Micro-economic reform of the Australian higher education industry:
Implications of the Abbott Government’s Budget of 13 May 2014
These are interesting times for higher education policy and potentially an exciting time for Australia’s higher education industry. What was revealed in the Abbott Government’s first Budget of 13 May 2014 represents the most comprehensive and far-reaching development in Australian higher education in at least 30 if not 40 years. The Budget papers on Higher Education circulated by Education Minister, Christopher Pyne, set out a framework of conditions to promote micro-economic reform of the industry. It will be up to established and new institutions to respond to the more competitive pressures and take advantage of the flexibilities offered in this changing environment for the benefit of students and the nation.

The adjustment will not be easy, especially in the transition phase, given the deep cuts to higher education funding outlined in the Budget. The immediate pain might be more palatable if the longer term directions and benefits are understood.

The Pyne package addresses the need for greater cost-effectiveness in meeting domestic student demand which is expanding and diversifying. There are more young people and adults seeking higher qualifications. Within the next six years also we will begin to experience a surge from the school leaver population cohorts. It will be necessary, therefore, to put in place progressively over the next half decade a more differentiated and efficient structure of supply, work towards which must begin now in view of the lead times involved. The Pyne agenda also addresses the significance of the higher education industry in Australia’s services exports – the main component of the fourth largest of all export industries, its future market potential, the rising capacity of foreign rivals, and the transformational nature of information and communications technology on higher education demand and supply.

Currently it looks like the reform package may have a troubled passage through the Senate but that is for another day, possibly when the noise has subsided, the misrepresentations have been corrected, the structural benefits are more widely appreciated, and negotiations with stakeholders and Senators have addressed specific issues of concern.

My presentation covers five topics:

1. The historical course of Australian higher education policy;
2. The imperatives for reform;
3. The prospects for innovation, structural diversification, and provider differentiation on the basis of quality, relevance, convenience and price;
4. The equity implications of the new structural and financing arrangements; and
5. The subsequent policy challenges that arise.

[SLIDE 2: 10 periods on Australian Higher Education]

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1 The views expressed in this paper do not necessarily represent the views of Go8 Vice-Chancellors.
1. The evolution of Australian higher education policy

It is important to see the 2014 policy and financing measures in historical context. They do not come out of the blue as a radical departure from policy precedents and trends in Australia but rather arise from a path of policy continuity albeit circuitous and rarely coherent. Indeed there is much in the package of measures that is the inevitable result of the incremental steps that have been taken over time to improve responsiveness to changing needs and address the accrued anomalies in the policy and financing framework.

The reform package builds on the initiative of the Menzies Government in the late 1950s that made the Federal Government integral to financing higher education and research while respecting the autonomy of universities, the first of which had been established in State capital cities a century before. Under Menzies, too, the Federal Government diversified the structure of supply following the Martin Committee’s report of 1964 with the formation of a binary divide between universities and colleges of advanced education. The role of the federal government was widened when the Whitlam Government of 1972-74 took funding responsibility from the States for universities and colleges, and made higher education free for those who could gain a place on merit. While that initiative was, importantly, emancipating for some women it mainly advantaged those of upper and middle socio-economic status. As reported by the Wran Committee in 1988:

“Higher education students tend to come from high income backgrounds and are more likely to have attended a private school, and have parents who are higher education graduates or work in managerial and professional occupations, than their peers who are not participating in higher education.”

The Pyne package builds firmly on the two watershed reforms of John Dawkins in the late 1980s – opening opportunities for trade in education services on a full fee basis for international students, and the provision of income-contingent loans for Australian students (originally the Higher Education Contribution Scheme (HECS) now HECS-HELP). The latter, an Australian public policy innovation, winding back the regressive approach of Whitlam, was designed so that the private beneficiaries themselves would pay a share of the costs of higher education. It builds too, on the initiative of Peter Baldwin in the early 1990s to diversify pathways and learning options for students through the Open Learning Initiative, and open up domestic postgraduate coursework programs to fees initially within funded load and then extended by Simon Crean in 1994 on to a full fee basis. It continues the 1996 Vanstone model of hybrid government contributions, reflecting a mix of delivery costs by field of study and private returns to graduates. It flows from the initiative of David Kemp in 2002 to establish the income-contingent Postgraduate Education Loans Scheme (PELS) for the domestic postgraduate coursework market.

The Pyne package also builds on the FEE-HELP coverage offered by Brendan Nelson in 2003, which absorbed PELS for fee-paying postgraduate students and extended loans to students enrolled with private providers. It draws the lesson from the period when universities could price up to 25% above the prevailing student contribution rate, that tuition price caps serve to legitimate rather than contain price rises and impede a spread of price points (a problem also with the approach adopted more recently by the Cameron Government in England). It continues the “demand-driven system” whereby government-subsidised student enrolments were uncapped following the Bradley report of 2008, with the Rudd-Gillard
government declaring it was putting “students first”. This is a significant decision in a Budget that was seeking savings, given the costs of uncapping which had exceeded the previous governments’ forward estimates of outlays and led to various ad hoc decisions such as excising sub-Bachelor pathways from the demand-driven system. Rather than go backwards and re-cap funded places, and possibly return to the Howard Government's parallel provision of full-fee undergraduate places, the Abbott Government determined to continue forward along the policy path.

The Pyne package takes the logical and essential next step in deregulating price as well as enrolment volume in the domestic undergraduate market. Continuation and expansion of the demand-driven system of acceptable quality would be financially unsustainable otherwise. It breaks new ground in extending government subsidies to students in accredited private institutions, while providing loans to students on the same basis regardless of where they choose to study. Thus it improves competitive neutrality for providers and horizontal equity for students across all levels of study. It focusses the national higher education regulator, which was established in the quasi-market context of uncapped places, on its original design purpose, a risk-based approach to its core functions of accreditation of new providers and the eradication of unscrupulous providers, in ways that will prevent the operation of disreputable providers via previously weak State or Territory entry routes, inconsistent monitoring or timid enforcement of licensing requirements.

Importantly, the 2014 package breaks from the past in several ways to bring the policy and financing framework into the twenty first century.

[SLIDE 3] Higher Education Revenue by Source, Australia, 1907-2012

The 2014 Budget package abrogates the Whitlam legacy of expectations for the costs of those who benefit personally from higher education to be paid substantially by those who don't. As can be seen in this slide, the Whitlam intervention was no new normal but rather the aberration. The Pyne package returns to universities the freedom to set prices for the services they offer – a liberty forfeited by the Whitlam takeover of higher education funding. Subsequently, price control was locked-in at the micro level by unit of study under the Dawkins’ relative funding model alongside fixed prices for HECS.

The Pyne model brings to an end the narrow, look-alike 'unified national system' that Dawkins promoted after closing the binary divide in the late 1980s, which greatly reduced structural diversity by merging or amalgamating specialist institutes, polytechnics and multi-purpose colleges. Still today, among the world’s higher education systems Australia’s is one of the least privatised and, in its public sector, the most monochrome.

It corrects for the flaws in the Bradley design of the demand-driven system, confined to the oligopoly of established universities – the highest supply-cost option. It makes the policy framework more coherent by aligning deregulation of student volume and tuition pricing, such that institutions can increase teaching-related revenue without having to grow their undergraduate enrolments irrespective of their mission and the knock-on effects of ‘selecting’ universities on ‘recruiting’ institutions. It reduces reporting burdens while increasing the information available to prospective students to help them make considered decisions about what and where to study.

In policy terms, the 2014 Budget embeds the paradigm shift from Q1 (supply-driven, planning-orientation) to Q4 (demand-driven, market orientation) for the whole higher education sector. Thus it is a culmination of policy evolution. Whereas the international and domestic postgraduate markets for higher education services have been largely Q4-based since the mid-1990s, the domestic undergraduate market has been Q1 controlled until now. The Bradley model moved undergraduate enrolment volume from Q1 to Q4 but left pricing in Q1.

Unfortunately, from a university perspective, this shift has been made alongside a 20% cut in the government rate of funding, averaging some $2,000 per student. There are further reductions, too, from a lower rate of indexation for Commonwealth payments to universities, and the previous government’s efficiency dividend and an earlier tranche of cuts and deferrals of promised increments. This makes the transition from Q1 to Q4 harder, as universities are pressed to transfer to students at least some of the costs no longer met by the government in order to safeguard the quality of student learning experiences. However, in contrast with 1996, when the forward estimates of outlays for universities were reduced by $1.8 billion, with associated ad hoc policy decisions, this time the reduction is accompanied by a program of industry restructuring.

Nevertheless, the transition is made especially difficult with the proposed changes to funding relativities by field of study. Rather than either add a uniform ‘flag fall’ increment of $2,000 per student or top-slice the 20% cut evenly across all the relative funding clusters, the Education Department has proposed a shift in funding relativities to reflect private rates of return to graduates and costs of delivery within a streamlining of the 8 funding ‘clusters’ to 5 funding ‘tiers’. That change is opaque and its consequences are not clear, for instance, on the behavioural responses of students to the new structure of incentives to study in the important STEM fields where the student shares of costs (except for Mathematics) would rise substantially. It is also curious to intrude a private return element on the government contribution to costs on the cusp of deregulating prices. This flaw in the policy design creates a market distortion, and it will need to be revisited by the Legislation and Finance working group established by Minister Pyne or by the Senate.

The Pyne agenda for industry restructuring involves not only undoing Dawkins’ uniform design and fixing the problems of past policy but also unleashing the constraints on innovation in higher education and making Australia better prepared for the future.

2. The imperatives for reform

There are compelling grounds for this agenda of micro-economic reform.

First, one of Australia’s key industries – our major non-mining and services export industry – is that of education services, our fourth largest export earner, and principally higher education which accounts for two thirds of education exports. Further development of this industry is imperative post the resources investment boom and the demise of traditional manufacturing. Australia’s success in this industry has many spin-offs, not least for our access to business and government leaders in the countries where we seek to expand trade in commodities and services.
Second, the industry’s prospects are strong given unprecedented growth in student demand for higher education around the world, particularly rising in developing economies with youth bulges in their demographic profiles over-stretching their domestic capacity. The OECD projects that the number of students in higher education will rise by 100 million over the next quarter century (from 165 million in 2009 to 263 million in 2025), with the number of globally mobile students doubling over that period from 4 to 8 million. This may be a conservative estimate. In Asia alone, over one billion people will move into the middle income bracket of between USD6,000 and USD30,000 per year.²

Third, workplace changes place a premium on postsecondary education qualifications. Rising demand for higher education reflects not only population growth but also changing labour market requirements in advanced and developing economies. Over the next 5 years it is projected that some 300,000 new jobs in Australia will require a Bachelor Degree or higher qualification, and 100,000 new jobs will require a Diploma or Associate Degree. More people will need not only higher qualifications but also deeper and broader skills formed across theoretical, practical and applied orientations, for which a diversity of learning modes will be required.

Fourth, developments in communications and information technology are changing the ways and means by which higher education can be accessed and provided. The power, speed, ubiquity and affordability of portable communications technology, for instance, open the frontiers of the possible beyond imagination. These developments will dramatically affect when and how learning can occur, and the delivery costs of higher education.

Fifth, fiscal constraints mean that future capacity to supply higher education services cannot rely on public sector investment alone.

[SLIDE 5] Equivalent full-time student load by citizenship and public/private providers, 2002-2012

The concurrence of these five factors is spurring greater private participation in higher education – both provider investment and learner consumption. Australia cannot continue to stand against these imperatives and defy global market dynamics by protecting a public university oligopoly in the supply of higher education services and restricting private co-investment in Australia’s delivery capacity. Nor can the nation afford to continue preventing those students who are able and willing to pay more for their higher education from doing so. Progressive policy should make it possible to tap the resources of the relatively affluent and thereby provide greater support for the less-advantaged students who need it.

[SLIDE 6] – Number of students in higher education in Australia, 1906-2012

This slide shows the number of students in Australian higher education over the last century. When Whitlam moved to make access free there were 200,000 students, mostly domestic, on Commonwealth scholarships, or State teachers’ scholarships, or cadetships funded by firms, or self funded, along with some Colombo Plan students and foreign-sponsored and aid-

² Hajkowicz et al, (2012). Our Future World: Global megatrends that will change the way we live. CSIRO.
supported students. In 2012 there were 1,200,000 students, including 450,000 international students, some sponsored but most fee-paying.

For the last quarter century Australia has been the world leader in the business of international education. The challenge is whether we can stay in the leadership group over the next quarter century, and take the bold steps necessary to that end.

We should be pleased but not complacent about our achievements over the last 25 years. We had some first mover advantages, with Australian government incentives and support at the infant stage of industry development, relatively aggressive marketing, and innovative use of commissioned student recruitment (and sometimes linked migration) agents selling the benefits of study in Australia full-time at a campus. We were attractive because we provided learning in an English-language environment, offered a low-cost package of tuition and living expenses when the A$ was less than 80 cents to the USD, at times much less. We also offered permanent migration-to-Australia possibilities for students and graduates. We largely promoted a tourism-driven image of Australia’s beaches and fauna, and a carefree lifestyle, sometimes at odds with the motivations of the students who wanted to obtain reputable qualifications for improving their position on return to their home countries. Curiously, we did not always profile quality and intellectual excellence.

Nor did we present as genuinely internationalising. We were mostly about one-way student flows under the banner ‘study in Australia’. Our one-sided participation was noticed and regularly criticised by governments and educational institutions from Singapore to Scandinavia. The Abbott Government’s New Colombo Plan is a mechanism for rectifying this skewed view and practice of internationalisation. This is necessary for more Australians to be more knowledgeable about Asian history, more appreciative of cultural diversity, more competent in Asian languages, and more able and willing to do business with and via Asia.

Things are changing rapidly around the world and the model that has served us and others well in the past will not be sufficient in the future. Many of the countries from which we have traditionally sourced students now have capacity not only to educate more of their people domestically but also to accommodate foreign students. China, Malaysia, Singapore and Vietnam, for instance, are building up their domestic education capacity for import replacement and export. Germany and Japan are looking to foreign students to make up for declining domestic demand. You will find in these countries some of the best equipped facilities for learning and research in the world. Several countries, including Japan and South Korea, also have wide satellite footprints and advanced cyber-technology infrastructure and skills. Additionally, they are cashed up.

To date we have seen a range of supply-side responses to conventional expectations of obtaining higher education qualifications. More institutions are setting up in other countries, either independently or in partnership with a local institution or provider, and, in some cases, in consortia. Monash University was a pioneer of international branch campuses and now universities of several nations are establishing a commercial presence around the globe, including in Adelaide, Abu Dhabi, Beijing, Kunshan, Singapore and Shanghai.

Transnational corporates are also expanding. Laureate Education Inc., for instance, has a network of more than 75 campus-based and online universities in 29 countries offering programs to 850,000 students. Laureate programs are career-focused and span Bachelor’s,
Master's and Doctoral degrees in architecture, art, business, culinary arts, design, education, engineering, health sciences, hospitality management, information technology, law and medicine.

Apollo Education Group Inc., through its subsidiaries the University of Phoenix, Apollo Global, Institute for Professional Development, Western International University and College for Financial Planning, is one of the world's largest private education providers. Much of its focus is on upgrading the qualifications of working adults. The Apollo Global network includes BPP, a provider of education and training to professionals in the legal and finance industries in the UK and Europe; Bridge School of Management, an Indian business school in joint venture with HT Media Ltd.; Milpark Education, a management education provider in South Africa; Open Colleges Australia comprising: Open Colleges; Integrated Care & Management Training; and College of Fashion Design; UNIACC, a university of arts & communication in Chile; Universidad Latinoamericana, a communications, business, and medical university in Mexico.

Clearly such enterprises involve risks. Kaplan, for instance, has had difficulties with US accreditation. The University of Phoenix has run into difficulties regarding student dropout and graduate employment outcomes. These difficulties hit the bottom line quickly and require prompt responses from providers and regulators alike, as in all industries. The important policy point is not about individual providers but about the directions of change that pioneering providers indicate for the future through their successes and failures. The thing about the US enterprise culture, unlike Australia’s, is a willingness to accept learning from failure as a step to success.

In India and Bangladesh, across the Middle East and into Africa, the sheer scale of learner demand from young people – not only from the rising middle class but also from poorer segments – will necessitate models of higher education that are not dependent on physical campuses and certainly not the traditional university space. The conventional supply model is too expensive to build and maintain as the mainstream solution. Accommodating growth in demand for higher education will require new educational delivery technologies, including cyber-education and mixed modes involving learning at various types of ‘campuses’ and in workplaces and from home.

Where will Australia be positioned in this future? Can we have some participation in either of the transnational models that appear to be unfolding, both involving the emergence of completely new players, including from beyond the education industry: one more integrated along the value chain and involving new combinations of institutional types; and the other more disaggregated through the segmentation or unbundling of existing institutional provider functions? These models can serve students wherever they may be. Can we simultaneously continue to attract students here on the basis of quality, some for full degree programs and others for a part of their learning?

It is hard to see a positive answer to those questions without much greater investment in the future. The greater diversity of investment the wider the options will be for Australians. The more some of the international players in the emerging business of higher education are engaged in Australia, and the more competitive Australian providers become as a result, including through new alliances, the better the chances that Australia will continue to be represented among the leading players over the next quarter century.
3. The prospects for innovation, structural diversification, and provider differentiation on the basis of quality, relevance, convenience and price

The initiatives of the 2014 Budget offer the following main benefits:

- Greater diversification of higher education provision, thereby widening choices for students and improving responsiveness of supply to varying student needs, abilities, interests and backgrounds;
- Incentives for sharper mission focus on the part of providers, allowing different providers to build on their strengths and offer varying educational experiences for students;
- More cost-effective use of public resources in accommodating expanded higher education participation;
- Greater private investment in Australian higher education, enabling innovation in the design and delivery of programs.

They open the supply options to a rich diversity of providers, whether public or private, university or non-university, Australian or foreign, physical or virtual or mixed mode.

[SLIDE 7] – Unbundling Higher Education

They also open the possibilities for unbundling what we have long taken for granted to be essentially integrated, including curriculum design, teaching and assessment of learning, and the functions of the higher education workforce where the role of the integrated academic engaged in teaching, research and service now represents a minority rather than the majority role. A scenario of unbundling possibilities was developed by Universities UK in 2012:

Supply side unbundling – compartmentalising and disaggregating delivery processes
- Infrastructure: e.g. use of third parties for delivery of essential infrastructure and back office functions such as IT network management
- Teaching: e.g. use of externally contracted staff to teach, draft curricula or develop resources
- Teaching & awards: e.g. portability of the higher education ‘product’ in the form of degree award validation and the external delivery of curricula through franchising and partnership provision

Demand side unbundling – compartmentalising and disaggregating outputs or consumption
- Personally tailored learning: e.g. quicker or multiple routes to qualification, pay-as-you-go credit accumulation, optional purchasing of resources, learning support and facilities
- Educational resources: e.g. formal and informal access to on-line resources.

These various processes help increase responsiveness to students and improve industry productivity.

On the basis of private provider behaviour here and elsewhere we can expect niche offerings to be created, new geographic locations to be served, particular population segments to be catered for, and alternative delivery models to be offered. At least initially, a number are likely to focus on low-overhead vocational teaching in the social sciences, business and law.

Faith-based institutions may also develop and expand. Some for-profit providers may tailor offerings to adult learners in areas such as financial planning, insurance and investment. Some may bring to Australia the innovations developed elsewhere of making courses available on an almost continuous basis rather than two or three times a year, locating learning centres in readily accessible places, standardising curriculum content so that learners can continue when they move from one region to another, emphasising career preparation and employing teachers who have practical professional experience. Some may put on courses, in consultation or collaboration with businesses, to meet specific local labour market requirements, with flexible capacity to expand or contract as demand changes.

Some may expand their on-line offerings, making creative use of the capacities of technology and the multiple means that young people use for learning, often simultaneously. New providers may enter with niche programs for specific market segments tailored to fit their particular needs and circumstances. Others may concentrate on pathway programs for the domestic market drawing on their success in the international student market, such as the Navitas model. Some may venture into secondary high-school/tertiary college hybrids, along the lines of the Chicago model, offering students programs articulating with an Associate Degree, or dual-credit classes. Others may build on TAFE programs to provide articulation to both a Bachelor’s and Master’s degree, along the lines of Mills College Oakland, California.

Some may focus at the elite end. Prestigious universities from North America, Britain, Europe, Scandinavia and Asia might consider a presence in Australia, perhaps in joint ventures with Australian institutions or with other partners or independently. They may seek a share of Australia’s domestic and international student markets. There is likely to be interest, too, from firms or agencies in other industry sectors, such as technology vendors, accounting firms, publishing companies, professional associations, and assessment houses accepting credit for learning undertaken across a variety of providers, including MOOCS.

Go8 universities may well be challenged from all sides at all levels from undergraduate to graduate and doctoral education: well-tailored competitively-priced programs from other universities and specialised non-university providers; prestigious universities from other nations; the big accounting firms; and perhaps parts of CSIRO and some medical research institutes. Many of the new providers will have the advantage of being nimble, not carrying the overheads of comprehensive teaching institutions and, significantly, not bearing the high costs of research. We cannot foretell what the market will generate, but in a much more competitive environment with a wider variety of choices for students, Go8 universities, no less than any others, will have to price competitively and be able to demonstrate added value, or the brightest students will go elsewhere.

4. The equity implications of the new structural and financing arrangements

It’s clear when you consider how diverse the higher education offerings could become that the big beneficiaries are students. Even a scant appreciation of the competitive dynamics allows a more serious discussion of the equity implications of the more open market. Much of the public discussion about the impacts of the budget measures has been limited to the apparent assumption of continuing oligopolistic arrangements, as if established universities will be able to continue acting only in response to one another.
The main equity issues relate to affordability, student access, and graduate debt. In considering the issues it needs to be understood that when Whitlam made higher education free more than 90% of students were from middle and upper SES backgrounds. Over the period following Dawkins’ arrangements of regulated student fees the low SES proportion rose to 15% and remained at that level while enrolments expanded. After 2008, four out of five of the additional students were middle and upper SES, including those with low ATARs. The Australian achievement of raising the low SES share over the last four decades contrasts with the trend in Germany where tuition is free and where the low SES share of enrolments (based on level of parental education) over 1985-2012 has fallen from 39% to 9%. Nevertheless, Australia’s higher education student body continues to come overwhelmingly from the relatively advantaged segments of society. If we are to continue making improvements in access and success for less advantaged students it will be necessary to provide more appropriate learning options – involving greater diversity of provision to meet varying needs – and higher levels of per student support, funded in part from those who can and will pay more.

**Affordability**

It is not unreasonable to start from the premise that students will make careful decisions and higher education institutions will not price themselves out of the market. An important rule governing the new arrangements is that domestic tuition prices cannot exceed international fee levels. Australian universities and other higher education providers would make themselves uncompetitive in the international market if they set their prices too high.

With the rule that the domestic price must be below the international price it is hard to see how $150,000 plus degrees will emerge, except for outliers such as the Executive MBA and high-cost fields such as Medicine which also involve longer periods in study and training. If there were to be $150,000 degree programs on offer students would not be obliged to pay for one, though some may opt to do so in view of the returns they can obtain. They can shop around, and not just in Australia. The vast majority of students can be expected to choose less expensive more convenient study options tailored to their interests, abilities and job aspirations, where they will have choices along a spectrum of prices and intensity of learning.

**Price differentiation**

[SLIDE 8]. Indicative fees for fee-paying Masters Coursework, Domestic & International, 2012

We can learn something from the experience of the Q4 markets for international students and domestic postgraduate students. These are not dysfunctional markets, although they are not without their risks, as we saw in the vocational sector in relation to Indian students seeking migration rather than education. There have been no major, sudden price hikes. There is a spread of price points across the various fields of study.

This slide displays a scatterplot of indicative fees charged at Masters Coursework level for domestic fee paying and international students at Australian universities in 2012. The Department of Education, custom dataset of indicative fees (as reported by universities and extracted from the HEIMS database), 2012.
horizontal axis shows the price of a degree for domestic students and the vertical axis shows the price for an international student, both in Australian dollars.

When we compare Australian university fees in the international and domestic Masters by coursework markets, with very few exceptions, the domestic fees are markedly lower than the international fees. Importantly, it is also clear that there is a wide spread of prices charged across the range of universities. This distribution of pricing strategies is evident across all broad fields of study, including high demand fields with typically high private returns, such as Management & Commerce or Engineering & Related Technologies. A small number of outlier courses show prices at or around the $60,000 mark and an Executive MBA course at $120,000 for international students (indicated in orange), however this represents less than 1% of the total course offerings in that year.

[SLIDE 9] Spread of tuition prices for Master's degree programs, outliers removed

It has been suggested that the availability of income-contingent loans makes students insensitive to price, thus enabling most institutions to put up their prices to a common level and some to rent seek. In the domestic postgraduate coursework market some 2 out of 3 students access income-contingent loans. This slide shows the indicative fees with the outliers removed, so the variance within the general price distribution can be seen more clearly. As can be seen from the spread of price points, the availability of the loans does not appear to mask price competition.

[SLIDE 10] Indicative international and domestic Masters coursework fees, Engineering, 2012

Here we can see the price point spread for Engineering, ranging from around $9,000 to $28,000.


Here is the spread of fees for Society & Culture, with a few outliers above $50,000 for international students and above $30,000 for domestic students, with the bulk of students ranging across price points between $10,000 and $20,000.

It is reasonable to expect that, with the availability of income-contingent loans, a deregulated undergraduate market would operate not too differently from the unregulated postgraduate market, with the possible exception of Medicine where the number of student places is regulated. There may be more sensitivity to price for graduate learners with incomes that trigger immediate repayment obligations but not necessarily at a level of significance. With much greater competition in the domestic undergraduate market we can expect to see even wider price differentiation among universities and non-university providers.

The increased competition from non-university providers will force universities to price sensibly and minimise their costs through innovation, productivity improvements and new delivery methods. These same forces will make universities improve their value proposition to students as they offer higher quality or more relevant courses of study. Beyond some recovery of the reductions to government funding, it will be difficult indeed in such an environment for established universities to charge more for what they are already providing. Price deregulation is all about giving students choices among intensive and convenient
learning experiences. There is under-utilised potential within Australia’s research-intensive universities, for instance, to offer outstanding learning experiences and a less-controlled pricing regimen will make it more possible to realise those opportunities.

**Access to higher education**

With regard to student access, the availability of HELP loans means there are no up-front financial barriers to access. There is no evidence from the research literature that tuition fees within a context of income-contingent loans deter students from any socio-economic background from participating. There is also no evidence – lots of assertions but just no evidence – that students, from any socio-economic background – are deterred by graduate debt levels. This may change as prices are elevated and loan repayment conditions are tightened, affecting student preferences not only by provider but also by field. Arguably, if stronger price signals influence student decisions in favour of areas with better prospects of pay-off there would be a better fit between graduate output and labour market need. Even so, the HELP loans do not give rise to the problems faced by some US graduates where the obligation to repay is time based rather than income based. The level of repayment of HELP loans is kept at a modest proportion of annual income, such that a graduate whose income falls for a given period is not required to keep paying at the same level or at all.

The Pyne model opens more diverse pathways for students with varying levels of preparation for higher learning. It also requires a substantial provision (20% of net additional fee revenue) of needs-based and merit-based scholarships, importantly including stipends for students who otherwise would have to work while studying, possibly to the detriment of their learning experience and educational attainment. The scholarships for those students in need of assistance are made possible because of the opportunity for those students who are willing and able to pay more to do so.

One consequence will be that the sticker price for a particular degree course will represent the maximum fee payable, with some students gaining price discounts as part of the scholarship mix. This will enable greater access of low SES students to the highest quality programs. It will also make comparisons of average prices less relevant.

**Graduate debt**

Two issues arise with regard to graduate debt. One is the cost to individuals and the other is the cost to government.

With regard to individuals, in nominal terms higher education graduates on average earn $1.2 million more over their lifetimes than non-graduates or $400,000 in net present value terms (using a 5% discount). The loans are to be provided at the same rate that the Government itself pays for its borrowings (the 10-year bond rate), which over 2005-2014 has been at least 5 percentage points lower than the standard unsecured personal loan rate that a graduate might pay to buy a car. Many graduates will clear their debts reasonably quickly. Nevertheless, there could well be traps for some graduates on relatively low salaries, such as women in education and health occupations. The Go8 has commissioned modelling by

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Tables F3 Bond Rates, F5 Indicator Lending rates.
Professor Bruce Chapman with a view to identifying the extent of any problem in this respect, and inform the Legislation and Finance working group’s consideration of options.

With regard to the cost to Government of outstanding HELP liabilities, which will grow as more students are enrolled and the graduate cohorts are more diversified, the important point is that the cost of loans is much less than the cost of grants. The 20% cut to the government grant per student, assuming no increase in enrolments, would save the government cumulatively more than $30 billion over 20 years. One should also recall, in the light of some macabre suggestions in this area, that the basic rationale for income-contingent loans is that you are liable to repay if you gain a wage premium during your lifetime. Nevertheless, as the deregulated arrangements bed down some options will need to be revisited in respect of student borrowing limits and repayment obligation thresholds.

5. Policy challenges arising

A number of immediate and longer-term policy challenges arise from the Government's framework to stimulate micro-economic reform of the industry.

Immediate challenges

In addition to the matters already discussed, specific aspects of the market design are being considered by the various consultative panels set up by the Education Minister. Key matters include:

- The funding rate for non-university higher education providers (nuheps)
- The criteria for nuheps to access Commonwealth Grant Scheme funding
- The relationship between tuition prices and loans
- Arrangements for reporting and monitoring prices referenced to international benchmarks
- The operation of fees proposed for graduate research students via the formulaic Research Training Scheme, and the attractiveness of research training in the new financing context
- The information available to guide student choice.

Longer-term challenges

Consideration of the immediate issues ought to have regard to the longer-term purposes of Australian higher education, and the range of functions the community expects of its public higher education institutions.

[SLIDE 12] Higher Education Funding Models

The financing shift from Q1 to Q4 moves the policy focus away from the interests of providers to the interests of students. Government then becomes more concerned to ensure that students have choices than that particular providers have students. This will have implications for some institutions that find themselves unable to compete in certain areas and may have to divest themselves of certain functions, or restructure through collaborations or mergers or other means.
Additionally, in Q4 context, the primary policy intent is not so much to sustain a wide range of institutional functions as to enable improved responsiveness of existing and new suppliers to varying student needs and changing circumstances. However, societies have a profound and long-term interest in their higher education institutions – particularly those that have been supported by their communities over long periods – that go beyond the immediate interests of current students, academic staff and administrators. Yet it is unreasonable to load the costs of those functions onto a current student cohort. To the extent that there are continuing grounds for a Q1 approach, in a predominantly Q4 context, for sustaining institutions that provide community services, there is a case for purpose-specific funding.

[SLIDE 13] ERA Results, 2012

Similar questions, but with much bigger cost implications, also arise as to the basis for funding research and research training. The prices that students pay for their higher education can never suffice for funding research. Arguably, the strongest case for public investment in universities is for them to undertake the long-term research that industry will not fund but from which substantial and often unforeseen benefits can be derived. In a more competitive environment for higher education, it becomes more important that research is adequately funded. In a fiscally constrained context it is necessary to invest primarily in demonstrated research strength. This matter will necessarily interact with any discounting of the CSP funding rate for non-university higher education providers. It will be important not only that they have sufficient incentives to enter the market but also that their competitors are not paid for research they do not perform in relevant fields. This suggests the need to separate funding for research from funding for teaching, and to reconsider the mechanisms for allocating funding for research – an agenda for another day.

Meanwhile, Australia’s combination of a demand driven funding policy, a national higher education regulator, and a system of income-contingent loans positions us well to move ahead on the path to micro-economic reform of the higher education industry.

So what are the realistic policy alternatives? Can we stay with the policy and financing framework adopted by the Rudd/Gillard governments, following the Bradley report – a curate’s egg in design and scrambled in execution? The inescapable conclusion is that the status quo policy framework is not a viable option, and the key question for public policy is not whether a new framework is necessary but how best to put it in place.

The higher education reform measures are not quite as radical as the demonisers of competitive markets in education allege but they are ground-breaking, as they need to be if Australia is to be seriously competitive in the global knowledge economy. The 2014 Higher Education Budget reforms are necessary. They are logical, coherent, sustainable, equitable and inevitable. Some aspects need further consideration but the overall direction is the correct public policy call. My guess is that the detractors of micro-economic reform in Australia’s higher education industry will find themselves on the wrong side of history in resisting efficiency improvement and innovation, as they will be in opposing the redistributive measures of the package and, curiously, supporting socially regressive subsidies from general taxpayers to more advantaged segments of the community.