To market, to market

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*Higher education pricing needs to move along an evolutionary path to a more market-based system, writes **Andrew Norton***

Australia's higher education system, according to two of Australia's most prominent university vice-chancellors, is now the "love child of Milton Friedman and Vladimir Lenin". The free-market economist Friedman gives us competition between universities, while the communist dictator Lenin gives us government-set prices.

This was the colourful way that Australian Catholic University vice-chancellor Greg Craven and University of Melbourne vice-chancellor Glyn Davis drew attention, in a newspaper opinion piece this month, to the policy tensions in our higher education funding system. They are among several vice-chancellors calling for partial deregulation of student contributions, the charges paid by almost all domestic undergraduates in Australian public universities.

Though Gough Whitlam's free higher education policy ended more than 20 years ago, his political ghost still haunts. He took from states and universities the power to set the price per student universities receive, and no subsequent federal government has relinquished this power for Commonwealth-supported students.

Unfortunately, it is not a power that successive governments have exercised with care or diligence.

The current government did commission a review of university costs, the first major study in 20 years. But now the minister says the government does not want to increase student charges and cannot afford to increase its own funding levels. A higher education pricing system that pays no attention to higher education costs cannot be good practice.

The government could set prices in a professional way, such as creating a price regulator like those in other industries. This would be an improvement, but there are still strong arguments against it. There is no single best way of delivering higher education, and so no easy way of determining which costs, and therefore which prices, are justifiable. A price regulator would produce a more competently run version of the existing one-size-fits-all system. A higher education pricing system that allows little room for the diversity of student choices is not good practice either.

The advantage of a market-based system more Friedman, less Lenin would be to end this system of politicians or bureaucrats deciding what kind of higher education students should receive. If students want universities with low student-to-staff ratios, they can have them if they are prepared to pay. If they want to save money with a cheaper online course, then they should be able to save money.

Obviously, students are not all the same. They have different purposes in seeking higher education, different learning styles, different time availability, different prospects of earning enough in future to repay the cost of their course. We should not squeeze them all into what a single price per discipline funding system can offer.

A more market-based higher education system would avoid major problems of the current system, but bring some of its own. For domestic students, fees would be financed through the HELP income

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contingent loan scheme. That means that government lending through HELP would almost certainly escalate significantly if fees were deregulated.

Not all fees would go up, and some might go down, but the already deregulated international and postgraduate markets suggest the current system holds fees well below what students are willing to pay. The HELP loan scheme is costly to taxpayers due to interest subsidies and debt not repaid, and so the loan scheme would need reforming to control expenditure.

Many people worry that deregulated fees would price students of low socio-economic status out of the market. With an income contingent loan scheme, this concern is probably overstated. At the year 12 to university transition point, research suggests higher education decision-making is very similar across potential students of all class backgrounds. However, different higher education prices would make choosing an institution more complex, and at least in the early years it will be hard to give good "value for money" advice. For example, we know very little about whether the choice of university a student attends makes a major difference to their career.

Low socio-economic students may be more sensitive to the possibility that a more expensive education option will not pay off in the long run.

In the real world of Australian public policy-making, neither Friedman nor Lenin is likely to triumph completely. But we should continue our evolutionary movement towards a more market-based system, one that will give more scope to student choices, and place less reliance on unreliable regulators. A further partial deregulation of student contributions, combined with HELP loan scheme reforms and improved information on university performance and student outcomes, are the necessary next steps.

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