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Fixing Prices: Why vouchers won't work while governments set fees

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In December 2008, the federal government received the *Review of Australian Higher Education: Final Report*, prepared by a policy review committee chaired by former Vice-Chancellor Denise Bradley. The education minister, Julia Gillard, has indicated that she will give her response to it in early March 2009.

One of the Bradley report's key recommendations is to replace the current system of centrally allocating student places to universities with what it calls a demand-driven student entitlement system. Higher education providers would receive government subsidies according to how many students they enrol. This voucher system—as such schemes are commonly called—would eventually include TAFEs and private higher education providers, as well as public universities.

While a voucher system is a good idea, the total voucher value—which would include federal government and student contributions—needs to act as an incentive to higher education providers. The voucher must at least cover the cost of its associated student place. There is evidence that under the current funding rates, universities lose money on government-subsidised students. Yet the Bradley committee recommends starting the voucher system in 2010 with only modest price changes, and with no clear process for establishing ongoing price-setting mechanisms.

Because the Bradley committee proposes retaining the current student fee price controls in most disciplines, their system would rely on increases in Commonwealth funding to adjust the voucher prices received by higher education providers. However, the federal government has a history of under-funding higher education, and the Bradley report gives us no reason to believe that this will change in the future. Governments of both political parties will continue to make politically sensitive schools and hospitals higher spending priorities than universities.

This leaves lifting price control as the best way of creating the price-setting mechanism needed to make a voucher system work. Students are the only group with a strong vested interest in funding higher education properly. The Bradley report opposes deregulating student fees on the grounds that current student charges are high by international standards, and that they believe that higher education is becoming less affordable. However, student charges are only high or low compared to the expected benefits of the course, not to what people in other countries pay. Given the diversity of student aspirations, the Bradley committee has no basis for fixing a maximum student fee. Students, not government committees, know what they hope to get out of their course, and should decide whether it is worth paying a high or a low fee.

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Introduction

According to the Bradley report on higher education policy, released mid-December 2008, Australian higher education is under-funded. In 2007, 15 per cent of public universities ran a deficit, and another 20 per cent were in a tight financial situation. The report argues that universities need to increase academic salaries, reduce student:staff ratios, and update facilities. It recommends a 10 per cent increase in funding for teaching and learning, a more generous method of indexing grants, and a triennial review of base funding levels. Our public funding levels should, the report says, position Australia in the top group of OECD countries.[1]

Though the review panel—consisting of former Vice-Chancellor Denise Bradley as Chair, along with education consultant Peter Noonan, businesswoman Helen Nugent, and former public service and business leader Bill Scales—is clear on the need to increase total university funding, it is fuzzy on how its funding proposals relate to another key recommendation: that the current system of allocating university places centrally be replaced with a student-demand driven system, commonly known as a 'voucher scheme.'

The idea behind voucher schemes is to combine public funding and market forces. By linking government subsidies to student numbers, vouchers create incentives for higher education providers to respond to student demand. Universities and colleges that meet demand would gain students and their associated revenue, while other institutions risk losing enrolments and funding.

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For vouchers to provide the intended financial inducement to take more students, their value needs to attract higher education providers. If the voucher amount is too low, it creates a disincentive rather than an incentive. Given that course costs in higher education vary widely—universities spend much more money on teaching science than arts, for example—the voucher system's price-setting mechanisms are critical to its success.

In Australian higher education, there are clear signs that current prices aren't right at the disciplinary level. The Bradley report notes that 30 submissions to the higher education policy review favoured changes to funding rates by discipline. It points to 'anomalies' in funding for the creative arts. It suggests that funding levels for government-subsidised commerce students encourage universities to offer places to full-fee students instead. It warns that universities are scaling down activity in teaching and nursing because of low funding rates. It frankly admits that there is 'inadequate data on the "right" level of funding in each discipline.'[2]

Though aware that discipline-level pricing is an issue, the Bradley committee does not propose fixing it before their voucher scheme is scheduled to start in 2010. Indeed, the report never sets out a clear process or timetable for establishing price-setting institutions. The closest they come to it is in recommending, as part of their triennial reviews of base funding, that the government develop options for achieving an improved 'sharing of costs between students and across discipline clusters.' But what matters for voucher systems is not 'cost sharing,' but specific prices per student place. These cannot wait three years for a triennial review.[3] The committee wants higher education providers to collect better cost data, which could be an input into price setting. But because this advice occurs in a section on postgraduate education, which is initially excluded from the voucher system, its broader significance is uncertain. And while the committee holds out deregulated course fees as a possibility at some point in the future, their actual recommendation is, with the exception of two disciplines, to leave student charges for voucher students as they are.[4]

In the Bradley report proposal, only two price-related reforms would coincide with the commencement of the voucher scheme. The Bradley committee would permit universities to charge more for their government-subsidised teaching and nursing courses. And all disciplines could share in the 10 per cent increase in teaching and learning funding, though the committee advises that funding increases need not be equal across all disciplines.[5] These are modest responses to a major problem.

With little change to student charges, the Bradley voucher system depends on government funding. Yet according to the committee's own analysis, successive federal governments have chronically under-funded higher education, leaving the deregulated international student markets to sustain the system. Nothing in the Bradley report gives us reason to believe that the future would be any different from the past. As this paper argues, the only realistic long-term option is to lift controls on student fees.

Prices for Australian higher education providers

There are hundreds of undergraduate courses available in Australia's thirty-seven public universities, but only twelve main price points for a unit of study (students are charged at the subject level, rather than the course). Price differences depend on field of study, and not on teaching methods, quality, brand, or any of the other factors that influence prices in other markets. The twelve price points are a combination of four prices paid by students (called 'student contributions') and seven by the federal government (called 'Commonwealth contributions'). All prices are expressed as per student place, giving the annual amount a full-time student would pay. Current prices can be seen in table 1.

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In 2009, the four student contribution amounts are \$4,162, \$5,201, \$7,412, and \$8,677. Universities can charge lower prices, but in practice this is very rare. Nursing and teaching are the cheapest courses, and law, commerce, medicine, dentistry, and veterinary science the most expensive. Total course costs depend on the length of the courses and the precise subjects taken—if an arts student takes a subject classified as 'science,' for example, he or she will pay more for that unit than for one in history or English literature. But whichever public university an Australian student enrols in, courses with similar names will cost very similar amounts. Compulsory amenities fees, previously set by universities to finance non-academic student services, were abolished in July 2006. This further tightened price control in the higher education sector.[6]

The federal government's seven different rates of contribution vary in 2009 from \$1,709 for law and commerce, to \$18,610 for dentistry, medicine, veterinary science, and agriculture. There is also a regional loading available, to compensate for the supposedly higher costs of teaching outside of metropolitan areas.[7]

Table 1: Funding by discipline, 2009

	Commonwealth contribution $	Student contribution $	Total $
Law, accounting, administration, economics, commerce	1,709	8,677	10,386
Dentistry, medicine, veterinary science	18,610	8,677	27,287
Computing, built environment, other health	8,389	7,412	15,801
Allied health	10,317	7,412	17,729
Engineering, surveying	14,664	7,412	22,076
Agriculture	18,610	7,412	26,022
Humanities	4,743	5,201	9,944
Behavioural science, social studies	8,389	5,201	13,590
Clinical psychology, foreign languages, visual and performing arts	10,317	5,201	15,518
Education, mathematics, statistics	8,389	4,162	12,551
Nursing	11,517	4,162	15,679
Science	17,914	4,162	22,076

Source: Department of Education, Employment and Workplace Relations, 'What you pay,' on the Going to Uni website.[8]

Note: Due to a Rudd government election promise, students starting maths or science in 2009 will pay the student contribution rates shown here. Students who have already enrolled will pay \$7,412, with a Commonwealth contribution of \$14,664. The total amount received by universities will remain unaffected.

These prices are based on a mix of historical and political factors. They derive largely from an expenditure study carried out twenty years ago, not present or forecast costs. From 1995 to 2004, a below-inflation indexation rate reduced the real price that universities received each year. After three years of increases in Commonwealth contributions, annual real reductions in base funding rates resumed in 2008.[9] This was partially offset in the last Howard government budget in 2007–08, when a number of disciplines received funding increases.[10] From 2005, universities were able to increase the student contribution amount by 25 per cent on previous HECS levels in all disciplines except teaching and nursing. However, due to below-inflation indexation of the student contribution amount, there have been real reductions in student contributions each year since then.

Actual costs

Though the overall financial position of universities is regularly reported, there is little publicly available information on the average costs per student by discipline. Indeed, it is only in recent years that universities themselves have developed methods of calculating their own costs on this basis. This is not a straightforward task. Teaching is co-produced with research and community service. Staff salaries, overhead expenses, and infrastructure outlays have to be distributed between these different activities. The expenditure attributed to teaching divided by the number of student places is the average cost per student place. However, putting an extra student in an existing course may be cheaper or more expensive than the average cost, depending on whether or not existing facilities and staff can be used. If they can, taking an additional student on this marginal cost basis may be profitable on the rates in table 1, even if the course loses money overall.

The Bradley committee's only discipline-specific change is to give teaching and nursing courses the 25 per cent student contribution amount increase they missed out on in 2005.

The only published study of average costs relative to funding is by the economic consultancy Access Economics. It looked at six universities for the year 2005, though only three had 'new cost models under development of equivalent sophistication to those found in other public utilities.'[11] With this caveat on data quality, table 2 categorises the disciplines examined into those that were, on average, loss-making, breaking even, or generating surpluses. Eleven are loss-making, five are breaking even, and six are generating surpluses. These averages conceal considerable variations between universities. At least one university lost money on all but two of the twenty-two disciplines. And another seven disciplines generated a surplus for at least one university. Targeted discipline-specific funding increases in the 2007–08 Budget would have altered the results, though of the disciplines in the 'loss' column only mathematics and other health received significantly higher rates.

Table 2: Funding compared to costs, various disciplines

Loss	Breakeven	Surplus
Admin/Commerce	Accounting	Built Environment
Economics	Behavioural science*	Foreign languages
Humanities	Social studies*	Engineering*
Mathematics*	Computing	Science*
Other health*	Education*	Agriculture
Visual and performing arts		Environmental studies
Dentistry*		
Medicine*		
Veterinary science*		
Nursing *		
Law		

Source: Access Economics, *Higher Education: Cost Relativities and Pipeline,* figure 1–2.

Note: '*' indicates a discipline that received additional funding in the 2007–08 Budget after this Access Economics report was published.

The Bradley proposal on prices

With no new price-setting mechanisms proposed for the start of the Bradley voucher system, by default it is likely to begin with a slightly modified version of the existing Commonwealth contributions (table 1). The Bradley committee's only discipline-specific change is to give teaching and nursing courses the 25 per cent student contribution amount increase they missed out on in 2005. This would add about $1,000 to the amount universities receive annually for each full-time student place.[12] Other disciplines would presumably share in the 10 per cent increase in base funding for teaching and learning in 2010. However, other recommendations mean that the increased price signal to higher education providers via Commonwealth contributions will be less than 10 per cent. The panel wants two clawbacks on total teaching and learning funding, one to finance a payment for achieving various performance and quality indicators, and another to support measures aimed at increasing enrolment levels among 'under-represented' groups.[13] Since these funds are awarded for reasons other than simply enrolling a student, and may not be received at all by institutions not meeting government targets, they should not be counted as part of the voucher's value. After deducting the clawbacks, the average increase to Commonwealth contribution amounts is likely to be around 6 per cent.[14]

Since universities have not been able to increase their prices, they have had to cut costs and find alternative sources of revenue, such as international students.

Because this 6 per cent increase applies only to Commonwealth contributions, how it translates into the total value of a student place depends on the relative financial importance of Commonwealth and student contributions. The last column in table 3 shows how well the disciplines fare. In law and commerce, which have low Commonwealth contributions, the overall increase would be 1 per cent. Most disciplines would gain between 3 per cent and 5 per cent. This would compensate for inflation over 2008 and 2009, but otherwise make little difference. If enrolling extra students at average cost did not make sense in 2007—as table 2 suggests it did not in half the disciplines surveyed—it won't make sense in 2010 if the Bradley report is implemented without revision. Teaching and nursing do well, but their student contribution increases only match what other disciplines received in 2005. The Bradley report would leave the long-term funding relativities between disciplines largely unchanged.

Table 3: 2010 indicative funding under Bradley recommendations

	Commonwealth contribution $	Student contribution $	Total $	Increase on 2009
Law, accounting, administration, economics, commerce	1,819	8,677	10,496	1.1%
Dentistry, medicine, veterinary science	19,810	8,677	28,487	4.4%
Computing, built environment, other health	8,930	7,412	16,342	3.4%
Allied health	10,982	7,412	18,394	3.8%
Engineering, surveying	15,610	7,412	23,022	4.3%
Agriculture	19,810	7,412	27,222	4.6%
Humanities	5,049	5,201	10,250	3.1%
Behavioural science, social studies	8,930	5,201	14,131	4.0%
Clinical psychology, foreign languages, visual and performing arts	10,982	5,201	16,183	4.3%
Mathematics, statistics	12,390	4,162	16,552	4.8%
Education	8,930	5,201	14,131	12.6%
Nursing	12,260	5,201	17,461	11.4%
Science	19,069	4,162	23,231	5.2%

Problems for a voucher scheme

Incorrect prices for student places are problematic under any regulatory system. The effects of price signals can be displaced but not abolished. Since universities have not been able to increase their prices, they have had to cut costs (for example, as seen in rising student:staff ratios) and find alternative sources of revenue, such as international students. University budget deficits occur when the combined effects of these measures are not enough. Because under the current centrally controlled system, Canberra bureaucrats rather than universities set the broad distribution of places between disciplines, universities will not necessarily reduce the supply of under-priced disciplines. Universities juggle their overall finances to meet their student place targets, rather than adjusting targets to improve their finances.

Under a voucher system, discipline-level prices are more important. They provide the financial impetus for universities to change their behaviour at the discipline level, and take away the central controls that currently prevent universities from acting on the financial incentives. With incorrect prices, the goals of a voucher system won't be met, and we risk unintended consequences contrary to its goals.

Moving places between disciplines

In principle, a voucher scheme could drive a shift in places towards the fields of study most preferred by students. In Australia, the most obvious potential for realigning supply and demand is between courses in science and courses leading to the health professions. For science courses, universities consistently make more offers of places than there are first-preference applicants. At the same time, applicants are turned away from courses in health professions that draw on similar interests and aptitudes, as seen in figure 1. There have been serious shortages of health professionals, but no shortage of general science graduates.[15]

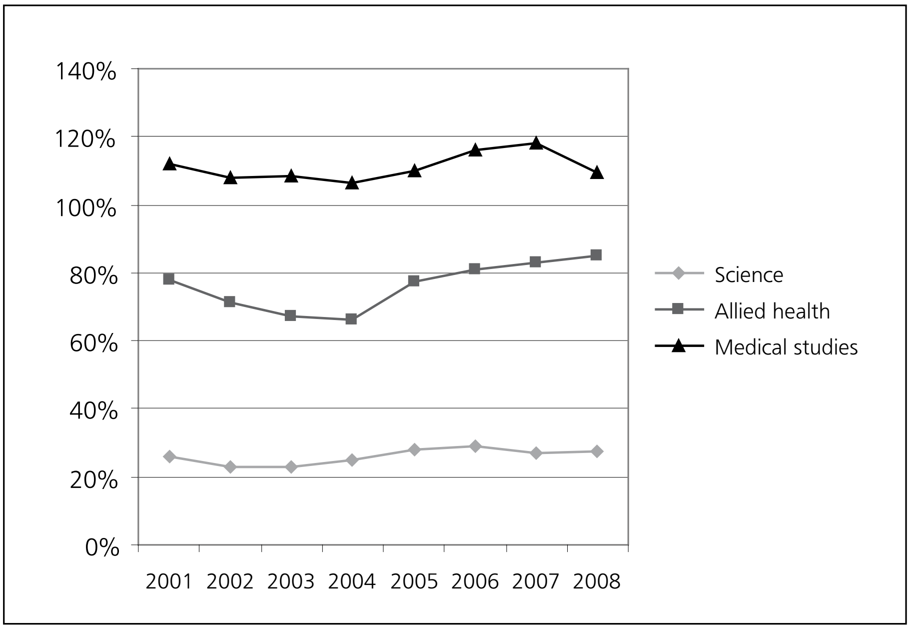
Because the Bradley committee has not recommended any mechanism for correcting discipline-level prices before their voucher scheme starts, the imbalance between science and health courses may persist. In the absence of a much larger study of costs in the two fields of study, we cannot say for sure what funding incentives universities will have. But the Access Economics study reported in table 2 suggests that on average, places in science courses generate surpluses while places in health-related occupations generate losses. If this is correct, and the Bradley increases were applied without adjustment, science would receive a slightly larger funding increase than health courses other than nursing (table 3). The funding reforms would provide no incentive to shrink science or to expand health.

Deregulating supply without fixing prices encourages universities to reduce student enrolments in high demand but loss-making disciplines.

Indeed, deregulating supply without fixing prices encourages universities to *reduce* student enrolments in high demand but loss-making disciplines.[16] Similar concerns motivated the Bradley panel to depart, for teaching and nursing only, from their general hands-off approach to disciplinary pricing. Those concerns were overstated under the current system of imposing funding 'agreements' on universities, which require them to provide places in particular disciplines. But under the voucher scheme, the Bradley committee proposes that the funding agreement constraint be lifted.

Past experience suggests that more favourable funding conditions can trigger rapid enrolment increases in private higher education providers.

Figure 1: Offer rates, selected disciplines



Source: DEEWR, Undergraduate Applications, Offers and Acceptances 2008

Creating more institutional choice?

An incorrect pricing system would also struggle to alter the division of enrolments between institutions. The vice-chancellor of the Australian Catholic University, Professor Greg Craven, has warned that the 'top and near-top' players in the higher education system may 'raid' the students of vulnerable regional and lower-prestige institutions.[17] The national applications data does not report the extent to which there is a mismatch between institutional applications and enrolments, but it is available for Victoria. Table 4 shows the result of deducting a university's share of first-preference applications from its share of enrolments. A positive number indicates more first-preference applications than enrolments; a negative number indicates more enrolments than first-preference applications. Five of Victoria's nine universities rely in part on second- or lower-preference applications to fill their places. They risk enrolment loss if their competitors accept more applicants.

Table 4: Applications less enrolments, market share 2008 (Victoria)

Melbourne University	4.0%
Monash University	2.7%
Deakin University	0.4%
RMIT University	0.0%
Ballarat University	-0.5%
Australian Catholic University	-0.7%
Swinburne University	-1.6%
La Trobe University	-1.8%
Victoria University	-2.5%

Source: Victorian Tertiary Admissions Centre, VTAC Statistics 2007–08, section C.

Note: Interstate universities, TAFEs and private providers have been omitted from this table.

Under this voucher scheme, it is quite possible that we will not see any significant change to the pattern of results recorded in table 4. Unless the marginal cost of taking in new students is much lower than the average cost, the financial incentive to expand is weak. And whatever the marginal cost, domestic students would continue to bring in much less revenue than international students. Because the overall funding increase proposed by the Bradley committee is low, it will be imperative for universities to continue recruiting international students. If there is additional capacity, foreign passport holders will be first in the queue.

As well as lifting regulatory constraints on public universities, the Bradley report recommends more equal treatment of private higher education providers and TAFEs offering diploma or above courses (some TAFEs already offer bachelor degrees). After some regulatory changes to accreditation and quality control, the Bradley report recommends bringing these institutions into the higher education funding system on the same basis as public universities.[18]

Despite university leaders regularly declaring themselves to be in crisis, voters think that they are doing well compared to how they think public schools or the health system are doing.

In theory, opening the system up in this way should give students more choice. Past experience suggests that more favourable funding conditions can trigger rapid enrolment increases in private higher education providers. Table 5 is a before-and-after record of commencing undergraduate enrolments for several private institutions that, between 2004 and 2006, gained access to the FEE-HELP loan scheme, which provides HECS-like income-contingent loans to full-fee paying students. Avondale and Notre Dame also have some Commonwealth-supported places. As can be seen, their enrolments increased significantly when the funding system changed, despite Bond University in particular continuing to charge much higher fees than public universities.

Table 5: Commencing domestic bachelor-degree students

	2004	2006	Increase
Avondale College	194	281	44.8%
Bond University	319	636	99.4%
The University of Notre Dame Australia	1,048	1,625	55.1%
Total	1,561	2,542	62.8%

Source: DEEWR, *Students: Selected Higher Education Statistics*

There is the potential for much more such change, but without a reformed price-setting system many private institutions are likely to stay outside the publicly funded system. This is because their current fees exceed the maximum income per student they could receive (table 3) under the Bradley funding proposal. The expenditure needed to maintain their courses could not be sustained on the Bradley funding rates. From an examination of the institutions listed in the *Good Universities Guide 2009*, a consumer guide to higher education providers, it seems most likely that TAFEs, religious colleges, and alternative healthcare colleges would enter the public system.[19] Institutions that offer expensive alternatives, such as low staff:student ratios, would need to stay in the full-fee sector.

Can prices be set properly?

Though private higher education providers have the option of staying outside the voucher system, public universities will have their existing Commonwealth-supported places converted to voucher places. For public universities, the voucher price-setting mechanism is crucial to their future finances.

The Group of Eight, a lobby group representing the major research universities, has suggested a method for setting prices. They recommend establishing an independent higher education regulator, the Australian Tertiary Education Commission (ATEC), which would be advised by the Productivity Commission on an 'indicative' cost for various fields of study. Universities would then be free to set fees up to 25 per cent higher than that.[20]

The key to credible 'indicative' prices is a shift away from the average costs per student reported in the Access Economics report, and towards 'normative' costs per student.[21] Though average costs help explain and predict how universities behave, using average costs in a price control regime risks institutionalising historic over- or under-spending. Normative costing would examine what it ought to cost to provide a course, given the requirements of accreditation bodies and employers, the class sizes and teaching methods appropriate for typical students in the course, and the need to maintain or replace equipment and facilities. In the Group of Eight proposal, fee flexibility leaves space for universities to charge less if they can meet the minimum standards at lower than average cost, or to charge more if there is student demand for a package providing better than the minimum standards.

Higher education is cheap or expensive not compared to other countries, but compared to the long-term private benefits it will generate.

Though the Group of Eight proposal would be a major improvement on the Bradley recommendations, normative pricing would remain difficult. Price regulation is more common in industries such as electricity, communications, gas, and water, where there is an easily defined product with clear tests of quality. In higher education, however, standards are often contentious. The Bradley committee, for example, believes that institutions calling themselves universities should conduct research in all the broad fields of study in which they offer courses. They admit that it is 'difficult to find compelling evidence' that graduates from research universities are better than those from teaching-only institutions, suggesting that this would add costs without commensurate benefits.[22] Yet under the Bradley regulatory regime, a normative cost approach would need to include the expense of diverting staff from teaching to research activities.

Political realities of price control

Even for the most competent regulator, price control in higher education involves major conceptual and practical difficulties. But even if it could be done well, how likely is it that it would be done well? The historical record is hardly encouraging. Though policymakers in the late 1980s set out to create a uniform system, making it relatively easy (in theory, at least) to set course standards, cost them, and fund accordingly, this was *never* done. Instead of taking this normative costs approach, policymakers relied on a study of actual expenditure patterns at the time. After that, even average costs were not examined again until the 2007 Access Economics study, but the results of that study were not fully implemented. The subsequent budget decisions (the disciplines asterisked in table 2) had only a modest relationship to the Access Economics findings, with two disciplines that appeared to be profitable for universities nevertheless receiving a funding increase, while funding rates for several loss-making disciplines were left unchanged.

The election of a federal Labor government provides little reason for believing things will consistently change for the better. Despite proclaiming an 'education revolution' in early 2007, Labor went to the November 2007 election without a higher education policy beyond a few ad hoc announcements. The real cuts in funding per student place during the Coalition years came from the below-inflation indexation policy introduced by the Keating government and retained by the Rudd government in its first budget. And now the economic downturn is limiting the funds that will be available for public investment in higher education.

Whatever the hopes and intentions of individual politicians, higher education is, in practice, a low budget and policy priority for both major political parties. Each government faces the same basic problem of demands on government spending vastly exceeding the fiscal capacity to meet them. Inevitably, choices have to be made. Higher education suffers because it has a relatively small political constituency, and struggles to compete with mass-constituency spending priorities such as schools or health. Universities have never succeeded in putting themselves high on the political agenda. Indeed, despite university leaders regularly declaring themselves to be in crisis, voters think that they are doing well compared to how they think public schools or the health system are doing. Table 6 shows the results of a 2008 poll which found that while 19 per cent of voters thought that universities were doing only a fair or poor job, 48 per cent held that view of public schools. Table 7 shows that most voters continue to believe that the standard of health services is declining. As figure 2 demonstrates, particularly for health, state and federal governments have responded to these concerns financially.

The Bradley report is another chapter in the long story of pricing neglect.

Table 6: Public opinion on performance of universities and public schools

How good a job would you say universities are doing?		How good a job would you say public schools are doing?	
Excellent	18%	Excellent	8%
Good	53%	Good	38%
Fair	16%	Fair	35%
Poor	3%	Poor	13%
Don't know/not sure	10%	Don't know/not sure	6%

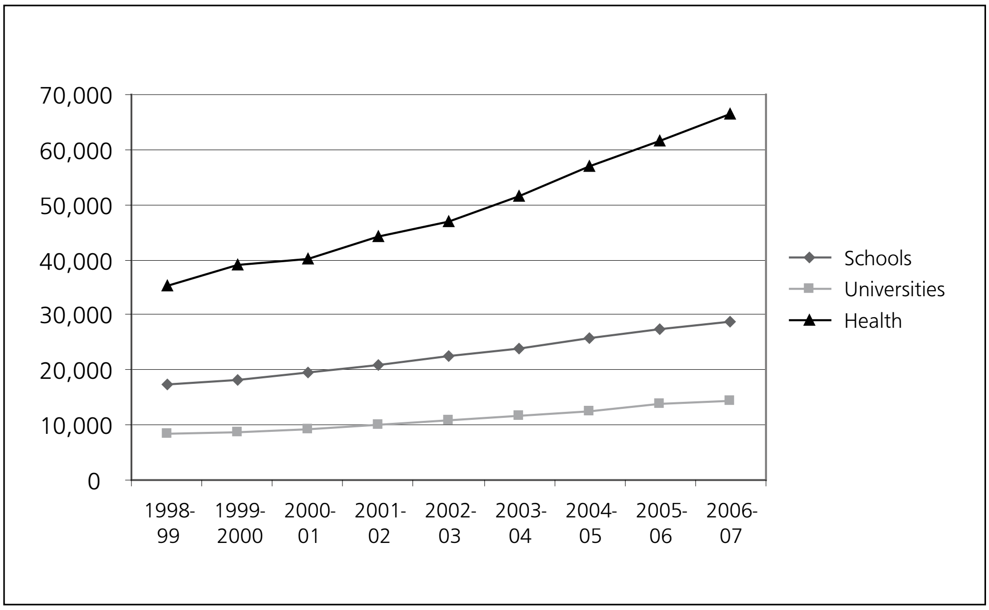
Source: ANU Poll 2008

Table 7: Standard of health services since the last federal election

	1996 to 1998	1998 to 2001	2001 to 2004	2005 to 2007
Increased	12.1	12.9	11.9	10
Stayed the same	25.2	32.9	28.3	29.7
Fallen	62.8	54.2	59.9	60.4

Source: Australian Election Survey

Figure 2: Health and education funding, all Australian governments 1998–2007, $millions



Source: ABS, Government Finance Statistics, Cat. 5512.0

Even if it was feasible for a government regulator to set higher education prices, the long-term politics of government funding, supported by the historical record, suggests that it won't be done properly. Governments would reject the regulator's advice if it meant diverting funding from other programs of greater political importance. There is only one large group of people with a strong interest in making sure higher education is funded properly: students. Yet apart from teaching and nursing, the Bradley review recommends no change to student contribution rates.

The Bradley view on student contributions

The Bradley committee's recommendation to maintain student contribution amounts is, given the critical role that prices play in voucher schemes, among the most important conclusions in their report. Under a full or partial-but-significant deregulation of student contribution amounts, higher education providers could rectify current pricing errors. We see this already occurring in the full-fee international student market, where universities respond to demand because prices are attractive. A full or partial-but-significant deregulation of student contribution amounts would also improve the range of institutional choices available to students. With common funding rates, the current system adopts Henry Ford's approach to the mass-produced Model T car: you can have any colour, so long as it is black. With a price-deregulated voucher system, the fees at some private higher education providers would become more affordable (because they would enter the voucher system, and lower their prices because of the subsidy), and public universities would be able to offer options such as lower student: staff ratios than are currently possible. To forgo these advantages, the arguments against student contribution amount deregulation need to be strong.

International comparisons

The most frequently cited reason the committee gives for maintaining current student contribution amounts is that Australian students already pay high fees compared to other countries.[23] However, this fact is not in itself significant. Higher education has to be paid for, and in the OECD the choice is generally between high fees or high taxes. Table 8 shows that, with one clear outlier in Ireland, countries with free education have high tax burdens, and that countries with high fees tend to have relatively low tax burdens. These in turn reflect broader national trade-offs between private and public provision of education, health and other services. In lower-tax countries, graduates pay higher direct costs for attending university, but get to keep more of the benefits of being a graduate through lower tax rates. Higher education is cheap or expensive not compared to other countries, but compared to the long-term private benefits it will generate. As the Bradley report itself correctly notes, on average Australian graduates enjoy significant financial advantages over non-graduates and are likely to continue to do so.[24]

For international comparisons of fees to have provided a significant reason to keep the current Australian rates, the Bradley committee needed to explain how Australia gets worse outcomes as a result of being a high-fee country. It did not do so. On its own account, Australia's level of degree-level education attainment is above the OECD median.[25] All the countries with high fees in table 8 match or exceed our levels of degree-level attainment.[26] Though some free education countries also have high attainment levels, the key variable is student places rather than course prices. Free education can reduce attainment levels because governments control their total expenditure on higher education by limiting the number of student places. By spreading lower per student subsidies over a larger number of people, fee-charging can increase access and attainment.

Table 8: OECD university fees and government revenue

High fee countries	Average Fees $US PPP 2004-05	Government revenue as % of GDP 2005
Japan	5,568	32
United States	5,027	33
Australia	3,855	36
Canada	3,464	41
New Zealand	2,671	45
Free education		
Denmark	0	57
Finland	0	53
Iceland	0	47
Ireland	0	35
Norway	0	57

Sources: OECD, Education at a Glance 2008, table B5.1c; OECD, Economic Outlook 83, Annex table 26

Affordable and appropriate student contributions

The committee also assert that 'higher education is becoming less affordable.'[27] This statement appears in a section that is mainly about student income support, a very different issue to tuition charges, which can be deferred through income-contingent loans. But nevertheless, the committee takes the opportunity to deem current student contribution amounts 'appropriate.' This is a very large claim. In most other circumstances, consumers rather than government-appointed committees determine whether or not prices are 'appropriate.' How does the Bradley committee know that the current prices—with their inevitable implications for the quality and level of education that will be available—are appropriate for all?

Unfortunately, the report provides no explanation as to how the committee arrived at its insight. Given the diversity of students, their many reasons for attending university, and their varying potential for future financial reward, a flat price structure is a counter-intuitive idea that needs a defence it never gets. Student diversity is discussed only in terms of sociological status or on the basis of enrolment (full-time/part-time).[28] For young students with their entire working lives ahead of them, investing significant amounts in their human capital is likely to prove a good investment. They have plenty of time to earn the cost of their tuition and then much more. The Bradley report cites a study finding an average $1.5 million graduate lifetime earnings premium over someone with a Year 12 qualification.[29] Even very high fees would be 'affordable' in the context of lifetime earnings at this level (and many individuals have premiums well in excess of $1.5 million). For mature-age students who will start earning a graduate premium much further into their working lives, the likely returns are not as great, and so a lesser investment is likely to be 'appropriate.' There are also significant minorities of students who take university courses mainly out of personal interest.[30] The 'appropriate' prices for courses not likely to generate a financial return would typically be lower than for courses that lead to higher salaries.

The diversity of students implies a diversity of 'affordable' and 'appropriate' prices that cannot easily be known in advance, if at all. But we do know from the deregulated higher education markets—for postgraduate and international students—that courses at a wide range of prices find buyers. This evidence of actual student behaviour should count for more than the unsubstantiated intuitions of the Bradley committee.

Getting prices right

The Bradley committee's voucher scheme is a radical policy initiative. In theory, it could bring significant benefits. It could help more students get into their first-preference course. It could foster institutional diversity by letting TAFEs and private higher education providers offer places on the same funding basis as public universities. It could improve the student experience, with competition encouraging higher education providers to improve their services. However, the Bradley committee jeopardised this policy potential by not recommending a decisive break with the failed pricing and funding policies of the past.

In a voucher scheme, prices do the micro-level steering work given to the bureaucracy in the current centrally controlled system. Getting prices right is crucial. Yet instead of setting up sophisticated systems for setting prices, the Bradley committee offered more of the same: ad hoc disciplinary adjustments and sector-wide indexation unsupported by cost research. The 3 per cent to 5 per cent funding increases per student place that most disciplines will receive are trivial compared to the spending the committee deems necessary on academic salaries, student:staff ratios, and improved facilities. The Bradley report is another chapter in the long story of pricing neglect.

Though a professionally staffed and operated price-setting agency would improve on the current lack of price-setting mechanisms, it would struggle with its task. Disagreements over standards, institutional diversity, and the different things students hope to get from their studies make a price regulator's job extraordinarily difficult. And if the regulator proposed a high price, which the government would then have to pay—increases in student contributions having been ruled out—then the government would, on its past record and future need to choose between competing budget priorities—decline to pay.

There is an obvious alternative to putting hope over experience and trusting the government to set prices competently and fund them appropriately. The model is right before our eyes: the deregulated fee markets for postgraduates and international students that have successfully operated over many years. These have boomed while the Commonwealth-supported higher education sector has stagnated. Though the Bradley committee is nervous about completely uncapping fees, there are evolutionary options, such as the Group of Eight's proposal to relax but not abolish price caps. There is nothing in the report that provides a good objection to such incremental change.

Despite the policy potential of a voucher scheme, the Bradley report does not provide a blueprint for the future. But we do not have a missed opportunity yet. The policy vacuum left by Labor not having a higher education policy remains to be filled. The education minister, Julia Gillard, has said that she will respond in broad terms to the Bradley report in early March. There is still a chance to get higher education policy right.

Endnotes

1. Denise Bradley (Chair), Peter Noonan, Helen Nugent, Bill Scales, *Review of Australian Higher Education Final Report* (Canberra: Department of Education, Employment and Workplace Relations, 2008). The reference to deficits is on 148; student:staff ratios are discussed at 149–150; and staff issues are discussed in most detail at 23–24. The recommendations are at 6 and 153–154.
2. *Review of Australian Higher Education*, inadequate data, creative arts and commerce at 161–162, nursing and teaching at 166.
3. As above, 154, 162. Improved 'sharing' of costs between disciplines is obscure, but may be a concept from a block grant funding system, in which universities are given lump sums to deliver a set number of students from each discipline. Improvements to discipline funding help ensure aggregate funding is sufficient, while leaving it to universities to allocate that funding internally between disciplines.
4. As above, 163.There is also a recommendation (at 164–166) that, inconsistently with the committee's general belief that student charges are already high enough, all higher education providers should be able to offer full-fee courses, subject to the condition that students using their vouchers cannot enrol.
5. As above, 161.
6. The current government proposes bringing back a charge of up to $250 per student per year: Kate Ellis, 'Rebuilding Student Support Services in Our Universities,' media release 3 November 2008, www.mediacentre.dewr.gov.au/mediacentre/Ellis/Releases/RebuildingStudentSupportServicesinourUniversities.htm (Accessed 24 December 2008).
7. No convincing evidence shows that costs are intrinsically higher in regional areas. However, low enrolments on some regional campuses would increase the average costs per student. The Bradley committee proposes extra funding for regional higher education, *Review of Australian Higher Education,* section 3.7.
8. www.goingtouni.gov.au/Main/FeesLoansAndScholarships/Undergraduate/CommonwealthSupportForYourPlaceAndHECS-HELP/WhatYouPay.htm (Accessed 24 December 2008).
9. The funding increases were driven by contingent funding for workplace relations and governance reforms, amounting to an increase of 2.5 per cent in Commonwealth contributions for each of the three years.
10. Julie Bishop, 'Increased Funding and Flexibility for Universities,' media release 8 May 2007, www.dest.gov.au/ministers/bishop/budget07/bud05_07.htm (Accessed 24 December 2008).
11. Access Economics, *Higher Education: Cost Relativities and Pipeline*, report to the Department of Education, Science and Training, March 2007*,* section 1.1.
12. *Review of Australian Higher Education,* 166–167. However, actual costs to students will not increase if they work in teaching or nursing because their HELP repayments will be forgiven by up to $1,500 and reduced by $1,500 for up to five years.
13. As above, 159–161.
14. The Bradley report does not say by how much per student funding would increase, so estimates are necessary. In making this calculation, I have assumed that the money for the current Workplace Productivity Program, which the committee recommends (at 173) be redirected to teaching and learning funding, will go to the Commonwealth Grant Scheme. I have also assumed that the effects of the clawbacks will be lessened by using existing funding for the Learning and Teaching Performance Fund, the Indigenous Support Fund, the Higher Education Equity Support Fund, and the Higher Education Disability Support Fund, all of which are deemed (at 204) to be part of teaching and learning funding. Other assumptions are possible, but the clawback means that overall increase in Commonwealth contributions will be less than 10 per cent.
15. Evidence of labour market shortages is provided in *University of Melbourne Submission to the Review of Australian Higher Education* (The Bradley Review), 30. www.unimelb.edu.au/publications/docs/2008bradleysubmission.pdf (Accessed 27 December 2008).
16. Universities do have a sense of public obligation, which combined with internal politics, makes it difficult to bring about significant change. So this outcome is not necessarily likely while there are still some alternatives for universities. However, a voucher system with incorrect prices would heighten risk.

17. Greg Craven, 'Educated guesses has its risks,' *The Age*, 18 December 2008.
18. *Review of Australian Higher Education*, 157. The reasoning behind this delay is not very strong because the weaknesses of the current accreditation and quality control system are, based on the report's own account, more serious for the self-accrediting public universities. See the discussion in section 4.1, 115–139.
19. Richard Evered et al., *The Good Universities Guide to Universities and Private Higher Education Providers 2009*, (Melbourne: Hobsons Australia, 2008). A full analysis of this issue would be a major exercise because most private providers are not covered, and only indicative fees are available . I looked for a course in the major field of study for specialised institutions, and a generic degree such as business for more general providers. The TAFEs offer lower prices because they incorporate vocational education subjects into higher education courses.
20. Group of Eight, *Seizing the Opportunities*: *Designing New Policy Architecture for Higher Education and University Research*, Group of Eight, June 2007.
21. The terminology comes from Jamil Salmi and Arthur M. Hauptman, 'Innovations in Tertiary Education Financing: A Comparative Evaluation of Allocation Mechanisms,' World Bank Education Working Paper Series, No. 4, September 2006, 12.
22. *Review of Australian Higher Education*, 124–125.
23. As above, 1, 141, 152, 163.
24. As above, 15, 27.
25. As above, 18.
26. Though there are problems with the attainment data for comparative purposes for some of those countries, see 'Dent in the Data,' *Inside Higher Ed*, 22 December 2008, www.insidehighered.com/news/2008/12/22/oecd (Accessed 15 January 2009).
27. *Review of Australian Higher Education*, 58.
28. As above, xii, 70.
29. As above, 27.
30. For example, in a 2005 survey 75 per cent of respondents gave as their main reason for university study something to do with work, and 19 per cent nominated 'interest or personal reasons': see Australian Bureau of Statistics, *Education and Training Experience 2005* Cat. 6278 (Canberra: ABS, 2006).

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