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Subsidy review plan neither fair nor enticing for students

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The latest review of university funding hasn't come up with a convincing basis for allocating tuition subsidies, writes ***Andrew Norton.***

Like the Bradley higher education review committee before it, the base funding review panel struggled to find a convincing policy rationale for higher education tuition subsidies.

The panel's report, released last week, rejects using public subsidy to manipulate student fees, saying "there is no evidence to suggest that student demand is affected by reducing contributions".

Our experience in cutting science student contributions suggests this is not always true. The subsequent growth in demand for science vastly outstripped the general growth. But the panel is probably right that this is not an efficient way of increasing demand. Money is spent offering people discounts to take courses they would have enrolled in anyway.

The panel largely dismisses the idea that private benefits from a degree are relevant to public subsidy. At present, assumed private benefits are one of the two main influences on public subsidy levels. Student contributions are based roughly on average private earnings of graduates in particular disciplines. Law and medical students pay the most because lawyers and doctors earn a lot. Education and nursing students pay less because teachers and nurses receive modest salaries.

The difference between student contributions and the total amount universities receive for a place is the current public subsidy. As there is no connection between course costs and graduate income, student contributions vary in what proportion of total costs they cover. Law students pay more than 80 per cent of their course costs while other students pay less than 20 per cent. The review panel believes that these differences have "no rational basis". So the two rationales that can be inferred from the system are not favoured by the panel.

It wants a system based on public benefits, defined as miscellaneous, non-pecuniary benefits to society, plus the "direct fiscal dividend" from the additional taxes graduates pay due to their increased earnings. The public benefits are so high that the panel wants taxpayers to fund 60 per cent of students' tuition costs.

The report claims "subsidies are justifiable because society reaps some of the benefits from having a more highly educated population". But it is not clear from the report that public subsidies are always necessary for society to get these benefits. As it shows, private rates of return on higher education investment are generally high. In most disciplines, rates of return would be good even on full fees, and so attract students. That is why about 40 per cent of students voluntarily pay full fees.

In other words, much of the public benefit of higher education would be realised without public investment. For the general public to come out ahead with their higher education investment, they need public benefits above what the market would produce on its own. There is no evidence or argument in the base funding review showing that this is the case.

Without an argument that the public derives net benefits, we were left with the less than compelling proposition that the public benefits of higher education should be privatised through tuition subsidies.

Tuition subsidies have more to do with politics and political culture than with any theoretical argument. High and low tuition subsidy systems produce graduates and their associated public benefits. Subsidy levels tend to reflect overall political systems. High-tax countries in northern Europe tend to offer high subsidies, and low-tax countries, such as Australia, tend to offer low subsidies.

Australia's system needs fine-tuning, but conceptually it fits with the welfare state Australia runs. It keeps taxes down by charging students. It is mildly egalitarian in its pricing, with high earners tending to pay more. The base funding review's recommendations go against this, halving charges for lawyers while increasing them for nurses and teachers. It won't improve either fairness or higher education outcomes.

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