



Degree Inflation:

Undermining the value of higher education

Steven Schwartz

THE CENTRE FOR
INDEPENDENT
STUDIES

Analysis Paper 48
May 2023



CIS Education
Program



A catalogue record for this book is available from the National Library of Australia



Degree Inflation:

Undermining the value of higher education

Steven Schwartz



CIS Education
Program



Analysis Paper 48

Contents

Executive Summary	1
All Shall Have Degrees	3
Dollars for Degrees	
Crushed by Credentials.....	4
Do Graduates Have Higher Order Cognitive Skills?.....	5
The Graduate Premium.....	6
Graduates and Growth.....	7
The Economic Impact of Universities	8
The Story Thus Far	9
The Business of Universities	
The University Cost Disease	10
Income-Contingent Loans: The Good, the Bad, and the Ugly.....	10
Universities: Fairness, Justice, and Purpose	
Policy 1. Where Feasible, Drop Degree Requirements for Jobs.....	13
Policy 2. Raise the Esteem of Vocational Education	13
Policy 3. Minimise Moral Hazard	13
Policy 4. Reform Regulation.....	14
Policy 5. Reconsider Research.....	15
Final Thoughts	15
Acknowledgements	16
Endnotes.....	17

Executive Summary

The last 20 years have seen explosive growth in universities. At the same time, vocational education and training (VET) faced a tsunami of financial challenges. As a result, VET is now stigmatised as a second-class education option, and employers demand university credentials for jobs that formerly did not require them. This credential inflation severely disadvantages those with the ability and experience to perform a job but, for one reason or another, were unable to study at a university. Instead of increasing social mobility, the vast growth in degrees has had precisely the opposite effect.

As the number of graduates increased, the economic value of their degrees withered. Twenty per cent, or more, of today's university students, would have been better off financially by skipping university and going straight from school to work. The same is true for the thousands of students that drop out of university each year.

Yet, universities continue to churn out more degrees, each worth less than the previous one. They justify their behaviour with fatuous "economic impact" studies designed to prove that universities are engines of economic growth. Even a cursory look at these studies reveals a shaky foundation of assumptions, assertions, and guesses. Because they ignore opportunity costs, economic impact studies are of no value in helping politicians decide where to focus government spending.

As degrees proliferate, many graduates find themselves working in fields other than the ones they studied at university. Universities claim their degrees remain relevant because they endow graduates with higher-order cognitive skills applicable to any job. They offer no objective evidence for this claim.

An end to degree inflation would bring many social and economic benefits. Employers would have access to a larger and more diverse pool of potential employees whose experience and skills render them equally, or even better, qualified than applicants with degrees. The value of further education, trade schools, military training, and on-the-job apprenticeships would be enhanced, as would life-long learning. Young people who aspire to climb the career ladder but whose circumstances preclude higher education would be spared spending fruitless years in university running up debt.

Universities are expensive to run because they are pre-industrial craft industries in which productivity gains are rare. They find it difficult to control their costs and rely instead on increasing their income by enrolling more students. This business model has made Australian universities among the largest universities in the world, but the quality of the education they provide has suffered. The ratio of staff to students has deteriorated, and tutorials

barely exist.

Because good students already attend university, expanding enrolments requires lowering admission standards. Universities have nothing to lose by admitting poorly prepared students (and failing to provide them with remedial support) because they keep the fees even when dropouts and graduates fail to repay their loans. Although the graduate premium is shrinking, marginal students continue to enrol in universities because they also have little financial risk; taxpayers pick up the cost of their unpaid loans.

Degree inflation and the perverse incentives of the funding system have combined to blight the life chances of many members of the young generation. Without any change, student debt will continue to mount, large amounts of capital will be misallocated, and social mobility will remain stalled. It is time for a policy reset.

A just distribution of risk, subsidies and resources would benefit students from disadvantaged backgrounds as well as the wider society. Fair equality of opportunity would be enhanced by adopting five policy proposals.

1. Where feasible, drop degree requirements for jobs. Overnight, the value of professional societies, vocational schools, online educators, specialised training, and the military would be enhanced.
2. The esteem of VET would also be improved by combining it with higher education and allowing students to include VET subjects in their degrees.
3. Reduce regressive subsidies and ensure that universities and graduates carry more of the risk of non-repayment.
4. Reform regulation and accreditation to encourage innovation and experimentation rather than conformity.
5. Brilliant academics represent Australia's finest intellects, but we cannot expect to find a world-beating genius standing in front of every lecture theatre. For most academic staff, teaching should be their job and doing it well should be the basis of their career progression.

Perhaps the biggest challenge of all is the reinvigoration of the cultural, moral, and character-building functions of higher education. It is not easy to challenge the myth that universities exist solely for economic advancement, but it is worth trying.

Introduction

"The university is a community of scholars and students engaged in the task of seeking truth.

Karl Jaspers, *The Idea of a University*

"Tertiary education should be regarded as an investment that yields direct and significant economic benefits.

LH Martin, *Tertiary Education in Australia*

"The heralded social dividends of education are largely illusory: rising education's main fruit is not broad-based prosperity but credential inflation.

Bryan Caplan, *The Case Against Education*

There is a story going around about a plumber and a neurosurgeon. The plumber arrived at the customer's house to fix a blocked toilet. Within ten minutes, the job was done, and the plumber presented the customer with an invoice for \$300. She couldn't believe her eyes. "Three hundred dollars for just 10 minutes? That's \$1800 per hour! I'm a neurosurgeon, and I don't make that much!" The plumber simply shrugged and said, "I know. I didn't make this much when I was a neurosurgeon either."

Okay, this might be an exaggeration, but the truth is that some plumbers do earn more than many surgeons. And believe it or not, the gap between the salaries of graduates and non-graduates is rapidly narrowing. This is not what we've been taught to expect. The traditional view is that higher education increases graduates' earnings because the knowledge and skills they acquire at university make them more productive than non-graduates. But times are changing, and the economic value of a degree is decreasing. Universities, however, remain unaffected and continue to churn out more and more degrees — each worth less than the previous one.

This paper seeks to uncover the causes of 'degree inflation' and what can be done about it. It is divided into five sections. The first describes the staggering growth of higher education. The second analyses the effects of this growth on both graduates and those who were unable to attend university. The third examines the impact of higher education on national productivity and wealth. The fourth identifies the forces and policies driving the never-ending growth in degrees. As this paper is being written, the Australian government has initiated an inquiry aimed at improving the quality and sustainability of higher education. The last section attempts to assist this process by offering policy proposals designed to make higher education more affordable, useful, and fairer for all.

All Shall Have Degrees

Intergenerational mobility was at the top of William Charles Wentworth's mind when he announced the creation of the University of Sydney in 1850. A poet turned politician and newspaper owner, Wentworth's mission was to provide "the opportunity for the child of every class to become great and useful in the destinies of this country."¹ Wentworth claimed his new university would seek "to enlighten the mind, to refine the understanding, to elevate the soul."² There are lamentably few poets in parliament today, but Wentworth's words resonated with the public. Australia's first universities were a potent symbol of the young nation's egalitarian values. They were among the first in the world to admit women; religion was never a bar to study, and bursaries and scholarships were available from the outset for bright students who could not pay their tuition fees. (The University of Western Australia didn't charge fees at all.)

Wentworth, whose mother came to New South Wales as a convict, was an extraordinary example of social mobility. He studied law at Cambridge University and became a leader in his community. Although Wentworth championed social mobility, he was not a leveller. Taking his lead from Plato's Republic, he believed an educated elite should hold the highest positions in the land. In today's language, Wentworth wanted New South Wales to be a 'meritocracy' in which the best, brightest, and most motivated students (whatever their background) received the education required to rise to the top. By the early 20th Century, every Australian state had a university. Still, their total combined enrolment was only 4274 students.³ Such tiny student numbers made sense if universities existed to "enlighten the minds" and "refine the understanding" of a select elite.

The growth of higher education accelerated at the end of World War II when universities became a pathway for returned soldiers to enter the post-war economy. Instead of "elevating the soul," higher education came to be seen as a way to increase economic productivity.⁴ If university graduates make a country more prosperous, then the more, the better. By 1987, around 400,000 students were enrolled in higher education institutions.⁵ John Dawkins, the education minister at the time, saw a need for even more growth and undertook a series of institutional amalgamations. Overnight, teacher-training colleges, with few qualified university-level staff, were christened universities. This was the equivalent of painting stripes on donkeys and calling them zebras, but it worked. Fuelled by a new student loan system, enrolments swelled. And that was just the beginning.

In the early 2010s, the government abolished most admission quotas for Australian students.

With few exceptions, universities could enrol as many domestic students as they wished. The government agreed to provide teaching subsidies and access to tuition fee loans for every new student. Under this 'demand-driven' regime, university growth was turbocharged. To get a feel for the size and scope of the expansion in higher education, let's look at a few numbers.

Figure 1. Growth in student numbers (2001-2020).



- 1. Students:** As shown in Figure 1, student enrolments increased by around 780,000 in the past 20 years. The growth in domestic students outstripped population growth while the number of international students quadrupled.⁶ The five largest Australian universities are now among the largest higher education institutions in the world, twice the size of their average American counterparts and four times larger than the average British university.⁷
- 2. Undergraduate degrees:** The total number of undergraduate degrees awarded per year increased by 70%.⁸
- 3. Postgraduate degrees:** The number of master's degrees awarded more than tripled, from 31,367 per year in 2001 to 109,276 in 2019.
- 4. The proportion of graduates in the population:** In 2022, around 50 per cent of Australians aged 25-34 have at least one tertiary degree, close to a 70% jump from their parent's generation.⁹
- 5. University staff:** In 2010, universities employed 110,000 full-time-equivalent staff. Despite well-publicised pandemic layoffs, that number grew to 129,000 in 2021.¹⁰ Many of these new staff members were administrators whose main job was to comply with increasing levels of red tape. Note that the increase in academic staff did not keep up with the explosion in student numbers. More students were admitted to universities, but the quality of their education, as measured by the student-staff ratio, declined. We will return to this point later in this paper.

As universities expanded, vocational education and training (VET) faced a tsunami of challenges.¹¹ In the 1990s, the federal government introduced a policy of marketisation. To increase competition among providers, the government introduced user-pay funding. These innovations aimed to improve the quality and efficiency of the sector, but they were poorly implemented and regulated. State governments, the main funders of Technical and Further Education (TAFE), saw the introduction of student loans as an opportunity to reduce VET spending. Teacher numbers and classroom hours shrunk. Unethical providers exploited international 'students' whose real goal was permanent residency in Australia. VET, which had been gradually losing ground to universities for years, became stigmatised as a second-class education option. Employers shared this view. With the encouragement of professional organisations, they began to demand university credentials for jobs that formerly did not require them. Those with the ability and experience to perform a job but unable to study at a university for financial, health or other reasons were significantly disadvantaged.

While VET providers suffered, universities prospered. Their combined assets now exceed \$102 billion.¹² Despite the lingering effect of Covid-19, the University of Sydney's 2021 revenue exceeded \$3.5 billion, while the University of Melbourne's topped \$3.1 billion.¹³ According to universities, they are still not big or rich enough. They continuously lobby for more students, more grants, and other forms of preferential treatment. Will graduates, non-graduates, and the nation as a whole benefit from the further expansion of higher education? As we will see, in most cases, the answer to this question is no.

Dollars for Degrees

Universities made it possible for generations of graduates to climb the ladder of social mobility. My wife and I were the first in our families to attend university; our educations opened doors to us that would otherwise have remained shut. To give others the same chance, governments, philanthropists, and private investors vastly expanded the provision of higher education. Today's younger generation is the best credentialed in Australia's history. Yet, a study by the Organisation for Economic Development (OECD) found that the jobs young Australians wind up with are heavily influenced by their parent's wealth.¹⁴ According to the study, it could take four generations for the income of children from low-income families to

reach the OECD average. Instead of increasing social mobility, it seems the vast growth in degrees has had precisely the opposite effect.

Crushed by Credentials

Australians proudly extol their country's egalitarian values. Before the recent pandemic, even sitting in the back seat of a taxi was considered elitist. But nations do not always live up to their ideals. In Australia, money counts where it matters most, in education. Children from low-income families are far less likely to attend a university than those from wealthier families.¹⁵ For these children, demanding degrees for jobs that did not formerly require them has been a disaster; it has locked them out of the opportunity to move up economically and socially.

Australia is not alone. Creeping credentialism is ubiquitous in developed countries. *Failing by Degrees*, a widely cited Harvard Business School report, notes that 61% of American employers admit rejecting applicants who possess the required skills and experience simply because they do not have a degree. The report highlights the unfairness of degree inflation with a startling example: 67 per cent of job listings for the position of 'production supervisor' require university degrees, but only 16 per cent of people currently working in this role attended a university.¹⁶ Are the production supervisors currently working without degrees incompetent? Of course not. Employers are using degrees as an inexpensive way to screen job applicants, even though the credentials they demand have no connection to the position's duties.

An end to degree inflation would bring many social and economic benefits. Employers would have access to a larger and more diverse pool of potential employees whose experience and skills may render them equally — or even better — qualified than applicants with degrees. The value of further education, trade schools, military training, and on-the-job apprenticeships would be enhanced, as would life-long learning. Young people who aspire to climb the career ladder but whose circumstances preclude higher education would be spared spending fruitless years in university running up debt.

Unfortunately, credentialism remains alive and well in Australia, and the trend toward requiring expensive postgraduate degrees for jobs that formerly required a bachelor's degree is driving degree inflation even higher. Universities are content to go along because they benefit from serving as employment gatekeepers, while those lacking degrees suffer the consequences. But

what about graduates? Has the explosive growth in higher education given them new and better career opportunities? This question is addressed next.

Do Graduates Have Higher-Order Cognitive Skills?

You can learn practically anything at an Australian university — how to keep business accounts, calculate planetary movements, speak Japanese, and much more. At Swinburne University, students learn to do handstands as part of the Circus Arts degree¹⁷ Universities claim, with some justification, that these skills add to graduates' 'human capital', giving them greater value in the employment market. However, as the number of applicants with degrees multiplies, the competition for jobs becomes more intense. Some graduates cannot find employment in their field of study and wind up working in another area at lower pay.¹⁸ Universities claim their degrees are still economically beneficial because higher education does more than simply teach a set of job-specific skills. Graduates are also endowed with higher-order cognitive competencies such as critical thinking, creativity, and problem-solving.

According to universities, these higher-order skills, which apply to any job, allow graduates to assess evidence, mount cogent arguments, and express ideas more logically and clearly than non-graduates. For centuries, developing these abilities was the primary purpose of a liberal-arts education; but not today. Instead of encouraging students to study history, philosophy, and other humanities subjects, the government's 'Job-ready Graduates Package' is designed to dissuade them from such frivolities.¹⁹ The scheme makes tuition fees for traditional liberal arts subjects more expensive for students than those with more obvious ties to specific jobs.

Do courses in fashion design, circus arts, and other job-specific degrees produce graduates with higher-order skills? This is a reasonable question, given the large amount of money spent on higher education. Yet, there have been few attempts to provide an answer. Instead of measuring what students learn, the Australian government relies on a survey that asks graduates to rate the "extent your course developed your critical thinking skills."²⁰ While interesting, these judgments provide no information on what, if anything, graduates learned from their years of study.

Researchers have attempted to find out what university graduates learn. In 2012, the OECD

proposed creating an Assessment of Higher Education Learning Outcomes (AHELO) to measure graduate learning.²¹ Like the OECD's Program of International Assessment (PISA), which compares school learning in different countries, AHELO was intended to measure the outcomes of higher education internationally. To examine skills such as problem-solving, critical thinking, and clarity of expression among graduates from different countries, the OECD suggested using the Collegiate Learning Assessment (CLA) — an instrument already in use by some North American universities — to measure higher-order cognitive skills.²² Although feasibility studies were encouraging, universities were unenthusiastic, and the idea never went anywhere.²³ Over the years, universities have resisted every proposal to assess what their graduates have learned. It's hard to blame them; accountability can be embarrassing. When outcome measures have been forced on universities, such as the Literacy and Numeracy Test for Initial Teacher Education (LANTITE) (an examination required for prospective schoolteachers), a significant proportion of graduates fail; some after several tries.²⁴

Given the lack of objective data, it is impossible to determine whether Australian graduates possess special high-order cognitive skills. In contrast to higher-order skills, data on everyday skills are readily available. These data come from the OECD's Survey of Adult Skills (SAS), which compares how adults in various countries perform in literacy, numeracy, and some forms of problem-solving.²⁵ Australians do well on the SAS, scoring among the top five OECD countries in literacy and around average in numeracy. However, the best predictor of a country's adult literacy and numeracy is not the number of university graduates but secondary school performance as measured by PISA.²⁶ The added value of university education on literacy and numeracy is modest. This is especially true of Australia, where the difference between graduates and school leavers is less than half the OECD average.²⁷ Although it is possible that graduates picked up numeracy and literacy skills at university, a more likely explanation is that school leavers with above-average literacy and numeracy choose to go to university.

In summary, Australian universities teach a vast range of skills (including handstands). Graduates also have somewhat better numeracy and literacy skills than non-graduates. But there is no objective evidence that university degree holders possess higher-order cognitive skills applicable across jobs. Let's now turn to the second argument for further expanding universities: graduates earn more money than non-graduates.

The Graduate Premium

On average, graduates benefit financially from their degrees; they earn higher salaries and are less likely to be unemployed than those who did not attend a university. This is hardly surprising, given that many jobs are reserved for applicants with a university qualification. The additional lifetime income enjoyed by graduates is called the 'graduate premium'.

Methodological differences make it difficult to pin down the precise size of the graduate premium. Some studies compare average graduate salaries to the salaries of school leavers. In contrast, other studies compare degree holders to those with upper- or post-secondary vocational qualifications or simply the average national salary. The method used to determine graduates' income varies across studies. Some rely on income tax data, while others use employer surveys, job advertisements, census data, or a combination of measures. Researchers vary in how they account for the opportunity costs of income lost while studying, and they use different discount factors to convert lifetime income to a present value.

Focussing on average salaries is problematic because the graduate premium varies among degree programs. Medical and dental graduates receive significant premiums, whereas graduates in fine arts earn no premium at all.²⁸ Institutional prestige counts as well. Over a lifetime, the income of graduates of elite research universities is higher than graduates of less well-known institutions. (Because elite universities recruit the most talented students, their higher graduate premium may reflect their students' inherent ability rather than anything they learned while studying.)²⁹

Although the precise size of the premium is arguable, most graduates receive one. Many economists believe that graduates earn their premium because the knowledge and skills they gain at university make them more productive than non-graduates.³⁰ Universities wholeheartedly agree. They continuously lobby for growth, claiming that more graduates will increase national productivity and prosperity. But their argument has a fatal flaw: it ignores the effect of the enormous increase in degree holders. Substantially increasing the money supply reduces the value of every dollar. The same is true of educational qualifications. To see why, let's begin with a brief thought experiment.

The justification offered by universities for awarding more degrees is usually stated in the form of a syllogism. Lawyers are among the

highest-paid professionals. This means they must be among the most productive. (Why else would they be paid more?) Thus, Australia will become more prosperous by turning out an endless stream of lawyers.

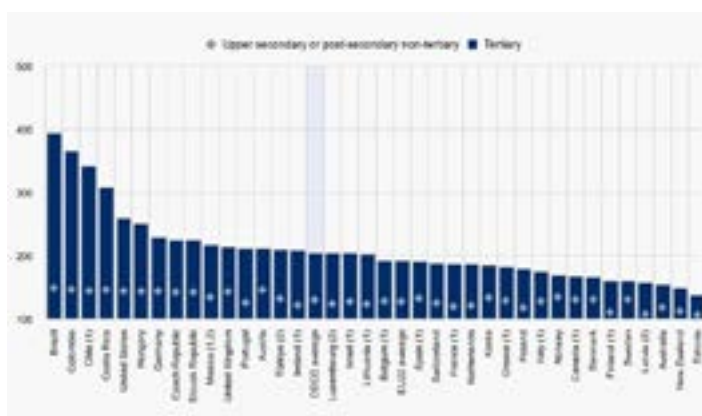
Sceptical? You should be.

If there were no limits to their growth, the supply of lawyers would eventually exceed the legal work available. Salaries for lawyers would shrink, and many law graduates would have to settle for other jobs. Some would find themselves in lower-paid employment; others would be happy to have a job at all.

The futility of producing endless numbers of lawyers also applies to graduates in other fields. It is impossible to create high-paying jobs for every university graduate without limits. As the supply of degree holders increases, we should expect the graduate premium to shrivel. And this is precisely what is happening. According to the Grattan Institute, the average graduate premium in Australia declined from 25% above the average salary in the 1990s to around 15% in the 2010s.³¹ A recent study by the Australian Council of Educational Research found that the decline has continued.³² The Australian Treasury reports that real graduate wages have fallen furthest in large cities where many graduates are competing for the same jobs.³³

Figure 2. Relative earnings of 25-64-year-old adults by educational attainment (2020)

In per cent. Below upper secondary = 100.



Once again, Australia is not unique. The graduate premium is also withering in New Zealand, the Nordic countries, Canada, and the USA.^{34, 35} Indeed, practically every country with a fast-growing higher education sector has experienced a drop in their graduate premium.³⁶ The relationship between the number of degrees awarded and the average graduate premium is illustrated in Figure 2. While there are some outliers, the trend is clear. Countries with few graduates, such as Brazil and Colombia, have

high premiums, whereas nations with many have small ones.

A highly progressive income tax regime, generous minimum wages and degree inflation have combined to reduce the economic value of Australian university degrees. The Australian graduate premium is now the third smallest among members of the OECD, only half the OECD average.³⁷

The deterioration in Australia's graduate premium is even more apparent when we look beyond averages. Graduates with the same degree earn different salaries. Focusing on low-paid graduates (the bottom 20 per cent) in a variety of disciplines, Australian researchers found that most would have achieved higher lifetime earnings by skipping university and taking up employment immediately after completing Year 12.³⁸ Given that there are more than one million domestic higher education students in Australia, 20 per cent represents hundreds of thousands of Australian graduates who will be worse off financially because they attended a higher education institution. The thousands of students who never complete their degree would also be better off if they had gone directly to work after school.

Students are beginning to get the message. Taking advantage of the tight post-covid labour market, they are going directly to work after completing their secondary education. As a result, undergraduate student enrolments have plateaued or decreased in many countries.³⁹ But Australian students are not quite ready to shun universities. On the contrary, more students are enrolling in postgraduate degrees to compensate for the loss in the value of bachelor's degrees. Master's tuition fees are much higher than undergraduate fees, so universities are keen to offer more. Some universities are happy to enrol master's students even without an undergraduate degree. Unfortunately, as Australian master's degrees proliferate, their premium also shrinks. It is now only half the OECD average.⁴⁰ What happens next? Will employers require file clerks to have doctorates?

To summarise, the growth in higher education over the past 20 years vastly profited universities. Most graduates also benefitted, but the size of the graduate premium has been shrinking for decades, and a significant number of graduates (and dropouts) would have been better off entering the workforce after completing secondary education. What about

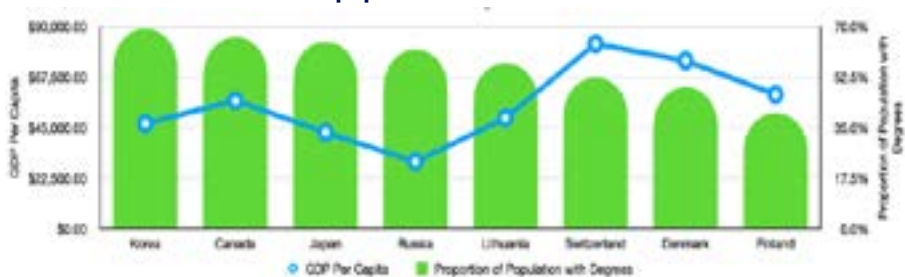
the nation? Has the growth in higher education resulted in higher national wealth? This is the subject we turn to next.

Graduates and Growth

One way to study the effect of graduates on productivity and economic output is to compare the percentage of the population with university degrees in countries or regions with different Gross Domestic Products (GDPs). If degrees drive productivity, the GDP per capita should rise along with the number of graduates. Many such studies have been conducted, but the evidence for a link between higher education and GDP is equivocal at best. In the mid-2000s, the UK Department of Business and Skills studied the relationship between the growth in GDP per employment hour and the share of the population with degrees in 15 countries. The authors failed to find any strong relationship.⁴¹ Other researchers have had a similar difficulty.⁴² Although some studies have found the number of graduates to be positively correlated with growth in per capita GDP,⁴³ the direction of causation is unclear. Is a growing economy making more money available to expand student places or the other way around?

These disparate findings are the result of differences in methodology. Like the graduate premium, there is no agreed method for measuring the effect of university education on per capita GDP.

Figure 3. The relationship between GDP per capita and the proportion of graduates in the population.



Researchers must make choices. Do they count all people with degrees or only older workers who have had more time to contribute to economic growth? Should researchers lump all graduates together, or should the number of graduates be adjusted to reflect fields of study, age, sex, and other demographic variables? The most important choice of all is which countries or regions to compare. As shown in Figure 3, the relationship between the percentage of

people with degrees and per capita GDP can be positive or negative depending on which subset of countries are compared (data from OECD).^{44, 45}

The correlation between per capita GDP and the proportion of graduates across the eight countries depicted in Figure 3 is negative ($r = -.57$). As the number of graduates rises, per capita GDP falls. This should not be taken to mean that increasing the number of graduates makes countries poorer. The world is more complicated than that. Wages are not merely a function of education. They depend on a country's natural resources, geography, taxation, welfare, housing, climate, trade unions, and immigration policies. In her book, *Does Education Matter?*, Alison Wolf illustrates the point using the example of bus drivers.⁴⁶

A bus driver—[is] a job found the world over and involving highly uniform skills. Yet ... a bus driver in Germany is paid thirteen times as much as one in Kenya.... If, somehow, a group of Kenyan bus drivers manage to transfer to bus driving jobs in Germany, their wages would skyrocket. Does this mean that they would have suddenly become much more productive? Did something magical occur as they stepped across the border, endowing them with a whole new set of skills? [p. 27]

The human capital of Kenyan bus drivers does not increase with migration. Their wages rise because Germany is a wealthy country with generous minimum salaries, strong trade unions, and employment policies that protect workers.

To complicate matters further, graduate wages are also affected by personal factors. For example, those who are the first in their families to go to university have poorer career prospects than the children of graduates.⁴⁷ Similarly, graduates of elite universities make more money than those of lower-ranked universities. These employment outcomes are not easily reconciled with the idea that wages reflect human capital. If the graduate benefits from their superior knowledge and skills, why should an irrelevancy like parental education or university prestige make any difference? Economists such as Michael Spence have an explanation; they call it 'signalling'.⁴⁸

From many applicants, employers try to pick the ones that will be most successful on the job. The problem is they don't know which candidates will prove to be the best workers, and there is no objective test — there's no blood test, no behavioural test, and no observational test. Employers are forced to rely on 'signals'

they believe are associated with good job performance. Having parents who are graduates, for example, might signal that applicants have role models from whom they learned good work habits. Similarly, attending a prestigious hard-to-get-into university could signal high intelligence, diligence, or both.

Unlike human capital, signalling views productivity as an inborn capacity that may be identified but not boosted by attending a university. From a signalling viewpoint, graduates receive a premium because education provides them with a credential rather than special cognitive skills. If degrees are signals that help applicants to obtain good jobs, everyone will seek one. Unfortunately, awarding more degrees is self-defeating because they are 'positional' goods whose value declines as more people have them. Eventually, the proliferation of bachelor's degrees wipes out their value and drives students to seek master's degrees, and the inflationary cycle repeats.¹

Thus far, we have focussed on the economic value of higher education to those who earn degrees. Universities claim that the wider public, including those who do not attend a university, also benefit from their activities. They claim to measure these benefits using 'economic impact' studies, which are discussed next.

The Economic Impact of Universities

According to London Economics, Australia's Group of Eight research universities contributed \$66.4 billion to the national economy in a year.⁴⁹ Other universities make similar claims. James Cook is good for \$800 million, while the Regional Universities Network contributes \$1.8 billion.⁵⁰ ⁵¹ Deloitte Access Economics says that for every extra 50,000 university graduates, an additional \$1.8 billion of economic activity is generated annually.⁵²

Universities offer economic impact studies as proof that they are engines of economic growth. However, a peek below the surface of these studies uncovers a flimsy façade, a Potemkin Village, resting on a shaky foundation of assumptions, assertions, and guesses. The problem lies in the studies' use of ready-made statistical models. Consulting firms purchase the right to use these models and then sell their

i Human capital and signalling are not mutually exclusive; a university education could provide both. The result is the same. Expansion reduces both the capital and signalling value of degrees.

services to clients. The models are so general that they can be applied to just about anything — the Eiffel Tower contributed €344 billion to the French economy,⁵³ while the Sydney Opera House contributed \$1.2 billion to the Australian economy over five years.⁵⁴

When applied to higher education, models require consultants to make assumptions about the number of jobs universities create, the amount of money students and staff spend, and the 'multiplier' effect of these expenditures as they make their way around the economy. Including multiplier effects in impact studies is particularly problematic. It assumes governments, students, and investors would not spend their money elsewhere if universities did not exist. Or, if they did spend, there would be no multiplier effect.⁵⁵ Some impact studies use the proportion of the population holding degrees as a multiplicative input. According to the Australian Productivity Commission, "At the extreme, [this] implies that Australia's GDP would be zero if all workers with tertiary qualifications did not have those qualifications."⁵⁶

From a policy viewpoint, the biggest problem with economic impact studies is their failure to consider opportunity costs — the potential benefits forgone when choosing one investment over another.⁵⁷ Because resources are limited, there are always trade-offs when deciding where to allocate funds. Investing taxpayer funds in a university diverts resources from other investment opportunities that may have a greater effect on the economy. The relative costs and benefits of an investment in higher education versus putting money into a new airport, research laboratory, or another project are ignored by economic impact studies. This is why these studies always produce 'positive' findings. After all, spending on anything will produce some economic effect.

Note that economic impact studies are notoriously subject to bias or conflicts of interest. Universities commission consultants to conduct such studies to justify their requests for funding. No university will pay high consulting fees for a report that says they are minor drivers of productivity. In the understated words of the Australian Productivity Commission, economic impact studies "(when paid for by parties with a vested interest) need to be interpreted with caution."⁵⁸

The Story Thus Far

The past 20 years have seen explosive growth in higher education and graduates. Universities have grown more affluent, but degree inflation

has severely restricted the career opportunities of those who did not attend a university. Jobs that were once performed competently by people without degrees have become closed to non-graduates because many employers rely on university degrees to screen applicants.

Despite their spectacular growth, universities constantly lobby for more students. They claim that graduates are endowed with higher-order cognitive skills that drive productivity and make the country richer. Universities commission dubious economic impact studies to show that their activities are major drivers of economic development. The evidence for this claim is equivocal, at best.

As the number of graduates increased, their salary premiums withered. Twenty per cent, or more, of today's university students would have been better off financially by skipping university and going straight from school to work. The same is true for the thousands of students that drop out of university each year. As bachelor's degrees proliferate and lose their lustre, more employers demand post-graduate degrees. Because universities can set any fee they wish for a master's degree, students will sink further into debt.

Can we make higher education fairer for current and future generations? Before answering this question, we must first have a close look at the business of universities.

The Business of Universities

Visit any university, and you are bound to see impressive buildings. You may also encounter a decorative crest that looks like a medieval coat of arms accompanied by a motto, sometimes rendered in Latin. The buildings, crests, and mottos are designed to convey a seriousness of purpose, a sense of history, and an aura of status. It is all impressive, but don't be misled; universities are businesses. They purchase equipment, consume supplies, and employ labour to create products and services, which they sell at a price. Costs constrain the volume and quality of a university's output, and revenues influence which services and products they provide.⁵⁹ If their income fails to exceed their expenditures, universities go broke. In short, universities display all the characteristics of a typical business.

Except for a small number of proprietary institutions, public and private universities are

not-for-profit enterprises; but they do make money — sometimes lots of it. Despite spending \$7 million per day (including weekends and holidays), the University of Sydney finished 2021 with a surplus of more than \$1 billion.⁶⁰ (Like any business, universities can also make losses.)⁶¹

When they have surpluses, universities use them to improve teaching, conduct research, build new facilities, purchase equipment, and award scholarships to needy students. They also use surpluses to provide staff with high salaries, managers with substantial perks, and students with lavish facilities (pools, gyms, bars). Just because an institution is a not-for-profit does not mean that no one benefits. The average yearly income of Australian vice-chancellors is around \$1 million, putting them among the highest-paid university leaders in the world.⁶²

Like other businesses, universities are fiercely competitive — but not for profits. The coin of the higher education realm is prestige. Despite differences in resources, size and age, all universities are engaged in a perpetual arms race to move up the prestige ladder. An international ranking industry has evolved to measure their progress. Everyone in higher education knows that university rankings are of dubious validity. Still, all vice-chancellors want their institution to move up the league tables, and they do not hesitate to boast when they do.

Universities seek prestige to attract high-performing students and respected academics, which, in a virtuous circle, further increases their prestige. Prestige is not merely window dressing; it has a clear market value. The government sets maximum undergraduate fees for domestic students, but international and postgraduate student fees are determined by institutional prestige. A University of Melbourne Master of Business Administration costs \$99,600, but you can pick one up from Southern Cross University for \$37,044. Like designer watches or sports cars, a degree from an elite university is a 'Veblen good', for which demand increases as the price goes up.⁶³ Curiously, despite their superior pricing power, even elite universities are chronically short of money. They suffer from a severe and incurable 'cost disease'.

The University Cost Disease

No matter how much money a university spends, competition means there is always a desire to spend more. Buildings designed by celebrity architects, elaborate sporting facilities, high technology research equipment... the list is endless. Cost savings are rare because higher education is a pre-industrial craft industry with little automation, standardisation, or

division of labour. Artisan academics handcraft bespoke courses they deliver to students whose performance they individually assess. With no standard teaching methods, curricula, or examinations, every subject in every university is unique. Their individuality makes subjects expensive to design and implement. Universities are also profligate when it comes to their infrastructure. Long, languid holidays leave most university teaching spaces idle for six months throughout a year. If academics could be convinced to do all their teaching solely in the first or second half of the year, two universities could run in the same set of buildings.

Since it takes the same time to prepare and deliver a one-hour lecture today as it did in Wentworth's time, apart from crowding more students into lecture theatres, teaching productivity has barely budged in two centuries. At the same time, academic salaries have increased in line with those in the broader economy. Because wages — which represent half or more of a university's expenditure — usually rise faster than inflation, the cost of running a university also rises faster than inflation. This phenomenon, which affects many labour-intensive arts industries (symphony orchestras, ballet companies), is known as Baumol's 'cost disease'.⁶⁴ Without productivity gains, universities require above-inflation revenue increases every year simply to maintain the status quo. Adding new facilities, courses, and academics requires even more spending. To find the money, universities admit more students and entice as many as possible to enroll in 'cheap to teach' business courses they use to subsidise expensive courses such as laboratory-based science. Endlessly increasing international and domestic student numbers is the business model of every Australian university.

Income-Contingent Loans: The Good, the Bad, and the Ugly

Paying fees presents a problem for students from low-income backgrounds. If they wish to study, they must borrow money. But banks are reluctant to make student loans. Slavery has long been abolished, so there is no collateral for banks to sell should a graduate default. As a result, banks will only make loans to students if some credit-worthy entity (such as the government) provides them with a guarantee. This is what happens in the USA. Alternatively, a government could borrow on its credit and use the money to make student loans. This is the Australian system. Australian government loans are not just for

students from low-income backgrounds; all domestic undergraduates and some postgraduate students are eligible. (International students must find the money themselves).

The federal government pays the university fee on behalf of domestic students but does not begin recouping the loan until a student or graduate's yearly income reaches an earnings threshold (currently \$48,361). Unlike mortgages or car loans, student loan repayments are unrelated to the total amount owed. Like income tax, they are calculated as a percentage of yearly earnings. Repayments, made through the tax system, start at one per cent and gradually rise along with income. These 'income-contingent' loans are an efficient, fair, and attractive solution to the reluctance of banks to invest in human capital. Unlike traditional mortgage-style loans, defaulting on an income-contingent loan is impossible because repayments are matched to a graduate's income. Graduates who lose their jobs, take time off to have children, or never reach the earnings threshold, have no obligation to make payments.

In the 1980s, when the Higher Education Contribution Scheme (HECS) began, income-contingent loans only applied to public universities. Students in other tertiary education institutions were ineligible. State-funded TAFEs did not charge high tuition fees but required students to pay for materials and other course resources upfront. The ability to defer payment made universities more attractive than vocational alternatives. The government did not extend income-contingent loans to college and VET students until 2012. Unfortunately, as noted earlier, state and territory governments viewed the availability of student loans as an invitation to reduce their expenditures, and some private providers rorted the funding system by providing a second-rate education.

In 2017, the government decided to limit VET students' access to 'VET Student Loans'. Student loans were targeted mainly toward 'job-ready' courses deemed to have strong employment outcomes. The resulting decline in enrolments and revenue led some VET providers to cut staff, eliminate programs, and even close campuses. Years of reputational damage and cost-cutting have taken their toll, reinforcing the idea that VET lacks the esteem of higher education.

Income-contingent loans make access to higher education a matter of brains, not bankbooks, but they also have five distinct downsides:

- 1. Student loans do not incur a real rate of interest.** Although student loans are adjusted for inflation, they carry no real rate of interest. The difference between what graduates pay for their loans and the cost of

government borrowing represents a subsidy provided by all taxpayers, including those who never had the opportunity to attend a university. The graduate premium may be declining, but these subsidies still represent a regressive transfer of resources from lower to higher-paid people. If a graduate is too ill to work or dies, taxpayers must absorb the cost of the loan principal; yet another subsidy. In tough economic times, these subsidies can mount up. The nominal amount of outstanding student loans is now around \$70 billion, almost four times Australia's total credit card debt.⁶⁵ Government audits estimate that \$20 billion dollars of student loans will never be repaid.⁶⁶ Because student debts are indexed to inflation, which is currently running high, the nominal amount owed will multiply over the next few years. As explained earlier, this will not affect student payments, which depend on income; but unpaid debts will ultimately fall on taxpayers, including those who do not have degrees.

- 2. Price insensitivity.** Postponing loan payments until graduates reach the earning threshold mutes price signals. Because domestic students are not sensitive to price, all universities charge the maximum permitted. From time to time, governments have tried lowering or even eliminating tuition fees to attract more students to specific fields (nursing, for example).⁶⁷ These attempts are always unsuccessful because price is not a significant determiner of the courses students choose to study.

- 3. Moral hazard for students.** The loan system encourages students to borrow more than they would if repayments were not income-contingent. Borrowing is rational because the government (on behalf of taxpayers) is taking all the risk. If graduates benefit from their education and reach the income repayment threshold, they use their graduate premium to repay their loans. If they never reach the income threshold, they are not liable for repayments, and the government absorbs the loss. Imagine offering margin loans to stock market speculators on similar terms. If the speculators make a killing, they repay their loan and keep the profit. If their investments collapse, the taxpayer makes good their losses. Who wouldn't accept such a deal? Keeping gains while shifting losses to others is known as moral hazard, and it also affects universities.

- 4. Moral hazard for universities.** As universities expanded over the past 20 years, the highly ranked ones enrolled the best-qualified students, forcing lower-ranked

universities to reduce their entry standards. At the same time, the ratio of students to academics increased, lowering the quality of the education offered. Not surprisingly, lower admission requirements and lower-quality education have resulted in falling completion rates.⁶⁸ Because universities receive their fees upfront and are not responsible for collecting loan repayments, they bear no economic consequences for admitting academically marginal students who drop out. Nor are universities penalised for granting degrees to students who poorly performing students who wind up in non-graduate jobs and never earn enough to repay their loans. In other words, universities keep tuition fees while taxpayers bear all the losses.

- 5. Perverse incentives.** Moral hazard creates perverse incentives for both students and universities. As noted earlier in this paper, at least 20 per cent of graduates, and most dropouts, are not achieving success in the labour market. Some cannot find jobs that correspond to their qualifications and will never make enough money to repay their student loans.ⁱⁱ Although the graduate premium is shrinking, students keep borrowing because the taxpayer picks up the cost of their unpaid loans. As more degrees are awarded, consulting firm Econtech expects graduate per capita productivity to decrease and outstanding student debts to rise. According to Econtech, “expanding the university sector is likely to involve easing admission requirements so that the additional places are filled with students whose ability is below the average of existing students.”⁶⁹ Universities are not worried. They admit increasingly marginal students and crowd them into large classes because they get to keep their fees even if these students never repay their loans. Marginal students often wind up in jobs that do not require their credentials. They become disenchanted, unhappy, and unproductive. Meanwhile, workers who would appreciate having those jobs are frozen out because they lack a university credential.

Moral hazard, degree inflation, and the perverse incentives of the funding system have combined to blight the life chances of many members of the young generation. Without any change, student debt will continue to mount, large amounts of capital will be misallocated, and social mobility will remain stalled. It is time for a policy reset.

Universities: Fairness, Justice, and Purpose

Traditionally, higher education helped students to understand their past, introduced them to new ideas and concepts, and fostered empathy for those from different cultures and backgrounds. Graduates left university with an appreciation of scholarship and a lifetime love of learning. Despite their emphasis on the economic value of their degrees, universities still confer valuable benefits on graduates, and contribute, in many different ways, to the functioning of our society. However, just because something is good does not mean more is better. Sunlight is essential for the body to produce Vitamin D, but excessive exposure leads to skin damage and cancer. As this paper has shown, the same is true of higher education. Once a significant contributor to social mobility, the colossal growth in universities has had the opposite effect. Degree requirements freeze disadvantaged people out of many jobs, while regressive taxation forces low-paid workers (whose children rarely attend university) to subsidise middle and upper-class children who do. The current higher education regime is not only unfair, but it is also failing to achieve its own economic goals. As shown in this paper, there is no automatic connection between the number of university graduates and a country’s per capita GDP, and, despite the huge number of graduates, Australian productivity has barely budged for years.

Universities are right to be concerned with preparing students for employment; a fulfilling career is essential to a good life. I was once an Executive Dean of Medicine — our teaching was, and remains, vocational. Our medical students learn a set of necessary vocational skills, but these skills are nowhere near sufficient. Successful doctors also need to learn tolerance, empathy, and sympathy. They must be able to identify with the fears and worries of patients, understand how society and culture shape behaviour, and, above all, they must accept and implement a strict ethical code. Lawyers, teachers, and other professionals face similar imperatives. Indeed, all workers — whatever their job ⁷⁰— require two vital skills. Aristotle called them moral will and moral skill. Learning these skills is the real purpose of higher education.

Unfortunately, the over-hyped and largely imaginary economic benefits of higher education, epitomised by fatuous economic impact studies, have obscured the traditional character-building goals of higher education. Australian universities

ⁱⁱ Pensioners who elect to study at a university know from the outset that their loans will never be repaid.

demean and debase themselves by defining their purpose as issuing employment credentials for employers. They are much more important than that.

This final section offers some advice to the government's review of higher education and the Accord process. It offers policy suggestions designed to improve social mobility, make university funding fairer, and (with some luck) restore the status and standing of higher education.

POLICY 1. Where Feasible, Drop Degree Requirements for Jobs

In his famous book, *A Theory of Justice*, the political philosopher John Rawls sets out principles for a just society.⁷¹ Rawls understood that genetic traits, personal motivation, and luck will always produce inequalities among people. It is impossible to engineer total equality, nor can we control the vicissitudes of life, but we can try to provide everyone with 'fair equality of opportunity'.

Fair equality of opportunity was also the stated goal of Josh Shapiro, the newly elected governor of the American state of Pennsylvania. On his first day in office, Shapiro announced that access to 65,000 jobs, covering 92 per cent of state government workers, would no longer require a university degree. Shapiro explained his decision as follows: "I don't care if you have a ... degree on your wall or not. If you're qualified for the job, you deserve the job."⁷² He went on to say:

Every Pennsylvanian should have the freedom to chart their own course and have a real opportunity to succeed. They should get to decide what's best for them — whether they want to go to college [university] or straight into the workforce — not have that decided for them.

Shapiro is a Democrat, but Republican state governors have taken similar steps, and so have private businesses, including Google, Accenture, and IBM. The post-pandemic difficulty in finding staff doubtless played a role in their decision to drop degree requirements. Still, these policy changes are nevertheless historic because they disrupt decades of uninterrupted growth and provide greater opportunities for those at the bottom of the social ladder.

Using the same logic, Australian federal and state governments could make Australia fairer by eliminating degree requirements for all positions apart from those that require them

for professional registration (doctors, for example). Instead of a university degree, job descriptions should specify the skills needed for success. Employment decisions should be based on capability and experience, not on irrelevant credentials, sex, or family background. Private employers, some of whom have already eliminated degree requirements, are likely to follow the government's lead.

POLICY 2. Raise the Esteem of Vocational Education

For various reasons discussed in this paper, VET education is often seen as cheap and second-rate when compared with university education. Such attitudes not only disadvantage VET students, they also disadvantage the public. The nation needs a supply of well-trained skilled workers. Parity of esteem between higher and vocational education would be easier to achieve when the same institutions offer both vocational and higher education. There are already several universities in Australia that offer both, but there should be many more. In addition, higher education students should be able to include vocational subjects in degrees and vice-versa.

POLICY 3. Minimise Moral Hazard

As noted, moral hazard affects both students and universities. Students take on more debt than they should, because taxpayers pick up the cost of unpaid loans. Universities accept marginal students and scrimp on the quality of the education they provide, because they get to keep tuition fees even when graduates fail to repay their loans. For society, the result is a massive misallocation of resources. Minimising moral hazard requires rebalancing the risk of non-repayment of student loans.

Instead of a burden born mainly by taxpayers, students and universities should also share the risk of non-repayment. Let's start with students.

Under the HELP regime, the loan charge equals the rate of inflation, which is less than the government pays to borrow money. The difference between the government's borrowing costs and inflation is a subsidy to graduates paid for by all taxpayers. The result is deeply unfair. Those who do not have the opportunity to study at a university subsidise the education of doctors, lawyers, and other professionals who make more than they do. (Economist Nick Barr described this arrangement as "Taxing beer to pay for champagne.")

Politicians offer two reasons to justify such a regressive subsidy. First, everyone benefits from an endless stream of graduates because they make the country richer. As this paper has shown, this claim is simply false. The second rationale for subsidising student loans is to allow students from low-income backgrounds to access higher education. This argument would make sense if student loans were like mortgages. An interest rate subsidy would lower monthly repayments. Student loans are different. The repayments of income-contingent loans are calculated as a per cent of income, not of the amount borrowed. Charging graduates a real rate of interest adds to the amount of time it takes to repay their loans but makes no difference to their monthly payments.

Charging a real rate of interest would result in considerable savings for taxpayers, allowing the government to make more generous loans to those who need them. Instead of providing lawyers, doctors, and other high-paid professionals with interest subsidies, students who struggle economically could borrow living costs as well as tuition fees. Charging an interest rate set at the government's cost of borrowing would not eliminate moral hazard, but it would rebalance the risk of non-repayment from taxpayers to graduates.

Rebalancing risk also means removing the perverse incentive for universities to accept students who are likely to drop out or, if they manage to scrape through their course, never earn enough to repay their loans. Currently, funding limits create 'soft' caps on enrolments. Further limits would encourage universities to limit their intake to better-prepared students. Quotas serve a similar purpose, but they are politically difficult because governments are loath to be seen as restricting access to higher education.

Another approach would encourage TEQSA, the university regulator, to enforce its legal obligation to ensure that "students have the academic preparation ... and no known limitations that would be expected to impede their progression and completion." Judging from the attrition rates, some universities seem to be flaunting these requirements.

In addition, universities should be required to share the risk of non-repayment. The government has proposed a possible mechanism. That is, universities with high attrition rates will receive a cut to their 'performance-based' funding. A good idea, but the proposed amounts involved are tiny. A university with many dropouts would lose less than one per cent of the funding for those students. Such a small penalty will not change university behaviour. Making universities absorb a significant portion of a

dropout's tuition would send a stronger message, but it may lead them to lower standards and pass everyone. To avoid lowering standards, universities with high attrition rates and many unrepaid loans should not be permitted to expand student admissions. It may also be possible, although technically difficult, to require universities to retrospectively absorb some or all the losses currently covered by taxpayers. Whichever approach is taken, the idea is the same — make it less financially attractive for universities to admit poorly prepared students and award them degrees without remediating their academic deficits.

POLICY 4. Reform Regulation

For the past 12 years, Australian higher education has been regulated and accredited by TEQSA. In that time, student debt has soared to \$70 billion, with many students unable to repay their loans. This debt mountain is not surprising, given the huge increase in attrition rates. At some institutions approved by TEQSA, one-third of students fail to complete their degrees within six years.⁷³ None of these universities has been required to tighten its admissions criteria or provide greater support to struggling students. These universities are currently spending large sums recruiting even more students, money that comes from taxpayers. It is time for TEQSA to enforce its teaching quality requirements.

In addition to enforcing its standards, there is a role for TEQSA in encouraging universities to innovate. As Lord Keynes, the doyen of 20th Century economics, once said, the difficulty in improving society is not developing new ideas but "escaping from old ones." Because every Australian university must adhere to the same set of processes and procedures, there is little diversity among them. Innovation is rare because universities never know how TEQSA will respond. A 2017 review of TEQSA by Deloitte Access Economics highlighted the problem:

The original objective of 'continuous improvement' has become lost in the drive toward an uninspiring, standards-based middle ground. Innovation has become more difficult and risky for any provider at the very time it should be encouraged.⁷³

Six years later, the situation remains unchanged; innovation remains rare and higher education is characterised by stultifying and dull conformity. For the good of Australia, higher education needs urgent reform. It needs to move from time-based requirements (for example, a bachelor's degree requires three years of study) to outcomes (what students learn). Most important, an accreditation regime should encourage innovation. Most

universities make only minimal attempts to collect evidence they could use to improve course design, delivery and assessment. They need to do better. Successful teaching should be recognised and rewarded.

TEQSA's approach to accreditation implies that a good university is one with research academics, small classes, and lots of money. With accreditation requirements such as these, it is not surprising that Australian universities remain conservative, expensive, and unprepared to meet the challenges of rising costs. TEQSA does not encourage universities to produce high-quality learning outcomes at low cost; it ignores costs entirely. Too bad, because low-cost outcomes are precisely what society needs. TEQSA's accreditation model may have once been justified, but we live in a new era of mass education, and Australia's approach to accreditation is no longer fit for purpose.

POLICY 5. Reconsider Research

Australian universities have grown markedly since Wentworth opened the University of Sydney. They are no longer small institutions serving a tiny elite. Together, they employ 55,000 academics.⁷⁴ Except for a small number of 'teaching-only' staff, all academics are given time and sabbaticals to conduct research. Many receive research funding as well. TEQSA restricts the title 'university' to institutions that conduct research.

University research and scholarship have led to discoveries in science, medicine and many other fields. Through their scholarly work, academics have also helped to preserve and transmit our shared culture. They represent Australia's finest intellects, and they play an essential role in the progress of our civilisation. These scholars richly deserve the honours they receive. But we cannot expect to find a world-beating genius standing in front of every lecture theatre. It is ridiculous to claim that every single one of our 55,000 academics makes vital contributions to knowledge. For the vast majority of academic staff, teaching should be their job and doing it well should be the basis of their career progression.

Final Thoughts

If implemented, these policy prescriptions will put considerable financial pressure on universities. Fewer students may enrol if employers do not require applicants to have degrees. Requiring

universities to share their risk of repayment will force them to be more careful about whom they admit, which will reduce student numbers or require them to provide effective remedial teaching. Either way, Institutions will have to make savings.

These savings could come from having the majority of academic staff focus on teaching (all year, not just for six months). Research should be left to truly gifted intellectuals. Concentrating research in a small number of universities also makes sense; it is more efficient than doing a little research across many institutions. Only 33 per cent of American universities offer doctoral research degrees;⁷⁵ in Australia, the figure is 100 per cent.

Another area offering considerable room for savings is trimming the bloated bureaucracies of administration. Around half of Australian university staff members are not academics. Some are laboratory technicians, librarians, and IT experts, but among the thousands of others are many whose jobs are not essential to teaching, learning, or research. Their main function is to comply with the various demands of TEQSA, granting authorities and the government.

A TEQSA accreditation regime that encourages innovation rather than conformity would also help universities to harness new technologies, adopt new systems and perhaps even overcome their 'cost disease'. For students, particularly those from lower-income backgrounds, and the nation as a whole, adopting the policies recommended here would produce a fairer distribution of risk, subsidies, and taxes. The value of professional societies, the military, online educators, vocational schools, and specialised training schools would be enhanced. Capital would be allocated more efficiently, and social mobility would be improved.

To promote progress and innovation in higher education, a TEQSA accreditation regime that emphasises creativity and experimentation rather than conformity is needed. Permitting innovation would enable universities to leverage emerging technologies, embrace novel systems, and potentially overcome the 'cost disease' that currently plagues higher education.

Adopting the policies proposed here would lead to a more equitable distribution of risk, subsidies, and taxes, benefiting students from disadvantaged backgrounds as well as the wider society. The value of professional societies, vocational schools, online educators, specialized training, and the military would be amplified, while capital allocation would become more efficient, resulting in increased social mobility.

Perhaps the biggest change of all, and the hardest to achieve, is the reinvigoration of the

cultural, moral, and character-building functions of higher education. It is not easy to go challenge the myth that universities exist solely for economic advancement, it is worth trying. As the American writer, Flannery O'Connor wrote to a friend, "You have to push as hard as the age that pushes against you." It's time to rethink the purpose of higher education.

Acknowledgements

Although they may not agree with all my conclusions, this paper was greatly improved by the insightful suggestions of Andrew Norton, Matthew Taylor, Glenn Fahey, Phil Dolan and Simon Haines. Any remaining errors are solely my own.

Note: Discussion of the business of universities in this paper appeared in a different form in: Schwartz, S. (2015). University Price Controls. In C. Coyne & R. Coyne (Eds.). *Flaws and Ceilings*. London: Institute of Economic Affairs. (pp 158-176).

Endnotes

- 1 University of Sydney, Land Portal. <https://landportal.org/node/35468>
- 2 Perse, M. (1967). Wentworth, William Charles (1790–1872). Australian Dictionary of Biography (Vol. 2). <https://adb.anu.edu.au/biography/wentworth-william-charles-2782>
- 3 Commonwealth Bureau Of Census And Statistics. (191). *Official Year Book of The Commonwealth Of Australia, Containing Authoritative Statistics For the Period 1901-1915 And Corrected Statistics For the Period 1788 To 1900*. No. 9.—1916. Melbourne.
- 4 *Tertiary Education in Australia*. [L.H Martin report]. (1964). Australian Capital Territory: Government Printer. <https://www.voced.edu.au/content/ngv%3A53781>
- 5 Department of Education. (2014). Australian Capital Territory. Higher Education Statistics: Time Series Data 1949 – 2000. <https://www.education.gov.au/higher-education-statistics/resources/time-series-data-1949-2000>
- 6 Department of Education. (2023). *International student numbers by country, state and territory*. <https://www.education.gov.au/international-education-data-and-research/international-student-numbers-country-state-and-territory>
- 7 Davis, G. (2023). Why are Australian universities so large? Sydney: Sydney University Press. In Horne, J. & Thomas, M. (Eds.) *Australian Universities A Conversation about Public Good*. P. 41-54.
- 8 Universities Australia. (2022). *Higher Education Facts and Figures*. https://www.universitiesaustralia.edu.au/wp-content/uploads/2022/09/220207-HE-Facts-and-Figures-2022_2.0.pdf (Source for all student/staff numbers.)
- 9 OECD. (2022). *Population with Tertiary Education*. Paris. OECD. <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>
- 10 Duffy, C. (2020). Decade of neglect leaves TAFE with fewer courses and demoralised teachers. *The New Daily*. 9 July. <https://thenewdaily.com.au/finance/work/2020/07/09/tafe-neglect-coronavirus-recovery/>
- 11 Duffy, C. (2020). Decade of neglect leaves TAFE with fewer courses and demoralised teachers. *The New Daily*. 9 July. <https://thenewdaily.com.au/finance/work/2020/07/09/tafe-neglect-coronavirus-recovery/>
- 12 Larkins, F. (2023). Assets inoculated unis against COVID hit. *Campus Morning News*. 24 January. https://campusmorningmail.com.au/news/the-covid-boom/?utm_source=sendgrid.com&utm_medium=email&utm_campaign=website
- 13 University of Melbourne. *Annual Report 2021*. <https://www.annualreport.about.unimelb.edu.au/files/ugd/0ac31ac020d00cc771476eb51f2065413107d2.pdf>
- 14 OECD (2018). *A broken social elevator?* Paris. <https://www.oecd.org/australia/social-mobility-2018-AUS-EN.p>
- 15 Australian Council of Social Service: (2015). *Inequality in Australia. A nation Divided*. Sydney: ACOSS. https://www.acoss.org.au/wp-content/uploads/2015/06/Inequality_in_Australia_FINAL.pdf
- 16 Fuller, JB, & Manjari R. (2017). *Dismissed by Degrees: How Degree Inflation Is Undermining U.S. Competitiveness and Hurting America's Middle Class*. Boston: Accenture, Graduates of Life, Harvard Business School.
- 17 Swinburne University of Technology. (2023). Foundation Degree in Circus Arts (Course description). <https://www.swinburne.edu.au/study/courses/units/Foundation-Studies-in-Circus-Arts-BCA10002/local>
- 18 Cassidy, H. & Gaulke, AP. (2023). The Increasing Penalty to Occupation-Education Mismatch. *Edworking Papers*. Brown University. <https://edworkingpapers.com/ai23-760>
- 19 Department of Education. (2020). Job-ready Graduates Package. <https://www.education.gov.au/job-ready>
- 20 QILT: Quality Indicators for Learning and Teaching (2002). Student Experience Survey, National Report. (2022). [https://www.qilt.edu.au/surveys/student-experience-survey-\(ses\)](https://www.qilt.edu.au/surveys/student-experience-survey-(ses))
- 21 OECD. (2015). *OECD supports the assessment of learning outcomes in higher education*. Paris: OECD.
- 22 Klein, S, Benjamin, R, Shavelson, R, & Bolus, R. (2007). The Collegiate Learning Assessment. *Evaluation Review*, 31. 415-39.
- 23 Edwards, D. (2013). The AHELO Experience – Implementation, Outcomes and Learning From an Australian Perspective. Melbourne: Australian Council for Educational Research. https://www.nier.go.jp/06_jigyousymposium/i-sympo25/pdf/7_Edwards/paper_e.pdf
- 24 Barro, C. (2020) More teachers failing maths and English test. But not everyone got a fair go. *The New Daily*. <https://thenewdaily.com.au/news/2020/07/22/student-teacher-test-graduation/>
- 25 OECD Skill Survey (2019). PIAAC Round 3. International Launch Webinar. Paris. <https://www.oecd.org/skills/piaac/>
- 26 Field, S & Kis, V. (2013). Time for the US to Reskill: What the Survey of Adult Skills Says. PDF: https://www.researchgate.net/publication/305724399_Time_for_the_US_to_Reskill_What_the_Survey_of_Adult_Skills_Says
- 27 OECD Skill Survey (2019). PIAAC Round 3. International Launch Webinar. Paris. <https://www.oecd.org/skills/piaac/>
- 28 Corliss, MC, Daly, A & Lewis, P. (2020). Is a university degree still a worthwhile financial investment in Australia? *Australian Journal of Education*. Vol. 64(1) 73–90. <https://journals.sagepub.com/doi/pdf/10.1177/0004944120901883>
- 29 Dale, SB & Krueger, A. (2002). Estimating the Payoff to Attending a More Selective College: An Application of Selection on Observables and Unobservables. *The Quarterly Journal of Economics*, 117, 4, 1491-1527.

Stacy Berg Dale & Alan B. Krueger

30 Becker, G. (2010). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*. Chicago: University of Chicago Press.

- 31 Norton, A. (2018). A lower graduate premium is no cause for alarm. <https://grattan.edu.au/news/a-lower-graduate-premium-is-no-cause-for-alarm/>
- 32 Corliss, MC, Daly, A & Lewis, P. (2020). Is a university degree still a worthwhile financial investment in Australia? Australian Journal of Education. Vol. 64(1) 73–90. <https://journals.sagepub.com/doi/pdf/10.1177/0004944120901883>
- 33 Australian Treasury (2022). Productivity Edition. <https://treasury.gov.au/sites/default/files/2022-11/p2022-325290-fullreport.pdf>
- 34 HESA (2020). Research shows decline in 'graduate premium' less pronounced for 1st and 2:1 degrees. <https://www.hesa.ac.uk/news/10-03-2020/return-to-degree-by-class#:~:text=The%20researchers%20had%20previously%20found,class%20degree%20was%20only%203%25>
- 35 Piccchi, A. (2021). Moneywatch: The College Wealth Premium is Shrinking for Younger Americans. <https://www.cbsnews.com/news/college-education-wealth-diminishing/>
- 36 Baker, S. (2017). Graduate Premium Stalling in Some Countries OECD Data Suggest. Times Higher Education Supplement. 12 September. <https://www.timeshighereducation.com/news/graduate-premium-stalling-some-countries-oecd-data-suggest>
- 37 OECD. (2019). OECD Indicators: Education at a Glance. Australia. Paris. https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_AUS.pdf
- 38 Corliss, MC, Daly, A & Lewis, P. (2020). Is a university degree still a worthwhile financial investment in Australia? Australian Journal of Education. Vol. 64(1) 73–90. <https://journals.sagepub.com/doi/pdf/10.1177/000494412090188>
- 39 Knox, L. (2023). After a Decade of Growth, Degree Earners Decline. Inside Higher Education. 16 Mar. 2023. https://www.insidehighered.com/news/2023/03/17/undergrad-degree-completion-falls-first-time-decade?utm_source=Inside+Higher+Ed&utm_campaign=5ddd470a95-
- 40 OECD. (2019). OECD Indicators: Education at a Glance. Australia. Paris. https://www.oecd.org/education/education-at-a-glance/EAG2019_CN_AUS.pdf
- 41 Department of Business and Skills. (2013). The relationship between graduates and economic growth. BIS RESEARCH PAPER NO. 110. London: UK Government Printing Service. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/229/
- 42 Pritchett, L. (2001). Where has all the education gone? The World Economic Review, vol. 15, no. 3 367–391. Washington, DC: World Bank. <http://hdl.handle.net/10986/17434>
- 43 Benhabib, J. & Spiegel, M. (1994). The role of human capital in economic development: evidence from aggregate cross-country data. Journal of Monetary Economics, 34:2, 143–147. [http://www.sciencedirect.com/science/article/pii/0304-3932\(94\)90047-7](http://www.sciencedirect.com/science/article/pii/0304-3932(94)90047-7)
- 44 OECD Data. (2022). Population With Tertiary Education. Paris: OECD <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>
- 45 OECD (2023), Gross domestic product (GDP) (indicator). Paris: OECD. <https://data.oecd.org/gdp/gross-domestic-product-gdp.htm>
- 46 Wolf, A. (2002). Does Education Matter? London: Penguin.
- 47 Elias, P, Purcell, K, Atfield, G, et al. (2021). Ten years on – The Futuretrack Graduates. Warwick, UK: Warwick Institute for Employment Research, University of Warwick. https://warwick.ac.uk/fac/soc/ier/futuretrack/hp-contents/ten_years_on_the_futuretrack_graduates_full_report_10_september_2021.pdf
- 48 Author(s): Michael Spence, M. (1973). Market Signalling. The Quarterly Journal of Economics. Vol. 87(3), pp. 355-374. Oxford: Oxford University Press. <https://viterbi-web.usc.edu/~shaddin/cs590fa13/papers/jobmarketsignaling.pdf>
- 49 London Economics. (2018). Economic Impact of Group of Eight Universities. <https://go8.edu.au/research/economic-impact-group-of-eight-universities>
- 50 James Cook University News Release. (2018). JCU's \$800m-plus impact. <https://www.jcu.edu.au/news/releases/2018/march/jcus-800m-plus-impact>
- 51 NOUS. (2021). The economic impact of the Regional Universities Network. <https://www.run.edu.au/wp-content/uploads/2021/05/RUN-Economic-impact-report-final.pdf>
- 52 Deloitte Access Economics. (2015). The importance of universities to Australia's prosperity. <https://www2.deloitte.com/au/en/pages/economics/articles/importance-universities-australias-prosperity.html>
- 53 Samuel, H. (2012). Eiffel Tower worth £344 billion to French economy - or six Towers of London. UK: The Telegraph, 22 August. <https://www.telegraph.co.uk/news/worldnews/europe/france/9492500/Eiffel-Tower-worth-344-billion-to-French-economy-or-six-Towers-of-London.html>
- 54 Deloitte. (2018). Revaluing Our Icon. <https://www.sydneyoperahouse.com/content/dam/pdfs/deloitte/deloitte-report-revaluing-our-icon-2018.pdf>
- 55 Productivity Commission. (2023). 5-year Productivity Inquiry: From Learning to Growth. Inquiry Report vol 8. <https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume8-education-skills.pdf>
- 56 Productivity Commission. (2023). 5-year Productivity Inquiry: From Learning to Growth. Inquiry Report vol 8. Page 8. <https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume8-education-skills.pdf>
- 57 Cordato, R. (2017). Economic Impact Studies: The Missing Ingredient Is Economics. Raleigh, North Carolina: John Locke Foundation. <https://www.johnlocke.org/research/economic-impact-studies-the-missing-ingredient-is-economics/>

- 58 Productivity Commission. (2023). 5-year Productivity Inquiry: From Learning to Growth. Inquiry Report vol 8. Page 8. <https://www.pc.gov.au/inquiries/completed/productivity/report/productivity-volume8-education-skills.pdf>
- 59 Winston, G.C. (1999). Subsidies, Hierarchy and Peers: The Awkward Economics of Higher Education. *Journal of Economic Perspectives*, 13(1), 1-16.
- 60 The University of Sydney. (2021). Annual Report. <https://www.sydney.edu.au/about-us/vision-and-values/annual-report.html>
- 61 Dodd, T. (2023). Universities Lost \$850m in 2022 as Financial Market Downturn Hits Results. Sydney: The Australian. 4 April. <https://www.theaustralian.com.au/higher-education/universities-lost-850m-in-2022-as-financial-market-downturn-hits-results/news-story/7df073b2476ddd70ea105fb9e9c2e5a5>
- 62 Bergami, R. (2021). Australian Public Universities Vice-Chancellor Salaries and Workforce Casualisation: Ethical Tension? *Deturope*. 13(3), pp 130-141. <https://www.deturope.eu/pdfs/det/2021/03/07.pdf>
- 63 Ravichandran, J. (2022). Veblen Goods: Why Sports Cars and Diamonds Don't Obey the Law of Demand. *Ann Arbor: Michigan Journal of Economics*. <https://sites.lsa.umich.edu/mje/2022/01/10/veblen-goods-why-sports-cars-and-diamonds-dont-obey-the-law-of-demand/>
- 64 Towse, R. (1997). *Baumol's Cost Disease: The Arts and other Victims*. Northampton, Mass. Edward Elgar.
- 65 Cooke, G. (2023). Credit Card and Debit Card Statistics. <https://www.finder.com.au/credit-cards/credit-card-statistics>
- 66 Department of Education, Skills, and Employment. (2022). Annual Report. <https://www.education.gov.au/about-department/resources/2021-22-dese-annual-report>
Also see Australian National Audit Office Reports on Higher Education Loan Repayments. [Administration of Higher Education Loan Program Debt and Repayments](#)
- 67 Norton, A. (2022). Governments are making nursing degrees cheaper or 'free' – these plans are not going to help attract more students. <https://theconversation.com/governments-are-making-nursing-degrees-cheaper-or-free-these-plans-are-not-going-to-help-attract-more-students-189547>
- 68 Joseph, R. (2023). *ATAR's Rising Relevance*. Sydney: Centre for Independent Studies. Analysis Paper 44.
- 69 Econtech. (2006). *Economic Impact of Public R&D Activity in Australia*. Report prepared for the Department of Education, Science and Training. <https://www.pc.gov.au/inquiries/completed/science/submissions/subdr106/subdr106.pdf>
- 70 Rawls, J. (2001). *Justice as Fairness: A Restatement*. Harvard University Press.
- Shapiro, J (2022). <https://twitter.com/joshshapiroa/status/1541885723883802632>
- 71 Government of Pennsylvania. (2023). In His First Full Week, Governor Josh Shapiro Continued His Commitment to Reigniting Our Economy and Creating Real Opportunity. 27 January. <https://www.governor.pa.gov/newsroom/in-his-first-full-week-governor-josh-shapiro-continued-his-commitment-to-reigniting-our-economy-and-creating-real-opportunity/>
- 72 Joseph, R. (2023). *ATAR's rising relevance*. Sydney: Centre for Independent Studies.
- 73 Deloitte Access Economics (2107). Review of the impact of the TEQSA Act on the higher education sector, p. 45. <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-review-impact-teqsa-act-060417.pdf>
- 74 Department of Education. Higher Education Statistics. (2021). <https://www.education.gov.au/higher-education-statistics/resources/2021-staff-numbers>
- 75 Bennett, M. (2023). PhD Study in the USA – A Guide for 2023. <https://www.findaphd.com/guides/phd-study-in-usa#:~:text=Only%20around%201%2C500%20of%20the,that%20important%20at%20PhD%20level.>

'Degree inflation' has reduced the value of university qualifications, kept people out of jobs they would otherwise be qualified for, and lumbered taxpayers with paying the student debt of those who drop out or never find a job after getting their degree.

The past 20 years have seen explosive growth in universities: The numbers of graduates have increased, and employers now demand university credentials for jobs that formerly did not require them.

As the number of graduates increased, the economic value of their degrees withered. This 'credential inflation' also severely disadvantages those who have the ability and experience to perform a job but, for one reason or another, were unable to study at a university. Instead of increasing social mobility, the vast growth in degrees has had precisely the opposite effect. Yet, universities continue to churn out more degrees, each worth less than the previous one.

Universities are expensive to run and find it difficult to control their costs — relying instead on increasing their income by enrolling more students. Because admission-qualified students already attend university, enrolments are expanded by lowering admission standards.

An end to degree inflation would bring many social and economic benefits:

- Employers would have access to a larger and more diverse pool of potential employees whose experience and skills render them equally — or even better — qualified than applicants with degrees.
- The value of further education, trade schools, military training, and on-the-job apprenticeships would be enhanced, as would life-long learning.
- Young people who aspire to climb the career ladder but whose circumstances preclude higher education would be spared spending fruitless years in university running up debt.
- Taxpayers would be spared having to pick up such a large bill for drop-outs and those who never find employment that allows them to pay their student loan.

A just distribution of risk, subsidies and resources would benefit students from disadvantaged backgrounds as well as the wider society. Fair equality of opportunity would be enhanced by adopting the policy proposals outlined in this paper.



Emeritus Professor Steven Schwartz AM is a Senior Fellow of the Centre for Independent Studies and an Honorary Senior Fellow of the University of Melbourne. He was formerly an Executive Dean of Medicine and vice-chancellor of three universities in Australia and England. Steven was Chair of the Fulbright Commission, a NATO fellow, a Royal Society Exchange Fellow and an Oliver Smithies Fellow of Balliol College, Oxford. He is the author of 14 books and numerous articles.



Analysis Paper 48 (AP48) • ISSN: 2209-3753 (Online) 2209-3745 (Print) • ISBN:-978-1-922674-40-1

Published May 2023 by the Centre for Independent Studies Limited. Views expressed are those of the authors and do not necessarily reflect the views of the Centre's staff, advisors, directors or officers.

© Centre for Independent Studies (ABN 15 001 495 012)

This publication is available from the Centre for Independent Studies. Visit cis.org.au