimum standards, and this is something that third parties, including potential employers, clients, and other educational institutions will rely on.

Some people believe introducing markets into higher education is leading to students being passed not because they met the required standards, but because they are fee-paying. The highest profile controversy about this issue was triggered by an early 2001 story published by *The Sydney Morning Herald* entitled 'Quest for cash: how unis cut standards'.³⁰ The story, alleging that pressure to increase numbers of fee-paying students was causing standards of completion to be lowered, triggered a controversy that raged for weeks, with the Australian Vice-Chancellors' Committee saying that the allegations unfairly tarnished the entire academic community.³¹ It also contributed to the Victorian Auditor-General investigating the overseas student programmes of the three Victorian universities enrolling them in large numbers.

For borderline students, universities face difficult choices, whether students are fee-paying or not. Universities must balance a student's claims against the potential costs of sending underprepared graduates into the workforce, including to their own reputations. Whether a student should pass or not is not always clear-cut. Reasonable people can differ as to whether a particular piece of work meets the minimum standard. In other cases, there may be agreement that the student has failed, but that there are some extenuating circumstances that warrant a pass. For example, a student who has done satisfactorily all year, but who did badly on a final exam due to a personal misfortune, may have his or her marks adjusted upwards. While this has to be done carefully, it is not improper. The various forms of assessment are partly mechanisms for working out the student's real ability. Where for some reason those mechanisms risk misrepresenting or miscalculating that ability it does not assist third parties, and is unfair to the student.

Allegations of improper passing tend to arise out of this grey area in which obligations must be carefully balanced. As the cases that find their way into the media show, there is often dispute within universities as to whether particular students should pass. For example, the historian Wilfrid Prest's allegations that a decision to allow a particular student to stay could only have been based on financial reasons was disputed by his university, which said that two other academics thought the student had met the required academic standard.³² With around 700,000 students, most doing several

subjects, there will be thousands of borderline cases every year, and the fact that some are not resolved to everyone's satisfaction is not in itself evidence of any systematic problem.

Certainly *The Sydney Morning Herald* story provided no evidence of endemic low assessment standards. It was based on a then unpublished report by the left-wing think tank, The Australia Institute. When the report finally came out we could see that they had found a grand total of four anonymous academics who claimed they had experienced pressure to pass full-fee paying students.³³ It wasn't even entirely clear whether this was pressure from the student or the university. Given the likelihood that this 'pressure' was either easily rebuffed requests from students, or the result of a Prest-like dispute between academics, The Australia Institute's report provides no evidence of any serious problem, let alone a systematic one. The Victorian Auditor-General found that 'there is no evidence to suggest that systematic institutionalised "soft marking" occurs in any of three universities examined' (RMIT, Monash and the University of Melbourne).³⁴

If there was a systematic problem, there is one place it might reveal itself, and that is in the student progress rates. The progress rate is the proportion of subjects successfully completed. As I indicated above, over the 1990s, there was a significant increase in the number of full-fee paying students, mainly from overseas—from 34,076 overseas students in 1992 to 95,607 in 2000.³⁵ If this large group, which had gone from 6% of the total student body to nearly 14%, was consistently receiving more favourable treatment the progress rates should have gone up. Instead, they were exactly the same, 86% in 1992 and 86% in 2000.³⁶

In the absence of any compelling evidence, the best way to examine this problem is by looking at the incentives set up by a fully market system, as opposed to a quota-based system. The argument that fee-paying students are driving down academic standards can be summed up in the point that 'failing too many students can disrupt the university cash flow'.³⁷ While this is ultimately true even of the quota system, since it imposes minimum student numbers, the financial effects are more immediate under a market system. From the university's point of view, however, this would be a very short-term strategy. In a fully market system, there is a strong long-term incentive to maintain standards, since the financial consequences or reputation loss can be severe. The controversy set off by The Australia Institute's report, including coverage in the main fee-paying student markets in Asia, showed the potential dangers in 'soft marking' practices. In this case the fact that individual universities were not named means that the 'Australia' brand took the damage, reinforcing existing impressions that Australia's standard of education was not as high as in competitor countries.³⁸

In a quota system, such perceptions need not have great consequences. Provided the total number of places is set below actual demand, as it is in Australia, students wanting a university degree will have to go somewhere, so numbers are unlikely to drop. If the quota system is combined with a ban on fee-charging, as it is in Australia, there will be no effects from being unable to rise prices, since there are no prices in the first place. Only in a market system are there likely to be long-term financial penalties for 'soft marking'.

Short-term behaviour is most likely to arise when a university (or department) is financially desperate. Unfortunately our current system, with a small market segment attached to a much larger non-market system, does put universities in difficult financial positions. The ban on undergraduate fees, combined with declining Commonwealth per student grants, has made some universities very short of cash, with between five and eight reporting deficits in the last few years.³⁹ The most effective way to plug financial gaps is to enrol overseas and postgraduate fee-paying students. The minority of fee-paying students, about 20% of the total, presumably then cross-subsidise the rest. Taking too few of these students means too little money to finance the remaining 80% of students. Some universities may face an unenviable choice between potential long-term

reputational costs from turning out some inferior graduates, or short-term reputational costs in providing seriously inadequate education to a much larger group of local undergraduates.

While this scenario has some theoretical plausibility, there is no evidence that it reflects any reality. I looked at the six universities that lost money in 1998, the universities that might feel financially threatened, and checked to see if their student progress rates into 1999 showed any unusual movements to compensate for this. Of the six, four had their progress rates go *down*, and the other two were the same.⁴⁰ While we cannot rule out that somewhere, sometime, a fee-paying student has been passed because he or she was a fee-paying student, both the theory and the evidence suggests that universities are, despite the pressures on them, maintaining assessment standards, and that their participation in markets has not led to soft marking.

A market corrupted by the sandstones?

Prestige

In the last chapter, I pointed to the importance of information flows to making higher education markets work to best effect, and suggested various ways in which the higher education market could become better informed. Much of this information is held at an impressionistic level, embodied in the concepts 'reputation' and 'prestige'. While sometimes used interchangeably, there are important differences between them. Reputation is directly related to the universities' performance in one or more fields, some of which can be fairly objectively measured, such as student-staff ratios, qualifications of staff, student survey results, and employment outcomes. These results can produce either a good reputation or a bad one. Reputation is not a zero-sum concept. A university improving its performance does not undermine the reputation of another, though it may affect market share. Prestige, by contrast, is always good, and there is only a limited amount of it, and for universities it is relative to other universities.⁴¹ In an educational market, not every university can have high prestige.

Some supporters of the regulated system believe the existence of educational prestige undermines the effectiveness of markets. One such supporter is Simon Marginson. He says, plausibly enough, that student places at some universities are 'positional goods', in that they provide prestige to those who hold them.⁴² He argues that the nature of positional goods is that, once established, they tend to be self-perpetuating, since the high status attracts more people, which further drives up entry scores.⁴³ If being with other bright students is an attraction, this process will, to some extent at least, help the prestigious university survive a decline in its objective performance better than a reputation-based university, where the market is more likely to penalise quickly poor results. On this logic, deregulating universities will not improve performance, since the race is fixed by the long-established prestige of the sandstone universities, technically those with actual sandstone buildings, but often used as shorthand for the old research intensive universities of Sydney, Melbourne, Queensland, Adelaide and Western Australia, along with three post-war universities, New South Wales, Monash and the Australian National University.

In practice, however, possessing prestige doesn't mean the sandstones don't behave in a competitive manner. Rather, it alters the terms of the competition. There are particular aspects of performance, principally research and student selectivity, that matter to perceptions of prestige. The annual announcement of Australian Research Council competitive research grants has universities scrambling to find a way of presenting themselves as superior. Measures used include the total amount of money received, the number of successful grants, and the percentage of grants applied for that were successful.⁴⁴ Each university defines success by the criterion that is their strength. For the purposes of this chapter, the most important competition is for the best

students. As we saw in the last chapter, some universities boast about their high entry scores, and focus on attracting the top students.

Because prestige-focused universities need to attract the top students, the market dynamic is changed. For the very best students, they are actually paid, through scholarships, to attend. Their presence then becomes a selling point for other good, but not super-bright, students. It isn't true that this is a non-competitive process; prestige-focused universities in fact work hard to ensure that they get their share of the best students. In the last couple of years Monash University and the University of New South Wales have both, for example, advertised in the University of Melbourne's student newspaper, and a West Australian newspaper complains that 'at least ten of the state's top 100 graduates were lured to Melbourne with lucrative scholarships.'⁴⁵ While the group of 'sandstone' universities may be stable, no position within it is, and this creates its own market segment, somewhat distinct from the rest of the sector.

As a man of the left, Marginson is preoccupied with relative status, as we will see in more detail in Chapter Eight. The students themselves, however, show an ability to look beyond status issues to what the universities can actually do for them. In a 1998 survey of school-leaver university applicants, employment rates and university prestige rate equally, on 46%, as a strong or very strong influence on choice of university.⁴⁶ While graduates of the sandstone universities do well, they do not have a monopoly on strong performance. For 2000 graduates, the University of Wollongong rates third for employment and seventh for starting salary. RMIT rates sixth for employment and thirteenth for starting salary. Five 'Dawkins' universities (universities created as a result of John Dawkins' reforms) are in the top fifteen for employment.⁴⁷ Given that the sandstones' students have greater initial potential, as measured by entry scores, the amount of extra value-adding they do is moot.⁴⁸ That prospective students may be influenced by performance and not just prestige is suggested by the aggregate applications data. The vocationally-focused University of Technology, Sydney (UTS) advertises itself as receiving the greatest number of NSW applications in some fields.⁴⁹ In Victoria, RMIT University, UTS' Melbourne equivalent, receives roughly the same number of first preference applications as the University of Melbourne and more than Monash University.⁵⁰

Students who did not do well in Year 12 are not going to be admitted to a sandstone university. They can sometimes consider themselves fortunate. The kind of competition that goes on between prestige-focused universities doesn't work in their favour. The fact that research is a major criterion determining the level of prestige means that many academics at sandstones are not especially interested in undergraduates, something that perhaps the bright students can cope with, but that adversely affects those under-prepared for tertiary study. As we saw above, many academics are more interested in research than undergraduate teaching, and this phenomenon is more significant in the institutions where most of the research is done. In the Course Experience Questionnaire, newer universities often receive a better rating for teaching from their students than do the sandstones. At the university-wide level, a ranking of the 37 universities with CEQ results for 2000 finds the top sandstone—ANU—at 8, four others in an eight university tie for second worst, and another the worst.⁵¹ The same pattern of the sandstones doing less well is apparent in course-by-course comparisons.⁵²

The poor teaching performance of the sandstones creates market opportunities for other universities. They are able to present themselves as much more suitable for low-income families and families with no prior experience of higher education. In this market, the high prestige of the sandstones is a negative, since it is socially and academically intimidating. Victoria University in Melbourne advertises its commitment to a high level of accessibility, with an emphasis on students from low-income and non-English speaking backgrounds, indigenous students and students with disabilities.⁵³ The sandstones' line that their entry scores are very high would be a disaster in this market. Victoria University's competition is not with the sandstones, but with the workforce,

TAFE, and other universities that concentrate on relatively low-achieving school graduates and families new to higher education. This part of the market is driven by accessibility, performance and reputation; prestige is a minor factor.

Location, location, location?

Other critics of higher education markets focus on the inherited physical, rather than prestige, advantages of some existing universities. John Quiggin, for instance, believes that competition—even the limited competition we have now—is ‘a race fixed in advance, since government funding cuts have hit those without capital endowments hardest, favouring the “sandstone” universities such as Sydney and Melbourne, as well as the institutes of technology, most of which have high-value inner city campuses.’⁵⁴ Bruce Chapman, one of HECS’ original architects, also notes that some universities have prime inner city real estate, which gives them a ‘significant commercial advantage’. While not opposed to competition in itself, Chapman argues that because universities do not pay rent ‘the playing field is not level’ and he opposes ‘unfettered price setting’.⁵⁵

Neither Quiggin nor Chapman provide empirical evidence, but looking at fees for overseas students studying business or commerce (picked as a common course attractive to fee-paying students) it is clear that the sandstones charge more than the average fee, as do the former institutes of technology with inner city locations.⁵⁶ On one view of the market advantage argument, this is the reverse of what you would expect. If the inner city universities have inherited capital this enables them to undercut their competitors, who presumably must borrow to buy facilities enabling them to compete, thereby inflating their cost structures. In fact borrowing in the higher education sector is very low by commercial standards, with a debt to equity ratio of around 2%.⁵⁷ All universities benefit from past taxpayer investment in their facilities.

Quiggin and Chapman’s assumption that occupying inner city locations distorts the market also seems unwarranted. In Australian cities, the inner city is usually not the geographic or demographic centre of the metropolitan area, and therefore not—despite usually having relatively good public transport links—necessarily the best location for prospective students. In Sydney, the University of Western Sydney’s Parramatta campus advertises that it is located in the city’s geographic centre⁵⁸—not the inner city campuses of the University of Sydney or UTS. In Melbourne, the second biggest education market, the city’s geographic centre is in the suburb of Glen Iris,⁵⁹ favouring Monash University, rather than the inner city campuses of the University of Melbourne and RMIT.

Evidence that the higher education market is not distorted, except by government regulation, is also evident by looking at universities non-government revenues. University income does not show any clear pattern based on location or prestige. Even regionally based and new universities like Central Queensland and Charles Sturt manage to earn a higher than average proportion of their income from fees and charges, as do urban and new universities such as Edith Cowan and Swinburne. While the university with the largest absolute non-government revenues is a de facto ‘sandstone’, UNSW, it is the second youngest member of that group, and lacks a central city location.⁶⁰ Of the four universities claimed to possess a significant commercial advantage from their location—Sydney, Western Australia, Adelaide and Melbourne⁶¹—only Melbourne earns more commercial income than any other university in its city. The actual experience of university market activity suggests that entrepreneurial management is more important than factors that supposedly distort the market.

With clear proof of price gouging, regulation would be defensible. But Chapman’s proposal, based on a theory with dubious assumptions, to ‘fetter’ prices would almost certainly make things worse. Narrowing the allowable range of prices will give a competitive advantage to the sandstones, as HECS does now. If you are paying the same or similar price wherever you go, you may as well get some prestige thrown in as well. But if you do not value prestige greatly, as surveys show many prospective students do

not, you may as well take the lower price, and go to a less prestigious institution. Fettering prices therefore reduces competitive pressure on the sandstones, and so undermines their incentive to improve student service. Price control would also exacerbate the allocative inefficiencies discussed in the previous chapter, by preventing universities and students from investing the optimal amount in a course, where that figure is higher than the law allows.

Plans or markets?

Over the last two chapters, I have not quarrelled with John Dawkins' belief that universities should provide the labour market with the graduates it needs. Where I disagree is in how that goal ought to be achieved. I have argued that central control lacks the information flows and incentives to either allocate educational capital well, or to ensure that universities are sufficiently focused on teaching their students effectively or preparing them for the world of work. Those opposing markets on the grounds of market imperfections—such as information problems, low standards, or the strong historical position of some institutions—both overstate the problems and show a naïve belief that a planned or university-dominated system can do better. The superiority of the market in meeting John Dawkins' goals will not, however, satisfy the traditionalists. They never shared Dawkins' labour market aspirations anyway, and fear the market's effect on their academic world. That is the subject of the next chapter.

¹ For some of the background, see Higher Education Council, *Achieving Quality*, AGPS, Canberra, 1992, pp.3-15. For more recent developments, see Higher Education Division, *The Australian Higher Education Quality Assurance Framework*, DETYA, Canberra, 2000, and <http://www.auqa.edu.au>

² Graduate Careers Council of Australia, *1999 Course Experience Questionnaire*, GCCA, Melbourne, 2000, pp.4, 44.

³ John Ainley, *Course Experience Questionnaire 2000*, GCCA, Melbourne, 2000, p.7.

⁴ Don Anderson et al., *Quality Assurance and Accreditation in Australian Higher Education*, DETYA, 2000, p.27.

⁵ ACNielsen Research Services, *Employer Satisfaction with Graduate Skills*, DETYA, 2000, p.45.

⁶ ACNielsen, *Employer Satisfaction*, p.25.

⁷ Craig McInnis, *The Work Roles of Academics in Australian Universities*, DETYA, 1999, p.32.

⁸ Paul Ramsden, Don Margetson, Elaine Martin, and Sally Clarke, *Recognising and Rewarding Good Teaching in Australian Higher Education*, Committee for the Advancement of University Teaching, 1995, p.75.

⁹ Craig McInnis, *The Work Roles of Academics*, p.26.

¹⁰ Craig McInnis, *The Work Roles of Academics*, p.45.

¹¹ John Ainley, *Course Experience Questionnaire*, p.7..

¹² Craig McInnis, *The Work Roles of Academics*, p.14.

¹³ Brendan Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, DEST, Canberra, 2001, web edition, Section 1.2.2.

¹⁴ John Ainley, *Course Experience Questionnaire*, p.12.

¹⁵ *Higher Education Time Series Tables 2000*, DETYA, Canberra, 2001, Table 16.

¹⁶ Craig McInnis, *The Work Roles of Academics*, Rewards at p.14, attitudes at p.6.

¹⁷ http://www.avcc.edu.au/news/public_statements/speeches/2001/Chubb_at_NPC_final.htm

¹⁸ Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, Table 2.8.

¹⁹ AVCC/GCCA, *Directory of Postgraduate Study 1994 Australia*, AVCC/GCCA, 1993; Dean Ashenden and Sandra Milligan, *The Good Universities Guide to Postgraduate and Career Upgrade Courses*, Hobsons Australia, Melbourne, 2001.

²⁰ Bradley Smith, 'Market sinks postgrads', *The Australian*, 17 May 2000, p.45

²¹ See www.aqf.edu.au

²² 'Court Finds the Australasian Institute Misled students', ACCC media release, 22 December 1999, www.accc.gov.au

²³ Darren Gray and Kerry Taylor, 'Labor Targets the Dumb Rich', *The Age*, 18 October 2001, p.9; see also the ALP platform http://www.alp.org.au/policy/platform2000/chapter_03.html#11

- ²⁴ Editorial, 'Pay-way University', *The Sydney Morning Herald*, 15 August 2000, p.12.
- ²⁵ Peter Karmel, 'Public Policy and Higher Education', *The 38th Joseph Fisher Lecture*, 30 April 2001, p. 6. Available at www.adelaide.edu.au/econ
- ²⁶ Mark Urban et al., *Completions: Undergraduate Academic Outcomes for 1992 Commencing Students*, DETYA, Canberra, 1999, pp.14-15.
- ²⁷ Michael Murphy, Kyri Papanicolaou and Roni McDowell, 'Entry Score and Performance: A Three Year Study of Success', *Journal of Institutional Research*, October 2001, pp.37-38.
- ²⁸ Mark Urban, *Completions*, p.14.
- ²⁹ Higher Education Division, *The Characteristics and Performance of Higher Education Institutions*, DETYA, Canberra, 1998, p.103.
- ³⁰ Aban Contractor, 'Quest for Cash: How Unis Cut Standards', *The Sydney Morning Herald*, 8 January 2001, p.1
- ³¹ AVCC media release, 'Allegations Without Evidence Unfairly Tar the Entire Academic Community', 8 January 2001, http://www.avcc.edu.au/news/public_statements/media_releases/2001/avcc_media_01_01.htm
- ³² Thea Williams, 'Bias at Unis, Inquiry Hears', *The Advertiser*, 7 July 2001, p.4.
- ³³ Carole Kayrooz, Pamela Kinnear, and Paul Preston, *Academic Freedom and Commercialisation of Australian Universities*, The Australia Institute, Canberra, 2001, p.56.
- ³⁴ J.W. Cameron, *International Students in Victorian Universities*, Auditor General Victorian, Melbourne, 2002, p.74.
- ³⁵ *Higher Education Time Series Tables 2000*, DETYA, Canberra, 2001, Table 16.
- ³⁶ DEST, 'Australian higher education outcome indicators', http://www.deetya.gov.au/highered/statistics/outcomes/crude_progress.htm#undergraduate
- ³⁷ Alex Millmow, 'Uni: Why It's Hard To Fail', *The Age*, 11 January 2001, p.13.
- ³⁸ A survey of Asian students studying overseas found that Australia was given a 6.7 rating for the standard of education, compared to 8.2 in the UK and 8.3 in the US. Even those actually studying in Australia rated it lower (7.5) than the competitors. Clearly we are competing on price rather than quality: R. Lawrence, 'The Asian Student 2000', survey attached to the University of Melbourne's submission into the Senate Inquiry in higher education, http://www.aph.gov.au/senate/committee/eet_ctte/public%20uni/sub%20list.htm
- ³⁹ Brendan Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, web edition, section 1.5.1. I have used the figure of eight, due to two others in deficit giving changed accounting systems as an explanation.
- ⁴⁰ *Selection Higher Education Finance Statistics 1998*, DETYA, Canberra, 1999, Table 1; DEST, 'Australian higher education outcome indicators'.
- ⁴¹ For this contrast I am indebted to Dominic J. Brewer, Susan M. Gates, and Charles A. Goldman, *In Pursuit of Prestige: Strategy and Competition in US Higher Education*, Transaction Publishers, New Brunswick (USA), 2001, esp. Chapter 3.
- ⁴² Simon Marginson, *Markets in Education*, Allen & Unwin, Sydney, 1997, p.38
- ⁴³ Simon Marginson, *Markets*, p.169.
- ⁴⁴ For example, Stephen Brooks, 'Sydney gets most out of ARC', *The Australian*, 26 September 2001, p.35.
- ⁴⁵ Kim Macdonald, 'East targets WA students', *The Sunday Times*, 7 October 2001.
- ⁴⁶ Richard James, Gabrielle Baldwin and Craig McInnis, *Which University?: The Factors Influencing the Choices of Prospective Undergraduates*, DETYA, Canberra, 1999, p.25.
- ⁴⁷ Own ranking based on data from the *2000 Graduate Destination Survey*, Graduate Careers Council of Australia, Melbourne, and available on the DEST website at <http://www.dest.gov.au/archive/highered/statistics/characteristics/contents.htm>.
- ⁴⁸ Though the value in going to a sandstone may be partly that it signals that intrinsic ability.
- ⁴⁹ <http://www.uts.edu.au/about/facts/index.html>
- ⁵⁰ Victorian Tertiary Admissions Centre, *1998-1999 VTAC Annual Statistics*, Section C-Institutional data, panel C-1.
- ⁵¹ Own ranking based on data from the *2000 Course Experience Questionnaire Survey*, Graduate Careers Council of Australia, Melbourne, and available on the DEST website at <http://www.dest.gov.au/archive/highered/statistics/characteristics/contents.htm>.
- ⁵² An indication of how common this is can be seen by going through the Commonwealth Education Department's online *Which Course? Which University?* which provides comparative data for universities results in the Course Experience Questionnaire. Comparing low prestige

university results with high prestige university results it is unusual for the high prestige to come out ahead. See <http://www.deetya.gov.au/tenfields/>

⁵³ Victoria University of Technology, *Equity Plan 2000-2002* <http://www.vu.edu.au/equity/pdf/finalequityplan.pdf>, p.3.

⁵⁴ John Quiggin, 'How to Strangle Education', *The Australian Financial Review*, 3 August 2000, p.40.

⁵⁵ Bruce Chapman, 'Australian Higher Education Financing: Issues for Reform', *The Australian Economic Review*, vol. 34, no.2, (2001), p.199.

⁵⁶ Data from Dean Ashenden and Sandra Milligan, *The Good Universities Guide to Universities, TAFEs and Private Providers*, Hobsons Australia, Perth, 2000.

⁵⁷ Brendan Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, DEST, Canberra, 2002, p.51.

⁵⁸ 'Parramatta Campus', www.uts.edu.au/uws/campuses/parramatta/acquired

⁵⁹ 'New Technology Finds Melbourne's Heart', RMIT press release, 25 July 2001.

⁶⁰ Data calculated from *Selected Higher Education Finance Statistics, 2000*, DEST, Canberra, 2002. On average, fees and charges make up 18.1% of university revenue. For Charles Sturt, fees and charges are 20.8% of university revenue, for Central Queensland 32.1%, for Edith Cowan 19.2%, and Swinburne 28.5. The top five are UNSW \$158.3 million, Melbourne \$130.8 million, Monash \$118.7 million, RMIT \$102.9 million, and Sydney \$96 million.

⁶¹ Bruce Chapman, 'Positive and Negative Aspects of Australian Education Financing', paper delivered to the *Toward Opportunity and Prosperity* Conference, University of Melbourne, 4-5 April 2002, p.9.

Chapter Five

The Market for Tradition

The traditionalists are vocal critics of Australian higher education. The Association for the Public University, an organisation set up to advance traditionalist causes, accuses Vice-Chancellors of debasing the public university by providing 'at best, a limited form of vocational training'.¹ Robert Manne, following Pierre Ryckmans, melodramatically talks of the 'death of the university', attacking Deakin University's training deal with Coles Myer.² John Molony describes what the Commonwealth Education Department has done to the universities as a 'treason of the clerks', and says that those who accuse the traditionalists of being 'nostalgists' reveal their own 'mental poverty'.³ Their culture of complaint is by 2001 as much a part of university ritual as the cloaks and mortarboards of graduation ceremonies.

For all their noise, the traditionalists are impotent. As I argued in Chapter One, they make a fundamental strategic error in continuing to insist their idea of the university is the only idea of the university. The growing knowledge economy needed higher education to expand with it, and, under a centrally controlled system, governments could not sit by while student and labour market demand went unmet. While the traditionalists have not gone beyond complaint to develop policy ideas that could see their idea of the university survive, it is necessary to do so. Their idea of the university, while not suited to everyone, is suited to some, and as they point out, does contribute to the broader community through scientific understanding, social insight, and cultural enrichment. The question is what kind of system enables these goals to be achieved?

I believe a market-based system, as set out in Chapter Two, is the only practical way to ensure the traditionalists' idea of the university is viable in the long term. I freely admit this runs counter to common intuitions. There are reasons to believe that fewer people would do Arts or Science, the degrees traditionalists are most concerned about, if the current regulatory controls were lifted. In what follows, I point out the likely effects of a freer system on the arts and sciences, and why smaller may be better.

What is the current popularity of Arts and Science degrees?

Whatever worries Arts and Science faculties might have now, a lack of students should not be among them. Through the decade to 2000 the number of commencing students increased significantly in absolute terms, and modestly as a share of total Australian commencing students. In 1991, 47,747 students enrolled in arts, humanities and social science degrees, which was 23.4% of the total. Joining them on campus were 29,400 Science students, who made up 14.4% of all commencing students. By 2000, the number of arts, humanities and social science commencing students had increased to 61,596 and Science to 37,728, shares of 23.6% and 16% of the total respectively. If overseas students are included, the absolute numbers go up but the proportions slightly down.⁴

These figures almost certainly overstate the real interest in these degrees. This is because prospective students adjust their preferences to match what they think they can get into. Arts and Science tend to require relatively low Year 12 scores for entry. For example, at Monash University in 2001 entry into Arts required a Year 12 result of 79.2 and into Science 69. By contrast Engineering required 86.24, Commerce 87, and Law 98.4.⁵ A survey of university applicants, though one with a low response rate, found that a belief that school results would allow comfortable entry influenced 30% of Arts applicants and 37% of Science applicants.⁶ So for these applicants low entry scores may have been one reason to apply for Arts or Science, even though they would prefer some other degree.

This same preference for something else can be detected in the applications and enrolments information published by the Victorian Tertiary Admissions Centre (VTAC). If the system was perfectly responsive to student demand, we would expect the proportion of first preference applications for Arts and Science degrees to be roughly the same as the proportion of final enrolments (VTAC doesn't measure demand precisely, because there are direct applications to universities). Instead the proportion of enrolments is higher than the proportion of applications. Arts has 16.4% of first preferences but 18.6% of enrolments. Science has 8% of first preferences but 11.2% of enrolments.⁷

That some Arts and Science students are doing their second-best option is again suggested by completions data. In a study of people enrolling in 1992, 38% of Science students and 39% of Arts students had dropped out by 1997, with only agriculture-related courses having a worse record. Health-related courses, and to a lesser extent education, law and architecture, achieve reasonably low drop-out rates.⁸ There appear to be rough correlations between high drop-out rates from 1992 and the courses taking second preference students in Victoria in 2000, perhaps due to the structural problems described in the last two chapters leading to chronically dissatisfied students.

None of these figures tells us what the exact 'real' demand for Arts and Science degrees might be, since each has its own weakness for this purpose—current student numbers and cut-off scores are determined by supply as well as demand, the survey of student reasons for enrolment has a small self-selecting sample, some applicants may not be suitable for university education at all, and there are many reasons for dropping out. Cumulatively though, they all point to the conclusion that real demand is less than current enrolment levels.

Would fewer Arts students be a good thing?

In 2000 I published a paper suggesting that the funding system created too many places for Arts students, more than either students wanted or the labour market could absorb.⁹ Unsurprisingly, the Arts lobby became very excited about this, denouncing me at every opportunity in newspapers and on radio.¹⁰ A prominent critic was Robert Manne, describing my piece as having an 'impoverished view' and telling us that he had declined Zelman Cowen's (no less!) suggestion that he do Law as well as Arts, and that his daughter is 'devoted to her studies in science, literature and music'.¹¹

Mr Manne is well-known for his back-flips,¹² and this was a case in which he had it right first time. Something he wrote in 1996, worth quoting at length, strikes me as a more accurate picture of what is going on in Arts faculties:

Every year, without fail, I encounter a group of first-year students, a sizeable minority, who know why they have arrived at university. They are intellectually curious. They enjoy reading. They relish discussion and rarely miss a tutorial. Frequently they engage in discussions after lectures and tutorials. Many, eventually, often from less privileged backgrounds, complete outstanding degrees.

The remaining first-year students fall into two broad types. One group soon drop out of their studies. They usually attend one or two tutorials and then begin to drift away. . . . Between one-third and one-half of our first-year students withdraw in this way from one or all of their subjects.

Another group of students pursue their subjects to the end. They are not really curious about what they are studying. . . . Few take pleasure in independent reading. Many of them are very nervous when asked to write an essay. Not without reason. The essays they do submit are often extremely poor. It is not merely, or even mainly, that they involve endless misspellings, bizarre punctuation, idiosyncratic syntax. It is far more that their work is deeply disorganised and conceptually confused. Their essays are genuinely distressing to read. . . .

Many of the students who drop out or who persist doggedly, but without real interest or joy, are fine young men and women. They have been deceived by a world that has led to them to believe that university study is appropriate to them. Many would dearly love to be learning a skill or trade that might eventually lead them to a job. Many, oddly enough, have decided to study at a traditional university—which is of necessity committed to initiating the young into the most abstract and difficult of disciplines, the sciences and mathematics, history and philosophy—only because their secondary school scores were too low to gain them entry to a course in hotel management or physiotherapy. They are compelled to study Plato because they failed to qualify for podiatry. Such compulsion involves an unintended but nevertheless cruel betrayal of the young.¹³

On Manne's account, based on his experience at Melbourne's La Trobe University, a majority of students are hardly inclined to undertake, or even capable of undertaking, the kind of education the traditionalists want to pursue. In Chapter One I quoted Tony Coady on the kind of university he wanted, 'of being among people for whom learning, ideas, clarity, criticism and exploration of significant, difficult thinking really matter.'¹⁴ None of these things matter much to most of Mr Manne's students.

Uninterested students change universities for the worse, at least for those genuinely there to learn. American research suggests that attending a college where students have high levels of critical thinking has a positive 'peer effect'.¹⁵ Some of the ability rubs off. There are plausible theories explaining why this might be so. Students may try to match the standard they see around them, a possibility bolstered by the fact that students' performance tends to level off as they reach the generally accepted standard, or become comfortable with the standards of their more immediate peer group. Another study found that writing assignments, instructor feedback, research projects, class presentations and essays rather than multiple choice exams all help develop critical thinking skills.¹⁶ The common elements are practice at thinking and getting feedback on it, something that is much more beneficial with motivated, capable fellow students than with people who would rather train to be hotel managers or physiotherapists. Where the typical student is good, academics are likely to provide more stimulating material, rather than teaching to a level that the weaker class members can follow, but does nothing to develop the others. That Australian academics complain that their students have too broad a range of abilities indicates this is likely to be a widespread problem here.¹⁷

In fields of study where discussion is not central to the culture of learning, where the main aim is mass credentialing of students as having attained a set amount of knowledge, perhaps this problem is less serious, though I suspect it is still serious. But in the humanities and social sciences it takes away something fundamental from the experience those departments should provide. If Arts faculties' ability to advance their students' thinking and communication skills is limited by difficulties getting them going as a group then this undermines one of their basic rationales, which is passing on these generic skills. They would be better off without so many indifferent students.

Would fewer Science students matter?

The Australian Council of Deans of Science has over the years expressed concern over the numbers of students doing Science degrees, pooh-poohing claims by the Government that Science students are increasing in number by pointing to key foundational areas such as maths, physical and material sciences and chemical sciences, in which enrolments are shrinking or growing only slowly. On the 1989-1997 data they present, maths students are down from 8,840 to 8,664, physics and material sciences down from 3,603 to 3,518 (which may hide a larger drop in physics itself), and chemical sciences up slightly, from 5,850 to 6,809, tiny when compared to the leap in biological sciences from 9,948 to 17,687 over the same time period.¹⁸

The Deans argue that these numbers indicate a problem because these subdisciplines are 'evolving rapidly as they find new and exciting applications in, and in turn are influenced by, bioninformatics, genomics, laser science, smart materials, signal and image processing, nanotechnology and the like. The essential role that these subjects play in the new sciences and resulting high technology is enough on its own to mandate strong capability in them.'¹⁹ I don't disagree. But 'strong capability' does not automatically mean lots of students.

The unfortunate reality is that there aren't enough of these 'new and exciting applications' to absorb existing students, let alone more. If you examine the employment data collected by the Graduate Careers Council of Australia (GCCA), graduates in these fields who are looking for full-time work are less likely to have found it than graduates generally, though this has only been marked in the aftermath of the late 1980s Dawkins expansion.²⁰ More significantly, since the GCCA data is collected four months after graduation and may reflect transition problems, the Australian Bureau of Statistics finds that 59% of natural and physical science graduates are not employed in occupations related to their education.²¹ The available evidence suggests an oversupply of graduates, not an undersupply.²²

The key question to ask is not about total numbers, but about the number of very bright students enrolling in these fields. The less bright are not likely to make breakthroughs in genomics, nanotechnology, or anything else, except perhaps by a serendipitous discovery. Indeed, they may cause some of the problems already discussed in the case of Arts faculties, by requiring a general dumbing down of the curriculum. We do not have a comprehensive answer on the quality question, but the Deans themselves provide some encouraging data. In Queensland, Science attracts more than 20% of those with a TER rank of 95 or above. In Victoria, the number is just over 10% with ranks of 90 or above, seemingly worse than Queensland, though we don't know about the very best in the 95 or above range.²³

The Deans should not be worried about their student numbers dropping a bit. What they (and we) should be worried about is the quality of school science education, given the shortages of teachers in these disciplines, and opportunities for scientists when they graduate. The Commonwealth Government's January 2001 announcement of large increases in research and development spending and incentives makes science look a lot more attractive as a career than it did a short time ago.

Would anyone do Arts and Sciences?

Traditionalists like Manne fear the culture has turned against them. Discussing his daughter's future, he says that 'it is simply assumed by the society in which she lives that if she does well at school she will concentrate in her university studies on something with prospects, preferably either medicine or law. ... If she rejects the chance of a place in a faculty offering a potentially lucrative career, her behaviour will be regarded as both irresponsible and odd.'²⁴

Despite society's supposed assumptions, students seem stubbornly insistent on wanting to study what interests them. It is true that the most popular area of the university is business and economics, which scores 21.6% of first preference applications in Victoria. But there is no overwhelming rush to make money. Second on the popularity list, with 17.7%, is the area of 'health, community and welfare services'. Medicine is lucrative and high status, but only a small minority of the more than 5,000 people who enrolled in these courses in Victorian universities aim to be doctors. More still would have enrolled if they had the choice, as this area has a lower share of enrolments (13.9%) than it does first preferences, and it would be a good thing if they did, given shortages of nurses. Next is the humanities and social sciences, as reported above with 16.4%, despite chronic underemployment and poor salaries.²⁵ It is followed by visual and performing arts on 10.9% of first preferences, even though this field has won the wooden spoon for having the worst graduate underemployment rate every year since 1982.²⁶ It even just pips computing and information systems on 10.8%. In the below 10% group are (in descending order) sciences, engineering, education, architecture and agriculture.²⁷

These patterns of applications are consistent with previous studies of applicants. As we saw in an earlier chapter, students' interests are reasonably good predictors of the course they will end up doing.²⁸ The stability of these interests can be seen in the way students apply for several similar courses, rather than courses across several fields of study. One method for measuring stability is to calculate the mean proportion of new entrants to a field between preferences two and eight. This is called 'mean openness'. For example, if for field X the openness at preference two was 20%, it would mean 20% had given some other field of study as their first preference, and 80% had given a different course within field X. Using 1994 Victorian data, both science (13.4% mean openness) and the humanities and social science (19% mean openness) show preferences are quite stable.²⁹ Even allowing for some people adjusting their aspirations to

their marks, this measure suggests most people applying to enrol in Arts or Science degrees really want to, and if they are not successful in applying to one university they will consider another.

More evidence against Manne's fear that 'society' and its assumptions will influence universities adversely comes from another survey of applicants. It showed, again, that intrinsic interest tends to be more important than extrinsic rewards. Interest in exploring the field of knowledge, in opportunities for interesting and rewarding careers, and personal talents and abilities were all rated as strong or very strong influences by 85% or more of respondents. By contrast, 42%—less than half the lowest intrinsic score—thought employment rates were important, 32% thought prestige of the field was important, and 27% thought starting salaries were important.³⁰

Similar results again were found in a survey of Year 10, 11 and 12 students. Regardless of whether they aspired to enter the workforce or go to university or TAFE they rated 'working in employment that interests me' above 'earning a reasonable income'. 'Making a great deal of money' was less important to students planning to attend university than it was for those wanting to find a job or go to TAFE, perhaps reflecting a perception that some of their reward is the job itself and not just what it pays. Prospective university students were slightly more interested in high status careers than their peers, but this was still less of a priority than making a contribution to society, understanding more about the world, having opportunities for travel or living in a good community.³¹

The diversity of interests and motivations evident in prospective students' aspirations helps explain why, over time, there are only small variations in the proportion of applications each broad field of study receives. Of ten broad fields, between 1992 and 1999 only two changed by more than 1%, with business courses increasing their market share by 2%, and education courses going down 1.8%. Arts went down by 0.4% and Science by 0.3%.³² Some students do pick courses that match their marks, but overall the evidence is that preferences are reasonably stable over time, and as much driven by intrinsic as extrinsic factors.

The United States has never had centrally regulated place allocation, so its experience is some guide to what happens when universities and students are left largely to themselves. There the proportion of students completing degrees in humanities and social sciences is more than a quarter, compared to around a fifth here. Absolute numbers in the US increased considerably from the mid-1960s to mid-1970s and, after a period of decline, began increasing again in the mid-1980s. The social sciences were stronger than the humanities.³³ In the natural sciences, the picture is more complex and harder to interpret. The biological sciences increased in absolute numbers between the early 1970s and early 1990s, but declined in relative terms. The physical sciences declined in absolute and relative terms. Both disciplines were very small at each point in time.³⁴

One reason for the relative strength of the humanities and social sciences in America is the fact that some vocational degrees are available only as graduate degrees, encouraging people to acquire a general education first. Australia has parallel practices, with some universities requiring law students to do another degree concurrently, and increasing varieties of other double degrees becoming available. But along with this structural explanation, American students, like Australians, want to attend college or university for reasons going beyond making money. Though money is an important goal for just under three-quarters of freshmen, and one that has increased over time, it is not the only motivation. Slightly more say that 'to learn more about things that interest me' is an important goal than say that being able to make more money is important. To 'gain a general education and appreciation of ideas' is important to nearly two-thirds of freshmen, and making themselves more cultured matters to around 40%.³⁵

Though Manne worries that universities will come simply to be regarded as 'the launching pad for the lucrative career', it is clear that the intrinsic interest of both course and career is important for both Australian students with their centrally controlled system and American students with their decentralised system. This really should not be surprising. While most people want a reasonable income, the experience of diminishing returns from a growing income is well-known. People greatly increase their satisfaction with life by leaving poverty, but after that more money has only a modest effect on their well-being.³⁶ If students are confident of a reasonable income, it makes sense to choose a course that allows for personal development and a career they will enjoy. It does not make obvious sense to spend decades doing a disliked job if the extra money is not absolutely essential.

Pessimism about future student interest in Arts and Science degrees perhaps comes from the traditionalists not fully thinking through the implications of higher education's changing role. With many more jobs requiring high skill levels, higher education inevitably had to expand its vocational role. These students were not switching from doing more traditional courses; as we have seen the absolute numbers of Arts and Science students are considerably higher than in the past. Instead, students were switching from doing no course at all or TAFE-type training. So while the relativities may shift in favour of more vocational courses, this still leaves strong demand for the Arts and Sciences.

Liberal arts colleges

One way of keeping the humanities and social sciences healthy would be to imitate the American liberal arts colleges, and particularly the selective liberal arts colleges. They are usually small institutions, both individually and as a percentage of total university enrolments. Most colleges have fewer than 1500 students, and they cumulatively enrol about 3% of the total number of American college students. These institutions are as close as we are ever likely to get to the traditionalists' idea of a university.³⁷ The students are often very bright, coming to the top colleges with SAT scores close to those required for Ivy League

universities.³⁸ More than half the students major in the basic disciplines of liberal education, science, humanities and social sciences.³⁹ Student-staff ratios are usually around the ten to one mark.⁴⁰ All in all, these colleges are a place where Tony Coody really could be 'among people for whom learning, ideas, clarity, criticism and exploration of significant, difficult thinking really matter.'⁴¹

The American National Survey of Student Engagement clearly shows that students think they gain a lot from liberal arts colleges (a group larger than the selectives). The Survey ranks the institutions' results in four areas: 'level of academic challenge'; 'active and collaborative learning'; 'student interactions with faculty members'; and 'supportive campus environment'.

'Level of Academic Challenge' refers to class preparation, reading and writing, using higher-order thinking skills, working harder than students thought they could to meet instructors' standards, and an institutional environment that emphasises studying and academic work. The median score given by both first year and senior students was ahead of all other university types, including the large research universities.⁴² 'Active and Collaborative Learning' includes asking questions in class and making presentations, working with other students in and out of class, tutoring other students, participating in community based projects, and discussing ideas from readings or classes with others. We see the same story again, with liberal arts colleges outdoing the others.⁴³ 'Student Interactions with Faculty Members' includes discussing grades and assignments with academics, talking about career plans, working with them on activities other than coursework, and academics working with students on research projects. No institutional type does very well with first year students, but the scores improve considerably for senior year students, as perhaps we would expect as students' intellectual confidence and competence rises. And again liberal arts colleges are on top.⁴⁴

Reflecting the broad view of liberal arts colleges take of education, 'Enriching Educational Experiences' includes talking to students of different ethnicity, religious beliefs, political opinions or values, an institutional climate that encourages this, using electronic technology to discuss or complete assignments, and participating in such things as internships, volunteer work, and study abroad. All types of university do relatively well on this, with liberal arts ahead as usual. On this measure, though, all decline between first year and senior year, a trend put down to fewer older students living on campus, concentration on their major putting them in contact with a less diverse group of people, and well-formed affinity groups similarly reducing the social mix.⁴⁵ Finally, 'Supportive Campus Environment' includes helping students succeed academically and socially, helping them cope with non-academic matters, and promoting supportive relations between students and between students and staff. Among first years, the liberal arts colleges again do best, but for senior students they are matched by general undergraduate colleges, the only time another type of college draws even.⁴⁶

The liberal arts colleges are able to provide the kind of intellectual environment that the traditionalists aspire to have in Australia. They provide conditions in which the students' social and intellectual skills can develop, predominantly through the peer effects mentioned earlier: 'interactions with major socialising agents (faculty and peers) are, in fact, significantly linked to the development of general cognitive skills during college.'⁴⁷ The way the liberal arts colleges create a climate for these interactions suggests that they are well-placed to achieve such development.

The self-perception (or at least self-promotion) of Australian Arts faculties is that they offer similar advantages. For example UNSW's Faculty of Arts and Social Sciences says it provides 'skills of research, analysis and the ability to write clearly and concisely' and, similarly, Monash's Arts faculty claims to develop 'important skills such as the capacity to analyse information, write with clarity, undertake research and develop effective presentation skills'. The Dean of Arts at the University of Melbourne, Stuart Macintyre, labels their Arts degree as 'the critical degree', noting that employers seek graduates with 'the capacity for independent, critical thinking'.⁴⁸

Oddly, for people concerned with critical thinking, Arts faculties have not been overly concerned with checking that they do, in fact, develop these generic skills. Professor Macintyre correctly notes that an employer survey (funded by the Commonwealth, not the Arts faculties) found that the Arts graduates they employed did have good critical thinking skills. What he omitted to say was that the same survey found that these graduates had below average literacy skills.⁴⁹ This employer survey isn't necessarily a representative sample, and we lack other information necessary to prove or disprove the faculties' claims. The tools to acquire this information are, however, being developed.

The Commonwealth commissioned a Graduate Skills Assessment (GSA) test in the late 1990s to rate students on a range of generic skills, including report writing, argument writing, problem solving, critical thinking, and interpersonal understanding. To evaluate reliably Arts faculties' claims we need a panel study, testing students at the beginning and at the end of their degrees, and comparing them with a control group of people who did not go to university. At the moment all we possess are two separate tests, one composed mostly of first year students, and the other mostly of third and fourth year students. Both groups were made up of volunteers, and neither are perfect samples.

While the GSA trials have these limits, the results raise doubt about Arts faculties's claims to particularly develop generic skills. On critical thinking, which employers found their Arts graduate employees to be good at, first year Arts students were already ahead of students from most other disciplines. Only Law and Medicine students were better. One hypothesis is that Arts attracts students who enjoy critical thinking, so that for employers an Arts degree correctly signals this quality, even if the degree only modestly enhances a student's critical thinking ability. Across the tested generic skills, Arts students' improvement rates ranged

from 6.75% higher to 14.25% higher. These are not negligible changes, but nor are they especially impressive. While Arts students do appear to increase their GSA scores over time, this was also generally true of students in other disciplines.⁵⁰ For the methodological reasons stated, these statistics may be misleading, but at best they provide only modest support for the Arts faculties' claims of teaching generic skills and, given similar improvements in students from other faculties, no support for the claim that Arts faculties teach generic skills while other faculties teach specific skills that will date.

Aside from direct concerns about what Arts faculties teach, it isn't clear that the institutional conditions exist for Arts faculties to perform their tasks well. In many universities the student to staff ratio in the Arts faculty is over 20 to 1.⁵¹ The staff are further distracted by their research interests, something not conducive to good teaching.⁵² The campus culture is set by the more numerous vocationally-inclined students. Most students commute rather than live on-campus. A survey of first year students found that Arts and Science students were the least likely to engage in 'a lot' of collaborative study.⁵³ Everything we can infer from the American experience is that Australian liberal arts colleges would do a better job for students than our current Arts faculties.

Would fees have a negative effect?

If universities were allowed to set their own charges average fees would rise. While some cost efficiencies such as year-round classes and teaching-only institutions could be achieved, improving the quality of undergraduate education will typically cost more than what Australian universities now spend, and fees will rise to finance these improvements. The lower student to staff ratios needed for a good liberal arts college, for example, will inevitably push up costs and fees. What effect will higher prices have on demand? All other things being equal rising prices reduce demand, but there are factors affecting university education that mean all other things are not equal.

From an economic point of view, what reduces demand for an investment good like university education is not high fees but low returns. In the long term, a course that costs \$15,000 but does not improve future earnings is more expensive than a course that costs \$30,000 but provides a 10% annual return on investment. The question then is whether higher fees would lower returns, and if so whether they would lower them beyond the point at which it was economic to invest. I have already argued, when discussing the American liberal arts colleges, that there are things universities can do which increase students' cognitive skills. Differences in cognitive skill levels are thought to explain salary differences within occupations,⁵⁴ so it is possible that higher spending on university education will lead to higher salaries in the workforce. While it isn't possible to forecast precisely what will occur in a market environment, the simple assumption that higher prices will depress demand is not warranted.

From a broader quality of life perspective, as we have seen, the intrinsic interest people have in the Arts subjects they study means that the degree can be attractive even if the returns are poor. This insulates Arts from the cost-benefit analyses that may affect other faculties. The issue becomes affordability rather than good financial returns relative to other spending possibilities. With the income-contingent loans proposed in Chapter Two, affordability is high, since repayments are zero until the student or graduate reaches earnings where some return is assumed. Some cost increases need not make any great difference, as we have seen from the low impact of rising HECS costs. Interestingly, Australia's limited experiment with full fee-paying students (under the proposal in Chapter Two there would be subsidies), who pay two or three times as much as HECS students, does not show exclusive interest in vocational degrees. Among local full fee-paying undergraduates in 2000 there were 381 enrolled in the humanities and social sciences and 295 in the sciences, representing 25.4% of such enrolments.⁵⁵ While this is well below those disciplines' 37.8% share of the total student body, it shows people are willing to pay high prices for degrees without clear career prospects.

Since the Commonwealth retains the power to subsidise courses, my proposal does not leave any discipline completely at the mercy of market forces. It would still be possible to subsidise fields of study of some intellectual, historical or cultural significance to a point where price incentives are eliminated. But these subsidies would be based on real evidence of market failure, not the cultural pessimism of the university traditionalists.

Do fees commodify?

The traditionalists object to an 'instrumental' view of their work. They prefer to see it as being of intrinsic value rather than directed toward extrinsic ends, such as well-paid jobs or profits. According to La Trobe University academic Freya Mathews, research in the humanities is more like what happens in a gift economy than a market economy. In gift economies, such as those found in archaic societies, gifts serve social and spiritual rather than material purposes. She says that cultures have common pools of ideas 'to which all its members have free access'.⁵⁶ In gift economies people tend to give more than they otherwise would.⁵⁷

In market economies the function of the exchange of goods is in no way to establish social relationships; on the contrary, social relationships themselves become functionally subordinated to the market. Trust is replaced by contract, alliances give way to transient transactions, and social relationships in which individuals view one another as whole, well-rounded persons, or ends in

themselves, are given up in favour of functional relationships in which individuals serve as means to another's economic ends.⁵⁸

This is a version of the commodification of education critique, with the Marxist distinction between use value and exchange value. The British academic Hugh Willmott says that

'in academia, commodification of academic labor occurs as its *use value*, in the form of its contribution to the development of the student as a person, a citizen or at least as a depository and carrier of culturally valued knowledge, becomes displaced by a preoccupation with doing those things that will increase the *exchange value* in terms of the resources that flow, directly or indirectly, from a strong performance on the measures of research output and teaching quality.'⁵⁹

Willmott concedes that overlap between use and exchange value is possible, but that trends in British education at the time (from the early 1980s to the mid-1990s when he was writing) had seen students 'explicitly constituted as "customers," a development that further reinforces the idea that a degree is a commodity (or "meal ticket") that (hopefully) could be exchanged for a job rather than a liberal education that prepares students for life, citizenship, or the continuation and enrichment of a cultural heritage.'⁶⁰ Obviously the meal ticket approach is not ideal for educating students in the liberal arts. It would lead students to overlook or minimise aspects of their course that don't obviously lead directly to a job—that is, most of them—and focus instead on just acquiring the credential. Classes based on reading and reflection cannot be conducted properly in this environment. I do not think there is any dispute on this point.

Where there is dispute, however, is over whether fees necessarily threaten the 'use value' of higher education. Fees make the analogy with normal market exchange more obvious than a free service, and bring with that analogy an expectation that the student (or 'customer') gets what he or she pays for. If the customer expects a degree in exchange for their fee then this does change the nature of what happens (or at least should happen) at a university. The tax-financed universities avoid this problem, handing out official credentials according to criteria they set, with the students having no powers not given to them by the university itself or by statute.

Just as the student might seek to abuse the exchange relationship, universities can abuse their position of bureaucratic power. In fact, as I argued in the previous chapter, it has been abused, with undergraduate teaching often not being carried out anywhere near as professionally as it should be. 'Gift' relationships are also open to abuse. We should not forget that for many people commercial transactions, in which obligations can be defined and limited, are sometimes preferable to the open-ended obligations often implicit in a gift. In these cases some commodification is highly desirable to even up the relationship, to ensure that the student has some real power and control.

While exchange creates mutual obligations, the relationship between the student and the university need not—and indeed should not—be structured like a simple, retail, market transaction. The university has to be able to define itself in such a way that the student understands the nature of the service on offer. A liberal education requires the student to participate, and not just be the passive recipient of a service provided by someone else. The university must assess the student as well as the student judging the quality of what he or she receives. The student needs to accept that benefits can be intangible and delayed, and for those reasons much harder to measure than the dollars they spend.

The Dawkins mega-universities are poorly placed to define themselves in this way. They seek to do so many things for so many people that their identities are necessarily multifaceted and, for that reason at least, unable to deeply influence the way students see their education. There is no institution in Australia that has the clear identity of, say, a liberal arts college. Indeed, the American liberal arts colleges are an example of how the identity of the college manages to overwhelm whatever tendencies toward undesirable commodification might come from the fees, often the very high fees, they charge. They put much greater emphasis than Australia's universities on developing their students as people and citizens as well as intellectually. A survey of academics at private liberal arts colleges found 90.1% of them thought the faculty staff at their institution were interested in students' personal problems, with 74.4% of their colleagues at public institutions saying the same. Some 71.6% of academics at the private colleges thought development of undergraduates' moral character was important, with 53.7% of their public colleagues saying the same.⁶¹ Clearly this is a much larger relationship than the fee-for-degree image of education for sale. The liberal arts colleges are so successful at this that they do in fact manage to create their own 'gift economies' through persuading their alumni to donate money. In the top 100 national liberal arts colleges ranked by *America's Best Colleges* only five have less than a third of their alumni giving money, and about twenty have 50% of more of their alumni giving to their alma mater.⁶²

Australian private schools are another example of how an exchange relationship co-exists with social and spiritual purposes. In one survey of why parents send their children to private schools, prospects for school leavers, perhaps the most significant utilitarian reason, ranked 10th one behind 'emphasis placed by school on developing sense of community responsibility'. 'Preparing pupils to fulfil their potential ranked 1st, good discipline 2nd encouraging a responsible attitude to school work 3rd.'⁶³ These schools provide a disproportionate number of students to Australia's universities. It is unlikely that demand for these values vanishes between the last year at school and the first year at university. What diminishes is the supply.

Freya Mathews, like Robert Manne, is misguided by a cultural pessimism that greatly overestimates the market's capacity to foster materialistic motives and underestimates people's ability to attach their own meaning to something that involves a financial exchange. Employees do not just derive job satisfaction from the money they earn, goods chosen can represent a shared identity (as in 'buy Australian' campaigns, or in group dress codes), continued custom can indicate personal loyalty, and so on. The reciprocal student-university relationship is just one of the many varied meanings that can be attached to a financial connection. American colleges and universities have been very successful at (properly) transforming something that could have been a simple exchange into something much more lasting. It is a pity Australia's bureaucratic universities cannot do the same.

In her book on commodification, Margaret Jane Radin remarks that 'commodification worries seem to occur only in conjunction with other worries about social wrongs, in particular about subordination and maldistribution of wealth.'⁶⁴ Radin is discussing the commodification of people, but I don't think her point loses its validity for being transferred to another subject. As I've argued, turning education into a commodity does not of itself lessen education. What it does do is turn education into something that can be bought with money, and as money is not evenly distributed then education may not be evenly distributed either, even holding constant more obviously relevant grounds for admission as intelligence and academic aptitude. Opponents of higher education reform could concede every argument I've made in this chapter and the last and still hold the views they do on equity and access grounds. The next chapter deals with this issue.

¹ Their preamble, reported in Paul James, *Burning Down the House: The Bonfire of the Universities*, Arena Publications, Melbourne, 2000, p.14.

² Essay in James, *Burning Down the House*, above, p.16.

³ John Molony, 'Australian Universities Today', in Tony Coady (ed.), *Why Universities Matter*, Allen & Unwin, Sydney, 2000, pp. 80 & 77.

⁴ *Students 2000: Selected Higher Education Statistics*, DETYA, Canberra, 2001, Table 3. The 1991 and 2000 figures are not strictly comparable, since from 1997 combined degrees were counted twice. However, since the 15,443 double degrees in 2000 are 6,734 fewer than the total increase the growth cannot be explained through a change in counting methods, especially as some Science and Arts enrolments may have been uncounted under the previous system.

⁵ Dean Ashenden and Sandra Milligan, *The Age Good Universities Guide*, Hobsons Australia, Perth, 2001 pp.145-147.

⁶ Richard James, Gabrielle Baldwin, and Craig McInnis, *Which University?: The Factors Influencing the Choices of Prospective Undergraduates*, DETYA, Canberra, 1999, p.47. The response rate was 29%.

⁷ Victorian Tertiary Admissions Centre, *1999-2000 VTAC Annual Statistics*, Table D.1.

⁸ Mark Urban, Emily Jones et al., *Completions: Undergraduate academic outcomes for 1992 commencing students*, DETYA, Canberra, 1999, Section 3.5.

⁹ Andrew Norton, 'Degrees of Difficulty: The Labour Market Problems of Arts and Social Science Graduates', *CIS Issues Analysis* No. 12, 6 July 2000. Available at www.cis.org.au

¹⁰ For a summary see Stephen Matchett, 'Arts Wars', *Sydney Institute Quarterly* Vol. 4 No.3, pp.23-24.

¹¹ Robert Manne, 'Why Arts Degrees Matter', *The Age*, 24 July 2000, p.13.

¹² See 'Gerard Henderson replies to Robert Manne', *Sydney Institute Quarterly*, Vol 3. Nos 3 & 4, December 1999, pp.11-18.

¹³ Robert Manne, *The Way We Live Now: The Controversies of the 1990s*, Text Publishing, Melbourne, 1998, pp.259-260.

¹⁴ Coady, 'University and the Ideals of Inquiry', in Tony Coady (ed.), *Why Universities Matter*, Allen & Unwin, Sydney, 2000, p.11.

¹⁵ Linda Serra Hagedorn, Ernest Pascarella et al., 'Institutional Context and the Development of Critical Thinking: A research note', *The Review of Higher Education* 22(3) 1999, p.272.

¹⁶ Lisa Tsui, 'Courses and Instruction Affecting Critical Thinking', *Research in Higher Education* 40(2) 1999, p.197

¹⁷ Craig McInnis, *The Work Roles of Australian Academics*, DETYA, Canberra, 1999, p.34.

¹⁸ Ian Dobson and Angel Calderon, *Who is Studying Science?*, Australian Council of Deans of Science, September 1999, p.8.

¹⁹ Dobson and Calderon, *Who is Studying Science?*, p.10.

²⁰ Graduate Careers Council of Australia, *1999 Graduate Destination Survey*, GCCA, Melbourne, 2000, p.24.

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- ²¹ ABS, *Australian Social Trends 2001*, Catalogue 4102.0, Australian Bureau of Statistics, Canberra, 2001, p.112.
- ²² The Deans have also commissioned a study of employment outcomes, Craig McInnis et al. *What Did You Do With Your Science Degree: A National Study of Employment Outcomes for Science Degree Holders 1990-2000*, Centre for the Study of Higher Education, University of Melbourne, 2000. As it has a relatively small sample (1245) and had a return rate of 21% on a mail-out survey (p.12) I prefer the ABS data. It found that those least likely to be using skills learned in their degree were graduates in mathematical sciences, maths and physical sciences, and 'science combinations' (p.55). The most useful part of this survey is the section on the perceived strengths and deficiencies of their Science degrees in preparing them for work (esp. pp. 70-73).
- ²³ Dobson and Calderon, *Who is Studying Science?*, pp.18-19.
- ²⁴ Robert Manne, 'Why Arts Degrees Matter', *The Age*, 24 July 2000, p.13.
- ²⁵ Andrew Norton, 'Degrees of Difficulty: The Labour Market Problems of Arts and Social Science Graduates', *CIS Issues Analysis* No. 12, 6 July 2000, pp.2-4. Available at www.cis.org.au.
- ²⁶ Graduate Careers Council of Australia, *1999 Graduate Destination Survey*, GCCA, Melbourne, 2000, p.24.
- ²⁷ All figures calculated from: Victorian Tertiary Admissions Centre, *1999-2000 VTAC Annual Statistics*, Table D.1.
- ²⁸ Adrian Harvey-Beavis and Gerald R. Elsworth, *Individual Demand for Tertiary Education: Interests and Fields of Study*, DETYA, Canberra, p.79.
- ²⁹ *Individual Demand*, p.51.
- ³⁰ Richard James, Gabrielle Baldwin, and Craig McInnis, *Which University?: The Factors Influencing the Choices of Prospective Undergraduates*, DETYA, Canberra, 1999, p.19.
- ³¹ Richard James, *TAFE, University or Work: The Early Preferences and Choices of Students in Years 10,11 and 12*, National Centre for Vocational Educational Research, Adelaide, 2000, p.21.
- ³² Jianke Li, Tom Karmel, Maureen Maclachlan, *Responsiveness: Do Universities Respond to Student Demand?*, DETYA, Canberra, 2001, p.13.
- ³³ From comparing Alvin Kernan (ed.), *What's Happened to the Humanities?*, Princeton University Press, 1997, p.248 and *Students 1999: Selected Higher Education Statistics*, DETYA, Canberra, 2000, p.113. To get the year comparison to match the American book I've used 1993 figures.
- ³⁴ National Center for Education Statistics, *1995 Digest of Education Statistics*, US Department of Education. Accessible at: <http://nces.ed.gov/pubsworld/D95/dtab243.html>
- ³⁵ Alexander Astin et al., *The American Freshman: Thirty Year Trends*, Higher Education Research Institute, University of California, Los Angeles, 1997, pp.46-47.
- ³⁶ See the discussion in Chapter 8.
- ³⁷ Though, ironically, not all would be allowed to use the title 'university' in Australia. The National Protocols for Higher Education Approval Processes, endorsed by the States and the Commonwealth, requires research activity as well as the scholarship necessary to inform teaching. This would not be a concern if Australian secondary schools had not increasingly taken over the word 'college'. As liberal arts colleges are much closer to—indeed, often superior to—what we call universities than they are to schools the Protocols are in this respect a backward step.
- ³⁸ US News and World Report, *America's Best Colleges 2001*, Washington DC, 2000, compare pages 33 and 39.
- ³⁹ C. Robert Pace and Mark Connolly, 'Where Are the Liberal Arts?', *Research in Higher Education*, 41(1) 2000, p.55
- ⁴⁰ US News and World Report, *America's Best Colleges 2001*, p.33
- ⁴¹ Coady, 'University and the Ideals of Inquiry', in Tony Coady (ed.), *Why Universities Matter*, Allen & Unwin, Sydney, 2000, p.11.
- ⁴² National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, Indiana University Center for Postsecondary Research and Planning, Bloomington Indiana, 2000, pp.3, 12.
- ⁴³ National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, pp.3, 14.
- ⁴⁴ National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, pp.3, 16.
- ⁴⁵ National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, pp. 4,18

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- ⁴⁶ National Survey of Student Engagement, *National Benchmarks of Effective Educational Practice*, pp.4, 20.
- ⁴⁷ Ernest Pascarella and Patrick Terenzini, *How College Affects Students*, Jossey-Bass Publishers, San Francisco, 1991, p.149.
- ⁴⁸ Stuart Macintyre, 'Arts Encompasses the Breadth of Life', *The Australian*, 21 July 2000, p.15.
- ⁴⁹ ACNeilsen Research Services, *Employer Satisfaction with Graduate Skills: Research report*, DETYA, Canberra, 2000, p.26.
- ⁵⁰ This section is based on a comparison of Australian Council of Educational Research, *Summary Report: GSA Entry 2001*, ACER, Melbourne, 2001, p.15 and Australian Council of Educational Research, *Summary Report: GSA Exit 2000*, ACER, Melbourne, 2001, p.13.
- ⁵¹ AVCC (Australian Vice-Chancellors' Committee), *Key Statistics 1999*, AVCC, Canberra, 2000. Accessible at : http://www.avcc.edu.au/policies_activities/resource_analysis/key_stats/kstats.htm
- ⁵² In a survey of 212 American higher education institutions, among those rated in the top 10% for research not one is even average in its 'student orientation', defined in terms that include academics' interest in students' academic and personal problems and opportunities for student-faculty interaction. Even relaxing 'strong' to being in to top 35% for student orientation and research, only eight of the 212 made it: Alexander Astin, 'How the Liberal Arts College Affects Students', *Daedalus*, Winter 1999, pp.90-91. The situation is similar in Australia. The authors of *The Good Universities Guide* rank universities using data from the CEQ. Among the Group of Eight research intensive universities none get into the top 40%: Dean Ashenden and Sandra Milligan, *The Age Good Universities Guide*, Hobsons Australia, Perth, 2000. For the University of Adelaide, which had no score in this edition, I used the same survey from the previous year.
- ⁵³ Craig McInnis, Richard James, Robyn Hartley, *Trends in the First Year Experience in Australian Universities*, DETYA, Canberra, 2000, p.38.
- ⁵⁴ Nick Pappas, 'Earnings Inequality and Skill', in J. Borland, B. Gregory and P. Sheehan, *Work Rich, Work Poor: Inequality and Economic Change in Australia*, Centre for Strategic Economic Studies, Melbourne, 2001, p.207.
- ⁵⁵ *Students 2000: Selected Higher Education Statistics*, DETYA, Canberra, 2001, Table 63.
- ⁵⁶ Freya Mathews, 'Destroying the Gift: Rationalising Research in the Humanities', *Australian Universities Review* 1&2 (1990), p.20.
- ⁵⁷ Mathews, 'Destroying the Gift'. p.21.
- ⁵⁸ Mathews, 'Destroying the Gift'. p.20.
- ⁵⁹ Hugh Willmott, 'Managing the Academics: Commodification and Control in the Development of University Education in the UK', *Human Relations* 48(9) 1995, pp.1001-1002. Italics in original.
- ⁶⁰ Willmott, 'Managing the Academics', p.1002.
- ⁶¹ 'Attitudes and Activities of Full-time Faculty Members 1998-99', *The Chronicle of Higher Education Almanac*, 1 September 2000, p.40.
- ⁶² US News and World Report, *America's Best Colleges 2001*, pp.39-40.
- ⁶³ The Association of Independent Schools, *1999 Parent Survey: Why Parents Choose Independent Schools*.
- ⁶⁴ Margaret Jane Radin, *Contested Commodities: The Trouble with Trade in Sex, Children, Body Parts and Other Things*, Harvard University Press, Cambridge, Mass.: 1996, p.8.

Chapter Six

Barriers to Entry

All higher education's major political players worry about who goes to university. Every year, the government reports on the progress of various 'equity' groups—non-English speaking background, indigenous, disabled, rural and isolated, 'low SES' (socioeconomic status) and 'women in non-traditional areas'.¹ With men now making up less than a third of enrolments in four of the ten major subject areas,² it can only be a matter of time before 100% of the population claims 'equity' status.

Politically, the most important groups are low SES and rural students, and low SES are this chapter's main concern.³ The major issue has been whether these students are sensitive to price. One line of thought, which extends from the introduction of HECS by John Dawkins in 1989 to Dr Kemp's October 1999 Cabinet submission, is that prospective students from low-income backgrounds are prepared to pay for their education. Both Ministers took the view that it is places and not prices that matter; with Dawkins greatly expanding though still limiting the number of places, and Dr Kemp proposing (unsuccessfully) to abolish all supply-side obstacles by subsidising anyone who enrolled at an Australian university.⁴ While supporting charges, Labor opposes further increases, saying that under a deregulated scheme 'the cost of a university education would be beyond the reach of many Australian families'.⁵

Another line of thought, from the National Union of Students (NUS) and the Australian Democrats, is that higher education ought to be free.⁶ While their view appeals to intuition—all other things being equal, people consume more of free goods, so not charging will improve access—the history of free higher education, and the subsequent history of charging for education, shows that the problem is more complex than prices.

Free education

From 1974, the Whitlam government abolished tuition fees at all Australian universities. This was less radical than many in hindsight believe, as prior to abolition various scholarships paid for 75-80% of students,⁷ but it was seen as a major step toward changing the middle class nature of higher education. At the very least, it removed some financial obstacles to university attendance, and its symbolism ought to have been powerful. Disappointingly, for the advocates of 'free' education, it did not have its desired effects. As one study notes 'analysis of the composition of the student body before and after the change revealed no discernible difference in the social spectrum of higher education', though they do argue that abolishing fees compensated for declining teacher scholarships.⁸

If anything, the children of professionals, those always most likely to go to university, increased their share of university places during the era of free education. A survey done in 1974, the first year of free to all education, found 43% of full-time students had fathers in professional, technical or managerial occupations.⁹ Ten years later, another survey, using slightly different classifications, found 61.3% of fathers in professional or managerial roles.¹⁰ As the number of student places increased over the decade, the *absolute* number of students coming from lower skill backgrounds still rose by more than 20,000 but, as a strategy of changing the social composition of universities themselves, free education failed dismally. To understand why, we need to look more closely at the culture and economics of university attendance.

The role of culture

While the majority of university students come from relatively affluent families, their affluence is far from the only thing about them that influences their educational decisions. It has long been believed that educated and middle class parents aspire for their children to attend university and do much to help them by sending them to private schools, and by providing encouragement, support and advice.

A 1994 NSW survey of school students in Years 10, 11 and 12 indicates that though many students have ambitions beyond their parents' occupation, aspirations rise with the level of their parent's education. So, for example, 47% of students whose father did not complete secondary school wanted to be professionals themselves, compared to 72% of students whose fathers had completed university.¹¹ They recognised that the main obstacle to their ambition was not money (cited by 7%) but their Year 12 results (cited by 55%).¹²

Research by Monash University's Centre for Population and Urban Research confirms the impact of occupational background on university attendance. Using 1996 census data, they identify university attendance rates of eighteen and nineteen year olds living at home by household income group and by parental occupation, usually of their father. This shows that for children of labourers and tradesmen income levels seem to make no substantial or consistent difference to university attendance rates. Household income exceeding \$1,000 a week actually has a *negative* impact on attendance.¹³ Perhaps teenagers in these homes believe, on their parents' example, that good incomes can be earned without further study.

This attendance pattern is reversed for other kinds of workers' children, but parental occupation still makes a large difference. For children from homes earning \$1,000-\$1,499 a week, 21.7% of the children of clerical workers attend university, 30.2% of the children of managers and administrators, and 37% of the children of professionals. A smaller proportion, 29.4%, of the children of the clerical workers with household incomes above \$2,000 a week attend university than do the children of professionals earning less than \$500 a week, with 31.4% attending.¹⁴ To some extent, clerical workers' families carry their attitudes to education into affluence, and professional families carry theirs into relative poverty.

The importance of attitudes to education can again be seen in the performance of some migrant groups. Another study by the Centre for Population and Urban Research examines the Vietnamese-speaking community's progress as at the 1991 census. Even though the proportion of Vietnamese speakers in professional and managerial occupations was less than half that of the English-speaking population, the proportion attending university was nearly twice as high.¹⁵ The ambition of Asian families was also evident in the 1994 school survey, with Asian students nearly 50% more likely to want to be professionals than the children of parents born in Australia.¹⁶

The predominance of relatively affluent groups at university is clearly only partly explained by their socioeconomic status. Indeed, the causal relationship may be partly running in the other direction—their socioeconomic status is explained by their attitudes to education and work.

Economic incentives

While cultures can be very persistent, they are not immune to the power of financial incentives. I believe that economic changes are driving up the higher education participation rates of lower-income families. These incentives are probably working in two directions. From the top, as we saw above, large numbers of school students aspire to work in the professions, which almost invariably require a university degree for admission. The professional and managerial workforce is increasing rapidly in size, adding nearly 400,000 to its numbers between 1993 and 1999 alone,¹⁷ which must provide a sense that entry to it

is relatively open. So while there are too few professional jobs for every school student who wants one, there are rapidly increasing numbers.

From the bottom, we have deteriorating labour market prospects for teenagers, which changes the work-education trade-off they make in favour of education. Overall, the number of full-time jobs for teenagers more than halved in just a decade from 1988 to 1998, lowering the possibility of financial benefit in working rather than studying.¹⁸ For some young people, university is a second preference to work. In the school student survey discussed above, 12% of students planning to go to university nominated a job offer as something that could change their mind.¹⁹ Statistical analysis of applications data also shows that there is a relationship between the unemployment rate and applicant numbers, with applicant numbers going down when unemployment drops.²⁰ While most students want to improve their long-term job prospects, some attend university primarily because their immediate job prospects are poor.

For all young people considering higher education, whatever their motive, it is financially easier to do so than it was in the past. Labour market trends in favour of part-time and casual work make it easier for students to find work compatible with study. One survey of university students found an increase of nearly 50% increase in the proportion of students working during semester between 1984 and 2000.²¹ Studying was also made more attractive through student allowances more than doubling between the early 1980s and the mid-1990s.²² Data on Austudy, a low-income student support scheme now largely merged into the Youth Allowance, shows that through the 1990s increasing proportions of people in their twenties were applying for assistance (about 90% of applicants are successful).²³ The possibility of parental support probably also increased, with long-term increases in real household income in all income groups between 1982 and 1996-97.²⁴ Given good economic conditions since, it is likely that families' capacity to support members at university has increased further.

In these economic conditions—increased financial appeal of education, decreased financial appeal of leaving school, and greater resources available to support studying young people—an economically-minded person would expect an increase in university attendance, and that is exactly what has happened.

Rising university attendance across all socioeconomic groups

Despite government constraints on student numbers, the university student population has grown strongly over the last generation. In 1970, there were about 160,000 students, in 1980 about 333,000, in 1990 about 460,000, and in 2000 around 600,000.²⁵ The total numbers clearly show substantial change, but how have low-income groups fared? On the statistics collected by the federal Education department, things are much the same, with the proportion of low SES students in universities remaining stubbornly around 20%, with only insignificant fluctuations between years.²⁶ These statistics, however, do not give a reliable picture of the social change actually going on. They take as their point of reference the university population itself, rather than the population as a whole. The problem with this yardstick is that even if low-income students are much more likely to go to university than in the past, that won't show in the statistics so long as other groups are growing at the same or a faster rate.

The way around this problem is to look at groups of young people of varying backgrounds and at varying points in time. By comparing young people of similar backgrounds but different ages we can see whether, as time progresses, low-income people become more or less likely to attend university. Fortunately, we have this information in a national panel study carried out by the Australian Council for Educational Research (ACER).

ACER has now looked at five cohorts of young people, born in 1961, 1965, 1970 and 1975, and at another group who were in Year 9 in 1995, many of whom would have been born in 1980. A change in methodology creates problems when comparing the youngest group with the others. Whereas the earlier surveys looked at what the students were doing at age 19, the later looks at the year after Year 12, thereby classifying as absent from higher education people who are just deferring. Nevertheless, trends can still be discerned.

ACER collects much data about the students' personal and family characteristics. The two characteristics that most concern us here are family wealth and parent's occupational background. Because it is difficult to get reliable information about parental income or wealth from teenagers, the study used indirect measures. These included household characteristics such as the numbers of bedrooms and bathrooms, and the possession of various consumer durables. This measure is not available for the youngest group. For parental occupation, the normal measure was the father's, as many students gave their mother's occupation as home duties. However, where there was no information on the father's occupation the mother's was used.²⁷

Using family income as the measure, ACER's research shows that there has been a large increase in low SES university attendance. For the oldest cohort, who reached university entrance age in 1980, 16% of those in the lowest 25% of family wealth went on to higher education, compared to 29% of those from the wealthiest 25%. By the time the youngest cohort reached university entrance age in 1994, 27% of the poorest cohort went to university, a leap of about 69% in less than fifteen years. This major change was obscured by even more rapid growth in students from the wealthiest 25%, whose proportion went up 83%, and by the middle 50%, whose proportion went up by 95%.²⁸ As with the first decade after free education, in the second decade the social composition of the university system as a whole may have become still more middle class, even though simultaneously it was becoming a more common experience for low-income teenagers.

Using parental occupation as a measure, we see a similar story over a longer time period. In 1980, 13% of the children of unskilled manual workers went to university. In 1994 the figure was 24% and in 1999, 25%. For the children of clerical and personal service workers, between 1980 and 1999 the proportion goes from 24% to 32%. For professionals the jump is from 38% to 47%.²⁹ The 1999 figures are almost certainly an understatement. As I noted above, changed methodology between the surveys means that deferring students who would have been counted in earlier surveys, because they started university by age 19, are missed in this survey. To compensate for this problem, ACER does a simulation based on the assumption that all academic high achievers will eventually attend university. That puts predicted attendance up 10% to 35% for unskilled manual workers' children, up 11% for clerical and personal service workers' children and up 15% for professionals' children.³⁰

Whether or not this simulation assumption is warranted—a more conservative assumption based on Victorian deferral rates, which would increase proportions by 5%, might produce a better age 19 to age 19 comparison—it is quite clear that more low SES background students are attending university, and it is possible that this latest survey shows an improving position relative to high SES background students. Taken as a whole, the surveys see us through two substantial increases in the cost of higher education, the introduction of HECS in 1989, and differential HECS in 1997, which caused very large cost increases for some courses. Neither disrupted the trend toward more low SES students attending university.

Results like these suggest free education's supporters underestimate the ability of low SES students to understand and adapt to changing economic circumstances. They overstate the significance of the headline price of going to university, and under-rate the significance of the study/work trade-off, the availability of income support while studying, and the lure

of a better job at the other end. Nevertheless, there must be a point at which going to university does not make economic sense, where the costs are so disproportionate to the financial benefits that higher education is not an investment but a luxury, which only the well-off can afford. Is letting universities charge fees likely to create such a situation?

The price of education

Viewing education as an investment, it is cheap or expensive only relative to the future income it can produce. If a degree produces a high income it can pay for itself. This is why differential HECS, giving courses like law and medicine much higher prices than in the past or for other courses, did not affect demand. Students knew that even if they spent thousands of dollars more for their degree, they would still end well ahead over their working lives. Even at twice the price, these courses were bargains. Numerous studies by economists, going back twenty-five years, have consistently shown good rates of return for people with tertiary degrees.³¹ Almost all these studies, however, assume that the direct costs of education are not very high.

The reform proposal I outlined in Chapter Two still favours some subsidies. However it is safe to assume, based on decades of experience, that government subsidies will increase less rapidly than university costs. My argument is that these costs will not cause prices to escalate prohibitively. The theory behind this argument is that there are two forces keeping prices down.

The first force for reasonable prices is the universities' internal culture. As we have seen, some universities pride themselves on being accessible, on being a force for social mobility through helping to tertiary study people without family histories of higher education. Even the universities more concerned with prestige would not want a talented but poor student to feel the university was out of his or her financial reach. Their prestige is linked to attracting the best students, which is why such people are often 'bought' with scholarships, particularly in the US education market. In the US, many universities try to have a 'needs blind' admission policy, though with Australia's income-contingent loans scheme up-front costs are less of a concern.

The second force for reasonable prices is the market itself. Universities cannot afford to price themselves out of the market. Unless they are offering a course that is sufficiently superior to cheaper courses to warrant the additional cost of a high price, they will lose students. Overseas undergraduate students already provide a partial experiment in what happens when there is no regulation of fees. It is not a full experiment, because universities have to mix these students in with their local students, and so we are not seeing the price rises we might expect as some universities in a market environment significantly improved the quality of their courses. It does, however, give us some guide as to what happens in markets where there is considerable homogeneity in courses.

As an example I looked at Commerce or Business degrees, both because these are courses nearly every university teaches, and because they are popular with overseas students. I compared the prices listed in *The Good Universities Guide 1996* with those in *The Good Universities Guide 2002*, and adjusted for inflation.³² In nominal dollars, the average price at public universities rose from \$9,678 to \$11,486, but after adjusting for inflation this is an average increase of 7% in real terms over the period.³³ There was considerable variation in both absolute prices and rates of change. For the 2002 *Guide*, the cheapest university charged \$9,000 a year, and the most expensive \$16,200. The real rate of change varied from -5% to 26%. This variation indicates a reasonable degree of competition in this market. All states except Western Australia had a below average cost public provider, and Western Australia also had a low-cost provider in the private University of Notre Dame. The

fact that in Western Australia the private university is the cheapest indicates that there is no automatic link between ownership status and price.

Despite the real price rise since 1996, the number of overseas students has gone up by over 100%,³⁴ clearly indicating that they see these prices as affordable—and without the benefits of government subsidies and income-contingent loans that Australian students would have. These students must see that there are good returns. Australian research by the Industry Commission has calculated rates of return to higher education under a full-fee system. They did not look at commerce degrees, but came up with figures of a 6.6% return to a teacher, 9.4% for an engineer and 11.7% for a lawyer.³⁵ With deferred payment through loans the figure was higher, though this would depend on whether the student incurs a debt charge. The evidence, from both economists' calculations and students' behaviour, suggests that higher education is a good investment even at prices considerably higher than those charged now. There is, however, another possibility—that because averages can conceal considerable variation between individuals, we are missing possible poor incomes for low SES individuals. Fearful of the risk that they may end up with inadequate returns, some of these people may err on the side of caution, and so underinvest in higher education.

Would students from poorer families get uneconomic returns from education?

The available evidence, which is limited, suggests that people with low SES backgrounds on average do earn less than those with high SES backgrounds. One of ACER's surveys looked at students who went to university or TAFE seven years after finishing school, so a maximum of four years after finishing university (and probably less, as taking more than the minimum three years is common, because some basic degrees are longer, some students do Honours, and many fall behind schedule for various reasons). At that point, they found that students with a high SES background were earning on average 7.8% more than students from a low SES background.³⁶ While this is not a trivial difference, it does not show that low SES students get *uneconomic* returns; that is, the benefits still exceed costs. As other studies show, the effect of a university education in itself on occupational status (which in turn is related to income) is far greater than any background variable.³⁷

Would a market driven system change this situation? A possible danger is that ending government restrictions on student numbers would flood the labour market with graduates, depressing salaries and leaving only unemployment or low skill jobs for some degree holders. This may affect low SES students more than others. They are less likely to have job-yielding connections. According to the Australian Bureau of Statistics, around 15% of professional and administrative jobs were found through friends, relatives and company contacts, and between a quarter and a third of successful job seekers were approached by employers.³⁸ The social networks of middle-class students are more likely to contain contacts useful for finding professional and high skill jobs.

As the figures on student numbers cited earlier suggest, with a nearly 50% increase in student numbers over the last decade, we've seen the labour market flooded with graduates before. With terrible timing, the first students who had enrolled in the late 1980s growth wave graduated into the early 1990s recession. Unsurprisingly, their short-term labour market prospects were not good. In 1989, 8.7% of graduates looking for full-time work were without it four months after completion, but by 1992 that figure had increased to 29.1% (this is a underemployment figure, as it counts people with part-time work looking for full-time work). By 2000, that figure had recovered to 16.4%, but not to 1989 levels.³⁹ Yet these slow starts did not translate into longer-term poor employment results. At May 2001, the unemployment rate of bachelor degree holders was 3.1%, less than half the 7.5% unemployment rate of those with no further qualifications after Year 12.⁴⁰ Indeed, for graduates as a whole (a larger group, including those with postgraduate qualifications as

well), their degrees provide more insurance against unemployment than they did in 1989, before graduates from the latest large growth phase hit the labour market. In 1989, 3.5% of people holding a degree were unemployed, compared to 2.8% in 2001.⁴¹

These good unemployment figures may disguise another problem. While graduates are relatively insulated from unemployment, they may achieve this by taking jobs that do not require degrees. The result will be lower salaries. There is some evidence that this is occurring. In 1996, 8.1% of graduates were working as clerks, 5.2% of graduates were working in sales, and 2.5% as labourers.⁴² Similar results were found in a survey that looked not at statisticians' job categories, but employees' own views of the level of education required to do their job. Of graduates in the workforce, 81% believed a university degree was necessary to do their job.⁴³

Many of those in these lower-paying jobs graduated with non-vocational degrees. Nearly 30% of those completing degrees in the humanities and social sciences and finding full-time work do so by taking clerical, sales and service work.⁴⁴ While for some this is likely to be temporary (the survey cited is done four months after completion), census data shows that median salaries for humanities graduates, especially, remain near the bottom of the salary range for degree holders.⁴⁵ Graduates in jobs not requiring degrees earn only modestly more than people with less education, with each extra year of schooling increasing earnings by 2% on average.⁴⁶

Relatively low salaries are not a problem in all cases. As we saw in the last chapter, remuneration is not the only motive in choosing a course. For low SES students hoping to advance themselves, however, while reducing their risk of unemployment is important, they might reasonably have hoped for higher paying jobs. This makes it more important to correct the imbalance in admissions that makes non-vocational courses the only option for some weaker students. Due to the generally lower cut-off scores required for admission to Arts, and the link between low SES and relatively poor Year 12 results, low SES students are likely to be over-represented in these courses and under-represented in courses which lead to more lucrative careers. For example, at the more prestigious universities, average entry scores for medicine, engineering and computer science are in the high-80s to high-90s. At independent schools 25% of students achieve ENTER scores of 93 (of a potential 99.95) or above, while at government schools the top 25% starts at an ENTER of 84.⁴⁷

As affluent families are more likely to send their children to independent schools, they have a greater opportunity to enter the top courses. For example, at Melbourne and Monash Universities more than half the school leavers entering Law and Medicine in 2000 were from independent schools.⁴⁸ How far university entry advantage is reflected in graduation patterns is not known. Since universities often let low SES students enrol with scores below those required of other students, and because students who do well in first year are often able to switch courses, some high SES advantage at the end of Year 12 is diluted by graduation day. The Education Department's measure of SES, though indicative only (it infers SES from postcode), shows that courses in the most expensive HECS category—Law, Medicine, Dentistry and Veterinary Science—have lower proportions of low SES students than other fields of study.⁴⁹

Despite the problems with Arts graduates, in the longer term it is clear that many people with low SES backgrounds do manage to secure good employment. Even assuming that on average they retain some disadvantages relative to high SES students, the expanding number of high skill jobs ought to drive up the number of low SES graduates holding them. There is evidence for this in intergenerational mobility statistics. These statistics compare the occupation of a survey respondent with the occupation of his or her mother or father (usually the parent with the highest occupational status is taken as the comparison point). If there are high levels of mobility, or more importantly for our purposes people from low SES

background can enter high SES jobs, this gives us some confidence that students from poorer families can get economic returns from their education.

In a 1984-85 intergenerational mobility survey we can see that professional jobs, those that are most likely to require university qualifications, are quite open to people from low SES backgrounds. At that time, 53% of male professionals had parents who held clerical, sales or manual jobs. The largest single class background was semi-professional or managerial.⁵⁰ Surveys of income and occupational shifts often find that the most common leaps are relatively small, but cumulatively children of semi-professional or managerial parents are outnumbered by the offspring of lower SES groups.

Another survey nearly a decade later, in 1993, uses different occupational categories but shows a similar pattern. In this survey, of those who are currently managers, 38.8% have manual worker or non-manual worker parents, 37.9% of 'expert managers' have such a background, along with 34.4% of employers, and 29.6% of 'experts'.⁵¹ The classifications used in this survey do not allow us to identify readily occupations requiring degrees but, like the earlier survey, it does show that higher status occupations are open to people whose parents did not hold such jobs.

Overall, the evidence suggests that jobs likely to have good salaries are available to people from low SES backgrounds with university degrees. To the extent that such people are not doing especially well financially, this probably owes more to their disciplinary background than their social background. Adding some more flexibility to the system through a market system would be a good equity measure, helping these students into the degrees they want to do and with better economic returns.

The risk of non-completion

While completing students, especially in high return fields of study, take a low financial risk, there is another group of concern—those who start degrees, but do not complete. They must still repay whatever HECS debts they accumulated before dropping out, and have incurred other direct and indirect costs of studying. Not all of this group are necessarily worse-off for not completing. For students who were filling in time because they couldn't get a job, and leave because they have been offered a job, there are no opportunity costs in being out of the workforce since they would have been unemployed anyway. Some students may have found equivalent or better opportunities than they were likely to get from finishing their course. Others may still get a return from the study they have done. While there are all these exceptions, it is likely that the more typical case is that the incomplete university course represents a net financial liability.

Low SES students do have a slightly lower probability of successfully completing a given university subject, which other studies suggest translates into lower completion rates.⁵² A study of students who enrolled in 1992, carried out by the then Department of Education, Training and Youth Affairs (DETYA) found small differences by socioeconomic status in completion rates by 1997. The most disadvantaged females had a 70.9% chance of completing and the most advantaged had 73.9%. For males the difference was larger, 61.6% compared to 67.9%.⁵³

Socioeconomic status is having a mainly indirect effect here. The most significant factor affecting completion is the student's Year 12 score. After grouping the Year 12 scores into ten deciles, the DETYA study found that those in the bottom decile had nearly three times the non-completion rates as those in the top decile.⁵⁴ Only a small proportion of those attending government schools in low SES areas do well in Year 12. In Victoria, only 13% of students from these schools applying for university in 2001 through the Victorian Tertiary Admissions Centre received ENTER scores of 80 or above⁵⁵. However, even those with low Year 12 scores in the DETYA study still have a better than 50% chance of completion.

Since average costs would rise if universities could charge fees, allowing them to do so would increase the potential financial disadvantage suffered by non-completers (though students with low academic achievement or weak commitment to study may gravitate toward cheaper courses). However, increasing the role of markets in higher education could reduce the chance of non-completion occurring in the first place.

The first step in improving completion rates is for students to get better advice on their post-secondary career options. The use of education brokers, as advocated in Chapter Three, ought to help improve student decision making, including more advice on courses and institutions, discouraging students from applying for university when this is not in their best interests. Ensuring that universities share the costs of students dropping out would encourage them not to enrol students with poor prospects, or to ensure they have programmes in place to help under-prepared students.

The second step is improving the system's capacity to use information about student preferences. Consistent with the data showing a mismatch between application and enrolment data, a recent survey of first year students found that 32% of them did not get into their course of first choice, and of this group nearly a quarter received their fourth or fifth choice. One in five students hoped to change to a different course after their first year.⁵⁶ Universities will always reject a proportion of those who apply, but this figure of a third not getting their choice suggests that a more flexible system, including letting in new providers in a way that did not put them at a competitive disadvantage, would do a better job of avoiding this initial source of student dissatisfaction. Newcomer universities, particularly, would be interested in enrolling those students unable to enrol in their desired course at an existing institution.

A third step would be to improve the quality of university life, both social and academic. 'Emotional health' is the single most commonly cited reason for considering deferral, and while many of these emotional problems probably have their sources and solutions off campus, there is a troubling minority of first-year students who are not engaged with the university community. Nearly a quarter say they have not made close friends, and just over a quarter say that they generally keep to themselves. Similar proportions say they feel uncomfortable participating in class discussions, and that they are not interested in extra-curricular activities.⁵⁷ The first-year survey also asked universities about what programmes had been effective in helping their new students. These included assessed writing early in semester to identify students with problems, peer support programmes, and student-to-student mentoring. More programmes along these lines would help.

As we saw in Chapters Three and Four, many students believe academic staff put too little effort into them, with 47% of first year students disagreeing with the statement that academic staff take an interest in their progress, 62% not being fully satisfied with the availability of teaching staff, and only 25% fully agreeing that teaching staff give them helpful feedback.⁵⁸ Improving staff availability is therefore a high priority. Student-staff ratios are up around 19 to 1, compared to 7 or 8 to 1 in top American universities and 12 or 13 to 1 in top British universities. There are too few staff to provide every student with sufficient academic support, let alone pastoral care.

These problems are often recognised under the current system. The difficulty with the status quo, however, is that even with extra funding the incentives for focusing resources on student concerns are too weak. For universities with more students than their government quota, which in any given year is most of them, the students at the margins are more likely to represent a cost than a source of revenue, making some drop-outs desirable. Turning marginal students into sources of potential revenue rather than costs could do much to concentrate minds on their needs, and make university a better option for low-income students.

Are low-income students debt averse?

The evidence suggests that low-income people with poor Year 12 results, and who cannot get into the course they want, are most at risk of getting poor or negative financial returns on education. All others would be making a prudent investment to borrow money on an income-contingent loan to undertake university education. But, some argue, low-income students are debt-averse and so won't make the investment they should.⁵⁹

Les Andrews analyses the theory of low SES debt aversion by looking at the attitudes of low-income groups to other forms of debt such as mortgages and personal loans. He found that rural people were more reluctant to apply for loans, but concluded that 'it appears that the SES background of groups had no strong or consistent effect on their level of debt aversion as measured by their willingness to apply for new mortgages or personal loans and the amounts involved'.⁶⁰ Indeed, if this is looked at logically, even people who are debt averse should be less so than normal when it comes to HECS-type loans for education. Unlike some other loans, educational loans are in the long-term income producing, generating their own capacity to pay for themselves. The fact, too, that unlike other loans there are no set repayment schedules with income-contingent loans means that the risk of the loan causing financial difficulties is lower.

The experience of the HECS scheme shows that rising numbers of low-income students accept this logic. Despite increasing HECS charges, more low SES people are going into debt to get a degree. The debt aversion thesis is ultimately little more than the banality that few people like owing money. Everyone who takes out a home mortgage (and even the cheapest suburban home costs much more than a degree) would rather own outright—otherwise they would rent. But they are also sufficiently rational to know that debt is a sensible mechanism for achieving a desirable goal that cannot be achieved any other way.

While debt aversion itself is not a major difficulty, in Chapter Two I suggest changes to the repayment mechanism on income-contingent loans. Because education debt currently becomes repayable at well below what most people could earn without a degree, this could create financial difficulties with households on low incomes. Putting the threshold up to average weekly earnings for people without higher education is an equitable way of fixing this problem.

Abolish quotas

Various higher education interest groups such as the Australian Vice-Chancellors' Committee (AVCC), the National Tertiary Education Union (NTEU) and the National Union of Students (NUS) all claim to be concerned with access to higher education. They are all, however, strong opponents of 'vouchers',⁶¹ of letting student preferences drive funding, rather than subsidising universities directly. While some such schemes still involve limiting the total number of places,⁶² others such as that put to Cabinet by Dr Kemp in October 1999 do not.⁶³ Few people notice the tension between the interest groups' opposition to all voucher schemes and their professed support for increased access to university education.

The tension is, obviously, that the interest groups claim to support access to universities, but do not support proposals to abolish all supply-side obstacles. Yet as recent experience shows, it is places that matter most. Even if higher education were free, that is useless to people who cannot get a place. While most universities do try to attract students from low-income backgrounds, at the moment there are limits to their efforts, since they know that not all existing demand can be satisfied within the quota system, let alone trying to encourage other people to come to university.

While the quota system remains in place, increasing the proportion of low-income students is a zero-sum competition with wealthier families, since the number of places is

finite. Unfortunately for low-income students this is a game that they have little hope of comprehensively winning, given the well-recognised capacity of middle class families to improve their children's educational prospects, including sending them to the private schools which achieve superior Year 12 results. Increasing the number of places is essential to improving access for low SES people. So why do the interest groups oppose such proposals?

One reason two of the interest groups, the AVCC and the NTEU, support quotas rather than vouchers is that, despite their public interest rhetoric, they are both producer groups protecting the interests of producers. Once the government decides to fund as many places as there are students, the quota system is no longer needed to ration places. Indeed, quotas would become very difficult to operate, given that the number of student applications is hard to predict and therefore allocate. Abolishing quotas and letting students decide where to enrol would mean that the producer groups would have to put much more effort into undergraduate teaching and, if they did not, suffer financial loss as students went elsewhere. Unsurprisingly, neither want this disruptive development, and therefore have a vested interest in maintaining the status quo.

The only mystery is why the National Union of Students, whose constituents (and prospective constituents) are victims of the quota system, actually support it. I have heard one explanation that has at least a superficial plausibility. They oppose vouchers because they perceive a link between them and fees. To agree to vouchers would be to begin the slide down the slippery slope to fees. At one level, this is understandable, as most people who support student choice also support fees, as I do. But in fact there is no inherent logical link. You can have one without the other. NUS's main fear is student charges, yet we've had those without vouchers since the late 1980s, without the charges triggering calls for student-centred funding (as well they might have, given people usually want more when they pay more). We've had a de facto voucher scheme without compulsory charges for a long period in Medicare bulk-billing.⁶⁴ More significantly, perhaps, introducing greater competition between government schools has not produced a slippery slope to tuition fees. While charges and choice are, as I argue in this book, complementary reforms, this relationship is unlikely to be well-enough understood to create a usable political precedent. The much stronger precedent is introducing higher charges without scaring away low-income groups, and NUS's predecessor bodies long ago lost the political battle to stop that precedent being created.

In this situation, NUS's opposition to ending quotas is perverse, given their equity goals. Abolishing quotas, and the restrictions on total place numbers they require, is the single most effective thing that could be done in the short-term to improve access to universities (and it would, as argued in earlier chapters, have benefits through competition as well). Supporting quotas won't make the slightest difference to whether or not higher fees are introduced; all it can do is reduce the number of low-income people at university and make universities less responsive to student needs.

Increase the scope of Youth Allowance?

As I argued above, short-term affordability is a clearly a factor influencing university attendance, and that the improvements in this, through increased parental income, more part-time and casual jobs, and enhanced government welfare support, are all likely to have played a part in explaining higher university attendance rates. Bob Birrell and his colleagues argue that the restrictive nature of Youth Allowance, a welfare payment available to full-time students and the young unemployed whose families have incomes under \$35,000 a year, is one factor keeping low-income group university attendance down. This hypothesis is based partly on the obvious financial burdens parents on low incomes

experience supporting dependent full-time students, and partly on Birrell's research showing that, for children of clerks and tradesmen, university attendance rates drop marginally as income rises above the family income threshold that determines welfare eligibility.⁶⁵

While making something more financially attractive is likely to prompt some behavioural change, I doubt that such a proposal is the best way to spend money on higher education. The declining attendance rates between income groups in Birrell's survey are very small—1% or less—and it is possible that other factors explain them. For governments, policies such as increasing Youth Allowance are very costly compared to the benefits of the changed behaviour they bring about. The reason is that by expanding eligibility for Youth Allowance, people already attending university and supporting themselves by other means become eligible for assistance, as well as those outside the system. So you would end up paying a lot of people to encourage them to do what they are already doing.

There are also lifetime income distribution objections to student welfare. While some students are poor while they are studying, the evidence is that over their lifetimes they earn above average incomes. In the long term, student welfare is a regressive redistribution to the better off, and increasing spending on it would reverse the trend, carried out via the HECS system, of lessening 'middle class welfare'.

The strength of increasing place numbers as a policy for increasing access is that it works at the margins rather than subsidising people who would attend university anyway. A new student place actually makes a difference to access in a way that giving Youth Allowance to somebody already at university does not, even if it makes their life more comfortable. Indeed, Birrell's proposal as it stands, within the context of a system in which demand already exceeds supply, means that even if it does affect behaviour it cannot increase the total number of people at university. It can only redistribute the places that are there already. As the slightly wealthier low SES families are likely to have given their children a better education, with Year 12 results as a rationing device Birrell's proposal may cause the number of young people from very low income families at university to fall.

Conclusion

One of the ironies of the higher education debate is that the interest groups, the AVCC, the NTEU and NUS, present themselves as defenders of equity. They focus on price as the main factor affecting attendance, yet the evidence over time suggests that price sensitivity under an income-contingent loan scheme isn't very high (or indeed under a full fee system, if overseas students are a guide). All the interest groups defend the quota system, even though this is clearly both a direct obstacle to improving access—there are too few places—and an indirect obstacle to low SES students doing courses with good returns or being able to complete their courses. Clearly there is no necessary link between good intentions and policy.

¹ David Kemp, *Higher Education: Report for the 2001 to 2003 Triennium*, DETYA, Canberra, 2001, pp.75-82.

² Figures calculated from http://www.deetya.gov.au/highered/statistics/tables/students2000.htm#3_1

³ This is not to say that universities are not concerned with the others; their plans for access can be seen in *Higher Education Equity Plans for the 1999-2001 Triennium*, DETYA, Canberra, 1999.

⁴ It is available on the Senate website http://www.aph.gov.au/senate/committee/eet_ctte/public%20uni/report/e04app4.pdf

⁵ Michael Lee, '\$100,000 for a Uni Course', Media statement, 13 October 1999.

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- ⁶ See e.g. Submission to the Senate Inquiry into higher education, esp. pp.57-61. Available at http://www.aph.gov.au/senate/committee/eeet_ctte/public%20uni/sub%20list.htm; for the Democrats see <http://www.democrats.org.au/issue/edfees.html>
- ⁷ Bruce Chapman, 'Australian Higher Education Financing: Issues for Reform', *The Australian Economic Review*, vol. 34, no. 2, June 2001, p.195.
- ⁸ D.S. Anderson & A.E. Vervoorn, *Access to Privilege: Patterns of Participation in Australian Post-secondary Education*, ANU Press, Canberra, 1983, p.172.
- ⁹ Australian Department of Education, *Income and Expenditure Patterns of Australian Tertiary Students in 1974*, AGPS, Canberra, 1975, p.9.
- ¹⁰ Department of Employment, Education and Training, *1984 Survey of Full-time Tertiary Student Finances*, AGPS, 1987, p.75.
- ¹¹ ANOP Research, *Young People's Attitudes to Post-compulsory Education and Training*, AGPS, Canberra, 1994, p.117.
- ¹² *ibid*, p. 127.
- ¹³ Bob Birrell, Angelo Calderon, Ian Dobson, T. Fred Smith 2000, 'Equity in Access to Higher Education Revisited', *People and Place*, vol. 8 no.1, 2000, p.55.
- ¹⁴ *ibid*.
- ¹⁵ Ian Dobson, Bob Birrell and Virginia Rapson, 'The Participation of Non-English Speaking Background Persons in Higher Education', *People and Place* 4(1).
- ¹⁶ ANOP Research, *Young People's Attitudes to Post-compulsory Education and Training*, AGPS, Canberra, 1994, p.117.
- ¹⁷ Mark Cully, 'A More or Less Skilled Workforce? Changes in the Occupational Composition of Employment, 1993 to 1999', *Australian Bulletin of Labour* vol. 25 no. 2 (1999), p. 101.
- ¹⁸ Philip Lewis and Ben Mclean, 'The Youth Labour Market in Australia', *CLMR Discussion Paper Series 99/1*, Centre for Labour Market Research, Murdoch University, Perth, 1999, p.18.
- ¹⁹ ANOP Research, *Young People's Attitudes to Post-compulsory Education and Training*, AGPS, Canberra, 1994, p.40.
- ²⁰ Jianke Li, Tom Karmel, Maureen Maclachlan, *Responsiveness: Do Universities Respond to Student Demand?*, DETYA, Canberra, 2001, p.7.
- ²¹ Michael Long and Martin Hayden, *Paying Their Way: A Survey of Australian Undergraduate University Finances, 2000*, Australian Vice-Chancellors' Committee, Canberra, 2001, p.14. The figures reported in this survey, though not directly comparable to those collected by the ABS, are much higher. For example, Long and Hayden find 78.1% of full-time students work; the ABS find 45.2% (ABS, *Australian Social Trends 2001*, Australian Bureau of Statistics, Canberra, 2001, p.113). There are, I think, two explanations for this. The most important is that the ABS survey is based on a reference week, whereas Long and Hayden are over a year. Another reason may be that Long and Hayden's response rate of 41.1% biased their sample toward those in the workforce. I prefer the Long and Hayden data because many students work casually, and may not have worked in the particular week the ABS surveyors called. Some argue that this work is a mixed blessing, since it can distract from study. *Paying Their Way* found that 15.2% of full-time students said their work interfered with their study, and 30.1% of part-time students made the same complaint (p.111). What proportion of these people work out of genuine necessity, rather than to fund their lifestyle aspirations, is less clear.
- ²² Philip Lewis and Paul Koshy, 'Youth Employment, Unemployment and School Participation', *Australian Journal of Education* vol. 43, no.1 (1999), p.49.
- ²³ Agnes Walker et al., *Austudy 1987 to 1997: The effects of Commonwealth income support on educational participation*, NATSEM, Canberra, 2001, p.27.
- ²⁴ *Income Distribution Trends 1982 to 1996-97*, NATSEM, Canberra, 2000. Available <http://www.theaustralian.com.au/extras/where/data/trends.pdf>
- ²⁵ *Higher Education Students Time Series Tables, 2000: Selected Higher Education Statistics*, DETYA, Canberra, 2001, Table 1, with overseas students taken out.
- ²⁶ Les Andrews, *Does HECS Deter? Factors Affecting University Participation By Low SES Groups*, DETYA, Canberra, 1999, p.19.

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- ²⁷ Michael Long, Peter Carpenter and Martin Hayden, *Participation in Education and Training 1980-1994*, Australian Council for Educational Research, Melbourne, 1999, pp.120-121.
- ²⁸ Long et al., *Participation*, p.70. My calculations based on ACER statistics.
- ²⁹ Gary N. Marks, Nicole Fleming, Michael Long and Julie McMillan, *Patterns of Participation in Year 12 and Higher Education: Trends and Issues*, ACER, Melbourne, 2000, p.17.
- ³⁰ Marks et al., *Patterns*, p.56.
- ³¹ See the summary at Jeff Borland, Peter Dawkins, David Johnson and Ross Williams, *Returns to Investment in Higher Education*, Melbourne Institute for Applied Economic and Social Research, Melbourne, 2000, pp.14-16.
- ³²³² Dean Ashenden and Sandra Milligan, *The Australian Good Universities Guide 1996 to Australian Universities*, Reed Reference, Melbourne, 1995, passim; Dean Ashenden and Sandra Milligan, *The Australian Good Universities Guide 2002*, Hobsons Australia, 2001, passim. The prices were adjusted using ABS CPI figures.
- ³³ This figure is unweighted.
- ³⁴ *Higher Education Students Time Series Tables, 2000: Selected Higher Education Statistics*, DETYA, Canberra, 2001, Table 17 and *Students 2001: Selected Higher Education Statistics*, DEST, Canberra, 2002, Table 80.
- ³⁵ Industry Commission, *Submission to the Review of Higher Education Financing and Policy*, Industry Commission, Canberra, 1997, p.101.
- ³⁶ Stephen Lamb, 'The Pathways from School to Further Study and Work for Australian Graduates', Research Report No. 19, Australian Council for Educational Research, Melbourne, 2001, p.21. My percentage calculation based on their data.
- ³⁷ Jonathan Kelley and M.D.R. Evans, 'Geographic Influences on Quality of Employment', available at <http://www.international-survey.org/>
- ³⁸ ABS, *Successful and Unsuccessful Job Search Experience*, Catalogue 6245.0, Australian Bureau of Statistics, Canberra, 1998, p.20.
- ³⁹ Graduate Careers Council of Australia, *Graduate Destination Survey 2000*, GCCA, Melbourne, 2001, pp.24-25.
- ⁴⁰ Australian Bureau of Statistics, *Education and Work May 2001*, Catalogue 6227.0, ABS, Canberra, 2002, p.21 (my calculations on their numbers).
- ⁴¹ Australian Bureau of Statistics, *1989 Labour Statistics Australia*, ABS, Canberra, 1991, p.22; compared to Australian Bureau of Statistics, *Australian Social Trends 2002*, ABS, Canberra, 2002, p.99. I could not locate bachelor degree holders only data from the late 1980s.
- ⁴² Les Andrews and Tiemin Wu, *The Labour Market Experience of Higher Education Graduates over the Last Decade*, DETYA, Canberra, 1998, p.7.
- ⁴³ M.D.R. Evans and Jonathan Kelley, 'Why is Education Rewarded—Necessary Skills or Arbitrary Credentialism?', *Australian Social Monitor*, December 1998, p.38.
- ⁴⁴ GCCA, *Graduate Destination Survey 2000*, pp.48-49.
- ⁴⁵ Graduate Careers Council of Australia, *Graduate Starting Salaries 2000*, GCCA, Melbourne, 2001, p.13.
- ⁴⁶ Evans and Kelley, 'Why is Education Rewarded—Necessary Skills or arbitrary credentialism?', p.39.
- ⁴⁷ Gary Marks, Julie McMillan & Kylie Hillman, *Tertiary Entrance Performance: The Role of Student Background and School Factors*, ACER, Melbourne, 2001, p.26.
- ⁴⁸ Bob Birrell, Virginia Rapson, Ian Dobson, Daniel Edwards and Fred Smith, *From Place to Place: School, location and access to education in Victoria*, Centre for Population and Urban Research, Monash University, 2002, p.34.
- ⁴⁹ Andrews, *Does HECS Deter?*, p.19.
- ⁵⁰ Brian Graetz & Ian McAllister, *Dimensions of Australian Society*, 2nd edition, Macmillan, Melbourne, 1994, p.217.
- ⁵¹ Mark Western, 'Class in Australia in the 1980s and 1990s', in J. Najman & J. Western (eds) *A Sociology of Australian Society*, 3rd edition, Macmillan, Melbourne, 2000, p.77.
- ⁵² Eleanor Ramsay et al., *Higher Education Access and Equity for Low SES School Leavers*, DETYA, Canberra, 1998, p.68.

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- ⁵³ Mark Urban, Emily Jones, Gregg Smith, Christine Evans, Maureen Maclachlan and Tom Karmel, *Completions: Undergraduate Outcomes for 1992 Commencing Students*, DETYA, Canberra, 1999, p.39.
- ⁵⁴ Urban et al., *Completions*, p.31.
- ⁵⁵ Birrell et al., *From Place to Place*, p.25, my calculations on their data.
- ⁵⁶ Craig McInnis, Richard James and Robyn Hartley, *Trends in the First Year Experience*, DETYA, Canberra, 2000, p.15.
- ⁵⁷ McInnis, *Trends*, p.36
- ⁵⁸ McInnis, *Trends*, p.48
- ⁵⁹ Andrews, *Does HECS Deter?*, p.13.
- ⁶⁰ Andrews, *Does HECS Deter?*, p.19.
- ⁶¹ eg, Ian Chubb, 'When to be average is to fail', speech to the National Press Club, 14 March 2001, available at www.avcc.edu.au; 'The truth is out', NTEU press release, 13 October 1999; 'Students say no to deregulation and vouchers, yes to increased public funding', NUS media release, 21 October 1999.
- ⁶² For example, Professor Peter Karmel's proposal 'Funding universities', in Tony Coady (ed) *Why Universities Matter*, Allen & Unwin, Sydney, 2000, esp. pp.171-178.
- ⁶³ http://www.aph.gov.au/senate/committee/eet_ctte/public%20uni/report/e04app4.pdf
- ⁶⁴ It is true that the Medicare provider number system artificially reduces the number of doctors, but there are sufficient numbers of different practices for this to be an operating 'voucher' scheme.
- ⁶⁵ Birrell et al., 'Equity in Access', p.55.

Chapter Seven

The University Market and the Country

The politics of higher education, and therefore of higher education, carry more risk in regional Australia than in the major urban areas. The major universities in metropolitan areas tend to be in safe seats, while outside the cities universities are in crucial marginal seats. James Cook University affects the electorates of Herbert and Leichhardt, and Southern Cross University can influence the outcome in Richmond. The University of New England is in a seat the Coalition lost to an independent in 2001. The University of Ballarat shares part of its name with a seat that has fluctuated between the two major sides of politics since Federation. It is important to be able to answer the educational concerns people in these seats may hold.

Some of the concerns relate to opportunities for young people. There are striking regional differences in university attendance rates. At the time of the August 1996 census, these ranged from 3.5% of 19-21 year-olds in the Kimberley region of Western Australia to 64.2% in Kew, an affluent Melbourne suburb.¹ While substantial differences in attendance rates exist within cities, overall people from rural and regional areas have significantly lower average attendance rates than people from metropolitan areas. The 1996 data puts the difference at about 10%—28.4% average urban attendance, and 18.3% average rural and regional attendance.²

As the Commonwealth assumes that attending university is equally a good thing for all social groups, a deviation from the national average like this one shows that rural and regional people suffer a 'disadvantage'. Consequently, people from rural and regional areas are classified into a Commonwealth 'equity group', and each year the number of students from these areas attending university is recorded in the *Higher Education Report* issued by the Federal Minister,³ and regional universities receive special attention when the Commonwealth allocates additional places.⁴

The politics of university education in regional Australia are more complicated than just student numbers. A variety of positive outcomes, apart from providing places to local students, are linked to having a university in the area—economic competitiveness, skilled workers, culture, better regional governance and health and social well-being.⁵ The desire for local status also drives higher education politics, so that even the name matters—the Sunshine Coast University College split from Queensland University of Technology to become the University of the Sunshine Coast, people from the Gold Coast want the Griffith University campus there to become Gold Coast University, and there is pressure for the University of Newcastle's Ourimbah campus to become the Central Coast University.

All these factors combine to make the prospects of regional universities and regional students an issue in the debate over whether universities should operate in a market. Editorialising on the leaked October 1999 Cabinet submission, which proposed abolishing quotas for all universities, the Brisbane *Courier-Mail* stated that the proposal 'could risk the viability of regional universities'.⁶

While I have not seen a well-developed version of this argument, the logic seems to be as follows: Regional universities are at a disadvantage compared to the larger metropolitan universities, particularly the sandstones, which offer a wider range of courses and have more prestige. The quota system protects the regionals, by limiting the number of student places the bigger—and bigger name—universities can offer. This forces an overflow of students, unable to gain admission to the sandstones, back to the regional universities, thus ensuring their viability. Without quotas, all universities would be free to offer as many places as they liked. The larger and more prestigious universities would take advantage of their size and brand names to attract additional students, including those from regional areas. Without the overflow of students who have previously had to go to them, the viability of some or all regional universities is

threatened. This would have a domino effect on regional centres, which would lose a significant economic and social presence, and on regional students, who would no longer have a local university to attend, even if their options at a far-away campus had increased.

As with other anti-market arguments, such as those in favour of free university education, this has an intuitive plausibility to it. Certainly, *The Courier-Mail* thought it was an obvious enough risk to mention it without seeing a need to argue the point in detail. In this chapter, however, I will show that this argument rests on a series of mistaken assumptions and overlooked factors, and that there is no reason to believe that regional campuses have anything to fear from the fact that they are regional.

Do the sandstone universities want more students?

For a sandstone university concerned with its academic status, bigger is not better. Prestige depends partly on attracting the top school leavers. This is one of the criteria used in the *Good Universities Guide* rating system,⁷ it is a common perception among students themselves, and several sandstone universities make mention on their websites of how difficult it is to gain a place.⁸ Contrary to some common perceptions, as discussed in Chapter Four, entry scores rarely represent 'academic standards'. Rather, the entry score is set by the quality of applicants, with the score achieved by the last person to be admitted being the cut-off.⁹ Because of this, the larger the number of student places the university has to fill, the lower the entry score need for admission is likely to be, as filling places will require taking applicants with lower achievement levels. The result of growth in student numbers is less prestige. Looking at it another way, reducing the number of places on offer will, other things being equal, push up the cut-off mark for entry and increase prestige.

This opens up an alternative possibility to that feared by the regionals. Abolishing the quota system would allow the sandstones to increase their student numbers, but it also allows them to decrease numbers. While none of the sandstone universities state it publicly, I believe it is more likely that without quotas they would reduce their student numbers, or if they did not reduce their total numbers, at least shift some enrolments from undergraduate to postgraduate. Since the sandstone universities see themselves as research institutions they generally prefer research students, who may add to their research profile, to undergraduates who simply take time away from research. Taking fewer undergraduate students will, other things being equal, cause entry scores to rise. This likely shift in enrolment patterns is problematic for other critics of markets (see Chapter Eight), but for the regional universities it is a potential boon. If an overflow of students unable to get into the sandstones go to the regionals, then they are more likely to become larger without quotas than smaller.

Would many more regional students end up at the sandstones?

The desire of sandstone universities to recruit the top school leavers greatly limits the potential scale of student movement from the regions to prestige metropolitan universities. In Victoria, the median Year 12 ENTER score for regional students in 2000 was 67.45, well below the 81.55 recorded in high SES areas of Melbourne, and nowhere near enough for admission into most courses offered by the University of Melbourne or Monash University, their nearest 'sandstone' alternatives.¹⁰ In any case, as we saw in Chapter Four, prestige does not have quite the all-powerful pull that some believe it does, with a 1998 survey of prospective students finding that 46% rated prestige as a strong or very strong influence.¹¹ This is even less of an influence for people in rural or isolated locations, of whom only 32% were strongly influenced by the image of the university. 'Image' is a broader concept than prestige, but presumably encompasses it.¹² The pool of students that are likely to be swayed by prestige factors is then perhaps as few as a third. As some of these would attend a sandstone under the current system, and

most others would be rejected, the scope for further student departures from the regions to urban sandstones is quite small.

The range of courses is more obviously a significant factor in the choice of university than prestige, with 83% saying that wanting to do a particular course is an important or very important factor in choosing a university.¹³ The vast majority of universities, whatever their location, have courses in the popular fields of Business, Science, Arts, Engineering, and Education. Veterinary Science is the only major degree not taught at any university based outside the metropolitan areas. The major courses I have listed, which between them make up 85% of total enrolments, are available at regional universities as well as at the sandstones and other urban locations. For students from rural and regional Australia with highly specialised interests, a big city university may be the only option, but this involves few students, and would make no real difference to the student flows that exist today.

Most importantly for the regionals, they benefit from local monopolies. Amongst school leaver university applicants, 53% rated 'how easy it is to get to the university from home' as a strong or very strong influence.¹⁴ This is the second most important factor for school leavers, after course preference, in deciding where to study. In Chapter Three, I reported on an analysis of applications that similarly showed that course preference tended to be the most important factor in students' minds when deciding on tertiary study. That survey also found that 'the only evidence ... that suggested that some applicants seek to enrol in a particular institution, was not related to the old, high status sandstone universities, but rather to smaller regional institutes.'¹⁵ The most obvious explanation is that the difficulties in moving elsewhere make a nearby regional institution the most practical option for people wanting a campus-based education.

Courses offered and convenience are not the only reasons why a regional student might want to attend a regional university. As we saw in Chapter Three, small university size correlates with relatively good results in the Course Experience Questionnaire (CEQ). Overall, for each 1000 extra students there is an average decline of 2.34% in student approval of the teaching they experienced at their university.¹⁶ It is quite plausible, as I argued in Chapter Three, that size is actually a significant explanation for this finding. In smaller groups, communal bonds are often stronger, perhaps in the case of universities leading to more or better interaction between students and staff, which in turn is important to the learning experience.

It may not be coincidence, though, that the small universities which do well on the CEQ tend to be in regional and rural Australia. Indeed, after you take external students out of total student numbers, all universities in rural areas have student populations below the national median. Social capital, as evidenced by levels of trust between local people and rates of volunteering, is consistently found to be higher in rural areas than it is in metropolitan areas.¹⁷ Perhaps it is not just the size of these universities, but their presence in rural Australia and its relatively communal culture that enables them to create a good learning environment. This is a locational advantage metropolitan campuses cannot easily match, and gives regional students another reason to stay at a regional university.

In a less regulated system, the drift of country students to the cities is likely to be much the same as it is today. Those wanting to enrol in highly specialised courses or with particularly high academic potential will leave. Education Department statistics show that in 1999 the Year 12 scores of those arriving in capital cities for education were typically high—averages of 87.3 in Melbourne, 87.8 in Sydney, and 90.4 in Brisbane—scores above the mean for both the original and host areas.¹⁸ These students have good reasons for leaving, in wanting to do a particular course or preferring to study with their academic peers. The loss of these students to the cities is inevitable, and less regulation is unlikely to dramatically change behaviour either way.

What about city students at regional universities?

While Australian students are much less likely to travel to study than their American counterparts, even city-based students do move. A 1999 study of various regional universities found that some did attract a significant proportion of their student base from the home city in their state. For example, Monash University's Gippsland campus had 26.8% of its students from Melbourne, and Charles Sturt University's Bathurst campus had 25.2% of its students from Sydney.¹⁹ Charles Sturt in particular expresses concern about whether these students would stay if they had options. In its submission to the West review of higher education, conducted during 1997, Charles Sturt argued that 'with a voucher, a student whose home location is, for example, Sydney, will seek to use the voucher in Sydney and thus avoid the significant relocation costs of moving from home to study at Charles Sturt or some other regional university.' Indeed, so prominent is the issue of these costs in Charles Sturt's considerations that they forecast that the introduction of above-quota full fee places from 1998 would draw students away from regional institutions, with the 'major impact' being on their business degree.²⁰

As the higher education pessimists almost invariably do, Charles Sturt got it wrong in their 1997 prediction of enrolment trouble. The business degree at Charles Sturt has boomed since 1997. Commencing students in the field 'business, administration and economics' are up by more than 100%.²¹ In other fields, they now even have full-fee paying Australian undergraduates themselves, and in 2001 managed to enrol more of them than their big city competitor, the University of New South Wales.²² I am not sure what course improvements or marketing changes Charles Sturt might have implemented over those years (though I heard them advertising another course on Melbourne radio in 2001), but it does have one obvious competitive advantage over other universities—its admission scores are relatively low. You need a Year 12 rank in the high eighties to be admitted as a fee-paying student to UNSW or the University of Sydney, but need only achieve a score in the high 60s to go to Charles Sturt.²³

Given government constraints on domestic undergraduate numbers, much of Charles Sturt's growth is probably made up of overseas students. Apart from relatively easy entry, Charles Sturt has the competitive advantage of being relatively cheap, with fees \$2000-\$3000 a year below those charged by the major Sydney universities.²⁴ Regional universities are disadvantaged by the flat price HECS system. Prospective students who qualify for metropolitan universities can attend them at no extra cost. If there were price competition, regional universities could deal themselves back into the market by undercutting their rivals. Under HECS, they cannot do it.

Course diversity

Charles Sturt University (CSU) argues that deregulation endangers the diversity of courses on offer. Their argument here is that deregulation would reduce total student numbers, making economies of scale harder to achieve, and limit the scope of cross-subsidies, so that popular courses prop up less popular courses.²⁵ Presumably, this could lead to a downward spiral, as student losses from closing less popular courses would create further diseconomies of scale for the university as a whole.

As we have already seen, predictions of full-fee paying Australian undergraduates at other universities undermining CSU proved very wrong. Their warnings about loss of course diversity were similarly, and spectacularly, off-track. Rather than there being less course diversity now than before the full-fee paying students, there is considerably more. The number of CSU courses listed in the *Good Universities Guide* increased by about two-thirds between their 1997 and 2002 editions. It is true that the new courses tend to be 'brackets' degrees, such as 'Bachelor of Health Science (Podiatry)' and 'Bachelor of Applied Science (Ecotourism)', or new double degrees.²⁶ But this just shows (again) that the university world need not be dominated by history or the presumed advantages of the sandstone universities. Universities can be entrepreneurial, adapting

to shifting demand and creating new interests. If anything, a more competitive environment will mean greater course diversity, as universities seek to niche market themselves in areas of comparative advantage.

Financial stability

Some universities oppose further introduction of markets into education because, in the words of the University of Newcastle, ‘vouchers would create a “footloose” group of students who moved from institution to institution depending on current popularity, which would undermine the ongoing funding and infrastructure required by many universities, particularly regional universities.’²⁷ A non-regional, but relatively new, university, the University of Western Sydney, echoes this when it says that vouchers create an environment ‘which mitigates against long term strategic planning, particularly in newer universities.’²⁸

It is true that vouchers remove guarantees—indeed, that is partly the point of them. Universities with guarantees are likely to produce the kind of sub-standard student service Australia’s universities too often provide today. Indeed, both universities partly acknowledge the benefits of flexibility in their submissions, Newcastle saying that ‘competition between institutions today is extensive, and if left on its own, the sector as a whole will become a great deal more responsive to its customers’²⁹ and Western Sydney saying they think a financing policy should have ‘an appropriate level of responsiveness to demand and the flexibility to match this responsiveness with changes to load distribution.’³⁰ Perhaps this is because submissions are often written by committees, or because they think a system can be designed that will give them freedom to move while constraining their competitors. As people used to say, whether they were a capitalist or a communist depended on whether they were buying or selling.

Competition *increases* the need for long-term planning. Maintaining student numbers may require offering new courses, as Charles Sturt seems to have done (a benefit of the Government’s full fee-paying undergraduates policy?), or controlling costs so that a price advantage can be maintained. While no university should be complacent, they enjoy less ‘footloose’ environments than many commercial enterprises. As we have seen, universities often enjoy locational advantages, there is greater inconvenience in changing universities than in switching providers of other goods and services (completed subjects don’t always count, especially if there is a change of degree as well; there is social disruption, and so on), and the competition isn’t as tough, because not all universities want more students, whereas almost all commercial enterprises want larger profits. Provided long-term strategic planning focuses on quality courses matching demand, neither fees nor student choice are an obstacle to it.

Another cause for pessimism is that universities sometimes assume that there will be a fixed number of ‘vouchers’, and that therefore competition is a zero-sum game.³¹ In fact this need not be the case. I am proposing, as Dr Kemp did in October 1999 in his rejected Cabinet submission, and as already applies for private schools, that there be no restrictions on numbers. The entrepreneurial possibilities are obvious. As there is already some unmet demand, and as equity groups including rural residents already have relatively low attendance rates, the scope is there to increase student numbers. As the universities have shown with overseas students, they can recruit effectively when they need to.

Because of the scope for growth, and the possibility of higher prices with university-set fees, all universities ought to be able to significantly increase their revenues. Why they prefer the certain poverty of the current system to the uncertain wealth of the alternative is something of a mystery. Is it because they believe that their university is so bad it can’t find a niche in the market without depriving students of choice? If that is their honest self-assessment, we might wonder why we should wait for the market to sort them out. State and federal governments should do it now.

Access for rural and regional students

While regional campuses and course diversity need not be affected negatively by deregulation, what would happen to the already relatively low rate of university participation among young people from these areas? To answer this question, we need to know something about why these figures are low, and whether deregulation would affect them.

The most obvious factor affecting rural and regional university attendance rates is something already dealt with at length in Chapter Six. Rural and regional Australia is not just physically and perhaps culturally distant from metropolitan Australia. It is also, on average, poorer. According to one study of 1996 data, average capital city household incomes were 24% higher than household incomes in rural areas, and 30% higher than household incomes in regional towns.³² Another study, which tried to sort out the various effects on participation rates, estimated that 2.4% of the difference between metropolitan and non-metropolitan rates was due to 'economic resources'.³³

Another influence, which also parallels issues raised in the previous chapter, is the family background of young people in rural and regional areas. Simply by the nature of the kinds of industries found in non-metropolitan areas, parents are less likely themselves to have post-secondary education. We know that parental education levels have a significant (though declining, over time) influence on children's decisions to attend university.³⁴ In 1996, 4.9% of people in rural areas had post-compulsory education, compared to 10.3% in capital cities.³⁵ These differences are estimated to explain 2.2% of the difference between metropolitan and non-metropolitan attendance rates.³⁶

Sheer distance must also have an effect on university attendance rates. At minimum, it adds costs—financial costs such as travel and accommodation, and perhaps psychological costs for young people living a long way from their families and friendship networks. As we have already seen, 'emotional health' is the single most common reason for first year students considering deferral, so it would not be surprising if concerns about such issues deterred others from coming at all.³⁷ Rather counter-intuitively, the influence of physical access is estimated at only 1% of the more than 10% gap between metropolitan and non-metropolitan attendance rates, though there is an 'unexplained difference' of 4.5%.³⁸

The types of jobs available in rural and regional areas may also mean that students make perfectly rational decisions not to attend university. For students planning to take over the running of a family farm, or purchase their own property, or do other forms of rural work, the three or more years it takes to study for a degree may be better spent gaining practical experience, or doing an apprenticeship or practical skills oriented course at a TAFE college. Indeed, enrolment in an apprenticeship or TAFE course is a more common experience for rural youth than it is for people in urban areas.³⁹ To the extent that lower university attendance rates are the statistical consequences of perfectly legitimate career and lifestyle decisions, this is not an 'equity' problem, and fully equalising urban and non-urban attendance rates should not be a public policy objective.

Cost and debt

While interest in further study would not change much in a less regulated system, there is the issue of rising educational costs, and whether this would have an impact. If the overseas student market is a guide, rural and regional campuses are significantly cheaper. For business degrees, all are in the cheapest ten, and are two-thirds or less the price of the most expensive urban university.⁴⁰ We lack differentiated data about rural/urban returns to a degree, or about returns from particular universities, making it impossible to estimate precisely typical returns for these graduates. All we can say is that the high average returns to a degree,⁴¹ and low national unemployment rates for

graduates⁴² make it unlikely that modest increases in prices would make a material difference in attendance rates.

In Les Andrews' discussion of debt aversion, he notes that low socioeconomic groups in rural areas have a below average mortgage application rates, and their debts are relatively low, taking their disposable income into account.⁴³ Unfortunately, he does not analyse whether this is because of their attitudes to debt, or whether inherited properties make mortgages less necessary, and relatively cheap housing makes loans smaller, and therefore less demanding on disposable income. With personal loans, application rates are again below average, but debts are greater as a proportion of personal income (perhaps because of lower mortgage debt?). It is just possible that the below average application rates signal an attitude to debt, perhaps coming from well-publicised stories of banks re-possessing assets of defaulting farmers. It isn't clear, though, whether this attitude would affect the way HECS debt is viewed, because of the income-contingent nature of repayments.

As with low-income people, the best way to test the proposition that debt deters rural and regional young people from going to university is to look at actual behaviour. If debt does have a negative effect, the numbers ought to be dropping. Unfortunately, it is difficult to get accurate trend data. The Australian Council for Educational Research panel study shows unambiguous increases 1980 to 1994 (covering the original HECS scheme)⁴⁴ and then in 1999 (covering differential HECS) a 1% drop for students from the least densely populated areas, and a 10% drop for the second least densely populated areas.⁴⁵ Unfortunately, as I noted in the last chapter, ACER changed their methodology between surveys in a way that understates enrolments, and their 1994 data for urban attendance is implausibly high, coming up with figures significantly higher than those coming from the census.⁴⁶

The census data, as analysed by the Commonwealth Department of Education, is by far the best source. This is because it gets around a problem with the universities' enrolment information. The universities ask students for a term address and a home address, and the latter reveals students living in cities who are from non-urban areas. However, as some people make permanent moves to study, and put the same address for term and home, this measure understates attendance by people who grew up in rural and regional areas, but no longer live in them. Using census data the Department was able to use the question about where the census respondent lived five years previously. If the student was living in a rural or regional area in his or her early to mid teens they are likely to be from the country. Unfortunately, this method has only been used for the 1996 census, so we cannot see a trend.

At some loss of precision, then, we need to fall back on raw enrolment data. The data shows a slow but steady increase in absolute numbers between 1991 and 2001.⁴⁷ This seems to be a good outcome, especially when other sources report a major decline (13%) in the number of people aged 15-29 in rural areas between 1986-87 and 1996,⁴⁸ suggesting that the proportion of rural young going to university was increasing. While every data source is in some way flawed, the absolute numbers and the apparent population decline mean we can be fairly confident that the rising deferred cost of university has not stopped or reversed the increasing likelihood that rural and regional young people will attend university.

Conclusion

As with other fears about the consequences of markets, those surrounding rural and regional Australia are, on close examination, ill-founded. Here I think there is a no extra cost way of dealing with the difficult politics of rural and regional Australia, which seems to be looking for government guarantees. The Commonwealth could guarantee the existing operating grants of rural and regional universities, regardless of the number of students they actually enrol, for a period of say five years. For the reasons outlined above, I believe this would result in zero pay-outs (except perhaps to the University of

New England, which has different problems due to its large number of distance students). But it would give all regional universities secure time in which to adjust, while not artificially restricting student choice.

¹ Sandy Steveson, Chris Evans, Maureen Maclachlan, Tom Karmel & Ross Blakers, *Access: Effect of Campus Proximity and Socioeconomic Status on University Participation Rates in Regions*, DETYA, Canberra, 2000, pp.3, 51, 68.

² Steveson et al., *Access*, p.16.

³ For example, David Kemp, *Higher Education Report for 2001 to 2003 Triennium*, DETYA, Canberra, 2001, p.80.

⁴ For example, David Kemp, 'New University Places Allocated', press release 24 August 2001, http://www.detya.gov.au/ministers/kemp/august01/k200_240801.htm

⁵ Andrew Cumpston, Ross Blakers, Chris Evans, Maureen Maclachlan, Steve Garlick, *Atlas of Higher Education: A Community Focus*, DETYA, Canberra, 2001, pp.5-9.

⁶ 'Plan Threat to Regional Universities', *The Courier-Mail*, 15 October 1999.

⁷ Dean Ashenden and Sandra Milligan, *The Good Universities Guide 2002*, Hobsons Australia, Melbourne, p.39.

⁸ See on UNSW and Melbourne in Chapter Three, Sydney at <http://www.usyd.edu.au/study/advantages.shtml>

⁹ There are various complications to this as there are often some places offered below the advertised entry score, but they do not detract from the general principle. For an explanation, see <http://www.vtac.edu.au/year12/yr12enter.html>

¹⁰ Bob Birrell, Virginia Rapson, Ian Dobson, Daniel Edwards and Fred Smith, *From Place to Place: School, Location and Access to Education in Victoria*, Centre for Population and Urban Research, Monash University, 2002, p.14.

¹¹ Richard James, Gabrielle Baldwin and Craig McInnis, *Which University?: The Factors Influencing the Choices of Prospective Undergraduates*, DETYA, Canberra, 1999, p.25.

¹² James et al., *Which University?*, p.44.

¹³ James et al., *Which University?*, p.25.

¹⁴ James et al., *Which University?*, p.25.

¹⁵ Adrian Harvey-Beavis & Gerald Elsworth, *Individual Demand for Tertiary Education: Interests and Fields of Study*, DETYA, Canberra, 1998, p.78.

¹⁶ GCCA, *1999 Course Experience Questionnaire*, GCCA, Melbourne, 2000, p.26.

¹⁷ For example, Philip Hughes, John Bellamy and Alan Black, 'Building Social Trust Through Education', in Ian Winter (ed), *Social Capital and Public Policy in Australia*, Australian Institute of Family Studies, Melbourne, 2000, pp.227-229; ABS, *Voluntary Work, Australia*, Catalogue 4441.0, Australian Bureau of Statistics, 2001, pp. 1-2; Jenny Onyx and Rosemary Leonard, 'Social Capital: The Relative Use of Strong and Loose Network Ties', Working Paper No.49, Centre for Australian Community Organisations and Management, UTS, Sydney, 2001, p.8.

¹⁸ Department of Education, Science and Training, *Atlas of Higher Education*, available at <http://www.deetya.gov.au/uniatlas/sd/nsw/default.htm>

¹⁹ Steve Garlick, *Engaging Students and Regions: Knowledge Contribution to Regional Economic Development in Australia*, DETYA, Canberra, 2000, p.54.

²⁰ Charles Sturt University, *Submission to the Review of Higher Education Financing and Policy*, <http://www.detya.gov.au/archive/highered/hereview/submissions/submissions/C/CharlesSturtUni.html>, 1997, Part 2, pp. 8, 9.

²¹ 1767 in 1997, 3809 in 2000. Source: *Students: Selected Higher Education Statistics*, DETYA, Canberra, relevant years. A changed classification system was introduced for 2001, but the trend appears to continue, with 4,392 enrolments in Management and Commerce: *Students 2001: Selected Higher Education Statistics*, DEST, Table 11.

²² *Students 2001: Selected Higher Education Statistics*, DEST, Table 72.

²³ Figures from the relevant tables in Ashenden and Milligan, *Good Universities Guide 2002*.

²⁴ Figures from the relevant tables in Ashenden and Milligan, *Good Universities Guide 2002*.

²⁵ Charles Sturt, *Submission*, Part 2, pp.8-9.

²⁶ Dean Ashenden and Sandra Milligan, *The Good Universities Guide to Australian Universities*, Ashenden Milligan, 1996, pp.180-182; Ashenden and Milligan, *Good Universities Guide 2002*, pp. 85-88.

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- ²⁷ University of Newcastle, *Review of Higher Education Financing and Policy: Submission*, <http://www.detya.gov.au/archive/highered/hereview/submissions/submissions/U/UniNewcastle.htm>, p.13.
- ²⁸ The University of Western Sydney, *Submission to the Review of Higher Education Financing and Policy*, <http://www.detya.gov.au/archive/highered/hereview/submissions/submissions/U/UniWestSyd.html>, p.8.
- ²⁹ University of Newcastle, *Review*, p.7.
- ³⁰ University of Western Sydney, *Submission*, p.8.
- ³¹ For example, the University of Western Sydney's worries about how mature age students would be factored in, *Submission*, p.8.
- ³² Rachel Lloyd, Ann Harding and Otto Hellwig, *Regional Divide? A Study of Incomes in Regional Australia*, NATSEM, Canberra, 2000, p.5.
- ³³ Steveson et al., *Access*, p.16.
- ³⁴ Gary N. Marks, Nicole Fleming, Michael Long & Julie McMillan, *Patterns of Participation in Year 12 and Higher Education in Australia: Trends and Issues*, Research Report No.17, Australian Council for Educational Research, Melbourne, 2000, p.30.
- ³⁵ Lloyd et al, *Regional Divide?*, p. 21.
- ³⁶ Steveson et al., *Access*, p.16.
- ³⁷ Craig McInnis, Richard James, Robyn Hartley, *Trends in the First Year Experience in Australian Universities*, DETYA, Canberra, 2000, p.17.
- ³⁸ Steveson et al., *Access*, p.16.
- ³⁹ Michael Long et al., *Participation in Education and Training 1980-1994*, Australian Council for Educational Research, Melbourne, 1999, p.87.
- ⁴⁰ Data extracted from the relevant pages of Ashenden and Milligan, *The Good Universities Guide to Australian Universities 1996*; Ashenden and Milligan, *Good Universities Guide 2002*.
- ⁴¹ eg Jeff Borland, Peter Dawkins, David Johnson, & Ross Williams, *Returns to Investment in Higher Education*, Melbourne Institute for Applied Economic and Social Research, 2000.
- ⁴² ABS, *Transition from Education to Work 2000*, Catalogue 6227.0, Australian Bureau of Statistics, 2000, p.18.
- ⁴³ Les Andrews, *Does HECS Deter? Factors Affecting Participation by Low SES Groups*, DETYA, Canberra, 1999, pp. 15-16.
- ⁴⁴ Long, *Participation in Education and Training*, p.87.
- ⁴⁵ Marks et al., *Patterns of Participation*, p.23.
- ⁴⁶ Steveson et al., *Access*, p.16.
- ⁴⁷ DEST, *Students 2001*, Table 98.
- ⁴⁸ Agnes Walker, Peter Johnson, and Kwabena Osei, *Austudy 1987 to 1997: The Effect of Commonwealth Income Support on Educational Participation*, NATSEM, Canberra, 2001, p.20. However, I cannot verify that this data uses the same definitions as the universities, and there are added problems with areas changing their status over time.

Chapter Eight

The Equality Project

Through the preceding chapters I've argued, on empirical grounds, that fears about greater use of markets in higher education are unwarranted. There is, however, a group of anti-market writers and activists who could accept every point I've made—that human capital production will improve, that the Arts and Sciences would be better off, that access will increase, and the regions and their residents can benefit—and still not want to deregulate. This is because all these considerations are secondary to higher education's contribution to the broader political project they support—the creation of an equal society. They believe that less regulation will lead to more inequality, and it is therefore something to be fought. As I will explain below, while their fears of American-style educational inequalities are probably unfounded, some increase in inequality of prestige, quality and graduate outcomes is likely. My main objection to their argument, therefore, is not that there will be no trend toward inequality. Rather, I argue that equality project should not over-ride all the other goals we have for higher education.

An equal society

The most prolific academic writer on Australian higher education is Professor Simon Marginson, now of Monash University. Marginson has a long history of left-wing activity. He was involved in the left-wing world of University of Melbourne student politics in the early to mid-1970s.¹ He has been a research officer for the infamous Australian Union of Students, the Australian Teachers' Federation, and the Federated Australian University Staff Association, the latter a predecessor to the current National Tertiary Education Union (NTEU), the leading institutional opponent of higher education reform. In *Who's Who* he lists as one of his recreations 'social change'.² Unsurprisingly, then, he is also an advocate of what he calls the 'equality project'.³

According to Marginson, the equality project is 'central to public education'. This project goes further than the major political parties' goal of broadening university attendance beyond its middle class base. In Marginson's words, 'access is only the beginning of an equality policy'.⁴ The goal of an equality policy is to 'achieve equivalence of social outcomes despite social origins'.⁵ Marginson recognises that so far this has proved to be 'unrealistic', and is aware of the homogenising tendencies of equality if based on a 'single universal comparison', allowing for recognising rights of groups that are not 'Anglo-Australian, not middle class, and not male-dominated'.⁶ This does not qualify his commitment to equality; it simply extends the number of dimensions to which it applies.

Similar views are expressed in the National Union of Students' submission to the West review of higher education. This submission was written by Simon Kent, who later moved from the student union to the staff union, the NTEU, in a move paralleling Marginson's. According to the NUS document, 'NUS's vision of the higher education system stems from the recognition and rejection of the massive inequalities within society'.⁷ Further, 'if the creation of a more equitable society is not the explicit aim and substantial effort is not made to bring this about, the education system inevitably serves to replicate social and economic advantage and disadvantage'.⁸ As with Marginson, educational or economic objectives are not irrelevant to what NUS is trying to achieve. The contrast with mainstream views of higher education is that they are to be pursued only to the extent that they are consistent with making society more equal.

The market and the 'equality project'

Both Marginson and NUS believe that even the centrally controlled education system we have now replicates social and economic inequalities, though they also believe it has mitigated them somewhat. Marginson, for instance, argues that free education increased the number of low-income people at university.⁹ As I argued in Chapter Six, price is only one factor affecting their university attendance but, in the absence of a loans scheme in the 1970s, no charge university study almost certainly increased the absolute numbers of students with parents not in professional or managerial jobs. NUS argues that former Education Minister John Dawkins' flattening of the higher education hierarchies, through making Colleges of Advanced Education into universities and equalising funding, successfully made higher education status hierarchies 'relatively small'.¹⁰ Indeed, as I've argued in earlier chapters, some newer universities do, compared to the 'sandstone' universities, achieve good results across a range of indicators.

Supporters of the equality project believe a market system, by contrast, would increase inequalities. Marginson's argument on this is set out in most detail in his book *Markets in Education*. Marginson believes a market-driven education system would encourage the pursuit of 'positional goods'. Positional goods are goods that derive their value, in part, from the fact that they are limited in number; possessing them therefore confers relative status. They contrast with standard goods, the value of which is unaffected by how many people possess them, and network goods, that increase in value as more people possess them (such as telephones or Internet accounts). According to Marginson, 'positional goods in education are places . . . which provide students with relative advantage in the competition for jobs, income, social standing and prestige'.¹¹ These include places at the top private schools and at the 'sandstone' universities.

Marginson is right that there are positional goods in higher education (though in Chapter Four I disagree with him over their effect on market competition). The *Good Universities Guide* books give universities a one-to-five star prestige ranking, which reflects common perceptions of relative standing. One survey of

university applicants found a very large minority, nearly half, rated prestige as 'strong influence' on their choice.¹² The prestige of these institutions is to some extent driven by their high entry scores. The median entry score for an institution like the University of Melbourne, means it is mostly made up of those in the top 10% of school leavers.¹³ This in turn means that it and similar universities are disproportionately populated by graduates of the more prestigious private schools and the non-Catholic independent schools, which do very well in achieving university entry for their students. For example, in Victoria in 1998 these schools enrolled 12% of Year 12 students, but 21.7% of first-year university students the following year. Forty per cent of their students were in the top 10% of the state.¹⁴

We lack good data on how well this academic prestige translates into post-university success, but it is reasonable to suppose that at least some do very well. One method, though it is no more than suggestive, is to consult *Who's Who 2002*, a guide to prominent people in Australia. Given the large numbers of entries in *Who's Who*, I looked at only those whose surnames began with 'A' 'B' or 'C', and those who were born in 1950 or later, to capture the period in which some of the newer universities were established. Of the 371 people whose entries provided enough information on date of birth and education, 215 studied at universities that are now members of the peak body of research-intensive universities, the Group of Eight, 65 attended other Australian universities, 34 went to overseas universities, and 4 went to an unspecified university. Another 57 had not attended university.¹⁵ There were few graduates of 'Dawkins' universities in this sample, but given that former students of these institutions are less than a decade into their post-university careers this should not be surprising. Whether this pattern will persist as these people move through their careers remains to be seen. What we can say is that graduates of the more prestigious universities are disproportionately represented in the *Who's Who* elites, given that those graduates constitute only a very small percentage of the total population.

For those wanting educational positional goods, the incentive is to maximise their value by reducing their number. In Marginson's words, 'institutions with a high positional value have a strong incentive *not* to expand their student numbers, to remain homogenous, exclusive and valuable.'¹⁶ No Australian university has in fact pursued this prestige-maximising strategy; most are significantly larger than they were a decade ago. But in a less regulated environment, as I suggested in Chapter Three, this trend may reverse itself. Government regulation effectively forces universities to take minimum numbers of students, and government restrictions on charging domestic undergraduates fees require enrolling more fee-paying students in other categories than might ideally be the case. Without this policy environment, universities may ease pressure on themselves by taking fewer students, but charging those who do enrol more. There are sound educational reasons for taking fewer students, but the effect, intended or not, will be to increase competition, positional or otherwise, for the remaining places.

This process is detrimental to the 'equality project'. Marginson believes that 'here the outcome of market reform is to preserve and strengthen the segmented advantages already enjoyed by elite institutions and social interests'.¹⁷ Equality of competition leads to 'inequalities of outcome by social group'. In Marginson's view, students from middle class and professional families are favoured 'above all',¹⁸ and 'market competition 'strengthens the privileges of the leading families'.¹⁹ While the children of middle class professionals are never the only students to make it, Marginson believes that 'all but a small minority comprised of the "most able" in each cohort are whittled away by the process of educational selection'.²⁰

NUS expresses similar concerns. They say that a 'real fear' exists that Australia's higher education system will come to resemble the American system. High quality education may only be for the rich and 'exceptionally high achieving poor'. They say that the 'proportion of Americans who are able to gain access to elite institutions which offer significant competitive advantage in the labour market is insignificant in relation to those in post-compulsory education. In essence the US system is one in which wealth is the major determinant of not only access to education, but also the quality of education'.²¹

As it happens, wealth is not directly the major determinant for admission to many of the top American colleges and universities, which are sufficiently wealthy to offer 'needs blind' admission, or to make many scholarships available. Nevertheless, as there is a strong correlation between socioeconomic status and performance on admission tests, these universities and colleges are dominated by students from relatively well-off families. The American 'College and Beyond' survey is a longitudinal study of the graduates of a number of highly selective American colleges and universities, including Princeton, Stanford, Yale and twenty-five other institutions. For their 1976 cohort, only 8% were from low-income backgrounds, compared to 28% of American college students overall.²² Attendance at these colleges does translate into significantly higher earnings for graduates generally.²³ Attempts to adjust for the fact that students at these institutions are brighter than average, by comparing them only with those that get the highest marks at the other colleges and universities, do not eliminate the earnings premium from attending one of these top colleges.²⁴

For all this emphasis on the power of current privilege, for those who support the equality project, it is not clear that it would matter much to their overall argument if the top universities were entirely made up of people from underprivileged backgrounds. As NUS points out, the number of people attending the elite American colleges and universities isn't large. If they are as successful in producing 'competitive advantage' as the College and Beyond survey suggests they are, then they will be, from NUS's point of view, 'instrumental in the appalling maldistribution of wealth and resources within American society'.²⁵ If it is 'maldistribution' you are worried about, where you started isn't that important. It is where you end up that is critical.

How unequal could Australian higher education become?

I doubt that Australian higher education is ever likely to produce disparities of performance or prestige as large as those that exist in the United States. This is due partly to history. None of our Group of Eight universities research-intensive universities, the most obvious candidates for becoming inequality's high end, currently has anywhere near the status of the American Ivy League. When accepting the *Good Universities Guide* University of the Year Award 2001 the Vice-Chancellor of the University of Melbourne, Professor Alan Gilbert, commented that 'there is no Australian university in the top 100 in the world'.²⁶ Since the prestige of universities is substantially due to historical achievement, that is not a situation that can be remedied in any short period of time, even with ideal policy conditions and excellent management.

There are other factors limiting the potential relative rise of the Group of Eight. All of them are also public universities, which would restrain their move to elite status by restricting moves to increase their positional value. Already, the legislated objectives of the top New South Wales universities have vague references to serving the 'needs of the community'. It is highly unlikely that State governments, under whose enactments all Group of Eight universities except the Australian National University exist, would let them radically reduce their size, or charge fees that were deemed to be too high for the people who might historically have aspired to enter them. Yet, for most of them, even reducing their size by half would still leave them with undergraduate enrolments that are much larger than the American Ivy League universities. This means that the public universities cannot aspire to the exclusivity of the Ivy League. They will have many more students out of a much smaller population base, greatly reducing their positional value.

The Group of Eight face other difficulties. Their strategy will, presumably, be to convince prospective students with talent and high labour market commitment that it is worth investing heavily in their degree, since this will pay off in higher earnings. I think this investment will be the principal dynamic, along with competition-driven innovation, in increasing higher education inequality. American research suggests that this helps explain increasing income inequality in that country.²⁷ Australian studies also show returns to high cognitive skill are an important factor explaining growing inequality of market income within occupational groups.²⁸ While there will be students wanting these outcomes, it is not a foregone conclusion that Group of Eight universities are the ones to provide them.

While the sandstones do have a strong showing in *Who's Who*, they have no evidence, nothing like the College and Beyond survey, to prove that their more typical graduates do especially well in the labour market compared to graduates from other universities. Looking at the starting salaries data collected by the Graduate Careers Council of Australia, what is more noticeable is not the difference between the Group of Eight and the others, but the differences between states and fields of study, suggesting that the major explanation for varying starting salaries is local labour markets and occupation rather than institutional background.²⁹ As the GCCA survey is done four months out, perhaps the differences increase over time, but even if they do the sandstone universities still have to convince people that this is their own value-adding, and does not just reflect the greater innate abilities of their former students.

That proposition might be a hard sell. As I detailed in Chapter Four, Group of Eight universities generally do poorly in the Course Experience Questionnaire, the survey sent to all completing students, compared to other universities. I believe this is partly due to an inherent tension between research and teaching. While there are some benefits in research informing teaching, it is also plausible that academics with strong research skills don't necessarily have strong teaching skills, and even if they do there is only limited time in the working week, so pursuing two goals may make one (or both) suffer. The US shares Australia's experience of good research and good teaching not being found together. In a survey of 212 American higher education institutions, among those rated in the top 10% for research not one is even average in its 'student orientation', defined in terms that include academics' interest in students' academic and personal problems and opportunities for student-faculty interaction. Even relaxing 'strong' to being in the top 35% for student orientation and research, only eight of the 212 made it.³⁰ If my theory about the relationship between research and teaching is right, not only are Group of Eight universities starting behind the others, but there are also structural reasons why they will have difficulty improving more quickly.

All Australian universities will also face some student price resistance because high marginal tax rates reduce the financial returns graduates can earn. The maximum marginal tax rate, 48.5% with the Medicare levy, is payable on income of just A\$60,000 or above, so any reasonably good graduate will be paying that top rate. In the United States, by contrast, the top federal tax rate is under 40%, and does not start until around US\$300,000, though there are also state and social security taxes.³¹ Taxation levels affect how much it is worth investing before returns become uneconomic. Given the inability of even governments with low tax ideologies to reduce government expenditure, and the long-term consistency in the progressiveness of Australian taxes,³² there is no good reason for prospective students to believe that these taxes will be substantially lower in the future.

For historical, political, structural and taxation reasons, then, I do not believe that we will get US-style disparities in the performance of Australia's higher education institutions. However, I agree with supporters of the equality project that some increase in inequality is likely. Within higher education there are many things that could be done to improve student ability, including more staff training, universal tuition in generic skills, better facilities, smaller classes and more student-staff interaction. Varying levels of investment in these and other improvements is likely to generate a greater dispersal in labour market pay-offs than we see now, and lead to greater market income inequality amongst graduates.

Alongside this increase in inequality amongst graduates, there is likely to be more market income inequality between graduates and non-graduates, reflecting a wider disparity in skill levels. This seems to be the US experience, where the 'college premium', the extra wage received by college graduates over that of high school graduates with equivalent years experience, has increased considerably since 1980.³³ There isn't corresponding data for Australia, but with no obvious mechanism to lift significantly the wages of low-income workers (such as current or forecast labour market shortages), high returns to graduates must increase wage income inequality overall. However, as already indicated, Australia has high marginal tax rates, which combined with income redistribution substantially reduce income inequality overall. A commonly used measure of income inequality is the Gini co-efficient. A co-efficient of '0' means that income is evenly distributed, and a co-efficient of '1' means that one income unit has all the income. In Australia over the last decade the wage and salary Gini co-efficient went from .224 to .275 and the market income co-efficient went from .543 to .572. However the 'equivalent disposable income' Gini co-efficient, after adjusting for tax, redistribution and family size, rose to a much smaller degree, from .330 to .346.³⁴ Greater market income inequality, as may be caused by a less regulated university sector, will translate into smaller levels of income inequality overall.

The effects of income inequality

An enormous amount is written on inequality, but not much of it, especially not in the Australian higher education literature, explains with empirical evidence why it is bad. Sometimes 'inequality' is a proxy term used when poverty is really meant, and there is no doubt absolute poverty is linked to wide range of adverse experiences and outcomes. But the equality project isn't just about poverty reduction, or even within the educational sphere greater access to university, which almost everyone supports (indeed, only the 1999 Kemp proposal and my proposal here support open access; as I argue in Chapter Six some on the left at least implicitly oppose it). The equality project is, as Simon Marginson says, about 'equivalence of social outcomes despite social origins'. On this view of equality, even poor people becoming wealthier is a bad thing, if richer people are getting wealthier at a faster rate, because this increases inequality. As we saw earlier, the left has some sympathy for the current system, not because it has produced quality, but because it hasn't—by crippling universities' capacity to improve themselves, and taking away the incentives to do so, it has substantially narrowed the range of student outcomes.

My view is that the social benefits of this approach are far too small to possibly warrant the economic and educational costs of the current university system, as described in the previous chapters of this book. Research into income inequality suggests that it is less important in itself (as opposed to being a proxy for other conditions) for people's lives than the radical left believes. The international research on subjective well-being, for example, finds the difference between the richest and poorest groups on average differs by about one point on a one-to-ten-point life satisfaction scale.³⁵ Australian research going back twenty years confirms that we are no exception to this general finding. The Victorian Quality of Life Panel Study, conducted from the early to late 1980s, found that 'higher status people report only slightly greater life satisfaction and somewhat greater positive effect than lower status people.'³⁶ The Australian Standard of Living Survey, carried out in 1987, found that while poorer Australians were considerably less likely to be 'very happy' than wealthier groups, nevertheless under 20% reported themselves to be 'not too happy' or 'not at all happy'.³⁷ The 1989-80 National Health Survey found less than 10% of the poorest groups to be 'unhappy'.³⁸ A survey conducted in late 2001 as part of the on-going Australian Unity Well-being Index, which includes a wide range of components including relationships, community connection, health, achievements and material standard of living, found only six well-being percentage points between those earning less than \$15,000 a year and those earning more than \$90,000 a year—71.7% against 77.7%.³⁹ The questions vary between the surveys, but the similar patterns of results support the general view that, beyond a basic minimum income, overall satisfaction with life does not differ enormously with income. The reason for this is not very surprising—money isn't everything, and the things that do matter to life satisfaction and happiness, such as social relationships, leisure, work and health are much more evenly distributed than income.⁴⁰

While these major components of happiness are less unequal than income, there is still inequality in them, which helps explain why poor people experience lower total well-being. For example, the health of poor people is clearly considerably worse than that experienced by the more affluent.⁴¹ Unemployment and poverty are strongly linked, but unemployment creates unhappiness even when income is statistically controlled for.⁴² Those saying they are finding it 'very difficult' to get by financially have fewer social ties than other people.⁴³ There is some dispute about whether these shortcomings are *caused* by inequality as well as being *evidence* of it. It has been argued, for example, that even though there are obvious lifestyle reasons for low-income people experiencing bad health, such as obesity and smoking, inequality in itself causes illness-creating stresses.⁴⁴ Even, however, assuming that inequality is a partial causal factor, creating more equality isn't going to greatly change average well-being, since the differences between rich and poor aren't great to begin with and objective factors, and not subjective perceptions of social status, must explain part of the differences that remain.

There is also disagreement about whether inequality is associated with lower average well-being in a society as a whole. One theory suggests that not only would poor people be less satisfied with their lives, but their consequential anti-social behaviour, such as begging and crime, would make life worse for everyone else as well. Some studies hypothesise that there might be a link,⁴⁵ while others do not find evidence for it.⁴⁶

The difficulty with these results, which come from international surveys, is that many very unequal societies are also very poor, so they are likely to be measuring the effects of absolute poverty as much as inequality. In Australia, moderately rising inequality has occurred at a time when crime has increased considerably.⁴⁷ In America, however, inequality has increased but crime has gone down. Given the wide range of factors associated with increased criminality,⁴⁸ inequality itself is unlikely to be directly significant.

Overall, it is far from clear that reducing income inequality in itself would greatly improve average well-being, if at all. We are likely to gain much more from focusing on the particular problems of low-income Australians than inhibiting talented and hard-working Australians by constraining universities. To the extent that improving the lives of low-income Australians involves tax expenditure, or switching subsidies from well-off to poor people (such as reducing government spending on universities and increasing it on programmes that benefit the disadvantaged), then this will have the practical effect of reducing income inequality. But this will be an incidental effect, not the goal, of policy change.

Invidious ranking?

At the macro level, I doubt that slightly higher income inequality arising from a more efficiently operating higher education system would cause any net loss in well-being. However, changing the system may have micro effects on the behaviour of individuals responding to the additional opportunities available in a less regulated system. Simon Marginson's comments on the schools system below, finishing with a quotation from Marx, give the flavour of this critique:

By setting students against each other from an early age, so rank in itself served as reward or punishment—within a system in which to question the rules was to fall from grace—educational competition helped shape the forms of individuality itself. The ever present fear of failure drove the search for security. Unequal educational outcomes, ground out continually by the remorseless process of testing and ranking, goaded people into envy and malice, so that competition was endemic and for most people co-operation was provisional, precarious and dispensable. 'Instead of general affirmation, this war of all against all produces a general negation.'⁴⁹

Karl Marx (1818-83) may not be a great authority on the 20th century Australian schools system, but Marginson's words reflect the radical left view that status differentials are invidious. Deregulating higher education could, from this leftist point of view, exacerbate the effects of ranking. As there is likely to be some (though as I argue above, only some) reduction in the size of top universities there will be stronger competition amongst school leavers for those positions, though of course any ambitious Year 12 student already works very hard.

Whether this competition matters much isn't nearly as clear as Marginson's comment suggests. He provides no empirical evidence that competition has the claimed negative effects, except a 1987 comment from Sydney Grammar's then headmaster about the nature of that school. Even though the headmaster sees his students as very competitive, there is nothing about them being consumed by 'envy and malice'. Indeed, it is seems improbable that this reflects widespread reality. While social comparisons do influence the way people see themselves, 'inferiority' (according to Marginson's prestige-driven way of looking at the world) doesn't necessarily have negative effects. A part explanation is reality-denial (or ignorance of reality). Rating oneself as above average is a common human trait.⁵⁰ One survey of American college students found that, contrary to mathematical possibility, 71% of students reported achieving above average academic grades.⁵¹ Error is less likely when the comparison is with a specific individual, but even then negative effects are not inevitable. In another study of college students, researchers investigated whether the relative standing of a student's roommate made a difference to satisfaction. It didn't. Satisfaction varied with objective performance, not relative performance.⁵² Comparison with others can also be positive, if it provides a sense of what is possible.⁵³ Indeed, one study of high school students found that high school students, when compared academically with those who were doing well, did do better, after controlling for their earlier grades.⁵⁴

I suspect Marginson misreads the culture of academically successful institutions, focusing only on their competitive nature. In one American study, the strongest correlates of academic success were the work ethic and mastery, defined as 'preference for challenging tasks, a drive toward internal standards of excellence'; competitiveness ('the desire to best others') showed no relationship to success on its own, and a modest one if combined with the other two features.⁵⁵ It is the former two characteristics that matter, and they are surely the main attributes fostered by 'competitive' institutions. A survey of Australian first year students provides more evidence contrary to Marginson's view. The students in a field of study with highly competitive entry requirements, Law, were found to be more than half as likely again to collaborate with their fellow students than those from the relatively uncompetitive entry courses of Arts and Science.⁵⁶ It is quite possible to try hard to be successful, while still being willing to work with others. 'Envy and malice' need not come into it.

Arguably, those in 'lesser' institutions may feel the difference more than students do within any one institution. They are marked as not having done so well in Year 12, and place of enrolment is more socially obvious than actual marks during a degree. Even here, though, there is cause for skepticism about how much of a difference this makes. One reason for doubt can be found within left-wing thought itself. 'Relative deprivation theory' seeks to explain why people in Western societies feel poor even if they are very wealthy

by Third World standards. The answer is that people in Third World countries are not their 'reference group'. They compare themselves to people around them, not those in far away nations.⁵⁷ As we saw in Chapter Six, there is a relationship between Year 12 performance and socioeconomic status, which means that lower prestige universities have disproportionate numbers of people from low SES groups. Their reference group is not those at high prestige universities, but their friends who did not go to university at all. 'Downward comparison theory', the idea that we preserve our self-esteem by comparing ourselves with people who are worse off,⁵⁸ also supports the idea that people at less prestigious institutions pick non-university students if they are looking for a point of comparison. Low income people are also the least likely to say that prestige matters, 38% saying it is a strong influence on their choice of university, compared to 50% from higher income groups. How easy it is to get to university, an objective and practical consideration, rates much more highly with 59% saying it is a strong influence.⁵⁹

The overall effect of differences in educational status is minimised by the fact that education is not a very important part of overall life satisfaction. Most analyses of life satisfaction don't even include it among the relevant domains, but one that did put it at eighth of eight domains.⁶⁰ In an Australian survey of 'signs of success' a university degree was on the list, with 27% seeing it as a sign of success, but it was well below being in control of one's life, having a good marriage, raising happy children (all above 80%) and enjoying work and owning a home (above 70%).⁶¹

Marginson's critique of competition is based on what someone who already believes in the 'equality project' would assume to be the consequences of competition, not what evidence from social psychology suggests would actually happen. Some individuals may be consumed by envy and malice, and find co-operation 'dispensable', but this tells us more about them than institutional arrangements. As with the effects of income inequality, there is little evidence that inequality in academic status has any significant effect on well-being.

The price of the equality project

Overall, the equality project will remain, as Marginson recognises, 'unrealistic'. Public opinion does not back so radical a political vision. Australians tell pollsters they are happy for some occupations to receive pay several times greater than the earnings of ordinary workers,⁶² and as Chapter 10 makes clear there isn't support for the taxation needed to substantially reduce income inequality. The price of the equality project, therefore, is not likely to be any further use of higher education policy to level out social differences, though some can be imagined. In the 1980s, for instance, student leftists used to propose university entry by lottery to destroy the advantage given by middle class backgrounds and private school education. While not specifically suggesting lotteries for admission, they are at least consistent with Marginson's view that 'the best contribution education policy can make to equality of educational outcomes for all social groups is to weaken the selection function, rather than focusing *all* efforts on trying to make selection fair: to "square the circle".⁶³ At the moment, though, no such proposals are seriously on the political agenda.

¹ John Poynter and Carolyn Rasmussen, *A Place Apart: The University of Melbourne, Decades of Challenge*, Melbourne University Press, Melbourne, 1996, p.412. Not everyone involved at that time has pursued Marginson's path. Imre Salusinszky went on to satirise what he called 'Wetworld' in the pages of *The Sydney Morning Herald*. Stephen Mills became an adviser to Bob Hawke, and is now National Manager of Corporate Relations and Corporate Marketing at the Australian Stock Exchange.

² Margaret Herd, *Who's Who in Australia 2002*, Crown Content, Melbourne, 2001, p.1259.

³ Simon Marginson, *Education and Public Policy in Australia*, Cambridge University Press, 1993, p.242.

⁴ Marginson, *Education and Public Policy*, p.243.

⁵ Marginson, *Education and Public Policy*, p.242.

⁶ Marginson, *Education and Public Policy*, p.245.

⁷ Simon Kent, *National Union of Students submission to the West Review of Higher Education Financing and Policy*, June 1997, <http://www.detya.gov.au/archive/highered/hereview/submissions/submissions/N/nus.htm>

⁸ Kent, *NUS Submission*, p.3.

⁹ Marginson, *Education and Public Policy*, p.242.

¹⁰ Kent, *NUS Submission*, p.6.

¹¹ Simon Marginson, *Markets in Education*, Allen & Unwin, Sydney, 1997, p.38.

¹² Richard James et al., *Which University?: The Factors Influencing the Choices of Prospective Undergraduates*, DETYA, Canberra, 1999, p.42.

¹³ *The University of Melbourne Strategic Plan Perspective 2001*, p.24.

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- ¹⁴ Year 12 numbers: ABS, *Schools 1998*, Catalogue 4221.0, Australian Bureau of Statistics, Canberra, 1999, p.17. University entry data: Bob Birrell et al., 'Equity in Access to Higher Education Revisited', *People and Place*, vol. 8. no. 2, (2000), p.59.
- ¹⁵ Herd, *Who's Who in Australia 2002*.
- ¹⁶ Marginson, *Markets in Education*, p.45.
- ¹⁷ Marginson, *Markets in Education*, p. 46.
- ¹⁸ Marginson, *Markets in Education*, p. 138.
- ¹⁹ Marginson, *Markets in Education*, p. 279.
- ²⁰ Marginson, *Education and Public Policy*, p. 236.
- ²¹ Kent, *NUS Submission*, p.9.
- ²² William G. Bowen and Derek Bok, *The Shape of the River: Long-term Consequences of Considering Race in College and University Admissions*, Princeton University Press, Princeton, 1998, p.341.
- ²³ Bowen and Bok, *The Shape of the River*, p.124.
- ²⁴ Bowen and Bok, *The Shape of the River*, p.127.
- ²⁵ Kent, *NUS Submission*, p.9.
- ²⁶ Quoted in Gerard Noonan, 'Can Do Better: University of the Year Won't Rest on Laurels', *The Sydney Morning Herald*, 31 August 2001, p.9.
- ²⁷ Catherine M. Hoxby and Bridget Terry, 'Explaining Rising Income and Wage Inequality Among the College Educated', National Bureau of Economic Research Working Paper No. W6873, January 1999.
- ²⁸ Nick Pappas, 'Earnings Inequality and Skill', in J. Borland, B. Gregory and P. Sheehan, *Work Rich, Work Poor: Inequality and Economic Change in Australia*, Centre for Strategic Economic Studies, Melbourne, 2001, p.207.
- ²⁹ The state data can be found at <http://www.gradlink.edu.au/gradsonline/>. Individual institution data can be found in Dean Ashenden and Sandra Milligan, *The Good Universities Guide 2002*, Hobsons Australia, Melbourne, 2001, passim.
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- ³³ Peter Gottschalk, 'Inequality, Income Growth and Mobility: The Basic Facts', *Journal of Economic Perspectives*, Vol. 11, No.2 (1997), p.31.
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- ³⁶ Bruce Headey and Alex Wearing, *Understanding Happiness: A theory of subjective well-being*, Longman Cheshire, Melbourne, 1992, p.79.
- ³⁷ Peter Travers and Sue Richardson, *Living Decently: Material well-being in Australia*, Oxford University Press, Melbourne, 1993, pp.119-124.
- ³⁸ Peter Saunders, 'Income, Health and Happiness', *The Australian Economic Review*, 4th quarter 1996, p.362.
- ³⁹ Robert A. Cummins et al., *Australian Unity Well-being Index: Special Report on Income and Geographic Location*, Australian Quality of Life Centre, Deakin University, Melbourne, December 2001, Appendix B.
- ⁴⁰ There is a large literature on this subject, but see Headey and Wearing, *Understanding Happiness*, and Michael Argyle, *The Psychology of Happiness*, Routledge, London, 2001.
- ⁴¹ Saunders, 'Income, Health and Happiness', p.361.
- ⁴² Alberto Alesina et al., 'Inequality and Happiness: Are Europeans and Americans Different?', National Bureau of Economic Research Working Paper No. 8918, April 2001, Cambridge, Mass., p.11.
- ⁴³ Wendy Stone and Jody Hughes, 'The Nature and Distribution of Social Capital', Australian Institute of Family Studies, Melbourne.

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- ⁴⁴ For example, Richard Wilkinson, *Unhealthy Societies: The Afflictions of Inequality*, Routledge, London, 1996. For more sceptical views, see Jeffrey D. Milyo and Jennifer M. Mellor, 'Is Inequality Bad for Our Health?', *Critical Review* Vol. 13 Nos. 3-4, (1999), pp.359-372; and a series of articles in the 5 January 2002 issue of the *British Medical Journal*.
- ⁴⁵ Headey and Wearing, *Understanding Happiness*, pp.105-107.
- ⁴⁶ Diener and Oishi, 'Money and Happiness', p.206.
- ⁴⁷ Jennifer Buckingham, Lucy Sullivan, Helen Hughes, *State of the Nation 2001: A Century of Change*, Centre for Independent Studies, Sydney, 2001, pp.96-103.
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- ⁵⁰ Bruce Headey and Alex Wearing, 'The Sense of Relative Superiority—Central to Well-being', *Social Indicators Research*, Vol. 20 (1988), pp.497-516.
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- ⁵² Diener and Fujita, 'Social Comparisons and Subjective Well-Being', p.340.
- ⁵³ Diener and Fujita, 'Social Comparisons and Subjective Well-Being', p.347.
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- ⁶¹ 'Happy Families Seen as Secret to Success', *Herald-Sun*, 10 April 2001, p.15.
- ⁶² Jonathan Kelley and Krzysztof Zagorski, 'Changing Attitudes Toward Income Inequality in East and West', *Australian Social Monitor*, March 1999, p.8.
- ⁶³ Marginson, *Education and Public Policy*, p.243. Emphasis in original.

Chapter Nine

Why Subsidise?

In 2001-02 the Commonwealth will provide more than \$4.5 billion to universities for undergraduate and postgraduate coursework education. There is additional money for research and research training. While students will incur about \$1.7 billion in HECS liabilities, some of that will never be repaid, meaning the actual subsidy exceeds the nominal \$2.8 billion HECS leaves taxpayers to fund.¹ As discussed in previous chapters, this subsidy is paid to universities under a student quota system, and is loosely based on student numbers and disciplines, so that more expensive courses receive higher subsidies.

As we will see in the next chapter, the higher education interest groups believe more public money should be spent on universities. While, as I have argued, there is a good case for more spending, it is much less clear that this money should come from the Commonwealth. Indeed, we need to think more carefully about why we subsidise. Most of the commonly advanced arguments do not adequately justify the current subsidy system.

Public goods

An often-heard rationale for subsidising higher education is that it promotes public good production. This argument has its origins in economic theories of market failure, which describe situations in which markets do not produce an efficient allocation of resources. In some transactions, there are effects on third parties that are not taken into account by those directly involved. Sometimes it is a case of not taking into account costs to others, such as pollution. At other times, the potential benefits to third parties are not taken into account. Higher education is said to produce benefits to the public in general, whether or not they enrol in university themselves. In other words, higher education has positive spillovers. Among the claimed spillovers are general advances in the stock of knowledge, improvements in the quality of society, more favourable attitudes to change, increased social and political awareness, the emergence of social, cultural, political, and economic leaders, reduced crime and anti-social behaviour, higher tax revenues from graduates, productivity improvements among those who work with graduates as well as from graduates themselves, and inter-generational effects from passing on knowledge to children.² Because prospective students won't necessarily take these benefits into account when making their enrolment decisions, a subsidy makes enrolment more attractive, leading to more of these public goods than would otherwise have been the case.

This argument—though not necessarily every particular claimed spillover—is accepted by both those who favour more markets and those opposed to markets. The 1998 West review of higher education, which recommended a substantial deregulation of the system, remarked that 'quantifying the value of spillover benefits is notoriously difficult, but their existence is generally accepted, and they provide the fundamental case for government subsidy for higher education.'³ Simon Marginson, a prolific writer against markets, says that 'pure public goods, impure public goods and externalities all share a common quality: they tend to be underprovided in markets, because individuals and firms cannot capture all of the economic benefits for themselves . . . Public goods are often provided by governments, and are mostly dependent on state financing . . .'⁴

In its submission to the West review, the Industry Commission commented, in a piece of bureaucratic understatement, that more rigorous analysis of spillovers was required to guide policymakers on appropriate levels of public contribution.⁵ It is doubtful that some of the claimed spillovers exist at all. It is unlikely, for instance, that university education reduces crime or anti-social behaviour. There is a strong relationship between low intelligence, poor school performance and crime.⁶ In other words, most

people who commit crime are not plausible applicants for university. To the extent educational factors contribute to criminality, money would be much better spent on schools than universities. Nor is putting young people together in a context without tightly structured activities likely to reduce anti-social behaviour. Other spillovers are more plausible. There is strong evidence, for example, that the government makes a net profit on its higher education investment through a combination of HECS and income taxes.⁷ The level of parental education has a positive effect, net of other factors, on the propensity of their children to complete Year 12.⁸ As my survey of *Who's Who* in the last chapter showed, its entrants were overwhelmingly university educated, so perhaps higher education helps create community leaders in many fields.

A characteristic of the educational public goods literature, and this can be as true of economics textbooks as it is of leftists like Marginson,⁹ is that it assumes that markets don't produce spillovers without subsidy. This is not necessarily correct. It confuses one of the mechanisms that can lead to market failure (not all benefits being captured privately) with the market failure itself (an inefficient allocation of resources). Even where people are solely concerned with their own self-interest, they will still proceed with an exchange where their own private benefit is sufficiently high to make their participation worthwhile, regardless of the relative size of public and private benefits. Indeed, this is the logic behind a public good subsidy, which is that if private benefits are increased this will create a greater incentive for public good production. Therefore the public good test of whether a subsidy is necessary is not whether a spillover would occur, but whether there is a prospective spillover *and* the private benefits are too low to induce spillover production *and* the spillover's value exceeds the subsidy's cost, so that there is a net benefit.

Based on these criteria, it is far from clear that the current policy of indiscriminate subsidies, to all HECS students in all disciplines, can be justified on public good grounds. The Industry Commission, in its West review submission, calculated rates of return for full-fee paying students. For most of the disciplines examined, the returns on full fees were good (9% or more) even without any subsidy. Returns were lower than this for architects, teachers and nurses.¹⁰ On this evidence, there is a possible case for a public benefit subsidy for these latter three professions, but not for the lawyers, engineers or computer professionals also studied by the Industry Commission. These professions may produce benefits to the public, but if so this is just a beneficial by-product of commercial activity. There is no need to pay people more to do what they would do anyway.

Even for degrees where the financial returns are relatively low, subsidies may not be necessary to ensure public good production. As I showed in my chapter on Arts and Science degrees, which course a student applies for depends strongly on their fields of interest, and application shares between disciplines show considerable stability, despite sometimes poor job and income prospects. I argued that this is because of the satisfaction to be had from studying (and sometimes later working) in a field that is of intrinsic interest. In choosing to go to university, and in choosing particular courses, students make overall quality of life, and not just financial decisions. This is evident in the decisions of full-fee paying undergraduates, as well as those in government subsidised places. In 2000, a quarter of Australian full-fee paying undergraduates were enrolled in Arts or Sciences, two disciplines where the spillovers are relatively important, as were 11% of overseas full-fee paying students,¹¹ even though there were neither subsidies nor loans on offer, and in the case of the overseas students there were the added expenses of international travel and living in a foreign country. Offering subsidies to these students would increase their private benefit, but would make no difference to the spillovers they produce.

While the public good argument for subsidies can apply in some instances, the subsidies need to be targeted so they actually prompt behavioural change, keeping handouts to a minimum. If too few people are doing particular courses (as measured,

say, by labour market shortages, as there are now for nurses) or the wrong people are enrolling (such as the very low Year 12 scores sometimes required for teaching courses) then perhaps there is a public good case for subsidising these courses as one measure that might help with these problems. Smart subsidies, directed to where they can do most good, can be justified on public good grounds. A programme of general subsidies cannot.

Equity

'Equity' is central to higher education funding politics, as we have seen earlier. Different concepts of equity, however, drive policy in opposite directions. In the period of 'free' education, equity was interpreted as removing all tuition fee barriers to access, so that people from low-income backgrounds would not feel deterred. The difficulty with free education, from an equity perspective, is that the people likely to enter university are typically not those in need of long-term income support. In fact, as study after study has shown, the average graduate earns considerably more than those who finish their education at Year 12, and has an even larger margin over early school leavers. If equity is seen in terms of outcomes, free education is very bad policy. It is the equivalent of giving sometimes tens of thousands of dollars to people who, over their lifetimes, earn considerably more than the average. To deal with current income inequality, which prevents some from going to university when there are full, up-front fees, free education creates more inequality later, further enriching those enjoying relatively high salaries.

While the National Union of Students remains stubbornly in favour of free education, other supporters of the equality project committed to equality of outcome recognise the tension between free education and their larger political goals. As Simon Marginson has remarked, in discussing the possible extension of subsidised loans to undergraduate fee-paying courses, 'how can an additional subsidy to the elite families and the students doing high-income earning courses such as sandstone law and medicine be justified? Why put scarce public money into subsidising the private educational goods received by the most advantaged social groups?'¹² A columnist for *The Australian's* Higher Education Supplement, and a self-described socialist, Gavin Moodie, argues, in an article advocating more spending on international aid, that 'even within Australia there are much greater needs than higher education. The conspicuous exceptions to Australian's general wealth are the thousands of Aboriginal peoples who live in Third World conditions of inadequate nutrition, no reticulated water, poor sanitation, inadequate housing and lack of access to basic health services.'¹³

By the late 1980s the Commonwealth Government recognised the tensions between equitable access and equitable outcomes. The Wran Committee, whose report was a preliminary to the Dawkins reforms, stated that 'the fundamental inequity in our present system of financing higher education is that the small and privileged section of the community who benefit directly from access to higher education make no direct contributions to their tuition costs.'¹⁴ The HECS system that followed was designed to reduce this inequity while still dealing with the original problem of improving access. It did this by avoiding upfront payments, making loans for education charges repayable later via the tax system, once the student (or graduate)'s income reached a certain point. This gets around the access problem, and deals with the atypical cases of people who do not receive a financial advantage from studying by leaving them as recipients of free education, if their income remains low. As noted in Chapter Two, lifting the threshold at which repayment must start to what non-graduates earn would ensure that only earnings premiums were taxed, thus restoring this original equity dimension to the scheme.

On the logic of the HECS scheme it was perhaps unnecessary, from an equity perspective, to have any subsidy at all. The scheme redefined the access issue from an equity problem to a cash flow problem. Indeed, the original Wran Committee did recommend higher charges for some courses than in fact were finally implemented,

suggesting the differential HECS that was implemented by the Coalition a decade later.¹⁵ In rejecting the original Wran proposal, the Hawke government made a cautious and defensible decision, as I will argue below. But it remains that once income-contingent loans were available, subsidies could not easily be justified on equity grounds. Financial assistance to students increases rather than decreases lifetime income inequality.

The poor subsidising the rich: a red herring argument?

At least from the days of the Wran Committee, an argument for reducing subsidy has been that it is low- and middle-income earners subsidising the students from better off families who make up a disproportionate share of university students. The Wran Committee's report stated that 'the bulk of the funding burden falls on PAYE taxpayers, the majority of whom are middle to low income earners and who will only receive in return the valuable but amorphous benefit of living in a well-educated society.'¹⁶ The current Education Minister, Brendan Nelson, when he was still a backbencher, remarked that the 'working class battlers of this country have been paying for the education of others in institutions that their own children are not likely to see the inside of . . .'¹⁷ As stated, this argument isn't quite right. This is because only 40% of the population are net taxpayers; that is, they pay more in tax than they get back in benefits.¹⁸ The other 60%, the 'battlers', don't even pay fully for what they receive from government, let alone for what others receive. Reformulate the point a little, though, and it is more persuasive. According to the Australian Bureau of Statistics, the average household in the top 20% income bracket gets \$36.50 a week in higher education benefits, while the bottom 20% receives only \$8.68. Presuming there is a set amount of taxpayers' money available for expenditure, arguably the money going to higher education subsidies would otherwise go to programmes that benefit low-income Australians. This is the point Gavin Moodie was making about misplaced priorities when higher education is funded while Aboriginal Australians live in Third World conditions. But the cost to the 'battlers' is an opportunity cost, not a direct cost.

Avoiding price shocks

By deciding not to accept the Wran committee's recommendation that different prices apply, depending on the course, the Hawke government avoided a price shock, a sudden and large increase in higher education cost. In the context of what we knew at the time, this was a prudent decision. One idea behind HECS was to use the money it raised to finance additional student places. The Hawke government's reform package as a whole was very much oriented toward increasing access, particularly for students from low socioeconomic groups. At that time, in the late 1980s, it wasn't known what effect HECS would have on demand from these people. The argument that they might be unusually price sensitive, because they had less direct experience of the benefits of higher education, and perhaps less confidence in their ability to exploit the potential of university study, was plausible enough to warrant proceeding with caution. It would have been an unfortunate irony if the very people the policy was designed to help ended up being adversely affected by it. Keeping subsidies high, at least for a period, would avoid price shocks and let students get used to the new charges.

With the benefit of more than a decade of practical experience, including another substantial price hike, we now know that price has not been a deterrent. My analysis of this issue in Chapter Six was based on actual enrolments, and showed that the proportion of young low-income people going to university increased over time, leading to a significant rise in the absolute number of people with low-income backgrounds attending university, even if their proportion of the total student population remained stable. However, actual enrolments in a regulated system don't necessarily accurately reflect demand, since there are fewer university places than there are prospective students. Left-wing critics of increased charges have, therefore, focused on demand as measured by applications to attend university.

The National Tertiary Education Union (NTEU), in their submission to the 2001 Senate Inquiry into higher education, produced a graph showing that 1997, the first year of differential HECS, saw falling numbers of applicants for university compared to 1996. The downward trend continued into 1998, before recovering slightly. The NTEU describes the reduction, from 235,000 applicants in 1996 to 220,000 in 1998 (before rising to 226,600 in 2000) as 'a significant drop in the aspirations of Australians to undertake university education'.¹⁹ The NTEU wants us to believe that this is due to higher charges, and also due to a lower income threshold for HECS repayments. Putting these figures in more context, however, gives us cause to doubt this interpretation. If the NTEU had started their graph in 1992, for example, it would be apparent that, except for a slight upward movement in 1995, the downward trend began in 1994, and not with higher HECS charges from 1997.²⁰ What was driving this drop? The single largest source of university students is people who did Year 12 in the previous year, and school leaver data shows that their numbers dropped slightly through the mid-1990s, before increasing again at the decade's end.²¹ Over this period unemployment was also decreasing, leading some people to enter the workforce rather than apply for university.²² The same period also saw an increase of direct entry enrolments, so more people entered university without going through the central applications centres.²³ The better interpretation of the data is that differential HECS had a trivial or no effect on interest in attending university, despite very large percentage increases in the cost of some courses.

Despite the initial plausibility of concerns about the possible psychological effect on some prospective students of sudden price increases, the empirical evidence suggests they were unfounded. It suggests that the market for higher education is more rational than some assume; that prospective students are able to make good enough assessments of how the costs of study compare to the benefits. This isn't to say that there isn't a point at which a price shock might occur—that there could be prices that spook prospective students, even though they may not be unrealistic (this has to be distinguished from a course where the costs exceed the benefits—this might be a price shock, but the university offering it should receive the shock by not getting any subsidies or students for it). Given past experience, general subsidies to avoid price shocks are unwarranted.

International spending comparisons

A common argument for extra subsidies is that we must keep up with our international 'competitors', spending as much on education as a proportion of GDP as do other countries. The Australian Vice-Chancellors' Committee (AVCC) has been pushing this line for half a century. In 1952 it issued a publication saying Australia was 'lagging behind' other countries in the amount it spent on universities.²⁴ In 2001, an election year, the AVCC issued a policy proposal providing pages of information on how much other countries were investing in higher education. It rejected the idea that students should pay more partly on the grounds that they already paid a lot, by international standards.²⁵ To bolster its case for more public spending, the ALP commissioned the Chifley Centre to produce a lengthy report based heavily on OECD comparisons.²⁶ Journalists also find the argument attractive.²⁷

There is nothing inherently wrong with seeing what other countries spend on higher education, and where Australia's expenditure is significantly different it is worth examining why. So I agree that the differences between education spending levels in Australia and other countries raise questions. But these questions don't have the answers typically suggested by those offering the spending comparisons. It follows from my argument in Chapter Three, about achieving better allocation of investment in higher education, that a major reason Australian spending is low is that the Commonwealth effectively forbids undergraduates from investing in their university education. If this prohibition were lifted, spending would rise.

Spending would not necessarily, however, rise to or match that of other countries. As noted above, the school leaver age group declined slightly in the 1990s before resuming slow growth, so even under a less regulated system this demographic factor would mean lower increases in national spending than in other countries with faster population growth, such as the United States. Indeed, the Commonwealth's *Intergenerational Report* forecasts lower fertility leading to some long-term decline in the proportion of GDP it spends on higher education.²⁸ Economic differences between countries also affect spending levels. The presence of so many high-tech industries in the US suggests that they need higher levels of human capital investment than Australia. Demographic and economic factors aside, we should not assume that other countries spend their higher education dollar efficiently; matching their waste is hardly a worthy public policy goal. If the economy is growing more quickly than higher education spending that is no automatic reason to spend more to maintain ratio-to-GDP levels, if the higher education system is performing well already.

Nor must any extra spending necessarily be public money. Again, it is worth looking at other countries to see how different funding mechanisms work, but only those likely to be successful in the Australian context ought to be copied. As I've argued throughout this book, the tax and subsidise model favoured by higher education lobby groups comes at a considerable cost to the quality of education and efficiency.

International spending comparisons appeal to a sense of national pride, and always get a good run in the media. Politically, it is easy to understand why they are used. But they don't answer the questions they raise. Ultimately any argument for increasing (or for that matter, decreasing) expenditure on higher education has to be based on substantive arguments about the benefits of the expenditure, how to get the best returns (economic or otherwise) on expenditure, and the value of those returns compared to competing uses of the money. A simplistic matching of other countries' spending levels isn't the way to run a higher education finance policy.

The piggy bank

These four arguments for subsidy provide a less than compelling case for even the subsidies we pay today. The public good argument doesn't apply to all courses, equity considerations generally point to lower subsidies, price shocks don't seem to have occurred, and international spending comparisons in themselves are unpersuasive. Perhaps, however, even conceptualising Commonwealth higher education expenditure as a 'subsidy' is a mistake. The economist Nicholas Barr makes a distinction between 'Robin Hood' and 'piggy bank' government programmes.²⁹ 'Robin Hood' programmes take from the rich and give to the poor. Long-term income support is a clear case of a Robin Hood programme in action, and is a true subsidy—once spent the money is gone, never to be recovered. 'Piggy bank' programs are based on a different idea. They do not subsidise, but rather redistribute expenditure around the life cycle. They are intrapersonal rather than interpersonal transfers. The state acts as a piggy bank, which people draw on at certain times, but this does not make them net beneficiaries of government spending over their lifetime, since they pay it all back through taxes later on.

Higher education seems well-suited to a piggy bank programme, funding people while studying on low incomes, and taxing them later on when they earn above average incomes in the labour market. While HECS is broadly consistent with this principle (and Barr himself supports income-contingent loans) it still generally requires repayment in the first part of a graduate's career, at a time when there may be many other expenses, such as buying a home and starting a family. Under a more radical form of piggy bank, what the government contributes to each student's course costs is typically going to be mostly 'repaid' not immediately after graduation but in mid-to-late career, when people are more likely to be on high marginal tax rates and net contributors to the Commonwealth Budget. Though they don't use the terminology, the National Union of Students supports

this kind of argument. In a submission to the 2001 Senate Inquiry into higher education, they argue that 'revenue and funding should be driven through a more progressive tax system. By taxing high income earners, the link between personal benefit from education (in the form of high income) and increased contribution to the provision of social services is far more closely aligned.'³⁰

There is a fairness problem with this argument, however. According to Australian Bureau of Statistics figures, in 1998-99 more than half of people earning more than \$60,000 a year (incurring the top marginal tax rate from 2000) did not have a university degree, though nearly 80% did have some sort of post-school qualification.³¹ While for net taxpayers who did go to university the progressive tax system means they eventually and indirectly pay something back, for high earners who did not go to university higher education spending does not perform a piggy bank function, but is an odd kind of Robin Hood programme, taking from the rich to give to other rich people. If progressive taxation is supposed to be, in the case of higher education, a form of time-adjusted user pays, it doesn't really work because non-graduates are still subsidising graduates.

Perhaps recognising this problem, supporters of the tax and subsidise model of university finance raise the possibility of a graduate tax. For example, Carolyn Allport, President of the National Tertiary Education Union, has suggested considering 'a broad based levy on graduates earning well in excess of weekly earnings . . .'³² While this gets around the problem of taxing other high income earners for something they never received, a graduate tax has serious problems of its own, in addition to those inherent in all subsidy-dominated financing proposals. The most difficult of these is that, unlike HECS, there is no limit on how much the graduate could potentially pay for his or her education. If they are above the threshold at which graduate tax payments are required they will keep paying for as long as they earn that amount. This creates a perverse incentive not to graduate, or never to enrol, so as to avoid higher taxation. If the tax applied only to graduates of public universities, it would create a boom for private universities, since for likely high income earners full fees would be cheaper, over a lifetime, than a graduate tax. If you included graduates of private universities in the graduate tax scheme you are back with the problem we started with, of taxing people for something they receive no benefit from.

Regardless of the equity considerations, the major argument against complete government funding of higher education is that it is inherently inefficient, because governments are less able than students and universities to allocate higher education capital where it is needed most, or to replicate the complex incentives that can operate in a market system. This was the argument of Chapters Three and Four.

The income-contingent loans I advocate in Chapter Two are consistent with the idea that the government act as banker for students, collecting repayments when they earn a sufficient income. But this is using the tax system to collect money, rather than taking the money out of general tax revenues. Repaying debt through the tax system preserves the microeconomic benefits of fees and competition, and so leads to better educational and economic outcomes than would repaying subsidies through the tax system.

A biased tax system

The Australian tax system treats human capital in inconsistent ways. The HECS system, which recovers loans to students principally through a tax levy, assumes that university education is a human capital investment that pays dividends to the graduate through on-going higher earnings. As we have seen, this assumption is correct. In the case of fee-paying university students, different assumptions apply. Human capital investment is not seen in tax terms as an investment to produce income over time. While human capital investment can be tax deductible, this only applies if it is related to the student's current employment, and is fully deductible in the financial year the expense is incurred. On the human capital logic in HECS, human capital investment ought to be an expense

depreciated over time, including people who are studying to enhance their future income earning capacity, as well as those upgrading skills for a job they already hold. In effect, the tax system is biased against human capital investment, since in after-tax terms it is more expensive than other forms of investment.³³

In principle, it would seem better to treat higher education, except that of a clearly recreational nature, as an expense incurred in earning income, and like other business costs deductible for tax purposes. If conventional wisdom is correct in saying that re-skilling through life is necessary as old skills become outmoded, it would also be logical to depreciate investment in human capital. Perhaps we could again reconceptualise the money government spends on higher education, away from being a subsidy toward being a different way of providing a tax deduction on human capital investment.

The immediate question is why not simply depreciate directly, rather than building it into the original price? While this is an option, there are reasons why public policy should not take this route. Unlike profits from other forms of capital investment, which primarily go through corporate structures with a single tax rate, the profits from human capital investment go to individuals, who are subject to a progressive tax system. This means that those who move quickly into high paying jobs would in effect receive a much greater depreciation benefit than those whose earnings growth is slower. For people whose salaries are taxed at 48.5%, the top marginal tax rate, they receive a tax saving of \$485 for every \$1,000 they deduct. For graduates earning less than \$50,000 a year, with a marginal tax rate of 31.5%, they would receive a tax saving of only \$315 for every \$1,000 they deduct. On a full fee degree costing \$36,000 for three years, depreciated over ten years, the high income earner could receive over \$6,000 more in tax concessions than a lower income earner.

There are several problems with this outcome, relating to equity, efficiency and the Commonwealth Budget. The political reality is that equity is a very significant political issue in higher education. Arguably, it has trumped all other considerations in the design of higher education policy over the last thirty years. While we now need to devise policies that incorporate greater efficiency and educational quality considerations, these moves are unlikely to be successful without ensuring that equity objectives are met. Improving the financial position of high income earners relative to those on low incomes is not going to meet this condition of change.

From an efficiency perspective, a deduction in a progressive tax system introduces distortions in capital allocation. It gives potential high income earners a much greater incentive to invest in human capital than likely lower income earners, since it makes the effective cost of their education lower. There is no obvious reason to do this. Because we are also trying to achieve public good outcomes in government expenditure on education, increased benefits to professions with high incomes is generally the reverse of the incentive system we want to construct, since it is the lower income professions, such as teaching and nursing, which have the greatest public good rationale for financial assistance.

Even from the perspective of students studying for degrees likely to lead to high earnings, the tax deductions may end up less lucrative than they seem. As universities offering these courses know that for many students a large part of the cost—nearly 50% for graduates in the top tax bracket—can be deducted, they are more likely to inflate their prices, since price resistance will be lower. Wasteful cost increases would undermine some of the efficiency gains of moving to a market system.

These price increases would feed through into higher total government expenditure on tertiary education. As I will argue in the next chapter, there are many pressures on the Commonwealth's Budget, which mean that the Commonwealth will always try to control costs. The question for government is can they correct the tax system's bias against education investment at less cost than a full tax deduction? A payment per student, adjusted for discipline, would correct some of the tax bias away from higher education, while avoiding these other undesirable outcomes.

A second order reform

Of the six arguments for government financial assistance to students discussed in this chapter, only the first and the last, public goods and correcting the tax bias against education, to my mind clearly justify spending on higher education. Other justifications may work on an ad hoc basis—governments may wish to assist particular individuals or groups, or particular subjects or disciplines—but only these two rationales provide a strong basis for large scale and long-term financial assistance.

I've said nothing in this chapter about how much should be spent, concentrating instead on broad principles. As stated in Chapter Two, initially I suggest keeping much the same subsidy levels as exist today. This is partly for political reasons, as I regard it as more important to get a basic market system functioning than to get the subsidy levels right, and arguments about subsidies will add to the political difficulties of reform. If it is essential to keep total higher education spending constant, for reasons discussed in the next chapter, some or all subsidies could be reduced slightly to cover the costs of extending places to those currently missing out. These political considerations aside, it also true that introducing reforms in this order will reveal information we can only guess at now, such as the true demand for various courses, how much prices will rise (or fall, in some cases), and the price sensitivity of students. After a market system has operated for a few years, we will be in much better position than now to say how much financial assistance is needed.

¹ Brendan Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, DEST, Canberra, 2002, p.82.

² Industry Commission, *Industry Commission Submission to the Review of Higher Education Financing and Policy*, Industry Commission, Canberra, 1997, p.66.

³ Roderick West, *Learning for Life: Final Report, Review of Higher Education Financing and Policy*, Department of Employment, Education, Training and Youth Affairs, Canberra, 1998, p.51.

⁴ Simon Marginson, 'Governance: It's Time for a New Paradigm', in Pamela Kinnear (ed.) *The Idea of a University: Enterprise or Academy?*, Manning Clark House and the Australia Institute, Canberra, 2001, p.60.

⁵ *Industry Commission Submission*, p.68.

⁶ Don Weatherburn, 'What Causes Crime?', *Crime and Justice Bulletin*, No. 54, February 2001, p.4.

⁷ David Johnson and Roger Wilkins, 'The Net Benefit to Government of Higher Education: A Balance Sheet Approach', The Melbourne Institute for Applied Economic and Social Research, January 2002.

⁸ Gary N. Marks et al., *Patterns of Participation in Year 12 and Higher Education in Australia: Trends and Issues*, Research Report Number 12, Australian Council for Educational Research, Melbourne, 2000, p.29.

⁹ Douglas McTaggart, Christopher Findlay & Michael Parkin, *Economics* (2nd edition), Addison Wesley, Sydney, 1996, p.494.

¹⁰ *Industry Commission Submission*, p.101.

¹¹ Department of Education, Science and Training, *Students 2000: Selected Higher Education Statistics*, DEST website, Table 63.

¹² Simon Marginson, 'Urgent Need for a New Higher Education Policy', *Campus Review*, November 14-20, 2001, p.2.

¹³ Gavin Moodie, 'Three Reasons to Cut Higher Education Funding', *The Drawing Board*, posted 26 October 2001.

¹⁴ Neville Wran et al., *Report of the Committee on Higher Education Funding*, AGPS, Canberra, 1987, p.15.

¹⁵ Wran, *Report of the Committee*, pp. 53-55.

¹⁶ Wran, *Report of the Committee*, p.15.

¹⁷ Brendan Nelson, speech in support of the Higher Education Legislation Amendment Bill 1997, House of Representatives, 9 March 1998, *Hansard*, p.788 (web version accessed).

¹⁸ Australian Bureau of Statistics, *Government Benefits, Taxes and Household Income 1998-99*, Catalogue 6357.0, ABS, Canberra, 2001, p.12.

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- ¹⁹ Carolyn Allport, Submission 283 of the *Inquiry into the Capacity of Public Universities to Meet Australia's Higher Education Needs*, Senate, Parliament House, Canberra, 2001, pp.32-33.
- ²⁰ Jianke Li, Tom Karmel, Maureen Maclachlan, *Responsiveness: Do Universities Respond to Student Demand?*, Department of Education, Training and Youth Affairs, Canberra, 2001, p.1.
- ²¹ Jianke Li et al., *Responsiveness*, p.6.
- ²² Jianke Li et al., *Responsiveness*, p.7.
- ²³ Jianke Li et al., *Responsiveness*, p.11.
- ²⁴ Australian Vice-Chancellors' Committee, *A Crisis in the Finances and Development of Australia's Universities*, AVCC, 1952 (?), p.15.
- ²⁵ Australian Vice-Chancellors' Committee, *Our Universities: Our Future*, AVCC, Canberra, 2001, Sections 2, 3 & 5.
- ²⁶ Mark Considine, Simon Marginson, Peter Sheehan, *The Comparative Performance of Australia as a Knowledge Nation*, Chifley Research Centre, 2001.
- ²⁷ George Megalogenis, 'Rising Cost of Staying in the Top League', *The Australian*, 4 March 2002, p.8.
- ²⁸ Peter Costello, *Intergenerational Report 2002-03*, Treasury, Canberra, 2002, pp.46-48.
- ²⁹ Nicholas Barr, *The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State*, Oxford University Press, Oxford, 2001.
- ³⁰ Chris Raab, *National Union of Students Submission to the Inquiry into the Capacity of Public Universities to Meet Australia's Higher Education Needs*, NUS, Melbourne, 2001.
- ³¹ Australian Bureau of Statistics, *1998-99 Household Expenditure Survey*, confidentialised unit record file. 55.5% did not hold a degree, 79.2% held some form of post-school qualification. These figures are an approximate guide only, as nominal incomes would have increased since the survey was done.
- ³² Carolyn Allport, 'Alternatives to Deregulation', *The Australian*, 29 March 2000, p.40.
- ³³ For the ideas in this section, I am indebted to Brian Bentick, 'Rethinking HECS: Its Definition and Fiscal Role in Compensating for Non-Deductibility of Tuition Fees', *Australian Economic Papers*, Vol. 37, No.3 (1998), pp.341-345.

Chapter Ten

The Political Limits on Subsidy

Australia's universities and their lobby groups believe that more public funding is the solution to their financial problems. The Australian Vice-Chancellors' Committee (AVCC) 2002 Budget submission doesn't put a precise total figure on their requests, but they want a different way of indexing their operating grants (about \$500 million), the bringing forward of already announced government programmes, an international marketing campaign, and added student income support.¹ The National Tertiary Education Union (NTEU) representing staff, suggests spending increases totalling around \$2.5 billion.² The National Union of Students (NUS) is less specific, but wants 'free' education which would cost taxpayers about \$1.7 billion a year, and the reversal of funding cuts that they (erroneously) put at \$1 billion.³ The Group of Eight, representing the major research universities, while not opposed to student fees, during the 2001 election also focused on extra public funding, asking for increases, including research funding and corporate R&D assistance, that would add well over \$6 billion to the Budget bottom line by 2005.⁴

These demands, though, represent the triumph of hope over experience. The trend line for government funding per student has been sloping down since the mid-1970s.⁵ Crucially, this funding constraint is bipartisan policy. It may vary in the detail between the parties, but not the direction. The AVCC's figures show actual average funding per student during the Hawke and Keating years declined by 14.4%. The level of decline fluctuates year to year, because grants vary less than student numbers, but using 1983 as the benchmark the lowest Labor year was 17.6% below and the lowest Coalition year was 17.8% below. Despite a big campaign against 'cuts' to higher education expenditure, funding per student had not declined dramatically under the Howard government.⁶ The 'crisis' the AVCC declared in 2001 was largely a crisis of costs, with governments refusing to increase their subsidies to match rising expenses.

These cost pressures will not ease. In the mid-1990s the Commonwealth government introduced enterprise bargaining into universities. There is nothing, of course, wrong with enterprise bargaining in itself. The difficulty is that with this decision the government deregulated costs but left revenue regulated—universities still could not charge the around 80% of students reliant on static or declining government subsidy. The last round of enterprise agreements saw pay rises typically in the 3-4% a year range.⁷ As salaries make up 60% of university expenditure these enterprise agreements add significantly to total costs.

Universities adopted revenue and spending strategies to deal with this problem. They aggressively recruited fee-paying students, with overseas fee-paying students now providing nearly \$1 billion a year in revenue.⁸ By 2000, fees and charges made up 18% of universities' revenue, up from 13% in 1996.⁹ They have also cut costs, with higher student to staff ratios being the most obvious sign of economising on service levels. It isn't clear, however, that these strategies can work over the long-term. Indeed, there are increasing signs of financial strain in the sector. In 2000, at least eight individual universities ran deficits, up from five in 1999 and six in 1998. The current ratio for the sector as a whole, a ratio of current assets to current liabilities, has fallen from 2 in 1996 to 1.5 in 2000, with a ratio below 1 signalling liquidity problems.¹⁰ As year by year the pay increments add up, the opportunities for further cost savings become more exhausted, and the scope for added fee income diminishes, the universities' financial position will become worse and worse.

The lobby groups believe this slide toward insolvency can and will be reversed through infusions of public money. As no government wants an embarrassing university bankruptcy,

they are probably right that public money will keep universities afloat. In good Budget years, they can win extra funding, as they did for Backing Australia's Ability in 2001. Where they are wrong, I think, is in believing that governments will provide adequate, long-term funding for Australia's universities. Indeed, there is little sign that they have thought seriously about the political and economic dynamics that drive Commonwealth Budget decisions. Their perceptions seem shaped by a relatively brief period in the history of Australian universities in which governments did provide. Twenty-five years of downward pressure on government funding for universities hasn't been enough aversion therapy to put them off this idea. It is worth spelling out the political and economic pressures and incentives facing the Commonwealth government, to see why pursuing the public dollar, at the expense of other strategies, is so risky for Australia's universities.

Fiscal responsibility

Fiscal responsibility has been a key theme in Australian politics since the Budgetary shambles of the Whitlam years. While there is no set definition, fiscal responsibility includes seeking balance across generations, so that future generations are not excessively burdened by current expenditure, making an adequate contribution to national savings to fund investment, maintaining government programmes at levels that have regard to the burden on taxpayers, and recognising the cyclical nature of the economy, with scope for smoothing its peaks and troughs.¹¹ The Coalition's moves to restore fiscal responsibility in 1996 led to future higher education spending being curtailed. But while Labor attacked the 1996 cuts, it has similar commitments. Labor's 2000 platform emphasises Australia's 'hard earned status as an economy with relatively low levels of taxation and public debt'.¹² While there are good domestic reasons why fiscal responsibility is a principle adopted by both sides of politics, governments face the added pressures of international financial markets. Australia's attractiveness as an investment destination is partly conditional on perceptions of sound macroeconomic management.

While there is little controversy that fiscal responsibility is a reasonable goal, in practice it is hard to achieve. Governments are expected to 'solve' a wide range of social problems, many of which are more serious or expensive (or both) now than they were thirty or forty years ago. The result has been that real health, education and welfare expenditure has grown faster than either GDP or taxes for most of the time since the Whitlam government.¹³ Higher education has contributed to this pressure on the Budget as attending university went from being something quite unusual to something common. In the early 1970s there were only around 130,000 university students across Australia. Financing them was much easier than funding around 600,000 university students today.¹⁴ It is not entirely coincidental that universities were most generously funded in the mid-1970s, at the same time that the Budget deficit as a percentage of GDP reached a post-war high.¹⁵

There is no realistic prospect of demands on the Commonwealth Budget lessening. An ageing population and improving but expensive medical technology create significant long-term upward pressure on health and social security costs. The Commonwealth's *Intergenerational Report*, issued as part of the 2002-2003 Budget, forecast its health and aged care costs increasing from under 5% of GDP now to nearly 10% in 2041.¹⁶ Spending on aged and service pensions is expected to rise from under 3% of GDP now to 4.6% over the same time period.¹⁷ Aside from these long-term social trends, military costs are increasing over the medium term. Achieving fiscal responsibility will, then, continue to be a challenging political task, as governments seek to reconcile public attitudes to tax and spending with long-term requirements and international financial markets.

Unpopularity of tax

Contrary to some perceptions, fiscal responsibility does allow for increases in expenditure. The qualification is that, in normal economic circumstances, deficit spending is not an option. The extra expenditure must be financed from taxation or reallocating expenditure from other areas. Mark Latham, a former Labor Shadow Education Minister, is a rare individual who nominates cuts to industry assistance and 'passive welfare' social security in order to finance increased higher education expenditure.¹⁸ For others, increased taxation is the solution. Indeed, the left is quite open about their desire for higher taxes. Simon Kent of the NTEU has argued that if Australia taxed at the OECD average it would deliver an extra \$50 billion in revenue. He criticises Australia's 'failure to make any progress towards this standard'. He suggests an education levy like the Medicare levy to make it harder to cut taxes.¹⁹ That taxes and spending have not risen enough is attributed by some to ideology. Advocates of higher public funding such as Simon Marginson, for example, argue that 'despite the neo-liberal consensus in government the public funding of universities continues to enjoy popular support. The evidence of opinion polls and other surveys suggests a strong and consistent rejection of higher fees and reductions in government funding'.²⁰

If Marginson restricted himself to the view that most people don't want students to pay more for higher education he would undoubtedly be right. A 2001 survey commissioned by the AVCC found 68% of respondents wanting extra funding for universities to come from the government.²¹ That result is consistent with a 1997 Morgan poll which asked voters whether they were satisfied with the government's increase in HECS charges: 68%, a matching proportion with the AVCC poll, said they were dissatisfied, and only 22% said they were satisfied.²² These polls tell us that people don't like charging more, but avoid the critical issue—somebody has to pay, and are people really prepared to reduce their own incomes, via taxation, to make life easier for students and graduates?

The main evidence cited by advocates of higher public spending that their view has popular support is a 1996 AGB McNair Poll, taken in the wake of the 1996 Budget. It asked whether respondents would 'personally support some increase in personal taxation if this meant that spending on programs such as higher education, health and welfare did not have to face big cuts'? The results of this poll were 60% agreeing and 33% disagreeing.²³

This poll, however, provides the only majority support for extra taxes among other recent polls on the subject. The Australian Election Survey, carried out shortly after each federal election, asks voters to choose between less tax and more social services. In 1993, 56% favoured less tax and 17.3% preferred more services. In 1996, 57.1% favoured less tax, and 16.8% preferred more social services. In 1998, perhaps reflecting changed sentiment after the 1996 Budget, 46.9% favoured less tax, and 25.6% favoured more services. In 2001, 41.9% preferred less tax and 29.8% favoured more spending on social services. Even with this reversal of the trend, there were still many more people in favour of reducing tax than there were in favour of spending more on social services.²⁴ The International Social Science Survey, conducted in 2000, has a different take again. That poll found 30% wanting more taxing and spending, 42.6% the same level, and 27.4% less.²⁵ In 2001, the Saulwick Poll found 50% would prefer less tax and fewer services, 38% more tax and more services, and 12% the same levels of taxes and services.²⁶ The poll that comes closest to the AGB McNair poll was a 1998 ACNielsen poll, which asked respondents if it was best for the country to increase tax by one or two cents in the dollar to finance more spending in various areas. Education was the most popular area for more spending, with 49% favouring tax increases.²⁷

How are these differences to be explained? Opinion instability is a well-recognised phenomenon by those who analyse polls. One explanation is that many people have little

interest in political issues, give off the top of their head responses to pollsters, and the answers they give are affected by the salience in their minds of various ideas and considerations. Ideas and considerations raised in early questions asked by pollsters can affect the answers given to later questions.²⁸ This, I believe, was the case with the 1996 AGB McNair poll. After standard questions on party preference and leaders' performance, the poll asks whether the projected \$8 billion deficit inherited from Labor was sufficient for the Prime Minister to break his election promises: 58% thought it wasn't. The next question was would you support the Democrats rejecting 'unfair' Budget measures: 61% said they would, along with 60% favouring rejecting Budget measures that were 'broken promises'. Then we get to the question about extra tax for no cuts to services. Again, we get the 60% figure. Arguably, having given all the answers they had already given opposing cuts, the survey respondents thought the only consistent answer was to say they were prepared to pay more tax. In the Australian Election Survey, by contrast, the preceding questions did not prompt any particular response. In the Saulwick Poll, the question about reducing tax or increasing services appears after 61% said that were paying more tax than in the past, and before any spending questions. This question order biases answers against tax, just as the 1996 AGB McNair poll biased answers in favour of tax. (I do not have the original survey for the International Social Science Survey or the ACNielsen poll).

From a politician's point of view, a vital question is how the views expressed in opinion relate to actual or intended voting behaviour. Put in this context, the anti-tax surveys look more plausible than the pro-tax surveys. The ACNielsen survey, which found nearly half supporting an extra 1% or 2% in tax for education, asked voters what they thought was best for the country. That isn't the same question as whether they would personally be prepared to pay extra tax. So it would not be inconsistent to give a pro-tax answer to the pollster and to decide to vote against a government that decided to increase taxes. A Morgan poll in October 1998 (eight months after ACNielsen) found that more than half the voters surveyed were concerned the GST would cause their family to pay more tax.²⁹ In mid-June 2000, just prior to the GST's introduction, the Morgan poll found that primary vote support for the Coalition had fallen to its then lowest point since the Liberal Party was founded—33.5%, with 40% two-party preferred.³⁰ While obviously voter concerns extended beyond GST costs, these were hardly comforting figures for politicians contemplating a heavier tax burden.

Simon Kent argues that a 'compelling argument' against the political saleability of tax increases is the widespread mistrust of politicians, 'leading to a concern that increased taxes will not result in improved public services.'³¹ This is one reason why he suggests hypothecated taxes. I doubt mistrust is more than a modest part of the explanation. The only other poll I am aware of that supports more social services over less tax dates from 1967, which found the division to be 71%-29% in favour of social services.³² Yet attitudes toward politicians in the late 1960s were not radically different to attitudes today. Polls on whether politicians are trustworthy or look after themselves go back to 1969, when 47% of the electorate thought that politicians usually or sometimes looked after themselves. At their most cynical, in 1979, 67% of voters went for the look after themselves option, but at other times they were less cynical (41% in 1988) or not much more cynical (54% in 1984-85, 51% in 1996). In the last two polls, 1998 and 1999, cynicism has increased again, but so has the desire for more public spending.³³ The connection between trust and support for taxing and spending seems too loose for this to more than partly explain tax resistance.

There is a less cynical explanation for preferring lower tax. You don't need to 'mistrust' politicians to believe that you can make better spending decisions than they can. In education, as I argued in Chapter Three, there is no reason to believe that governments know better than students where and how much to spend on education. At a more general

level, the experience of the last thirty years is that the tax burden has risen, but people don't perceive that services have improved commensurately. In the late 1960s, when there was support for more social services, tax freedom day—the nominal point at which an 'average' taxpayer stopped working for the government and started working for him or herself—was 20 March. By the late 1980s taxpayers spent nearly another month—until 17 April—working for the government rather than themselves.³⁴ I doubt ideological views had changed all that much in twenty years, but people's experience had. They were paying more tax but did not perceive the benefits of it, and views swung in favour of less tax.

Electoral irrelevance

Politicians in democracies, forever in search of 50% + 1 support, must focus on the needs of large constituencies. Their reluctance to spend big on higher education, I believe, reflects the realities of how many people are directly affected by universities compared to how many are directly concerned with competing spending priorities. Just within the education area, students and staff in primary and secondary schools outnumber students and staff in universities by about five to one.³⁵ Among social security recipients, old age pensioners alone outnumber university students and staff by more than 2.5 to 1, and more Australians receive a disability pension than are enrolled in university.³⁶ The entire population has Medicare as a form of insurance, even if they do not actually use it, whereas many people never go to university, and most of those who do are there for four years or less, covering only one or two elections. It is impossible to see how higher education could ever match these numbers, and so it will always be at a disadvantage in applying electoral pressure for money.

The relative unpopularity of spending on higher education, compared to other priorities, is evident from the 1999 International Social Science Survey. Of sixteen areas of government expenditure, universities ranked tenth in support for extra spending. At 34% wanting more money spent, it was well below hospitals (76%), police (61%) and school and TAFE education (52%).³⁷ Spending on primary and secondary schooling also came ahead of spending on universities in an earlier survey,³⁸ casting further doubt on whether many higher education implications can be drawn from the 1998 ACNielsen survey showing near majority support for higher taxes to finance education. These spending priority surveys are much more realistic than those produced by the AVCC showing most people want the government to pay the added costs of higher education. Like the surveys linking extra social services to higher taxation, they highlight in respondents' minds that politics is about choices, none of which are costless. They recognise that a dollar spent on universities is a dollar that cannot be spent on something else, and encourage survey respondents to make choices rather than wish lists.

The low priority given by voters to higher education is evident in other ways. Attempts by the higher education lobbies to make themselves electorally important have not met with much success. A poll done before the 1996 election found that even among 18-24 year olds only 28% nominated 'Education/schools' in their top three issues, and only 6% nominated HECS/Austudy.³⁹ The 1998 election was won by the Coalition despite continual criticism from higher education lobbies. In October 1999, with virulent denunciation of Dr Kemp's leaked plans to reform higher education, Coalition support actually went up by 0.5%.⁴⁰

The 2001 election was another lesson in the failure of the higher education lobbies to make a real political impact. Despite Labor running on a 'Knowledge Nation' platform, they were constrained by their commitment to fiscal responsibility, and (like the Coalition) offered universities little. For the first full financial year of a Labor government, ALP commitments totalled \$92.3 million, representing about 1% extra on otherwise anticipated

university revenue.⁴¹ Even by the third year out, the ALP was still budgeting for less than \$300 million more than current spending, still \$200 million below the AVCC's current bid on operating grant indexation alone. The Government's policies were mostly reannouncements of their January 2001 *Backing Australia's Ability* policy, and could have no major impact on university finances.⁴² We did not need to wait until polling day to see that electoral strategies for extracting university funding hadn't worked. It was evident from the time both parties announced their policies.

The least worst result the interest groups could have achieved was to unseat the Coalition government. Obviously, this was not successful either. The NTEU ran a marginal seats campaign in thirteen seats, but this had no obvious impact. The ALP did win two seats, and held a third, but there were swings to the government in seven of the ten seats they retained.⁴³ The National Union of Students ran a youth-oriented campaign, but with a similar lack of effect, as the polls showed the ALP with only a minor lead among young voters.⁴⁴ And clearly focusing on education—which was rating well as an 'important' issue in the polls—wasn't enough to save the ALP. The Shadow Education Minister, Michael Lee, even lost his seat of Dobell.

Commentators like Simon Marginson, cited earlier, blame higher education funding on a 'neo-liberal consensus in government'. Yet the problem exists independently of any political philosophy governments might hold. Near endless demands for more spending, but limited electoral tolerance for increased taxes, is a basic dilemma of democratic governments. No matter how many critiques of 'neo-liberalism' are written, these budgetary and electoral realities will remain. Universities will always be less important than schools, social security and health.

A dangerous strategy

If the interest groups pursued more public money as one political strategy among several for improving their financial position then none of this need matter very much. They may not present a very compelling case for more public money, but as there are many even less worthy recipients of Commonwealth largesse there was little harm in trying. But this hasn't just one strategy among several. Right up until the 2001 election, none of the interest groups put the case for fees, the only viable alternative source of finance. It was all Plan A and no Plan B.

To be blunt about it, this was foolish. It wasn't as if the problem of declining funding was anything new. There had been bipartisan warning signs for a quarter of a century, and the 1996 cutbacks ought to have been the final, fatal blow to the interest groups' faith in public funding. If the universities were, as the AVCC President claimed, in 'crisis',⁴⁵ then surely some dramatic change in tactics was necessary? Eight months later, after employing a political consultant for advice, the AVCC showed signs that they might finally be grasping the obvious implications of their situation. While they still couldn't quite bring themselves to back fees, they issued a policy statement announcing that 'a number of universities have canvassed the case for relaxing constraints on charging of student fees'.⁴⁶ Almost immediately, this watering down of their opposition prompted a political response, with the Prime Minister refusing to stand by earlier statements ruling out fees.⁴⁷ Perhaps if the AVCC had softened its stance earlier we would be years further down the higher education issues cycle, and that much closer to a lasting policy solution. For their obstinacy, the interest groups must take much of the blame for the current state of higher education.

¹ Australian Vice-Chancellors' Committee, *2002 Budget Submission*, http://www.avcc.edu.au/policies_activities/funding/broad_sectoral_funding/index.htm

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- ² National Tertiary Education Union *NTEU 2001-2002 Federal Budget Submission*, Available at: <http://www.nteu.org.au/debates/budget/budget2001.pdf>, ii-iii.
- ³ National Union of Students, 'Why we are having a National Day of Action', website accessed 17 March 2001 Available at: <http://www.unistudent.com.au/>
- ⁴ Group of Eight, 'Creativity and Innovation: Universities leading Australia', <http://www.go8.edu.au/papers/creativityinnovation-b.html>
- ⁵ Mark Considine, Simon Marginson, Peter Sheehan, *The Comparative Performance of Australia as a Knowledge Nation*, Chifley Research Centre, 2001, Table A7.
- ⁶ Australian Vice-Chancellors' Committee, 'AVCC Funding Table 3: Commonwealth Resources Available to Higher Education Per Planned and Actual EFTSU, 1983-2003', Available www.avcc.edu.au
- ⁷ National Tertiary Education Union, Enterprise Bargaining Updates August 2001, available at: <http://www.nteu.org.au/rights/ebagree/ebupdates/ebupdates/activesites.pdf>
- ⁸ Brendan Nelson, *Higher Education Report for the 2002 to 2004 Triennium*, DEST, Canberra, 2002, p.52.
- ⁹ Nelson, *Higher Education Report*, p.53.
- ¹⁰ Nelson, *Higher Education Report*, p.48. The number in deficit was officially ten, but two are claiming accounting reasons relating to how operating grant money paid in advance is treated for being in 'deficit'.
- ¹¹ R.R. Officer et al., *National Commission of Audit: Report to the Commonwealth*, AGPS, Canberra, 1996, pp.275-76.
- ¹² Australian Labor Party, *ALP Platform 2000*, Chapter 17, point 3.
- ¹³ Michael Warby and Mike Nahan, *From Workfare State to Transfer State*, IPA Backgrounder, Vol. 10/3, Institute of Public Affairs, Melbourne, 1998, p.4.
- ¹⁴ Department of Employment, Education, Training and Youth Affairs, *Higher Education Students: Time Series Tables*, DETYA, Canberra, 1998, Table 2.1.
- ¹⁵ R.A. Foster, *Australian Economic Statistics 1949-50 to 1994-95*, Reserve Bank of Australia, Sydney, 1996, p.86.
- ¹⁶ Peter Costello, *Intergenerational Report 2002-03*, Commonwealth Treasury, Canberra, 2002, p.39.
- ¹⁷ Costello, *Intergenerational Report*, p.44.
- ¹⁸ Mark Latham, *What Did You Learn Tod@y?*, Allen & Unwin, Sydney, 2001, p.27.
- ¹⁹ Simon Kent, 'The Way Forward: Restructuring the University in Australia', in Pamela Kinnear (ed.) *The Idea of a University: Enterprise or Academy?*, Manning Clark House and the Australia Institute, Canberra, 2001, pp.74-76.
- ²⁰ Simon Marginson., 'Nation-building Universities in a Global Environment', Lecture at the University of South Australia, 10 September 1998, p.4. Available at: www.unisa.edu.au/NEWSINFO/lecture/Marginson_lecture.htm
- ²¹ Australian Vice-Chancellors' Committee, 'University Funding Study', Newspoll, November 2001.
- ²² Morgan Poll, Finding 2977, 'Many Electors Dissatisfied with Howard's Performance', results published 29 April 1997.
- ²³ Nikki Savva, 'Poll Supports Tax Rises to Limit Cuts', *The Age*, 12 August 1996, p.6.
- ²⁴ Social Science Data Archive, *Australian Election Survey*, various years, Australian National University, Canberra. Available at: <http://ssda.anu.edu.au/SSDA>
- ²⁵ Glenn Withers and Lindy Edwards, 'The Budget, the Election and the Voter', *Australian Social Monitor*, Vol. 4, No. 1, June 2001, p.13.
- ²⁶ Saulwick Poll, 'Election 2001: Snapshot of a Nation', supplement to *The Age*, 8 October 2001, p.4.
- ²⁷ Tony Eardley and George Matheson, 'Australian Attitudes to Unemployment and Unemployed People', *Australian Journal of Social Issues*, Vol. 35, No. 2, August 2000, p.194.
- ²⁸ John Zaller, *The Nature and Origins of Mass Opinion*, Cambridge University Press, New York, 1992, pp.30-39.
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- ³⁰ Morgan Poll, Finding 3314, 'L-NP support falls to lowest levels since founding of Liberal Party during Second World War', published 28 June 2000.

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- ³¹ Kent, 'The way forward', p.75.
- ³² Simon Marginson, *Educating Australia: Government, economy and citizen since 1960*, Cambridge University Press, Melbourne, 1997, p.94.
- ³³ Murray Goot, 'Distrustful, Disenchanted and Disengaged? Public Opinion on Politics, Politicians and the Parties: An Historical Perspective', in David Burchell and Andrew Leigh (eds), *The Prince's New Clothes: Why Do Australians Dislike Their Politicians?*, UNSW Press, Sydney, 2002, p.27.
- ³⁴ Jennifer Buckingham, Lucy Sullivan, Helen Hughes, *State of the Nation: A Century of Change*, The Centre for Independent Studies, Sydney, 2001, p.169.
- ³⁵ Australian Bureau of Statistics, *Year Book Australia 2002*, ABS, Canberra, 2002, comparing data on pp. 293 and 298, after adjusting for overseas university students.
- ³⁶ ABS, *Year Book Australia 2002*, pp.169-170, p.298.
- ³⁷ Withers and Edwards, 'The budget, the election and the voter', p.10.
- ³⁸ G. Withers, D. Throsby, and K. Johnston, *Public Expenditure in Australia*, Economic Planning and Advisory Commission, Canberra, 1994, p.36.
- ³⁹ Morgan Poll, Finding 2861, 'ALP support among young voters down, unemployment the greatest concern', results published 20 February 1996.
- ⁴⁰ Morgan Poll 1999, Finding 3251, 'Little change in L-NP and ALP support as republic debate reaches fever pitch', results published 3 November 1999.
- ⁴¹ Australian Labor Party, 'Kim Beazley's Plan for Our Universities', ALP, Canberra, 2001, p.5.
- ⁴² David Kemp, 'Expanding Opportunities in Higher Education', press release, 31 October 2001.
- ⁴³ The NTEU has taken down its election web page, but the seats were Bass (ALP held, +1.87%), Herbert (Lib held, +1.52%), Hinkler (NP held, -.3%), Moreton (Lib held, +3.64%), Adelaide (Lib held, -.43%), Hindmarsh (Lib held, +.63%), Page (NP held, -.56%), Richmond (NP held, +.85%), Parramatta (Lib held, +3.64%), Ballarat (Lib to ALP, 5.5% swing), Corangamite (Lib held, +1.17%), Solomon (CLP to ALP, 2.15% swing), and Forrest (Lib held, +3.01%).
- ⁴⁴ Over July-September 2001, 18-24 year olds averaged 40% support for the Coalition and 41% support for the ALP. In late October/early November, just prior to the election, only 18-34 year old figures are available. These were 45% Coalition, 36% ALP: *The Australian/ Newspoll*, available www.newspoll.com.au
- ⁴⁵ Senate Employment, Workplace Relations, Small Business and Education References Committee, *Universities in Crisis: Report on Higher Education*, The Senate, Canberra, 2001, p.4.
- ⁴⁶ Australian Vice-Chancellors' Committee, *Positioning Australia's Universities for 2020*, AVCC, Canberra, 2002, p.6.
- ⁴⁷ John Howard, *Hansard*, 20 June 2002, pp.3448-3449.

Conclusion

What happens over the next few years will be crucial for Australian higher education. For the last decade-and-a-half mounting policy contradictions, both within higher education and between higher education and general policy trends, have threatened universities' financial stability and wasted much intellectual potential. The federal government has restrained public funding, while deregulating costs through enterprise bargaining, and severely limiting fee-charging to a small minority of students. It is throwing universities into the deep end, with their hands tied behind their backs. Consumers in most previously unresponsive areas of the economy have benefited from competition policy, but in universities a mini-command economy still operates, with only partial relief given by the overseas student and postgraduate coursework markets. Students at some private higher education institutions manage to get subsidies and income-contingent loans, while others must pay full, up-front fees (Australian fee-paying students in public universities are in the same anomalous situation). Despite 'knowledge nation' rhetoric, the number of university places is kept below demand, and HECS students are forbidden from investing in their own degrees. It is a public policy mess of the first order.

It is a mess created and presided over by governments of both major parties, but I count them as only modestly blameworthy. While governments do take the policy initiative, they are much more likely to do so when there is support for what they are doing, whether from interest groups or other organisations. As I suggested in previous chapters, most interest groups in higher education foolhardily back the public funding option, dress up producer interests as the public interest, and indulge in scare campaigns about market reform. As I hope I have shown through this book, the arguments used against market reform do not withstand close scrutiny.

Stranger than unhelpful interest groups is the fact that others who might have spoken out in favour of reform have done little. Academic economists do not write much on higher education, despite their first-hand experience of the university system, and fewer still focus on efficiency issues.¹ While The Centre for Independent Studies is publishing this book, and did some early work on the issue,² the think-tanks have been quiet on higher education compared to other microeconomic reform issues. Even this year, my CIS colleague Wolfgang Kasper issued a paper on economic freedom in Australia without mentioning that most undergraduates aren't allowed to spend on their own education and that universities' ability to compete is very limited.³ Business leaders, too, avoid providing practical suggestions. Rupert Murdoch, in a late 2001 speech, correctly but uncontroversially pointed out the importance of human capital, but did not seem to think investment should come from anyone but the Commonwealth.⁴ The Business Council of Australia does 'support the creation of a more diversified sector through funding models that reward outcomes',⁵ but says nothing about whether this would be a market model or just another bureaucratic scheme rewarding performance as determined by the government, as happened when postgraduate research student places were reformed.

The government's early 2002 announcement that 'it will work with universities, the business sector and the broader community to ensure that its policies enhance the quality of teaching and research strengths and areas of specialisation'⁶ is encouraging in recognising part of the problem, though very optimistic in thinking that the groups that have so far failed to find workable and sustainable solutions to the problems of Australian higher education will come up with anything better now. While consultation is fine, giving the interest groups too much input into the reform process won't smooth the path between good intentions and good policy.

Daunting as policy change is, it does offer universities a route out of their current difficulties. As I argue in the Introduction, and demonstrate in the chapters that follow, there are practical ways to unchain and improve Australia's universities, which would see positive trends in finance and performance emerging within a few years. *The Australian* newspaper is already giving space and editorial support to reformist views, and a proposal for change has at least made it to Cabinet consideration before. It would be a good way for the current federal Education Minister, Dr Brendan Nelson, to establish his policy credentials and for the Prime Minister to get a major third-term reform. The current Opposition leader, and former Education Minister, Mr Simon Crean, is reported as holding the view that Australian Vice-Chancellors were 'the most craven bunch of rent seekers with which he has ever had to deal'.⁷ For politicians, reforming higher education would be short-term pain for long-term gain. No longer would they get all the blame for unmet demand, for price increases, and for inadequate facilities, and they would be able to brush off more easily the Vice-Chancellors' rent seeking. It could all be so much better. Let's hope it becomes so before the accumulating contradictions lead to a genuine 'crisis of the university'.

¹ The most comprehensive, though now dated, academic volume on market reform of higher education is Geoff Hogbin (ed.), *Withering Heights: The State of Higher Education in Australia*, Allen & Unwin, Sydney, 1988. A more recent perspective is Paul W. Miller and Jonathon Pincus, 'SuperHECS: A Proposal for Funding Australian Higher Education', in *Funding Higher Education: Performance and Diversity*, Department of Employment, Education, Training and Youth Affairs, Canberra, 1997. The most comprehensive recent economic account is Industry Commission, *Industry Commission Submission to the Review of Higher Education Financing and Policy*, Industry Commission, Canberra, 1997.

² Frank Milne, 'Arthritic Academia: The Problems of Government Universities', in Robert Albon and Greg Lindsay (eds) *Occupational Regulation and the Public Interest: Competition or Monopoly?*, The Centre for Independent Studies, Sydney, 1984.

³ Wolfgang Kasper, *Economic Freedom Watch Report No.1*, February 2002, The Centre for Independent Studies, Sydney.

⁴ Rupert Murdoch, 'The Human Wealth of Nations', Inaugural Keith Murdoch Oration, State Library of Victoria, 11 October 2001.

⁵ Business Council of Australia, 'Australia can Outperform Top Tier of Nations', press release, 5 March 2002.

⁶ The Governor-General's speech, opening of the Fortieth Parliament, 12 February 2002.

⁷ Lauchlan Chipman, 'More Scholar for the Dollar', *Quadrant*, January-February 2000, p.19.

Afterword: The free market case against vouchers

The free market case against vouchers sounds like a contradiction. After all, the idea behind vouchers is to let market signals guide public subsidy. Instead of directly subsidising institutions (universities in our context, but it could be any provider of goods or services), the government gives all eligible people a voucher, which they can then redeem at an institution of their choice. Compared to the alternatives, it is of course a market system. The allocative decision is made through an exchange, not by a central authority.

I'd much prefer a voucher system in Australian higher education to what we have today. It is not, however, quite what I am advocating in this book, other than in the loose sense of 'voucher' being code for student choice. The thing about a voucher, as opposed to what I am advocating, is that the government still chooses who is eligible to receive one. Except that he calls them scholarships, that's a feature of Peter Karmel's proposed reform to Australian higher education. He advocates the Commonwealth setting the number of scholarships it will provide, whether as a proportion of an age cohort or as anyone with a Year 12 score above a certain rank (he suggests the 50th percentile).¹

Karmel's proposal is broadly justifiable. Few people with university-level intellectual ability could possibly be excluded by this policy. American IQ research suggests that people working in occupations normally held by graduates typically have IQ results of 110 or above, which includes about 25% of the population.² If this is roughly true of Australia as well, including everyone with ranks at or above the 50th percentile means people with IQ scores below 110 are eligible for university admission.

While justifiable in a broad sense, the Karmel proposal is arbitrary at the margins. As we saw in Chapter Four, even students with entry scores below the 50th percentile do complete successfully, and that a single university study found little difference in performance between students at the 40th percentile and the 70th percentile. While all other things being equal, a person with a higher Year 12 score is more able than one with a lower score, things are not always equal. There are many factors that may contribute to performance, or performance potential, which cannot be seen in the Year 12 result. These include temporary or remediable factors affecting Year 12 scores, student motivation levels, and the universities' willingness to help students get through their degrees. It is very difficult for central scholarship allocating agencies to know any of this. By delegating enrolment decisions to where there is most information—to students, their advisers, and universities—more accurate assessments of prospects and risks are likely to be made. This could mean both people under the 50th percentile enrolling and those above it seeking more suitable alternatives.

Picking a proportion of an age cohort also has the potential effect of excluding people without good reason. The proportion of potential students actually applying for university varies year to year. It can be affected by employment conditions, by marketing, and by unpredictable events (some were saying that the high level of applications for 2002 was partially due to people not delaying with a year overseas, because it was considered too dangerous after September 11). A market system can more easily absorb and act on this information than can government plans fixed to a certain proportion of the cohort.

Avoiding a scholarship scheme also saves on bureaucracy. Without the need to only fund individuals the government deems eligible, but instead leaving universities and students to make the decision, the need for bits of paper called 'scholarships' or 'vouchers' is avoided. The government can simply pay universities based on their enrolments, as in a different and more restricted way they already do. Administrative complexity is vastly reduced, for the government, for the universities, and for the students.

The scheme I am suggesting uses the market's information-gathering capacities to their fullest extent, and is therefore modestly to be preferred to a more conventional 'scholarship' or 'voucher' scheme.

¹ Peter Karmel, 'Funding universities', in Tony Coady (ed) *Why Universities Matter*, Allen & Unwin, Sydney, 2000.

² 'Correlation of IQ scores', *Scientific American*, November 1998,
<http://www.sciam.com/specialissues/1198intelligence/1198gottfredbox2.html>