"Higher Education Navigation in Uncharted Waters"

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Ladies and gentlemen

I would like to deliver three key messages today:

1) We have an excellent higher education system already and yet it could be better.
2) The higher education reforms being proposed carry some risk and we need to speak constructively and candidly about these unintended consequences.
3) And finally, there are some key refinements I would like to offer which maintain the integrity of the Government's intentions, but reduce risks and drive better outcomes.

The next stage of deregulation – and where we're starting from

We're talking today about the next stage of deregulation in Australian higher education. Deregulation has been an important driver of reform in higher education, as it has been across other sectors of the economy, for many years.

But before I get into the nuts and bolts of the current proposals for change, I think that it is important that we take a step back to look at what has been achieved in Australian higher education to date and the character of that system which makes what we do the envy of many other nations.

In Australia:

- We educate 37% of our young people (25-34 years of age) to university level.
- We are very well-regarded internationally – and have been for many years – for the quality of our higher education.
- We deliver this quality higher education it in a cost-effective way.
- We do it in a way that leaves people with student debts that are manageable.
- And, importantly, the way we do it matches our nation's idea of what is fair.

The most recent world rankings published by the Academic Ranking of World Universities saw most Australian universities rise in the international rankings.

These rankings included Swinburne, which was confirmed again as one of the top 3% of universities in the world, 18 other universities named in the world’s top 500, and those like the University of Melbourne, which was this year named in the world Top 50 for the first time, and which deserves great congratulation for that achievement.

The greatness of our system lies in its diversity and affordability and in the fact that it plays an absolutely essential role in the functioning of our highly sophisticated economy. We are on the world map for higher education not because we have just one or two institutions that are head and shoulders above the rest, but because our system of higher education has real breadth as well as depth.

As Deakin University’s submission to the Senate Inquiry into higher education has urged, that rather than attempt to create a local ‘Harvard’:

> “Australia could advance a broader vision of 15 to 20 Australian universities in the world’s Top 300 – a broadly based, diverse national network of excellence in teaching and research designed to address national economic need and focussing on delivering the necessary number of graduates with the skills required to sustain Australia’s economic growth and regional economies.”

All of us—especially those of us in younger universities with specific missions to serve our student communities and who have built internationally ranked areas of focused research strength—understand this.

We look at the students we educate and we know the importance of the contributions they make to our future economy and quality of life. Designing and engineering the jet airliners that take us safely overseas. Providing primary health care in remote communities. Developing and implementing the I.T. systems of our companies, which keep our businesses innovating. Designing websites and new sustainable products. Building inventive small businesses. Teaching in our schools, kindergartens and early learning centres. Inventing and delivering solutions to tackle the challenges of transportation, infrastructure, and affordable housing. Visualising and liberating new creative industries.

It is important to remember that the talented and motivated students who participate in our economy are not always from typical university families. Many are from the regions, including our Indigenous communities. It is difficult to emphasise just how important it is to the economy to ensure that these students continue to have access to affordable, high quality higher education. Without them we simply cannot maintain our standard of living or keep our society harmonious and strong.

These people are the engine room of our country. And to introduce a system of university funding that risks damaging or curtailing that engine room would be imprudent.

It is my view that putting this system at risk in the hope of perhaps one day creating an Australian equivalent of Harvard just isn't worth it. We wouldn't institute a fee deregulated system for our hospitals with hopes of having two of the best peer-ranked hospitals in the world that would be free to charge what fees they liked, while allowing patients to take uncapped loans to pay for their health care. Instead, we would remind ourselves that high quality, accessible and affordable health care for all Australians is a first principle that has allowed us to prosper.

And so – I would say that we already have a great university system. And if we are going to reform that system, we'd better do it the right way. To return to a health metaphor again: as university leaders our first task is to do no harm.

Do our universities need reform?

The answer to that question is, yes. Stasis is our enemy. We need to change, grow and constantly improve. Even though I believe we already have a good university system, there is much we can do to make it even better.

And indeed many good ideas for doing so are contained in the reform proposals that Minister Pyne has released, which build on some positive deregulatory reforms introduced by his predecessors.

For example, the most significant market-based reform of recent years—the demand driven enrolment system—has allowed universities like Swinburne as well as many others to expand to take advantage of increasing demand for qualifications from the community.

Since 2009, Australia has seen an increase in the proportion of students from lower socio economic backgrounds, facilitated opportunities for students in rural and remote regions to study, and enabled more students of Indigenous background to pursue higher education.

It may be that we are not moving as quickly as we would like to expand opportunities for regional or Indigenous students – and some of this is because aspiration for university study among Year 12 students remains low in regional Australia – but there is no doubt that the reforms of the past few years have been a positive driver for change and something on which we can build as a nation.

It's for these reasons that enrolment deregulation has been a great leap forward, demonstrating what other intelligent forms of deregulation can achieve.

The reforms proposed by Minister Pyne to make pathways and preparatory higher education programs more available are a positive step. But there are also dangers involved in moving too far and too fast.

Experience elsewhere suggests that uncontrolled deregulation comes with risks that can potentially be highly counter-productive. Deregulation of vocational education in Victoria under successive governments has left many employers to question the quality of the qualification that many employees are presenting with, and placed public VET providers under severe financial pressure.

In the U.S. the deregulated model has now pushed fees so high that many argue that U.S. universities, once that nation’s drivers of social mobility, are now the drivers of social stratification. This issue is causing enormous soul-searching in a nation that still prides itself on its claim to being a land of opportunity.

In short, I think the secret to success in higher education is to harness the power of market-based reforms to improve the way the system works—but doing so without allowing the market to undermine the broad social and economic objectives of higher education.

For this reason, any deregulation of fees must be introduced in a staged way to determine whether or not their effect is positive.

The greatest risk: Fee inflation

To my mind—and increasingly it seems in the minds of many other university leaders—the most worrying concern is fee inflation.

Clearly, this is also the single largest disquieting issue that concerns many Australians—whether they are prospective university students or the parents and wider families who support them in their educational journeys.

Simply stated, creating a system designed expressly to allow brand leaders to spur fee inflation will hurt Australia's universities, students and families alike. And that means it is going to hurt the nation. Anyone who thinks fee inflation is unlikely should think again.

The first Australian university to announce new, deregulated fees—the University of Western Australia— has signalled that it will raise the cost of its Bachelor of Arts degree by 166 per cent in 2016, the first year in which deregulation will take effect—up from $6,000 to $16,000 per year.

As reported in *The Australian*, the justification given by the university is that such a fee is commensurate with the university's sandstone status in Australia and its status as one of the world's top 100 universities.

Note the use of that word: “status”.

There is no hard evidence to support the contention that the impact in the market of private higher education colleges will somehow work to hold university fees like these down. This is even doubted by those who know the most about private higher education provision in Australia, who well understand the opportunities for private colleges.

As the former CEO of the Australian Council for Private Education and Training, Ms Claire Field, said in her submission to the Senate inquiry:

> “[It] is clear that the extension of CSP funding to non-university providers will not necessarily act as ‘brake’ on fee increases as envisaged, particularly in the early years. Combined with the removal of limits on HELP loans… it is unclear how and if the market will set ‘appropriate’ fees.”

The fact is that most private higher education providers currently operating within Australia are not operating at the cut-price end of the market.

To the contrary, private colleges have every interest in communicating that they are delivering a high-quality education offering, just as we universities do. It is for this reason that fees for most programs offered by private colleges *exceed* the fees for similar programs offered by universities.

Higher education is a ***positional good***. This is fundamental to understanding the strange economics of higher education pricing. In markets in which quality is difficult for consumers to assess, in which people are making one-off rather than repeat purchases, and in which information is asymmetrical, price becomes a very strong signal for quality.

This economic effect has a name – the Veblen Effect – and as economist and former Vice-Chancellor of University of New South Wales, Professor John Niland, has explained, it is the idea that “the price of a product itself is so galvanising and attractive that it creates its own demand”.

In this context, creating a market in which fees and student loans are entirely deregulated has many dangers for consumers. Recently, a number of people within and beyond Australia’s higher education sector have begun to call out this problem.

The solution lies in finding an appropriate mechanism by which some downward pressure can be applied to price in the deregulated fee environment from 2016. And as we are in the early stage of this debate, some solutions are beginning to take shape.

So what can be done? Two options stand out.

The first is a *regulatory* mechanism, such as the 'market monitor' proposed by the Business Council of Australia, a body that may have the authority to disallow excessive price rises under certain circumstances.

The BCA's intentions here are certainly good. It argues [and I quote]:

> "…[I]n some areas providers will have sufficient market power to set prices at a level that does not provide value for money and could be seen as overpricing. While the behaviour of public universities and private higher education providers cannot be predicted, a well-designed market should not rely on institutions to act in the broader public interest at the expense of institutional interest."

Wisely, the BCA sees a role for better *market design*, saying [and I quote again]:

> "The government has a role to play in designing a market that makes the best use of this investment and meets national policy objectives, while allowing providers to manage their operations without undue interference."

The solution suggested by the BCA is a body to monitor the market and disallow excessive price increases.

But it seems to me that this idea of a market monitoring body isn't actually *market design* at all. It's regulatory control. It's just the thing, in fact, that our higher education system needs to move away from.

I am not convinced that such a body will have the capacity to actually hold fees down. Take, for example, that big price rise at University of Western Australia. On what basis would a market monitoring body decide that increasing the cost of a Bachelor of Arts from $18,000 to $48,000 is wrong?

There are immense difficulties in creating a regulatory regime around fees that would ensure that decisions by a regulator were made on the basis of objective, clearly defined and non-arbitrary principles.

Effectively, this would hand final decisions on university fees to a committee deliberating over a basket of factors such as the relationship of the price of the degree to the cost of its delivery, to future earnings of graduates and to what may be reasonably necessary to cross-subsidise other functions within a university. It would raise many questions that are very difficult to answer.

The most obvious one is this: to what extent is it appropriate, within such a regulatory model, for students to subsidise research activities of the university with only a loose connection to teaching?

Is it acceptable for each university student to contribute, say, $5000 each year to subsidise the research activities of the university, possibly in a different discipline to the one that the student is studying? Or would that offend a pricing regulator weighing up whether the price charged by the university is ‘appropriate’?

These matters would have to be spelled out in detail as neither universities nor private colleges, whose fees would come under scrutiny by such a body, can be expected to operate by guesswork.

There are only a handful of services in Australia for which pricing is determined by a regulator. For the most part, these are government monopolies such as electricity, water and gas.

Designing a system in which Australia’s 180 higher education providers, including our 41 universities, would have their prices scrutinised would require a massive bureaucratic effort. And so, while I think the Business Council of Australia has nailed the problem, the regulatory mechanism it has proposed is impractical and problematic.

Swinburne has put forward a second option—one that actually does represent *market design* and would be a proper market mechanism.

This is the creation of a **maximum annual *loan limit*** for undergraduate degrees.

Let me be clear about this. What we are not proposing is a cap on *fees*. That would not be consistent with the government's objectives to deregulate price.

A maximum annual limit on HECS-HELP would be a useful market mechanism that would operate to put downward pressure on price.

How would such a market mechanism work?

It would work by making universities and other higher education providers more accountable to their students.

Any provider would be free to charge any fee they that chose; however, if the price exceeded the maximum annual loan limit, they would have to explain to their students why the cost of their degree exceeded the maximum amount the student can borrow.

The power of this solution is that it lets the market do the work. This is consistent with the Government's wish to deregulate the price that students pay and would achieve the objective of deregulating price as well as volume.

A maximum annual HECS-HELP limit would give universities with the freedom and autonomy to set prices at any level for which there is market demand. It would benefit consumers by exerting downward pressure on prices.

It would provide more certainty for taxpayers (as well as Treasury and Finance) about the growth of outlays under the HELP scheme, by ensuring that the ‘fair value’ of HELP is not diminished over time through a significant increase in the proportion of HELP that will never be repaid.

We already have such a market mechanism in place for postgraduate fees – it’s called FEE-HELP and it actually works pretty well. It works so well that there are only a handful of postgraduate courses that are priced at more than the maximum amount that most students are permitted to borrow through FEE-HELP, currently $96,000.

These include a number of courses offered by Bond University as well as a few programs such as the *Juris Doctor* offered by a handful of Australian universities.

The overwhelming majority of courses for which FEE-HELP is available – and there are thousands – are priced at *less* than the maximum allowable loan.

Fears that all universities will ‘price to the cap’ have not been borne out.

A maximum annual loan limit for HECS-HELP would be the most effective mechanism for keeping prices in check in a deregulated market.

Will it be popular among university leaders? Probably not. And that tells you something about how effective it will be.

It's very easy – too easy – to charge students too much if all they need to do is to 'put it on HELP'. Having to explain to students that they can't put it all on the Commonwealth credit card is where the pricing decision gets hard – and that is exactly why a maximum annual loan limit would be so effective in keeping prices down.

Additional measures to strengthen the proposed changes

Sensibly limiting HECS-HELP loans isn't the only answer to some of the difficulties raised by the Government's proposed reform package.

Many of the other problems have been well canvassed by Universities Australia, whose advocacy on behalf of universities and their students has been strong and consistent.

I won't go into all of them in detail here, as I wanted to focus my comments on the issue of fee inflation, but I believe the Government's package could be improved by a few additional measures.

The first is ensuring TEQSA is adequately funded so it can enforce standards, especially in the likely scenario of many new, untested, private colleges entering the market from 2016 onwards.

Swinburne has seen first-hand the adverse consequences that resulted from the rapid deregulation of VET in Victoria, and Australia should learn from the outcomes here. One of the lessons is the importance of a regulator that is mature, responsible and ready.

To allow the system to adjust, I have also proposed that Commonwealth funding should first support private providers in offering sub-bachelor qualifications first in 2016, followed by bachelor-level qualifications a couple of years later.

Equity in higher education is essential, which is why I support calls for the new Commonwealth Scholarship Scheme to be fashioned in such a way to allow national pooling of funds and a simple model of distribution to eligible providers based on the number of low-SES students enrolled at each institution. This would let the scholarship follow the student, offering them the greatest opportunity for a course at a location that meets their needs.

It makes sense to provide the greatest number of scholarships to the institutions attended by the least affluent students.

And finally, we must consider a national tuition assurance scheme for domestic students modelled on the scheme already in place to protect international students. In the new competitive market from 2016, some providers will fail—and students must be protected from a collapse.

What I am suggesting here isn't a rejection of the market principles underlying the Government's package, but a means of staging their introduction to give them space in which to develop and enable policymakers to assess the evidence before making big decisions that could harm the system and disadvantage students.

Conclusion

As higher education providers, we owe it to our students to be open to new ways of regulation and funding. We cannot expect the rules in which we operate to remain unchanged forever. We have experienced the benefits of deregulation over the years, seeing in them ways for our own institutions to grow and for Australian students to gain new opportunities in life.

But we are also guardians of the core principles of higher education. And one of those principles—perhaps the most important principle—is merit.

Universities are ultimately about the free flow of intelligence, of merit, not the free flow of money. Where merit is missing, there can be no real university.

In the current constrained fiscal environment we <u>can</u> attain more investment and income into our universities in a way that is fair. We just have to be sensible about it.

We can defend the equity and merit principles that underpin university education, while also showing intelligence and flexibility when it comes to the detail of any funding system.

By holding true to merit as our central tenet, and by safeguarding our university system from status-based fee inflation, we can ensure that the Australian people will continue to be served by one of the best university systems in the world.   Thank you.