Big Ideas for Australian Universities

by

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Within weeks of taking office, Australia’s new Labor government commissioned two major reviews – one of Australia’s innovation system and one of Australian higher education. Taken together, these reviews will have major implications for the future of research and teaching in Australia for decades to come. This paper discusses the main recommendations of these reviews, puts them into context and examines the government’s response.

Although the innovation review was conducted first, this paper begins with the higher education review because its recommendations, at least in regard to universities, are broader. Those parts of the innovation review that are relevant to universities follow. The paper concludes with a brief discussion of what will happen next.
De grandes idées pour les universités australiennes

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Quelques semaines après son entrée en fonction, le nouveau gouvernement travailliste australien a commandé deux études, l’une portant sur le système d’innovation australien et l’autre sur l’enseignement supérieur en Australie. Pris dans leur ensemble, ces études auront des répercussions considérables sur l’avenir de la recherche et de l’enseignement australiens dans les décennies à venir. Cet article traite des principales recommandations proposées par ces études, rappelle le contexte dans lequel elles s’inscrivent et analyse la réponse du gouvernement.

Bien que l’étude sur l’innovation soit menée en premier, l’article s’intéresse d’abord à l’étude sur l’enseignement supérieur, car elle propose des recommandations plus générales, tout au moins concernant les universités. Les éléments de l’étude sur l’innovation ayant un intérêt pour les universités sont repris ensuite. L’article conclut par une brève réflexion sur les perspectives.
Background to the higher education review

In 2008, the Australian government asked former Vice-Chancellor of the University of South Australia, Denise Bradley, to “examine the capacity of Australia’s higher education sector to meet the nation’s future economic and social needs”. Leading a small panel and backed up by civil servants, she consulted widely and examined just about every aspect of universities – teaching, learning, funding, governance and much else. The result is the Bradley Review of Australian Higher Education (henceforth known in this paper as the Review) (Bradley et al., 2008). It is the most comprehensive review of universities undertaken in Australia in many years. The government placed great importance on the Review, seeing it as the initial volley in an “education revolution” (ALP, 2007).

The Review came at a crucial time for Australian higher education. For most of the preceding 12 years, per-student funding for Australian universities failed to keep up with inflation. The result was a significant drop in the taxpayer-funded support provided for the average university student. This decline in funding is not typical of wealthy countries. In fact, Australia is the only OECD member country not to increase “public” funding over that 12-year period (OECD, 2008).

To make up for the funding shortfall, at least in part, the federal government increased the amount that students are required to pay for their own education (DEST, 2004). This brought additional revenue to universities but still left them underfunded. Even when the Higher Education Contribution Scheme (HECS) fees paid by students are added to taxpayer subsidies, the total still does not cover the cost of teaching the average student (Access Economics, 2007).

Because universities have not been able to make ends meet by relying solely on government funding and the fees paid by domestic students, they have enrolled large numbers of international students whose high fees make them more lucrative than domestic students. Foreign students now make up 19% of the university students taught in Australia, by far the highest proportion in the OECD (AEI, 2008). The percentage is even higher at my own university, Macquarie, where more than 30% of our students are international.

Nationally, 50% of Australia’s international students come from China and India (AEI, 2008). A substantial proportion of these students hope to remain in Australia after they graduate, but some find themselves unable to
gain employment even in high demand occupations such as accounting. This is partly the result of the economic downturn but it also reflects low English language proficiency among many graduates (Birrell and Healy, 2008). In their attempt to make up for funding shortfalls, it is possible that some universities have been forced to sacrifice quality for quantity.

Not surprisingly, the major part of the earnings received from international students is spent recruiting and teaching them. Whatever is left is used to make up for the deficit in the funding of domestic students— but even this cross subsidy has not been sufficient to maintain standards. For example, the number of students per academic staff member has increased by around 30% in the past ten years (Bradley et al., 2008). The financial assistance available to support students' living expenses while they study has also failed to keep up with costs. To make ends meet, the majority of students, including most full-time students, work during semester (Universities Australia, 2008).

The Bradley Review was asked to look at these matters, and many more, with the aim of setting Australian higher education on a sustainable path for the future. Its final report contains 46 recommendations which venture into every nook and cranny of the higher education sector—and which would cost an estimated AUD 7 billion if fully implemented. Underlying its recommendations are the two big ideas discussed next: Australia needs more graduates, and funding should follow students.

**Big idea 1: Australia needs more graduates**

According to the Review, Australia needs many more university graduates than it presently produces. Although this sounds terrific to academics, it is not a call to turn Australia into a nation of scholars. Scholarship, as most academics think of it, hardly rates a mention in the Review report. Its focus is on economic growth.

The Review argues that Australia's standard of living depends on its winning an international competition for the most skilled workforce.¹ Put bluntly, more graduates means greater national prosperity. This is not the place to debate this widely held belief but I doubt that it is true, at least not in the simple way it is stated in the Review report. (I cannot resist noting that Russia has a higher percentage of university graduates, relative to the size of its population, than Switzerland [OECD, 2008]. But which country has a higher standard of living? It is a sad fact of life, at least in Australia, that valuing education for its intrinsic value, or its civilising influence, is decidedly out of fashion.)

Using predictions of labour market needs, and student demand over the next decade, the Review concludes that Australia will need many more graduates (Bradley et al., 2008, pp. 15-17). The Review sets a target of 40% of Australians aged 25-34 to have a degree-level qualification by 2020. The current figure is 32%.
The history of labour force predictions, at least in Australia, has not been a happy one. Extrapolating from today's trends to tomorrow's needs is never easy, and predictions are often wrong (Schwartz, 2009). Nevertheless, the Review calls for massive growth.

Given current progression and graduation rates, meeting the 40% target would require an enormous increase in undergraduate student numbers. (Curiously, the same labour market studies show a glut of postgraduate completions over the next decade [Bradley et al., 2008, p. 4], but this does not lead the Review to call for a decrease in postgraduate students.)

Because most school leavers from middle class and professional backgrounds already attend university, increasing the number of Australian graduates to 40% will require capable students from under-represented backgrounds to enter higher education and successfully complete their degrees (DEEWR, 2008).

Many of the Review's recommendations proceed logically from this premise. If we want to attract more students from under-represented backgrounds, then we need outreach programmes designed to raise aspirations. Because we will need to measure progress, the Review also advocates setting enrolment and completion targets for individual equity groups – disabled, low-income, indigenous and others.

Most importantly, if we want to attract students from low-income backgrounds, then we will need to provide adequate funds to help them survive while studying. There are two ways to do this – through direct grants or by allowing students to borrow their living costs and pay the money back through the tax system just as they currently borrow their fees and pay them back through the HECS system. The Review opted for direct grants, recommending increases in the level of student allowances and tweaking the existing system of entitlements so that it is better targeted at those who need the money.

Most parties will welcome this recommendation, but it comes at a price – a compliance and checking regime will be needed to ensure that only eligible students receive funding. Allowing all students access to income contingent loans for living costs would eliminate the need to police eligibility because everyone would be eligible. It would also mean that most of the money given to students would eventually be recouped and recycled to future generations of students. A programme of direct grants is expensive because grants never have to be repaid. Hopefully, this recommendation will be reconsidered.

Although implementation issues will require careful consideration, the Review's first big idea certainly deserves support. Social mobility is the hallmark of a just society. Helping talented students to reach their potential is the fairest and most acceptable way to encourage social mobility. For this reason, the Review's first big idea deserves to be implemented where possible.
The Australian Minister for Education, Julia Gillard, agreed. In a response to the Review, she accepted the Review’s 40% target although she extended the deadline for achieving it by five years – to 2025 (Gillard, 2009a). The minister also committed the government to pursue an important equity target; by 2020, 20% of higher education enrolments at undergraduate level will be of people from low socio-economic backgrounds. The current figure is 16% (Gillard, 2009b).

There is a catch, however. Educating many more students will be expensive. Getting the greatest benefit for the money we spend on higher education requires a more efficient resource allocation system than the top-down system of quotas currently in place. This brings us to the Review’s second big idea, student-driven funding.

**Big idea 2: Funding should follow students**

Instead of the block grants and centrally set quotas that currently determine the amount given to universities each year, the Review recommends that funding follow students. Specifically, a government-subsidised place would be made available to every student accepted by an approved higher education institution. There would be no limits; a new place would be created automatically for every student an approved university enrols.

This reform would provide students with greater choice than they have now. Unlike the current course quotas, which are established by central planning, universities would be able to adjust their course intakes in response to student demand. This is a major step in the right direction but it is not a complete victory for those who have advocated “vouchers” for years (Schwartz, 2007).

The problem is the Review’s insistence that universities be forbidden from raising their fees (the private contribution that students make toward their education). Specifically, the Review recommends that HECS fees be capped at current levels. The Review recognises that price signals are a major mechanism for delivering efficiency, but claims it is necessary to cap tuition fees to keep institutions from sharply raising prices (Bradley et al., 2008, p. 163).

For reasons that are never explained, the Review takes it for granted that higher fees are bad for students. Yet, under the rules set by the previous government, many Australian students took up the opportunity to enrol in expensive full-fee places offered outside the quotas. This shows that Australian students are willing to pay more, sometimes much more, for what they perceive to be a high quality education. The new government has outlawed these full-fee places for domestic students although the Review, contradicting its own logic, suggests that full-fee places for domestic students may be revived in a somewhat different form (Bradley et al., 2008, p. 165).

In macroeconomic terms, money spent on education has the same beneficial effects as money spent on plasma televisions, holidays or anything
It also has the spin-off effect of producing a better skilled workforce. So, higher fees may assist and certainly would not harm the economy. Increased fees are unlikely to hurt students either. Because students can defer their fees and pay them back in instalments when their income permits, it is not clear how capping fees protects vulnerable students. Forbidding fee increases is really a way to protect those universities that will find it difficult to get students to pay higher prices for the education they offer.

Instead of deregulating fees, the Review recommends a 10% increase in government funding for teaching and learning. However, since 4% of the proposed increase is subject to meeting equity performance goals (enrolling disadvantaged students, for example) and another 2.5% will be distributed on the basis of teaching performance (Bradley et al., 2008, p. 140), universities that do not meet the goals or the performance criteria will not receive the full 10% increase.

If a university misses out on the 4% of equity-based funding (perhaps, for example, it is located in a high income area such as Canberra), the 10% proposed by the Review would translate to only 6%. It is important to understand that even this does not mean that this university's teaching funds would increase by 6%.

Funding for domestic undergraduates has two components: the government subsidy and the student (HECS) fee. There are seven different levels of government subsidy, varying from AUD 1 709 for law to AUD 18 610 for medicine. There are four levels of HECS fees, which range from AUD 4 162 for science to AUD 8 677 for law and medicine. The increases recommended by the Review apply only to the government's subsidy. Thus, for law, a 6% increase on AUD 1 709 equals only AUD 102.50 per year. Universities currently receive AUD 10 386 for a law student (AUD 1 709 from the taxpayer and AUD 8 677 from the student paid through HECS). Increasing the taxpayer part of this by 6% brings the total received to AUD 10 488.50, a per-student increase of less than 1%.

Even if a university managed to meet its equity targets and receive the full 10%, this would translate to AUD 171 per student, less than a 2% increase for each law student. The increases would be bigger for science students but universities find it hard to recruit them.

The figures given so far assume that the hypothetical university will receive the 2.5% awarded on the basis of teaching quality. But this is not guaranteed. Not all universities have received teaching funds in the past. If a university misses out on both the equity and the teaching bonuses, the 3% left would give it about AUD 50 more per year for each law student. In Sydney, where I work, this would buy about one cup of coffee per month.

Capping fees means that the only way for universities to increase revenue is to enrol more students for which they will receive the same inadequate support they receive for currently enrolled students. At best, this provides no
net gain – just money in for new students and money out to pay the costs of teaching them. At worst, depending on which course they undertake, universities could lose money on every new domestic student they enrol. For example, a study conducted by an economics research group found that, on average, universities lose money on law students (DEST, 2007, section 1.1). Clearly, then, there is no incentive to enrol more of them. Although it sounds like a measure designed to help struggling students, capping fees actually makes it unlikely that universities will be able to expand sufficiently to enrol enough low-income students to meet the government’s ambitious equity target.

Capping fees also works against quality improvement. A university that wants to offer a 20-student law tutorial taught by a distinguished former High Court judge must charge the same amount as a university offering a 300-student lecture taught by a personal injury lawyer. As there is no way of being compensated for the extra costs of high quality, all universities will be pushed toward low-cost, low-quality provision even though students are willing to pay more for a higher quality experience.

As already mentioned, the Review seems to leave open the possibility of increasing fees by suggesting that a university "may designate an undergraduate course as non-Commonwealth subsidised" and then charge whatever it likes (Bradley et al., 2008, p. 165). This could lead to a system in which prestigious universities receive high private fees while others have their incomes capped. However, the Review appears to contradict itself by stating that "an independent national regulatory body" could cap prices even in non-Commonwealth subsidised courses (Bradley et al., 2008, p. 116). These irreconcilable statements suggest a conflict within the Review itself, poor editing or both.

The Review’s recommendations leave many funding details unexplained. For example, on several occasions, the Review report refers to “base grants”. The relationship between “base grants” and the amounts that universities will receive for each student is never clarified nor is it clear how “performance funding” will be applied. The Review recommends that 2.5% of the funds for teaching and learning be distributed on the basis of teaching performance. Does this mean that successful institutions will have the payment for each student increased by 2.5% based on how well the university taught the year before? Probably not – this would leave the 2.5% set aside for unsuccessful universities unspent. Perhaps it means that some universities will receive more than a 2.5% premium for performing well while others receive nothing or a partial reward. Maybe the 2.5% will not be calculated on the value of each student subsidy, which would give a boost to universities with expensive medical and veterinary schools, but on some university-wide basis. It’s anyone’s guess.
Because competition can produce losers as well as winners, some universities have objected violently to the Review's funding recommendations (CSU, 2002). They may have good reason for concern. By establishing full-fee courses and taking more students where the marginal costs make this worthwhile, the most popular universities could increase their student numbers at the expense of the less popular ones. The latter universities will have to find ways to make themselves attractive to students – specialised courses, teaching at convenient hours or in the workplace. Unfortunately for them and for students, they will be prohibited from competing on price.

Despite these complexities, the government has accepted the Review's recommendations that funding be demand driven, that is, that funding follow students (Gillard, 2009a). Starting in 2010, enrolment quotas will be gradually relaxed and, in 2012, universities will be free to enrol as many students as they choose.

Professor Bradley and the federal minister for education are at pains to emphasise that this will not herald the introduction of a “voucher” system. In the minister's own words: “Let me be clear about one important point: this is not a voucher. Students will not be receiving a set dollar entitlement to be redeemed at an institution of their choice. Rather, there will be a Commonwealth payment to universities – with the amount varying depending on the course – on the basis of student numbers” (CSU, 2002).

Clearly, the word “vouchers” is taboo in government circles and not one to be uttered in polite company, hence the attempt to define a distinction without a difference. The review recommends that public teaching subsidies be allocated according to demand – the will of the market. That is the essence of a voucher system.

After the rock star Prince changed his name to an unpronounceable syllable, he was referred to as the “star formerly known as Prince”. Perhaps the new Australian demand-driven student entitlement system could become known as the “funding system formerly known as vouchers”.

Other ideas

In addition to its two big ideas, the Review makes many other recommendations – too many to comment on here. However, a few of the more wide ranging recommendations are covered in this section.

Grant indexation

Because government grants for teaching and learning have not been indexed for inflation, their value has deteriorated for many years. The Review recommends a new indexation formula, which is more generous than the one
currently in use. If adopted, the new formula will increase the long-term sustainability of universities while still encouraging productivity gains.

**National regulator**

The Review calls for a new national regulatory body that would be responsible for all types of tertiary education. The new body would accredit new and existing institutions, carry out quality audits, and provide both solicited and unsolicited advice to government, and it may supervise price-capping arrangements for courses offered on full-fee basis (or perhaps it will not; it depends on which part of the Review report you believe) (Bradley et al., 2008, p. 165).

It is difficult to get excited about new regulatory bodies – they often become hidebound bureaucracies, and they have a well-known tendency to develop reasons to justify their own existence. However, the recommended ten-year accreditation cycle is unlikely to be too onerous, even though it also includes an additional sub-cycle of quality audits. Most Australian universities are already used to extensive reporting requirements, being required to answer such questions as: “How many of your doctoral scholarships went to females from non-English-speaking backgrounds with fewer than two children studying history part-time?” More of this will not faze Australia’s creative university managers.

**Integrating vocational education**

Vocational education and training is currently delivered through state-based Technical and Further Education Colleges (TAFE). The federal government, in contrast, supports universities. The Review recommends that the federal governments take over two-year TAFE courses from the state and that these courses become part of a new regulated national education system. This reform is long overdue. It will improve standards, provide greater choice for students, and help the government to reach its participation and equity goals. However, some, or perhaps all, of the states may resist what could be portrayed as a Commonwealth takeover. Overlapping jurisdictions between the state and federal governments has long produced dysfunctional outcomes for Australian health (states control the hospitals whereas medical education is federal) (Schwartz, 2009b) and education. Without considerable goodwill among all parties it is not likely that the federal government will be able to integrate the various state-based TAFE colleges into a national educational system.

**PhD scholarships for international students**

The Review recommends that the federal government increase the number and value of PhD scholarships for international students. Specifically, the Review recommends that the Commonwealth provides AUD 80 million for
such scholarships. However, the Review recommends that universities who want access to these new scholarships be required to provide living allowances for international PhD students and their dependents – a costly trade-off, which few universities will be able to afford.

**Funding for research**

The Review recommends a AUD 300 million increase in the block grant awarded to universities for research infrastructure. This block grant is calculated as a percentage of the research income a university earns from competitive research grants. The Review also supports increasing the value of postgraduate scholarships and the full funding of research overheads, which is also the much welcomed recommendation of the review of Australia’s “innovation system” discussed in the next section (Cutler, 2008).

There are many other recommendations including the idea of a university for regional areas and the recommendation that funds be set aside for restructuring (read “amalgamations”).

As already noted, the federal minister has responded to the main review recommendations – increasing numbers especially from low income and other equity groups and a demand-led funding system.

She has not commented on the other recommendations other than to say that the higher education sector will have to wait for the federal budget in May. She also noted that “these are difficult days for Government expenditure”. This maybe another way of telling the sector: “Don’t set your hopes to high” (Gillard, 2008).

**Review of Australia’s Innovation System**

In a lecture given in 1775, the gentle Scottish genius Adam Smith summarised his formula for prosperity as follows: “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things.”

This is definitely not the view of Terry Cutler, at least as evidenced by his Review of the Australian Innovation System. To make Australia more innovative and prosperous, Dr. Cutler calls for the creation of a vast array of new programmes, boards and committees.

For example, Cutler recommends that the government establish a “Knowledge Connections” programme within the “Enterprise Connect Program” to work with “Industry Innovation Councils”. The report also foresees the appointment of an “Advocate for Government Innovation” and recommends the establishment of a “National Information Strategy” to “optimise the flow of information”.


Cutler wants to set up a “Competitive Innovation Grants Program” that will make awards for “public sector innovation”, and he calls for the creation of a “National Innovation Council” chaired by the Prime Minister. There will be an “Office of Innovation” and an “International Innovation Advisory Panel” as well.

Cutler’s report, called Venturous Australia, goes on in this activist vein for more than 200 pages.

The report clearly acknowledges the value of university research but not its curiosity-driven nature. Like the experts recruited by US President Franklin Roosevelt in the 1930s to set national research priorities, Cutler wants national research priorities set for Australia. Unfortunately, Roosevelt’s committee, like all such efforts everywhere, could only base its predictions on what it was familiar with. It missed all of the most important developments of the next 20 years: nuclear energy, antibiotics, jet aircraft, space exploration, radar, computers, transistors and many more. Cutler may be more prescient, but my guess is that his priority areas are doomed to a similar fate.

Cutler makes several recommendations of direct interest to universities. For example, his report calls for the current research and development tax deduction to be transformed into a tax credit. As many research and development firms do not make any profits, tax credits are more valuable to them than tax deductions.

The report also calls for changes to immigration policy designed to improve the nation’s store of “human capital”. This could help universities attract more international students.

On the research front, Cutler advocates higher stipends for government-funded postgraduate research students, a new programme of early career research fellowships, open access to research publications and continued funding of research infrastructure. To one extent or another, the government is pledged to support all of these recommendations, much to the delight of Australian universities.

Universities will also be happy with Cutler’s recommendation that research grants be fully funded; a recommendation also made in the Bradley review. At present, Australian research grants pay the direct costs of projects; universities must cover the indirect overhead costs (electricity, telephone and so on). This means that every time a university receives a research grant, it must find the indirect costs from some other source, often from teaching. Fully funding the total cost of research will end this cross subsidy and leave more money for teaching. As indirect costs can add up to half the cost of a research project, one result of this policy will be to make research much more expensive for the government. Cutler warns that, unless larger sums are allocated to the research councils, the result could be fewer funded projects.

Some universities will worry about the report’s recommendation that training funds be allocated according to quality as reflected in the
forthcoming Excellence in Research for Australia evaluation exercise. They fear that this will concentrate research training in a limited number of universities, which, of course, is the intent.

The science minister, Kim Carr, has endorsed the report, implemented some of the recommendations and pledged to move toward the full cost funding of research (Carr, 2009). However, he did note that the total cost of full research funding — and all of the other programmes, boards and committees recommended in the report — will amount to billions dollars. For this reason, it is unlikely that full cost research funding and the other recommendations will be enacted in their entirety until economic times improve.

What's next?

Both the higher education and the innovation reviews were charged with ensuring that Australia maintains or improves its economy and its competitiveness, the first by increasing “human capital” (more graduates) and the second by making us more creative. Have they delivered?

In some ways they have. Consider higher education, for example. Allowing universities to expand to accommodate student demand, especially in these times when jobs are hard to find, will certainly increase the number of students enrolling in university.

But increasing the number of graduates is another matter. Without increases in fees and subsidies, classes may become more crowded, the ratio of students to teachers may worsen, and counselling and student support systems will be stretched. As a result, we may well find that we are admitting more students only to see large numbers drop out without completing their degrees.

Even if the target of 40% graduates is reached, it is not obvious that this will translate directly into greater prosperity. It depends on what these graduates are trained to do. It is unlikely that any country can expect an economic recovery to be led by media studies graduates.

Given the ease of implementation, it is possible that the government will enact all of the recommendations for enhanced regulation but hold back on the recommendations to inject more money into higher education. Of course, the government will portray any new regulation as cutting red tape, but it has long been known that governments only cut red tape lengthwise.

Innovation, as we know, depends not only on good ideas but also on the availability of credit, capital and free trade, not to mention Smith’s formula of peace, easy taxes and a tolerable administration of justice. Innovation is the work of enthusiastic individuals who see opportunities most others miss. Dozens of new committees and a set of designated national priorities (picking winners) is precisely how not to enhance innovation.
A more liberal immigration policy is a good idea but, with the fear that the recession will cost jobs, the government is busy cutting back immigration not increasing it.

Similarly, although the government has been generous with funds for the construction of new facilities (because it is thought that these stimulate the economy and provide jobs) money to subsidise students and research may prove hard to find in the coming years. In an interview given in late March, 2009, the federal education minister said that the financial crisis was “pounding the budget” and it was “only responsible” to consider the price tag of higher education reforms. And, of course, she is correct.

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Notes
1. “The nation will need more qualified people if it is to anticipate and meet the demands of a rapidly moving global economy” (Bradley et al., 2008, p. xi).
2. For details on HEC, see: www.goingtouni.gov.au/Main/Quickfind/PayingForYourStudiesHELPLoans/HECSHELP.htm.
3. This is evident from the domestic students who enrolled in full-fee courses when that option was available.

References


