

Graduate winners – public losers?

This year the government will spend \$6 billion subsidising higher education teaching. But what does this spending achieve? A new Grattan report, [Graduate Winners](#), released in August 2012, argues that the public benefits of higher education would be much the same, with or without tuition subsidy. Students would continue to be attracted by higher education's private benefits, from more income to the intrinsic interest of study. The money saved could be better invested elsewhere, or returned to taxpayers.

Speakers: **Andrew Norton, Higher Education Program Director, Grattan Institute**
 James Button, Communications Manager, Grattan Institute
 Professor Peter Dawkins, Vice-Chancellor and President, Victoria University

AUDIO: This is a podcast from [Grattan Institute](#).

ANNETTE KIMMITT: Good evening everyone, and welcome. My name is Annette Kimmitt. I'm the Office Managing Partner at Ernst and Young here in Melbourne. And I'm also the Lead Partner of our Victorian government and public sector practice. I'd like to start this evening by acknowledging the traditional owners of the land on which we meet and pay my respects to their Elders both past and present.

We are very pleased to be hosting this event this evening. As you know, Grattan Institute's Higher Education team recently released their report titled *Graduate Winners: assessing the public and private benefits of higher education*. That report proposes a new approach to government's contribution to the cost of higher education. It's had lots of media attention including today in the *Financial Review*. And it's my pleasure to be introducing the author of the report, Mr Andrew Norton, Grattan Institute's Higher Education Program Director. Andrew has worked as a policy advisor to the Vice-Chancellor of the University of Melbourne and also as a Research Fellow at the Centre for Independent Studies. He has written very widely on higher education. And joining Andrew this evening is the Vice-Chancellor of Victoria University, Professor Peter Dawkins. Peter became the third Vice-Chancellor and President of VU in January 2011, which followed six years in high level leadership roles for the Victorian Government, including most recently as the Secretary of the Victorian Department of Education and Early Childhood Development. Before that, he spent 28 years in the university sector as an academic economist whose research interests included the economics of education.

So in a discussion facilitated by Grattan Institute's Communications Manager, James Button, who was formally a writer and editor at *The Age*, our guests this evening are going to explore the report's conclusions and recommendations as well as reactions to the report. So please join me in first welcoming James who will more fulsomely introduce Peter and Andrew.

JAMES BUTTON: Thank you very much, Annette, and thanks to Ernst and Young for letting us use this wonderful room. And thank you all for coming. I'd also like to thank the Myer Foundation who are the supporters of our higher education program. We're very grateful to them for enabling us to do this work. Before we start, I'll get Andrew and Peter to talk about Andrew's report for about half an hour, and then we'll have a question and answer session for about 25 minutes as we're very keen to hear your questions to Andrew and Peter.

I'd like to start by setting the scene in higher education. As you all know, the last 30 to 40 years have been a time of great tumult and change in higher education. Andrew and Peter tell me that when the Whitlam government lost office in 1975 there were between two hundred and three hundred thousand higher education students in Australia. That figure is now 1.2 million of which about 25% are international students. In the late '80s the Hawke government decided that given the massive expansion in the system, the move from an elite higher education system to a mass system, it was no longer possible for the Commonwealth to fund 100% of this hugely growing system. It introduced the HECS scheme which has been considered around the world as a

leading scheme in a loan scheme that enables students to study for free at university but to pay a proportion of their course fees back over time once they go above a certain income threshold. Other countries, notably the United Kingdom, have followed that scheme. Since then charges have been increased twice, and the system keeps growing. So the dilemmas that faced the Hawke government in the late '80s faced education policy makers again. In a sense tonight, without pre-empting what Andrew's going to say, one of the points that I think he wants to make is that it comes back to this question of, in a system that is growing so much, who should fund that system? What should be the balance between public contribution and private contribution? Before the HECS scheme it was 100% Commonwealth, now it's 60/40, private 40, public 60. So that's the backdrop to Andrew's report. Andrew's team have also calculated that higher education costs the taxpayer about \$6b and he has calculated that that could be reduced by \$3b if students were to contribute more to the cost of their higher education. But rather than hear it from me, let me ask you, Andrew, to kick off tonight by telling us what *Graduate Winners* is about and why have you written this report now? Why is this an opportune time to release such a report?

ANDREW NORTON: Thanks, James. The prompt for this report was a funding review commissioned by the Federal Government that was published late last year and chaired by Jane Lomax-Smith, who's a former South Australian education Minister. It effectively recommended that the Federal Government should pay to undergraduate students the expected future value of their public benefits, which they calculated was worth about 60% of the then average funding rate. We thought that their reasoning was not very strong and their numbers were a bit dubious. So the report was actually prompted by an investigation of the particular recommendations. It's really blown into something much, much bigger because we found that to criticise the base funding review, we actually had to have a framework of our own, an alternative framework. The conclusion we reached was that we thought government should take a more hard-nosed approach to the issue of public benefits. Tuition subsidies paid to universities on behalf of students should really aim at producing public benefits that would not otherwise exist. Our argument is that most of the public benefits produced by universities including high tax revenues from graduates and better civil society, would be produced anyway because the private returns to higher education are very high. So the framework we set up is really aimed at maximising the additional public benefits received by the general community.

JAMES BUTTON: So in a nutshell, Andrew, what you're saying is that graduates do very well out of higher education and that the demand continues even when charges are increased. You show in the report how much benefit over the course of a lifetime a graduate gets on average from higher education. Given that, should the taxpayer, and particularly people who are not going to university, be subsidising people who are doing very well in a private sense from higher education. Is that correct?

ANDREW NORTON: It's primarily a behavioural thing that because the private benefits, both financial and non-financial are quite high, subsidies don't necessarily have a big impact. You have to think about what subsidies actually do. What they in practice do is slightly increase the financial attractiveness of going to university. Instead of your course costing you \$40,000, it costs you \$15,000 or \$20,000. So your net extra benefit from subsidies is about \$20,000 over your lifetime. If you stand to gain hundreds of thousands of extra dollars, the argument we're making is that subsidies probably don't make a big difference to the decision to go to university.

JAMES BUTTON: Peter. You've been in this sector a long time, and you've read Andrew's report with a lot of interest. When you read it, what was your response to the report?

PETER DAWKINS: I think the report contains a lot of very interesting research and information that will help the discussion about the future of higher education. I think the major issue that's at the front of my mind in dealing with Andrew's fundamental recommendation, which is to substantially cut public funding to higher education, is that we're embarked at the moment in a very important period of the development of the Australian economy and the Australian education system in which we've decided that what we need to do is substantially expand the number of people who go through tertiary education. This is based on very strong evidence that the future growth of the economy depends heavily on having a highly skilled workforce, and that if you don't have a fairly high level of skill and qualification in the 21st Century, you're not going

to fare very well in an economy if it grows and progresses in the way that we would like it to. For economic and social reasons, if we don't want people to miss out on these future opportunities, we will need in the 21st Century the majority of people to achieve a fairly high level of tertiary education. That means that we have to have a substantial expansion in tertiary education. We have embarked on it at the moment, and we have some targets that we may reach. The hardest one is about students from low socioeconomic backgrounds. But those targets, when we reach them, we're going to have to keep growing them in order to have a successful Australian economy. As we embarked on this experiment to actually set about a process of reducing public spending on higher education by two or three billion dollars, I think would put at risk this very important endeavour. Now, that's not to say that you wouldn't necessarily rearrange the way in which you do use the public funding. I think the way in which we use the public funding is an interesting question; whether we're using it in exactly the right way. But to actually cut it substantially when we really need to expand our skilled workforce would be a big risk. The second point I make is that the base funding review that Andrew talked about says that at the moment, funding per student is about 10% too low if we want to achieve the level of the quality of education that we should be aspiring to for our students. Again, cutting public funding substantially at a time when we need to increase funding per student now, you could arguably get that increased funding per student by charging higher fees for the students. That would flow, from Andrew's argument. But to get 10% higher funding just to get the level of funding to what is considered to be appropriate per student, to have the quality of education we need, would need a 25% increase in student fees without any cuts in public funding. If you're going to cut public funding as well, you've then got to increase fees by more than 25%. I think the other critical point to make in this debate is that the loan system that we have, the income contingent loan system, is already creaking under the level of debt that is being incurred. Andrew's quite right to say that students aren't being discouraged from tertiary education because of the fees. One of the reasons is that the loan system is a very generous one and some students never pay back the loans. Some of them default on the loans, and there's a big interest rate subsidy. If we keep loading more onto this loan system, which really is a very important part of the tertiary education environment that supports both an efficient and an equitable system, it probably couldn't cope with the kind of expansion in fees that Andrew's talking about. So that would be the thrust of my concerns about his recommendations.

JAMES BUTTON: Peter, aren't you and Andrew in a sense having an argument then about the end result of money that might be saved by changing the public private mix in the sense that if you might accept Andrew's model, and let me not put words in your mouth, if the money was then put back into the system to encourage more students to complete their courses, perhaps to expand the system. Is that right?

PETER DAWKINS: The particular model that Andrew puts forward is very complicated. The problem is that if you compare the public benefit from any student's education with the private benefit, there's huge variety across the student population. So there's a ratio of public benefit to private benefit, and you can take an average and you can say it's 50/50 or 60/40. But across the population of students, for some the ratio of private benefit to public is much higher. For others it's much lower. To try and extract from each student the bit that they don't really need because they do the education anyway is a very complex task. Now, Andrew's got an idea about how he might approach that, not student by student, but course by course. You have a look at nursing first and you'd look at teaching, you'd look at other courses and then you have a go at saying well what's the average nurse like. The problem is that there's a wide variety of people under each of these courses. Some of them don't end up doing the occupation that they've trained for. So I think the particular method that Andrew's proposing to cut the public funding is fraught with difficulty because it's very intricate. I don't think he could persuade me that that was the right way to do it. On the other hand, I think we need to expand public funding of higher education, not contract it. We do need to use it to the benefit of the Australian economy and the Australian society. I do think your point that getting the extra student in, particularly the low socioeconomic status students and the students that need the additional support, that's certainly the way I think we should take the public funding.

JAMES BUTTON: Let's be clear on this, could students pay more if the money was ploughed back into the system? Do you think there's capacity for students to pay more than they're paying now?

PETER DAWKINS: The evidence so far has been, with an income contingent loan system, as you raise student fees, that it doesn't have a large deterrent effect. It probably has the biggest deterrent effect on the marginal student who's deciding whether they're going to go into tertiary education or not and when you're trying to expand the numbers going in, the risk is you're going to contract the system rather than expand it. The ones that are clearly in and have got high benefits, would seemingly be willing to pay more. In Britain they've just had a huge increase in fees. That has had a significant deterrent effect. Not huge, but significant. It has reduced the number of students. And they've even cut the number of places for students in Britain. So this is going in exactly the reverse direction to what we want to go in Australia. Nonetheless, a lot of students are still paying, largely because of these income contingent loans which means that they're getting an interest rate subsidy which some of them don't ever actually pay back completely.

JAMES BUTTON: Andrew your report questions what is public benefit and what is private benefit. I've found the case studies about when a student might receive a tuition subsidy and when a student might not very useful in understanding the whole package that you're proposing. Could you expand on this so people understand what we mean by public and private benefits and how that might play out in specific courses when deciding whether to provide a subsidy?

ANDREW NORTON: This is in the 10 page summary, if people don't want to read the whole 90 page document. We created two fictional people, Emma and David. Emma is thinking about doing a law course. Course fees are \$100,000. Expected lifetime earnings; \$500,000 annually. If you give Emma \$50,000 in recognition of the public benefits of her extra taxes and her volunteering and such things, will this increase the sum of total public benefits?

JAMES BUTTON: So there's an element of public benefits which is not the taxation.

ANDREW NORTON: Yes, things like volunteering. So the base funding review was very big on indicators which are described as a robust civil society. Greater volunteering, greater tolerance, greater civic engagement, which is drawing on a lot of the American research that shows that graduates are more likely to do these things than non-graduates. So we created this hypothetical number of the added public benefits. Maybe it's \$100,000, but she was going to do this course anyway because her private benefits were so high. So effectively giving her \$50,000 actually decreases the public's gain by \$50,000 because that tuition subsidy could have been spent on other programs. The public is actually worse off for paying this. The other example was someone called David. He wants to do a public health course, careers in public health don't pay particularly well. Yet we said he can, deliver big benefits in controlling infection and things like this. Because his public benefits were high but his private benefits were low, David would rationally not do his course because he'd end up financially worse off than his counterfactual of just going into the labour force. So we argued a \$50,000 subsidy to David would actually change his decision, he would do his course and everyone would be better off as a result. Two artificial examples designed to illustrate a point that sometimes the subsidy adds to the total public benefits, sometimes it detracts from them. The trick in policy is to try and subsidise the Davids without subsidising the Emmas. We thought we could do this by targeting particular courses. Now it's true that not everyone who does a course ends up in that particular career. In our analysis we looked at what field of study someone did, not their career. For example even though only about 50% of people with law degrees actually work in the legal profession, the overall majority of people with law degrees do very well nevertheless. As a group, they are doing extremely well in the labour market; so very unlikely to be particularly concerned about higher charges.

JAMES BUTTON: Peter, your concern here is that assessing this by course is unduly complex and difficult?

PETER DAWKINS: I'd encourage people to read the report, but the process you go through to identify what to subsidise and how much to subsidise it requires a very complex set of information, and quite a bit of assessment. Fairness is one of the concepts that comes into it as well, and that could become quite subjective. So it's really trying to micro-manage the contribution of the public and the private, course by course, when there's such variety even

within courses as well as between courses. This seems to me to be an interesting proposition that's been put forward in the paper, but I think it would need a lot more work to look feasible and even then I can't see it working. I come to this question of the public benefits of education, particularly on the size of the public benefits, because Andrew argues that because the private benefits are so large we ought to be extracting more funding out of the students and they can therefore pay for some of the public benefit themselves. But I do think it's nonetheless important to have a discussion about what these public benefits are because I think if you read the report, and maybe it's true of the base funding review as well, it probably focuses more on the less important public benefits and not what the big public benefits of higher education are. There is literature on this and Bruce Chapman, the architect of HECS, has had a go at estimating the size of the public benefits for Australia. It does indeed include things like volunteering and civic engagement and I think Andrew's analysis suggests that while those people who do higher education have a marginally higher degree of volunteering and civic engagement, really this isn't huge. The bigger issue is really about the economic growth benefits from higher education. It's about technical change, it's about R&D, it's about the dynamics of the economy. That goes back to the initial point that I was making; which is the reason we embarked on this expansion of higher education is to have a highly skilled and innovative workforce that generates technical change, economic growth, and raises participation in the labour force. There's a lot of research and evidence that shows that as you raise the proportion of skilled workers in the workforce it actually raises the productivity of the people that they work with as well. So the ever increasing degree of skill intensity and innovativeness in the workforce is really the key to our future economic success. I think the public investment in education rests primarily on that and equity issues, and the desire for everyone to have a good education. Increasingly over the 21st Century, a good education will include a tertiary education for most. But the economic argument about the public benefits revolves around the technical change, the participation of the labour force, the economic growth, and not around just raising the amount of volunteering. That's really at the core of the debate about the future of higher education.

JAMES BUTTON: Andrew, the government's target is that 40% of fifty-five year olds will have a degree by 2025.

ANDREW NORTON: It's already sitting around 35, 36 so it's not that large a leap. The modelling of how to get there is extremely complex, but it's certainly conceivable that we will get there much earlier than 2025, given we've had a big expansion in the last few years. However, it's yet to show in the attainment.

JAMES BUTTON: What's your response to Peter's comment about the most important thing for Australia to thrive in a global economy is that we expand higher education and improve productivity across the workplace. In your view, is that the critical aim of higher education, to keep expanding along the lines that Peter suggests?

ANDREW NORTON: Certainly there's an extremely long term trend towards more jobs requiring high skills. That's definitely happening. On the other hand there's generally not been a shortage of graduates. There are shortages in a number of occupations, particularly in health and over the last six, seven years in engineering. Generally there has been a significant surplus of graduates relative to the demand for them. At any given time, about a quarter of graduates are working in jobs that don't actually require a degree. There are serious arguments saying this is a bit of a social bad because what's happening is that employers start asking for degrees for jobs that don't actually need degrees, which pushes people who don't have degrees either into lower skilled jobs or out of the labour market entirely. While acquiring a degree is almost always good for the graduate, it could have negative consequences for other people who are either forced out or forced to acquire a degree which they don't actually need to do the job.

JAMES BUTTON: I want to ask both of you, where does Australia stand compared to comparable overseas countries both in terms of the size of the higher education cohort and how much it's funded out of the private and public purse? I think it'd be interesting to discuss. And how do other countries similar to us see the future? Do they think the goal is to keep expanding the systems along the lines you suggest, Peter? Or are they taking a different approach?

ANDREW NORTON: There's been a common trend throughout the OECD, indeed in Asia which is not yet in the OECD, to expand higher education. The interesting thing is that there are extremely different funding models. You've got the European model which is typically almost entirely public subsidy, and you've got Australia, the UK now, the United States, Canada, Japan, and South Korea that have relatively high student charges. This reflects the broader political economic conditions of each country. In high tax countries you tend to get a lot of government funded services. In lower tax countries students often pay for health or education which are fully publicly subsidised in Europe. The actual differences in attainment are not that great throughout the developed world.

JAMES BUTTON: Peter, do you have thoughts on that?

PETER DAWKINS: I think the thing to add to Andrew's analysis is about the contribution of the public and private. You more or less made the point that we're relatively high on the private contribution. That's one of the risks of course of going even higher, certainly if cutting the public contribution, because while we clearly need increased investment in tertiary education, relying solely on the private contribution is fairly risky for reasons that I've said earlier. Also on the international benchmarking, other countries that are being successful in this endeavour are putting a bit more into the higher education sector than we are. Britain has made a big, bold move to shift in the direction Andrew's talking about, brought on really by an economic crisis. If you have a look at what's happening there, then this is not a model to follow. They've not only raised the prices, they've cut the places. They're also trying to put more of the high achieving students into smaller numbers of universities. I think it's going to cause a serious problem in terms of both the quality of the whole system, and also the rate at which it expands, which is what's needed in order to drive the economic growth.

JAMES BUTTON: Two quick question about funding: Peter first of all, where's the money going to come from? Of course it's difficult, isn't it, to persuade the Commonwealth Government to commit the sort of funds that you think are necessary for the system. I wonder in that light if you see in Andrew's report some possible solution for at least perhaps part of that funding, given the pressure on the public purse. Andrew, to ask you, you probably would have brought a whole lot less trouble if you'd said all the money we save we're going to plough back into higher education. That would have your life a lot easier in the last few weeks. Why did you not take the easy move on funding in this respect?

PETER DAWKINS: I think it has to be accepted that in the last few years there's been a significant increase in investment in higher education and I think that's been good policy. There's been expansion of the number of places, there's been indexation of the funding to universities. I think we are on a good track and it's a matter of trying to sustain this increased investment. There's no doubt that if you look at the federal and state governments' budget positions, they're about intentions to achieve budget surpluses and so on, and if you look at the current rate of economic growth then there doesn't look to be huge amounts of additional public funding likely to be emerging for higher education over the next few years. That does create a puzzle, and because we do need to keep this expansion going and we need to raise the quality. I certainly wouldn't rule out additional contributions from the students. I think that Andrew's report points out that there's a pretty high return to investment in education and that when fees have been raised, students have not, in general, decided to reduce their participation very much. But that's for modest increases in fees, with an income contingent loan system. As soon as you get to large increases in fees, even with an income contingent loan system, you can expect the system to start declining, particularly for those students that are the ones we really need to try and bring in to the system. And then, as I said earlier, we are putting more and more pressure on this income contingent loan system through defaults on loans, through the interest rate subsidy. What is an apparent reduction in public funding might not turn out to be as big because of the interest rate subsidy in the income contingent loan systems. The potential to raise fees substantially with our current loan system is quite limited. If we do move in that direction I think we have to move incrementally, and we have to do it in a way that doesn't jeopardise our attempts to raise participation in tertiary education. We have to focus on the low socioeconomic status students and the ones that need additional support, there's a correlation there. They're not all the same people. There are plenty of high SES students who need additional support, plenty of low SES students who are high achievers. In my university, Victoria

University, we have quite a lot of low SES students, a lot of those do need additional support. The current agenda of broadening tertiary education both for social policy reasons and to raise the capacity of the economy will mean that if we do get more public private contributions from those who are getting high returns and can afford to pay it then, we need to make sure that it doesn't jeopardise that other group that I'm talking about.

JAMES BUTTON: Andrew, why did you not plough the money back into the system?

ANDREW NORTON: We did look at low SES students and the history of this is that they seem to behave in pretty much the same way as people right across the SES spectrum. The reason their higher education participation is so low is that large numbers don't finish school and of those who do, they are disproportionately in the lower scores. So their higher education options are very limited. You really need to improve those results to change their attainment levels. It's possible that they could be incentivised by scholarships, but we thought on the evidence, probably not, and so that's not going to be a productive use of government funds. We didn't do a full study of what all the alternative spending options are. I was asked about this in interviews last week and I thought disability is one area where clearly the needs are vastly greater than the needs of higher education students and graduates. It's not hard to think of areas where we could get greater public benefit for the money we're spending.

AUDIENCE: I got a law degree from Melbourne, I got a Masters degree from Monash in the '70s, and I have three sons who have got university degrees. They said to me their degrees were crap. Seriously. My question to the two of you is, do you think in the last 30 years, Peter and Andrew, that university education has got better or worse?

PETER DAWKINS: We started off this evening by saying that we've been moving from an elite system towards a mass higher education system. I think as you do that, the experience that our children have at university probably isn't the same as the experience that we had when we went to university because we're talking about larger classes, for example. I remember the tutorials were relatively small and we had intellectual debates and so on and the staff/student ratios were low and so on. As we have been expanding the higher education system, we're moving away from the idea of elite to mass higher education. That does impose challenges. I don't think that means that the quality of the system has deteriorated. I think productivity has gone up, but the educational experience is different. In fact we've probably been expecting too much productivity increase and that's why the base funding review said that we need 10% more funding to get the quality of education that our students deserve. I recently attended a talk by Ross Milburn, the Vice-Chancellor of the University of Technology of Sydney, and he said when you benchmark surrounding universities against universities overseas, we come out very well on our research performance. Australian universities punch above their weight in research. In terms of student satisfaction we don't do quite so well. That's because the funding that we get per student by international benchmarks is not as high, though we need this 10% more. I think that we need to make sure if and when we get it, whether it be through the public purse or the private contribution, that we invest in improving the quality of the student experience. I think that's the number one focus that I've got at Victoria University. Our strategic plan is to raise the quality of the student experience. There's huge potential with the new technologies, with blended learning. We can have a really rich experience for our students that isn't the same as the one that we had. The future for our students is really wonderful in this technological and information age, but for universities to take full advantage of that, we need this additional investment.

ANDREW NORTON: I agree the experience is different, but I actually think that it has been improving. The evidence for this is really in the student satisfaction surveys. The first national one was done in 1993. It showed mass dissatisfaction. People were really unhappy with teaching. Around 1997 it started trending upwards and has very slowly and incrementally been improving since then. I think that reflects increased teacher training for academics. Traditionally most academics have a research degree, they're not trained in teaching. Their performance reviews now include: are you a good teacher rather than are you a good researcher. Despite improvement, I think they are still well behind other countries. In surveys where the same question was asked to Australian and American students, the Australians were a lot less satisfied than their American counterparts. The question is, would more money make a difference? All other things being equal, it would, but there are cultural issues in the attitudes of

Australian academics to teaching. They're ranked among the bottom in the world for preference for teaching relative to research. My concern about some of the funding increases is – I don't it's true of VU, but certainly for some of the other universities – they'll just cream it off for research and the student experience wouldn't change.

PETER DAWKINS: I think the question was going back over a longer timeframe than that and that's why I was responding the way I did. But you're absolutely right that in the period that you're talking about, the focus on the quality of teaching has gone up, the measurement of student satisfaction has gone up, and the accountability of staff to improve the quality of teaching has gone up. So I think over the time period that you're talking about since the 1990s, in this more mass higher education system, the quality of teaching is going up, but there are significant challenges to achieve the level of student satisfaction that some of our international competitors achieve, given the pressure on our budgets.

AUDIENCE: Andrew talks about public subsidy of education. Peter talks about public investment in education. That probably betrays where each is coming from. It might be more useful if it was public contribution to tertiary education. I think public subsidy is in fact a demeaning term, but that betrays my prejudices. I've a question for both and then a specific one for Andrew. Is there evidence for financial considerations of making a lot of money, what per cent driver is that in informing matriculants' choice of whether they're going to law and be an eminent QC, or arts and be an underpaid teacher? The second question for Andrew is that given that the school leaving age is 16, would you apply your same public subsidy argument to the last two years of secondary education – clearly there's an economic benefit from doing Year 11 and 12 – and what do you think the social implications of that would be?

PETER DAWKINS: There's quite a lot of research evidence that students are pretty well informed about the returns to higher education and are influenced by the returns in deciding whether to do law or commerce or whatever. But they also take into account what they consider to be the non-pecuniary advantages of different occupations and courses. I think creative arts, for example, gets quite a bit of coverage in Andrew's report as a subject and there are students who are very determined to get into that sector because they just love it and they're willing to put up with having low income. They're not put off by it. Nonetheless, in general, students are well informed and the returns on average are an incentive. That's good because the returns are pretty high and we need more people to go into higher education.

ANDREW NORTON: As part of this research which wasn't actually published because we're still working on it, we had data on the median ATAR which is the rank of the student, and we matched that against the lifetime earnings. We got a correlation of about 0.64 which is moderately strong. So a correlation of 1.0 would be a perfect relationship and [0.64] that was significantly reduced by this factor of creative arts and humanities where the typical ATAR of students doing these courses is reasonably good, but their lifetime earnings are quite low. So that's reducing the overall correlation. I think if you excluded the more non-vocational areas, it'd probably be a pretty high correlation but we haven't done that yet.

PETER DAWKINS: It's not just by the demand, they're driven by the supply as well. Medicine would be the classic where we try and reduce the number of doctors through constraining the number of places and that of course pushes up the price both in terms of the rate of return and the ATAR.

ANDREW NORTON: One of my answers has been that because schooling is a near-universal experience, it doesn't have the same distributional implications, that even if we reach a 40% target for higher education attainment, there's obviously 60% who don't. I think it's still around 80% who complete school and my view is that 80% is pretty high. We don't necessarily want to create a loan scheme for the last two years of school. So I'm relatively relaxed about the costs of the last two years of school compared to the costs of the higher education system.

AUDIENCE: If university, higher education went to 80% would you be conveniently relaxed as a public good?

ANDREW NORTON: I think the distributional questions would largely go away and therefore there would still be issues about whether this was the optimal use of government funding. But I think the distributional argument would be irrelevant.

AUDIENCE: My name's Andrew Aston. The choice of degree as being the mechanism by which you allocate a subsidy or less for subsidy, seems to be in many ways a very blunt instrument. I'm wondering for the degrees that have a large number of different career options flowing out, like arts for instance, I'm just trying to get an understanding in my own mind how would you introduce nuance into that so that it doesn't deter someone from pursuing a degree like arts with the intention of going into a relatively low income career that has a strong public benefit versus someone who might enter arts with a view to going onto relatively high income career. How would you nuance that in order to allow for those different aspirations?

ANDREW NORTON: As Peter said, it's extremely complex to do this at an individual level. Humanities and performing arts really are two borderline areas where it was relatively difficult to demonstrate high public benefit on the measures we had. It was fairly evident, based on the enduring popularity of these courses and the high ATARs of the students going into them, that there was significant private benefits as the preferences reveal people want to do these things. Our conclusion was that probably these are relatively weak areas for public subsidy simply because the private benefits were far more obvious than the public benefits.

AUDIENCE: My name's Simon. We seem to be focusing on front end loading the cost for the degrees and sending price signals to graduates that are looking to enter into degrees. What's wrong with potentially something like a resources super-profits tax for the education sector and taxing people at the level of high earners that are achieving because of their degrees?

ANDREW NORTON: There is a really interesting funding idea which is basically that rather than the government subsidising, effectively superannuation funds by equity in the future earnings of students. Obviously they would lose on some students but if they had a fixed percentage of future earnings, they would make enough money from the high income earners that they would more than cover the losses on the low income earners. This is sort of a private way of doing what you're suggesting. A guy called Joseph Clark wrote an article on this for *Policy* magazine a number of years ago.

JAMES BUTTON: Peter, what do you think? The resource super-profits tax.

PETER DAWKINS: It's an interesting idea. I think the progressive income tax system is partly doing the job, although we probably don't have the highest marginal tax rate anymore. What I think happens with HECS is that the high income earners do pay more through both the income tax system and then through repaying the income contingent loan system. The ones that earn the highest incomes quickest will pay the most quickly and those that don't get to the high incomes actually some of them never repay their loans at all. So elements of this are kind of built into the existing system.

AUDIENCE: Thank you. My name's Hayden and I am a clinical academic. As you can probably tell from my accent I come from a different place where going into medicine was really about the public good. It was totally subsidised by government but I think the motives of the kids going in was not driven by money. We live in a society when medicine is potentially a blight on the culture because it is heavily driven by money. That starts very early, it starts in school; it's a cultural thing, a bit like the cultural problems we have with academics in general. Medicine is distortion because it's so driven by money. Probably law is the same. If true, my question is how do we use the public component of subsidising a medical education to drive a cultural change in the purpose of medicine as a public good, for example? It seems to me by going down your road you're just going to reinforce this mercenary approach to a professional centred culture rather than a patient social good based culture.

ANDREW NORTON: I'm not sure that the practice of medicine has been turned away from the patient. I'm not sure that the higher education system can change this because when we did have free education the specialist of that era didn't charge particularly low fees. I'm not sure that higher education is the right mechanism to drive that kind of cultural change.

PETER DAWKINS: I must admit I'm mildly surprised by your assessment of the mercenary view about medicine. I have a daughter who was quite keen on the idea of doing medicine and in her case it wasn't a mercenary thing. She was very keen on being a health professional and keen on the contribution to the health of the society. I think that is certainly the kind of aspiration that we want to encourage in our medicine students. I think that that possibly comes from the way that medicine students should be selected into medicine programs. My understanding is that there's been a trend in that direction through interview processes and so on. I wouldn't be quite as pessimistic I don't think.

AUDIENCE: Hi. Catherine Howell. This is really a question for Andrew. Following up the theme of teaching quality, which we've touched on already, one of the tenets it seems to me of the move to the demand driven system was that we might see more diversification in the sector. Now one way to slice the public funding pie would be to divert some money away from research which is typically cross-subsidised by teaching income, to see the emergence of perhaps teaching intensive or even teaching only institutions. What would be your response to that?

ANDREW NORTON: We've an ongoing research project on that very topic. The first thing we're doing is checking to make sure that the outcomes of students in the relatively low research institutions in Australia are okay. If they pass that threshold, we certainly will be looking at this. An advantage of this is that is potentially cheaper for everyone. We're also concerned that the dominance of research in public universities in Australia is actually making teaching come off second best. The only way to deal with this is separating out some institutions so they are teaching only and their mission is entirely about doing a better job for students.

AUDIENCE: Thanks. John Osborne. My question is to you, Andrew. Milton Friedman once said of higher education funding that the reason that moves to increase fees are always so unsuccessful, is because the political cabal that exists to protect them. That is the income distribution from those people who don't go to university, the plumbers and carpenters and mechanics, to those middle class people that seek the public benefit of funding and that do go to university. Do you think that is part of the cause of the reaction that you've received to your report so far?

ANDREW NORTON: Obviously when you suggest that an interest group or people with a stake in something should get less money, most of them say no. We weren't naïve, we weren't expecting that we would release this report and universities would say what a brilliant idea and suddenly decide they didn't need any of this public money. We realise that wasn't going to be the case. This is actually where I think think-tanks are useful because they're not beholden to interest groups or to the electoral cycle. Think-tanks can actually say things that upset people and hopefully over time people start to realise the merit of the argument.

PETER DAWKINS: I'd agree that think-tanks are useful and this has been a good discussion. I think the thing that I can't be persuaded about in Andrew's argument is the suggestion that we actually need to cut the amount of investment in tertiary education. The aspiration that I have for the future of tertiary education brings the plumbers and the tradespeople into a higher quality tertiary education system. I think that by the middle of this century we will have a reconceived tertiary education system where the distinctions between vocational education and higher education wouldn't be as stark, and where the vast majority of people do get a high level of educational investment. That's why we need to keep expanding our investment in tertiary education so we can bring more people into that system.

JAMES BUTTON: Can I just conclude by thanking Ben Weidmann and James Savage from Grattan Institute who worked with Andrew on his report. I'd also like to thank Andrew Norton and Peter Dawkins for a terrific discussion.

End of recording

AUDIO: This has been a podcast from Grattan Institute. Want to hear more? Check out our [website](#).