

University subsidies: do graduate winners need another prize?

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*Should the government subsidise university places when graduates gain so much from a tertiary education, asks **Andrew Norton**.*

After releasing my report, [Graduate Winners: Assessing the public and private benefits of higher education](#), the question I have most been asked is: if university fees go up, will students still come?

It's a good question. The federal government currently spends around \$6 billion a year on the assumption that the answer is "no". But if the answer is "yes", that is \$6 billion that could be better spent on something else. Like current policy, Graduate Winners assumes that it is higher education's private benefits that draw students to higher education.

While students are attracted to courses and careers that involve helping others, we probably would not have 1.2 million higher education students in Australia without significant private benefits. Potential private benefits include access to better jobs, higher incomes, and interest in the subject matter.

The difference between my report and current policy is that we think these private benefits on their own will usually attract students to higher education. Current policy assumes that we need to add to these private benefits by offering a tuition subsidy as well.

Using the 2006 census, Graduate Winners estimates the lifetime incomes of people with a range of bachelor degrees. From this we deducted what a middle-earning person with a year 12 education would receive and income tax. And from this we took out the original cost to the student of their higher education, including time spent out of the workforce, student contributions (HECS), and other education costs. The resulting numbers give us net private financial benefits.

These ranged from very high, in the case of medical and law graduates, to quite low, in the case of graduates in the humanities and performing arts. Because incomes vary a lot within as well as between disciplines, we also calculated a "break-even point" how well a graduate needs to do within his or her field before recovering costs and coming out ahead of someone with year 12 education.

The most common breakeven point is around the 30th percentile. That is, 70 out of 100 graduates in many disciplines do better than someone with year 12. The breakeven point is much lower if we only count people working full-time.

97 out of 100 graduates with a medical degree in 2006 were financially ahead of someone with year 12 only. In the humanities, 75 out of 100 graduates were better off. While that is obviously much more risky than medicine, it is still good odds for a degree that does not lead to any specific career.

The report also investigates what effect tuition charges on net private financial benefits. That is, if prospective students had a general idea of what they might earn in future, what impact should tuition charges have?

We modelled a range of possibilities, from going back to free higher education to Australian students paying international student fees. But whatever option is chosen makes surprisingly little difference. This is because even at international student fee levels, tuition costs are a small percentage of lifetime earnings.

Of course, prospective students are not sitting down with census spreadsheets doing calculations of benefits and risks. So actual behaviour could depart significantly from what we think makes sense, based on the actual data.

In practice, the history of fee increases suggests that most prospective students are not deterred by higher costs. Total demand usually goes down a little for a short period, before picking up again.

We have a striking recent example from England. Fees have nearly tripled in response to big government budget cuts. Yet school leaver demand fell by only one percentage point of the age cohort. Interestingly, it fell by more among young people from advantaged rather than disadvantaged backgrounds. This lack of price sensitivity is partly because prospective students know that higher education is still good compared to their main realistic options: going straight into the workforce or into vocational education.

There are costs, risks and potential benefits with all three approaches, not just higher education. There are more short-term financial costs with higher education. But higher education also offers the lowest long-term risks and the greatest long-term benefits. So that is one reason for higher education's enduring popularity.

Higher education is also a good experience in itself, especially for school leavers. Most get to study something that interests them, with plenty of free time for socialising and pursuing other activities.

Because higher education remains an attractive option, the report shows tuition subsidies are unlikely to do much to change behaviour. They need to be available to policymakers if enrolments in specific courses or generally are below desirable levels. But their main role should be to fix clear problems, rather than as an entitlement for people attending university.

Graduate Winners suggests a phase-down in tuition subsidies of about 50% in most courses over four years. That would let us see if there are any unanticipated and unwanted consequences. If so, there is time to stall or reverse the phase-down. This could save around \$3 billion by the middle of the decade.

The money could be used for more urgent and compelling causes than increasing the private benefits of people who mostly already do very well. Meeting the needs of disabled Australians is one topical example of how higher education subsidies could be better spent.

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