

The Future of Australian Higher Education

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In September 2007, IBT Education Limited, Australia's only stock market-listed provider of higher education, held its annual general meeting. Investors had every reason to be pleased. Profits were \$54 million, a very healthy surplus on takings of \$283 million. IBT Education had recorded a higher revenue than 13 public universities, and a better surplus than all but four of Australia's of public universities. A newly emerging private sector is becoming an important part of the education story.

Yet the success of IBT is not just a case of private providers challenging the public sector. Many students enrolled in IBT colleges across the country rely on FEE-HELP, a government loans scheme for full-fee students that defers the cost of education until graduates earn \$40,000 a year. The number of IBT students taking out FEE-HELP loans increased by 80% between 2005 and 2006. At public universities, domestic enrolments increased by 1% over the same time period.

Thus boundary lines between public and private tertiary education are changing. A private provider relies on a government loans system to grow. In turn, IBT can offer places to students who might otherwise miss out on places in higher education; the available data suggests several IBT institutes attracted a larger share of students from low socioeconomic background than did the public university sector.

IBT Education is still a small player in the context of the entire higher education system. Many of its operations complement the public higher education system, by offering pathway programs rather than competing directly. Yet IBT's strength and growth are a sign of the way tertiary education is changing. As certitudes and hierarchies fall away, what will this mean for the future of Australia's public universities?

Several challenges emerge through the IBT story. First is the question of diversity and competition, of a domestic student base no longer growing quickly. Students have more choice. They can be more selective, and demand more varied forms of higher education than public universities now offer.

Second is the challenge of finance. Like IBT, public universities rely on student fees rather than income from government to survive. They are no longer "public" in the sense of being overwhelmingly funded by Canberra. Instead they too must adapt to markets, and remain vulnerable to a downturn in student enrolment.

Third is the challenge of making higher education more accessible to people of low socioeconomic backgrounds. The system of subsidies and price controls long used in Australia to ensure access to higher education more equitable has not fundamentally altered the socioeconomic make-up of university enrolment.

A fourth challenge does not come directly from IBT or any of the other private colleges or universities. It is the challenge of maintaining Australia's international research strength, with our position now subject to the annual evaluation of global rankings.

Many of these challenges are interlinked, so this chapter will describe each before concluding with policy suggestions and political strategies.

Diversity and Competition

Forty years ago, Australian had a diverse higher education system. Though the new universities established in the 1960s all adopted the orthodox Australian view that universities are both

teaching and research institutions, with qualifications from bachelor degree through to PhD, and a range of disciplines tending to the comprehensive, that was not true of the non-university tertiary sector. It supported an array of institutional types — colleges, institutes, conservatoria of music. Some were multi-disciplinary, but many specialised in fields such as nursing, teaching, agriculture or the arts. Institutional size varied from vast, multi-campus enterprise players such as RMIT to small colleges with just a few hundred students. Ownership and governance were equally diverse, from autonomous institutions to units within state education departments.

Over time, almost all that diversity was lost, most dramatically in the late 1980s and early 1990s as then Education Minister John Dawkins created a “unified national system”. Minister Dawkins turned colleges of advanced education into universities and amalgamated most small institutions out of existence. By the time the Dawkins wave of mergers concluded in the early 1990s, 63 higher education providers had become 36 universities, many with multiple campuses.

The Dawkins mergers were controversial at the time, and many lamented the loss of institutions offering distinctive educational experiences. The large post-Dawkins universities may have achieved the hoped-for economies of scale, but at the price of narrowing the range of institutional options open to students, and sacrificing the benefits of specialisation, of a single-minded focus on doing one or small number of things very well.

Until the last few years, though, there was little political or policy pressures to recreate diversity. Once turned into universities, former teaching-focused institutes and colleges had no desire to return to the past. Their staff and students want the research opportunities and status that come with being a university. Unsurprisingly, the pressure for change came from outside public universities, from the small private higher education sector.

Private higher education is not new in Australia, but unlike in the United States it has never enrolled more than a small share of the student population. With subsidies from government, the free

or cheap education offered by public universities let them dominate any field that they entered. The private higher education sector largely concentrated on niche fields of study of little interest to public universities, such as theology, natural medicine, and specialised areas of professional training, particularly in banking and finance. Only two Australian private institutions have university status, and both offer courses in similar fields to public universities. These are Bond University, established on the Gold Coast in 1989, and the University of Notre Dame, which began operating in Fremantle in 1990.

Though small, the private higher education sector did provide diversity. It expanded the range of fields of study on offer, or gave a theological perspective to courses taught elsewhere, such as the teaching courses offered by the Seventh-Day Adventist affiliated Avondale College or the multi-denominational Tabor College. Bond University offered low student:staff ratios unavailable at public universities, and pioneered year-round teaching, so students could finish undergraduate courses in two rather than three years.

By the late 1990s, a number of private higher education providers were lobbying the federal government to remove what they saw as the unfair treatment of their students compared to students at public universities. Some of them have secured Commonwealth-supported places in “national priority” teaching and nursing courses, but the key policy change they sought, and in 2005 received through the FEE-HELP scheme, was the extension of income-contingent loans to their students.

Income-contingent loans are an Australian policy innovation that has now been adopted in other countries. These loans began with the introduction of the HECS scheme in 1989, which re-introduced tuition charges at public universities but let students defer repayment until their annual earnings reached a threshold. Students repaid through the tax system, with rates varying according to earnings. FEE-HELP is a version of HECS, now renamed HECS-HELP, for full-fee students.

Under FEE-HELP, students enrolled in approved higher education providers are able borrow up to \$80,000 from the federal government to finance their studies. They repay on the same basis as students with HECS-HELP debts from studying in a Commonwealth-supported places. Since FEE-HELP became available, the number of institutions approved to offer it to their students has increased rapidly. The initial group of 34 able to offer FEE-HELP in first semester 2005 had more than doubled to 71 by October 2007.

Though most of the institutions approved for FEE-HELP are long-standing private providers, it has not been restricted to this group. Six TAFEs are now offering FEE-HELP supported full-fee higher education courses alongside their traditional vocational programs. The Box Hill Institute of TAFE in Melbourne, for example, offers degrees in applied music, biotechnology, computer systems, and hospitality management. Its Bachelor of Biotechnology and Innovation combines biotechnology subjects with business units, to aid commercialisation of scientific ideas. Box Hill TAFE claims this is a unique combination in Australian higher education. It also offers associate degrees, so students can exit after two years but still receive a qualification.

FEE-HELP has also been made available to the first overseas university to set up a campus in Australia, the Pittsburgh-based Carnegie Mellon University, which opened in Adelaide in 2006. Carnegie Mellon offers American rather than Australian degrees, a potentially significant development. In a global economy we can no longer assume a local degree will be preferred, even by Australian students. Major Australian employers are familiar with qualifications from other countries. More than 60,000 Australians in professional or managerial occupations leave Australia on a long-term or permanent basis each year. For them, an American credential may be an advantage.

Though it is only a few years since Australia adopted the FEE-HELP program, it is already changing higher education by encouraging courses and degrees not available in the public universities. Though the published statistics are restricted to

students outside public universities actually receiving government support, whether through direct subsidy or a FEE-HELP loan (and therefore excluding those students who pay upfront), the numbers suggest that these alternative higher education institutions are popular. In FEE-HELP's first year, 20,000 students enrolled outside the traditional public universities with loans or subsidies from the Commonwealth. In 2006, that number increased nearly 40%, to 27,600. With another 21 institutions securing FEE-HELP eligibility for 2007 or 2008, that number is likely to grow significantly.

Yet while those institutions currently approved for FEE-HELP represent the immediate competition to public universities, the more significant contributor to diversity may arrive from overseas. The rise of American for-profit higher education is a signal from the future. The most famous for-profit university, Phoenix, offers vocationally-oriented courses to working adults. There are no large campuses with libraries, laboratories, spires, cloisters and gargoyles, just convenient teaching locations in shopping centres or office blocks, along with online courses. Phoenix keeps down costs by avoiding research and focusing instead on students as customers. It may never compete in the teaching of philosophy or ancient Greek, but is very good at what it does. More than 200,000 American students enrolled at Phoenix seem to agree.

We should expect Australian students will be interested in similar opportunities for low-cost, job-ready training. As at Phoenix, many attend university to improve their employment prospects. Already, one of Phoenix's competitors in the US for-profit education market, Kaplan University, has established itself in Australia through takeovers of local providers of training, particularly in the financial services industry. Like the locally-listed IBT Education Ltd, Kaplan and Phoenix hope to make money, and have every reason to compete aggressively against public universities.

For the first time in their history, Australia's public universities cannot assume that their domestic market is secure. A world in

which prospective students have many alternatives is very different from the world public universities are used to, one in which the federal government held the supply of university places below demand, virtually guaranteeing that public universities would fill all their places each year.

This is not a development public universities should challenge through favouring protectionist measures, and they have not done so. Clearly there is demand for a more diverse range of courses and institutions in higher education, as there was 40 years ago before policy changes started narrowing differences. There is good reason to believe that not all this policy change, which was driven more by financial than educational considerations, produced desirable classroom outcomes. But more diversity and competition has major implications for public universities, and the policy framework in which they operate.

Finances

Unsuccessful competition for students will show quickly in the finances of public universities, which are already under long-term strain from changes in public funding.

If we use funding per Australian student as the measure, the golden years for universities were 1975 and 1976. If governments spent as much per student now as they did then, universities would be \$2.5 billion a year better off, receiving about \$9 billion in public funding compared to around \$6.5 billion now (inflation adjusted to \$2005). About \$2 billion of that income now arrives in the form of HECS revenues from students rather than subsidies from government, so the actual lost revenue is around half a billion dollars a year. This figure understates loss of purchasing power for universities since the key cost, staff salaries, have increased more quickly than price inflation of consumer goods and services over the last 30 years.

Though universities have enjoyed a few years reprieve from declining Commonwealth-supported student funding, current policy indications suggest that real funding — from both the Commonwealth itself and students contributions — will resume

its long-term downward trend by 2009. We can predict the long-term trend towards higher costs will not diminish. On the contrary, universities will face rising salary costs, driven by strong competition for highly-educated staff from other universities around the world and from other potential employers of universities' academic and professional staff. Universities also face considerable expense in maintaining ageing buildings and in keeping up-to-date with changing technology.

Universities have turned to fee-paying students to cover funding shortfalls. Twenty years ago, only a handful of students at Australian universities were not receiving Commonwealth subsidies or other scholarships, in the case of international students. Now, less than two-thirds of equivalent full-time enrolments (for example, two part-time students taking half the full study load would equal one full-time equivalent) are Commonwealth-supported. The higher per student revenues universities receive from full-fee students compared to Commonwealth-supported students finance average per student spending above what would be possible if universities only enrolled students in subsidised places. In 2006, for coursework places full-fee students paid nearly as much to Australian public universities as did the federal government. Each contributed just over \$3 billion.

For many in our community, the solution to financial shortfalls is more government funding. When the OECD releases its annual *Education at a Glance* publication, which among other things compares education spending in OECD member countries, it is always noted that Australia has lower-than-average public spending on higher education. Either expressly or impliedly, the point being made is that Australia should match other OECD countries in the proportion of its GDP it devotes to public spending on universities.

Much as universities may want this to occur, so far the signs are not promising. This chapter is written on the eve of a federal election in which new commitments may be made to university funding. If historic trends prevail, however, Australia will continue to substitute private funding for public money, using the \$2 billion

generated each year in HECS payments. This is not the result of policy neglect but the result of a deliberate policy decision. The major political parties may disagree over how much students should be charged, but the free university education that pushed subsidies up to their mid-1970s levels is not on the policy agenda. One reason is that existing charges have not had the feared negative effects on access to university.

Access

Improving access to higher education, particularly for people from low socioeconomic backgrounds, has been a widely shared goal for many decades. Going to university has become a much more common experience for young Australians, and for older Australians who acquire degrees as mature age students or return as postgraduates to upgrade their qualifications. In the ten years from 1996 to 2006, the proportion of Australians aged 25 to 34 years with degrees nearly doubled, as the students enrolling in the big expansion of university places in the late 1980s and early 1990s graduated and entered the workforce. Many claimed the 600,000 new professional jobs created over that decade.

In line with broader trends, people from low socio-economic backgrounds have also become considerably more likely to go to university. Figure 1, which uses census data, shows the change between 1991 and 2001 in university attendance rates of young people in their late teens by parental occupation (usually the father). Across all occupational backgrounds, the trend is up. But the broad patterns between the groups have not changed. In both 1991 and 2001, the children of managers and professionals were much more likely than the children of people in other occupations to attend university. Other data sources tell the same story. The Department of Education, Science and Training (DEST) classifies university students by socioeconomic status based on their postcode. The absolute number of low SES students is up, but their proportion of all university enrolments has not changed. Consistently, 15% of university students come from the bottom 25% of postcodes.

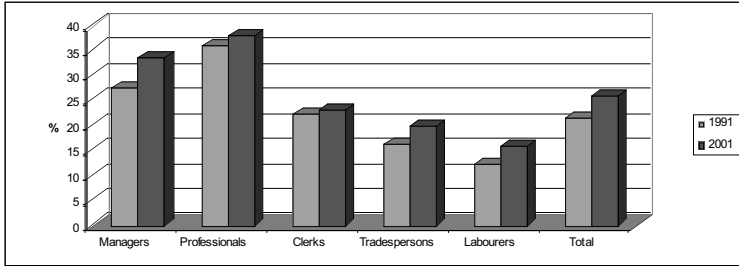


Figure 1

18- and 19-year-olds living at home, by university attendance rate and parental occupation.

Source: Australian Bureau of Statistics, census data.

Many people are concerned the fees students must pay are a particular deterrent to students from low-income backgrounds. Perhaps disappointingly — because if it was right there would be a relatively easy way of alleviating the problem — the evidence suggests this common conclusion is mistaken.

Figure 1 is a place to start. In 1997, the HECS fees charged to students were increased significantly. The costs of some courses more than doubled, many nearly doubled, and all the remainder added nearly \$1000 a year to the price of going to university. Yet the children of clerical workers, tradespeople and labourers were more likely to go to university in 2001 than they had been in 1991, when HECS was much lower. Though it will be some time before the relevant 2006 census data are available, DEST enrolment data suggests that the further substantial HECS cost increases of 2005 had no effect on enrolment levels from low socioeconomic students.

The most interesting research on this issue was published in 2006 by Buly Cardak of La Trobe University and Chris Ryan of the Australian National University.¹ Cardak and Ryan used a longitudinal study to track young Australians through their later school years and onto post-school choices. They had access to crucial data missing from many previous studies of university access — school performance — along with detailed information about socioeconomic background.

The Cardak and Ryan study divided students into three groups, based on their presumed level of constraint in going on to higher education. The “non-constrained” group were those thought least likely to face financial constraints. Such young people were drawn from the top socioeconomic quartile, based on their parents’ occupation and the occupation of the parents of other children at their school. All attended a non-government school, with families already paying for education. The “likely constrained” group was in the bottom socioeconomic quartiles, and the “potentially constrained” was the middle 50%.

Cardak and Ryan examined the university attendance rates in 2002 of young people who undertook Year 9 in 1998. There was hardly any difference between the groups. What mattered in making the transition from Year 12 to university was not a student’s socioeconomic status, but school performance compared to her or his contemporaries, as expressed in the ENTER score. The higher the ENTER score, the more likely she or he would attend university, regardless of social background.

In short, high-performing students in each cohort go to university, regardless of financial constraint. It looks as if HECS achieves what it set out to do. This suggests that prospective university students look to their future income, rather than their current income, when deciding whether or not further study is affordable. With no repayment required for HECS debtors on low incomes, education remains free for those who did not receive financial rewards from their university education.

Under HECS, the currency of university admissions is school results, not money. Instead, socioeconomic status has its biggest impact before the transition between school and university. Though differences go back to early childhood, Cardak and Ryan find that students from low SES families do not convert the academic potential evident in Year 9 to Year 12 results as effectively as students from high SES groups. They are lost to higher education during the final years of school. This research suggests there are no simple ways of changing the socio-economic composition of Australia’s universities. Instead,

improving access to higher education depends on better academic preparation of low SES students.

International Rankings

Though Australian universities long believed themselves trailing leading universities overseas, this perception has been quantified and confirmed by the global ranking systems developed over recent years. The most prominent of these are the Shanghai Jiao Tong rankings and the Times Higher Education Supplement (THES) rankings.

The Shanghai Jiao Tong ratings are taken most seriously by universities. The Jiao Tong index is based purely on research performance, made up by the number of high citation researchers, articles in the journals *Nature* and *Science*, articles in citation indexes, and staff and alumni in receipt of prestigious awards such as Nobel Prizes. The number of staff is also taken into account.

On the Jiao Tong index, Harvard comes first, and American universities dominate the top 50. The highest-ranked Australian university is the ANU on 57, with Melbourne at 79. There are no other Australian universities in the top 100.

The Times Higher Education Supplement (THES) rankings are more generous to Australian universities, with seven institutions in the 2006 top 100 — the ANU at 16, Melbourne at 22, Sydney at 35, Monash at 38, UNSW at 41, Queensland at 45 and Macquarie at 82.

Yet the shortcomings of ranking systems are widely discussed. The THES results use opinion surveys of academics to assess research quality rather than more objective indicators of research performance. The THES also tries to combine into the one index teaching quality, via the proxy of student:staff ratios, and graduate employability, via a survey of recruiters. The volatile rankings some universities have received from year to year, on a much greater scale than could be possible in a short timeframe, cast doubt on its reliability. Regardless of methodology, complex and multifaceted institutions like universities cannot be fairly summarised in a single number.

But for all their faults, rankings are used to judge institutions. They routinely appear in university promotional material. Rankings matter to researchers and universities as some guide to how well they are doing compared to others. They have spurred international competition. Rising Asian economies are now putting vast public investment into their universities in an effort to push them further up these global university rankings. With a limited pool of high-quality researchers, there is an worldwide contest for academic talent. It is by no means certain that, on current funding policies, Australia will be a strong player in this market. A failure to compete will see Australia lose some of the advantages of an advanced research and development capacity for our economy and for solving a wide variety of problems, from health issues to climate change.

Future Directions

So how do our nation meet the challenges of diversity, competition, finance, access and maintaining our international standing in research? How do we persuade political leaders that universities should command more of their attention, should loom larger in the national life?

If we want more political investment, we must persuade policymakers that innovation in higher education policy has positive spin-offs across all areas of government, including those portfolios where elections are won and lost. At present the debate — such as it is — is driven in predictable ways. Vice-Chancellors complain there is not enough public spending on education. Governments respond by criticising the efficiency of universities, students by claiming that fees are too high, business by suggesting the quality of graduates needs attention. This predictable round of claim and counter-claim soon fades into silence.

It is easy to blame someone else for the lack of interest, but in practice, the fault lies in part with our public universities. We offer no consistent message for the public. We have not put forward policy proposals with anything like the intellectual rigour provided for key reforms in other sectors. We do not support our

funding claims with evidence of what it actually costs to educate a student to an acceptable standard.

In short, public universities are not professional policy advocates in the style taken for granted in other sectors. Fortunately, there are signs of change. The higher education sector is showing promising signs of developing a stronger voice, and a more coherent set of policy proposals.

In June 2007 the Group of Eight, which represents the largest research universities, released the most comprehensive reform package yet produced within the higher education sector. *Seizing the Opportunities*, launched at the National Press Club, is a sustained attempt to demonstrate the sector is serious about thinking through the issues, and will back governments that tackle the politically difficult aspects of higher education reform.

A key aspect of *Seizing the Opportunities* is that it would replace the current system, in which the federal government allocates student places to universities, with portable scholarships. Scholarships would be awarded on merit with payment made to the institution at which the student enrolls, whether that is an existing public university, a private provider, or a TAFE that offers degrees. Student decisions would not be affected by financial factors that reflect the historical pattern of which institutions receive government support, rather than the cost or value of the course.

For the public universities, the key advantage of this is that it would allow them to reorganise what they offer to compete more effectively in the higher education market. They would no longer face current requirements to meet target numbers of students, both overall and in particular disciplines. Such targets, set by Canberra, largely reflect historical enrolment patterns rather than new strategic realities. Some universities may decide to move out of fields of study in which they lack a competitive advantage, or to shift their attention to new courses where they believe there are gaps in the market. They can do what the new players in higher education are doing already.

Seizing the opportunities would also end the strict price setting that now creates a one size fits all funding framework. Diversity cannot be achieved with uniform funding. After a Productivity Commission inquiry into course costs, universities would be free to set fees up to 25% higher than the Commission's estimates of course costs. This would allow public universities to offer a broader range of educational options, including teaching methods and facilities that cannot be supported on existing funding rates. So more flexibility in price setting did not produce unwanted outcomes, the government could if necessary pay higher scholarships to support particular courses or groups of students.

To improve Australia's research performance, there is no alternative to more government investment, with better-funded research grant programs and greater investment in research infrastructure. However, investment could be better directed so that each university focuses its research effort on areas of comparative strength, rather than spreading scarce resources too thinly over many areas.

The work of addressing socioeconomic disadvantage is paramount if universities are to reflect the full range of Australian society. For a significant number of citizens, Year 12 remains an unlikely prospect and university entrance an impossibility. Such deficiencies can only be addressed through serious investment in preschool and beyond, allied to improved support services and benefits for those struggling to study. The university sector has an important role in providing research, expert advice and a sympathetic destination for students who make it through. But the single biggest cause of inequality happens years before tertiary study, and can be ameliorated but not solved by equity programs in universities.

One option for lessening educational inequality has been proposed by Swinburne University Vice-Chancellor Ian Young. He argues that less academically able school leavers would be better off entering university via a TAFE associate degree. He sees TAFE as an educational bridge between school and university, "more independent than school, but more supportive than university". Though students currently articulate into university from

TAFE diploma courses, the two-year associate degree would more closely align with university curriculum, with an option after two years to either exit with a qualification or stay another year to achieve a bachelor degree qualification. Though it offers a limited range of courses, this is what Box Hill TAFE is now doing. IBT Education Ltd institutes offer one-year higher education diplomas aimed at similar students, whose Year 12 results did not gain them direct admission to their preferred university course.

To achieve these reforms, universities must find a new place in politics.

We need to build constituencies among people for whom universities matter — our students, our alumni, those who use our research, those who employ our graduates. This means a carefully planned program of engagement, backed by data about the artistic, social and economic contribution universities make to Australian communities.

We must reframe the debate around why Australia needs well-funded and well-regulated public universities. Only by making that case — persuasively, forcefully and often — can we be confident that governments will deliver what is needed. Influence for universities will be achieved not at a particular election, but by making the role of higher education part of the national debate.

Endnote

- 1 Buly Cardak and Chris Ryan, ‘Why are high-ability individuals from poor backgrounds under-represented at university?’ Discussion paper A06.04, La Trobe University School of Business.



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