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**THE CASE FOR DE-REGULATING AUSTRALIAN
HIGHER EDUCATION**

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Before embarking on an argument in favour of a further relaxation of the regulatory framework within which Australian universities currently operate, let me make two things absolutely clear.

The first is a plea to eliminate ideological biases of partisan point-scoring from current debates about the future of Australia's universities. In higher education, discussions about de-regulation should turn on judgments about the institutional arrangements most likely to strengthen universities as centers of superb teaching and learning, virtuoso professional training, sophisticated research and authentic scholarship. More generally, we need informed, pragmatic discussions about creating the optimal environment in which Australia's universities can flourish. Doctrinaire advocacy, from whatever quarter, should be treated with suspicion. As Australia competes for a place in a global knowledge economy, we must not stake the future of our universities on party political rivalries, doctrinaire policy assumptions or ideological debates.

The second fundamental reality is that there is simply no credible case for completely deregulating higher education. Universities are vital national institutions. The public interest will always require that they operate within a regulatory framework defining their essential cultural, social, educational and institutional responsibilities, requiring them to fulfill a range of national objectives and compliance obligations, and making them accountable for their institutional performance. So de-regulation does not mean leaving universities free to do whatever they like, at whatever level of quality. Nor does it diminish the requirement for universities to be publicly accountable. Indeed, a reform agenda entrusting universities with greater independent responsibility for their own development would increase, not diminish, the need for them to be publicly accountable for their performance.

In alignment with that pragmatic, limited agenda, I am not advocating de-regulation for its own sake, but merely suggesting that at present Australian universities are dangerously over-regulated, and that a de-regulatory agenda offers the best chance for significantly improving the quality of Australian higher education, and making Australian universities more competitive internationally.

I have therefore been delighted recently to hear the Hon. Brendan Nelson, the Federal Minister for Education, Science and Training, argue that *the status quo Australian higher education is unsustainable*.

As the Minister knows, the status quo in higher education could be sustained, at least for a time, by capping the system at current levels of enrolment, research activity and expenditure. All that would take was a series of Commonwealth Ministers of Education inured to the political outrage of aspiring students and families denied access to higher education; and a series of Governments oblivious to the inexorable decline of Australia's international competitiveness in a global knowledge economy.

Because those consequences are politically and economically unacceptable, the status quo Australian higher education is indeed unsustainable. Australians must therefore face up to certain fundamental questions about the future of their universities. What should replace an unsustainable status quo? How might we reform the higher education system to make it better than it is now? How differently might individual universities be treated in a reformed system? How confident can we be that any particular change or cluster of changes will not just leave higher education better funded, but actually improve the quality of education and educational outcomes in Australia's universities?

It would be wonderful to be able to say that these are essentially scholarly questions, to be dealt with by the universities themselves, or that if only the universities improved their productivity all would be well. Alas, it is not so simple. As long as scholars need to be paid, and the best of them paid at internationally competitive rates; and as long as sophisticated research and teaching technologies and other infrastructure remain highly expensive, the quality and competitiveness of universities will always be greatly dependent on the resources available to them. Improved productivity would mitigate resource scarcity to an extent, but the greatest potential productivity gains have already been extracted, and are mirrored in burgeoning student-staff ratios and rising research output of the past 50 years.

There is a resource crisis in Australian universities that should be a matter of deep public and political concern. That it is not is, ironically, a measure of its seriousness. It is a crisis too large (not too small) to be seen – or at least too large to be entertained in a system still significantly dependent on the public purse. The findings of international benchmarking reveals are arresting and disturbing. In resources-per-student or resources-per-researcher, Australia has no university in the first 100 in the world, and its competitiveness is slipping. *Australian universities are not sufficiently resourced to be internationally competitive at the highest level*. That is a bedrock premise for higher education policy development. Denying it trivializes the fundamental policy issues.

That proposition that *Australian universities are not sufficiently resourced to be internationally competitive at the highest level* leads to another that is surely self-evident. *Being internationally competitive matters in higher education*. Yet it is not self-evident. When I advanced it last year in a seminar not unlike this one, I was surprised to hear someone from the then Commonwealth Department of Education, Training and Youth

Affairs (DETYA), question whether it was realistic for Australia to try to compete with the top 50 American universities. Australia, he argued, simply could not hope to match such well-funded institutions, and need not try.

That riposte is as arresting as it is melancholy and dangerous. If Robert Reich was right in his seminal study, *The Work of Nations*, published in 1992, then the ability to educate, retain and continually add value to “knowledge workers” will, in the decades ahead, become the single most important determinant of economic strength and competitiveness for corporations, nations and regions in a global knowledge economy. A nation incapable of producing world-class knowledge workers will find it more and more difficult to attract sufficient numbers of them from nations that do have the educational infrastructure and institutions to educate, train and re-train them. As part of the same regressive process, as an economy starved of world-class knowledge workers becomes less and less innovative and competitive, it will find the challenge of catching up educationally ever more difficult.

Australian universities are under-resourced, but it is equally true that they need more than increased funding. Educational quality is not simply a matter of money. Better funding does not guarantee improved educational outcomes. Simply throwing more money at Australia’s universities, or enabling them to earn more money, may improve academic pay and conditions, but will it be enough to improve educational quality and outcomes? As I asked earlier, how confident can we be that any particular change or cluster of changes will actually improve the quality of student experiences and enhance student learning in Australia’s universities? Such a question changes the focus away from resources *per se* to a more fundamental issue. Australian universities do not need merely to be funded on an internationally competitive basis – they need to become better at producing superbly educated graduates, and at turning out world-class knowledge professionals.

In other words, *solutions to Australian higher education’s current problems must secure genuine, sustained improvement in the quality of teaching, learning and educational outcomes in Australian universities*. Becoming financially competitive, challenging though that is, will not be enough in itself. Effective higher education reforms must also re-focus the priorities of universities on their fundamental responsibilities to students, and provide universities with new opportunities and powerful incentives for creating superb learning environments comparable with the best available elsewhere in the world.

The case for de-regulating higher education in Australia thus rests on four related propositions:

- Australian universities are not sufficiently resourced to be internationally competitive at the highest level;
- Being internationally competitive matters in higher education;

- ❑ The likelihood of adequate funding becoming available from the public purse is too remote to be pursued as a realistic public policy option; and
- ❑ Strategically managed, de-regulation offers opportunities to address Australian higher education's resource problems via mechanisms designed to encourage genuine, sustained improvement in the quality of teaching, learning and educational outcomes in Australian universities.

In arguing for further de-regulation, I am not rejecting the need for increased public outlays on higher education. Indeed, one piece of analysis that should catch the attention of a niggardly Treasurer or Treasury bureaucrat is the arresting finding of the Melbourne Institute for Applied Economic and Social Research that the higher education system actually generates more in taxation revenue for the Government than it costs in public outlays.¹ While such findings do not in themselves constitute a case for greater public spending on universities, they do mean that spending on higher education is not eroding the Government's capacity to invest in other priorities such as health, social security or defence. Yet even without being revenue positive expenditure in narrowly fiscal terms, increased public investment in pure and applied research and quality teaching and learning would be strategically sensible. So it is to be hoped that the present Government builds on its 2001 policy initiative, "Backing Australia's Ability", with further new investments in higher education.

Even if such increases in public investment in universities is forthcoming, however, there are two reasons to see de-regulation as offering the greater potential benefits for Australian higher education.

The first is an argument about the scale of investment required. De-regulation offers the only realistic hope of providing Australian universities with the resource bases they will need to be competitively internationally. However strong the case for increased public funding, increases on the kind of scale needed to make Australian higher education fully competitive internationally are simply not on the public policy radar in Australia for the foreseeable future. The current funding gap is simply too great for the Australian public purse, and international trends suggest that as higher education evolves from mass to universal participation, few countries, if any, will even attempt to meet the full cost of quality universities from public outlays.

The second argument is about incentives for quality improvement. A de-regulated environment promises to provide greater incentives than bureaucratic prescription ever has for universities to become more emphatically student-focused, more profoundly committed to improve teaching and learning quality and outcomes. Academics still remain in many cases accidental teachers, systematically trained to be researchers but still haphazardly prepared for the core task of inspiring and educating future generations of professionals and leaders. Increased funding *per se* will not necessarily produce the required major cultural shift in the ways universities discharge their educational and training responsibilities. But funding mechanisms that empower students rather than simply making them pay may change the focus of accountability in universities more

directly towards students, their primary stakeholders. A de-regulated environment in which both educational quality and student choice are not circumscribed by standardized funding formulae and prescribed educational profiles promises to create both the incentives and the freedom for universities to develop world class teaching and learning infrastructure and to recruit and reward world class teachers.

So with the status quo unsustainable, and a public funding solution at best partial and inadequate, the search for a sustainable, competitive, high quality higher education system in Australia is going to depend on changes to the public policy framework within which universities operate, including further de-regulation. The Minister is calling for constructive suggestions for building a sustainable, contestable, competitive system providing a dynamic for the emergence of world class universities in Australia.

Just to get that ball rolling, allow me to imagine what one such system might be like. I would propose, for argument's sake:

1. *Changing the incentive-dynamic in higher education by establishing a funding regime under which:*
 - Each university is authorized to set a specific *higher education charge* for each course of study that it offers;
 - The Commonwealth pays institutions the full *higher education charge* for each student enrolling;
 - Students repay to the Commonwealth via the income tax system, on a deferred, interest free, income-contingent basis, 50 per cent of their accrued *higher education charges* in relation to undergraduate degrees and first professional qualifications, and 100 per cent in relation to other courses,
 - The Commonwealth reserves the right to encourage students to study at particular universities through a system of bursaries reducing the deferred cost-per-student; and
 - The Commonwealth provides students from low socio-economic backgrounds with financial assistance through 'Equity Scholarships'.

Notes: (i) Because it would provide for variable higher education charges, and would fund institutions only for actual enrolments, the proposed funding regime creates an incentive for universities to give higher priority to the quality of teaching and learning and to lift the quality of the student experience overall.

(ii) The proposed equity and access scholarships would allow a targeting of Commonwealth assistance to low socio-economic and other equity groups on a scale not possible under present arrangements.

(iii) The funding regime would be dynamic in the sense that it would create tax revenue growth to match growth in the national higher education system, albeit on a deferred basis.

(iv) The funding regime would allow for a differentiation of teaching costs and quality through the proposed variable higher education charges, permitting universities able to sustain

higher charges to cover the costs of more expensive teaching and research infrastructure an/or academic staff costs.

(v) The open-ended nature of the Commonwealth's commitment to meet 50% of the higher education charge set by the universities would be limited by (i) consumer resistance to inappropriately high charges; and (ii) the right of the Commonwealth to vary the 50% public subsidy downwards (in the case of high cost courses with high private benefit characteristics, e.g., medicine, veterinary science) and upwards (in the case of courses with high social value and/or workforce planning significance, e.g., nursing, teacher education.)

2. *Amending the Taxation System to Encourage Investment in Human Capital Development.* Unlike other capital development costs, the development of human capital is not tax deductible in Australia. This is an increasingly regressive reality in an emerging knowledge economy. Consideration should therefore be given to:
 - Providing tax incentives for private and especially corporate funding of research and teaching infrastructure in universities;
 - Introducing the interest free deferred loan covering the proposed higher education charge (proposed in 1, above);
 - Introducing a 125% taxation incentive for corporate investment in certified professional training and R & D conducted in collaboration with universities.
3. *Changing immigration policy to facilitate study in Australia by international students, both in terms of entry and patterns of study.* Visas should become easier to process, and overseas students should be freer than at present to combine study with employment. Student facing academic and/or financial difficulties should be allowed much greater flexibility than at present to vary course loads and extend the length of time required in Australia.
4. *Reducing the formulaic complexity of funding for indirect research costs and research infrastructure and allocating such funding wholly in relation to total external institutional income received specifically for research.*
5. *Reviewing current MCEETYA Protocols that militate against the diversification of the higher education system in Australia, particularly in relation to research criteria and breadth of disciplinary profile.*

I warmly welcome the announcement by the Hon. Brendan Nelson of a thorough review of Australian higher education in 2002. It may be the last realistic chance for seizing some of the immense opportunities available for Australian higher education before the world leaves us behind.

ⁱ David Johnson & Roger Wilkins, "The Net Benefit to Government of Higher Education: A Balance Sheet Approach", January 2002.