

Melbourne – The Policy Pitch: What is a fair amount for university students to pay?

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The 2017 Budget announced increases in maximum student contributions for government-supported university students, along with lower income thresholds for repaying student debt. The government argues that these savings are a fair rebalancing of public and private contributions to the cost of university education, with the government still paying more than half. Student groups oppose these changes, and some argue that university education should be free. Universities are caught in the middle. Facing their own funding cuts, they will almost certainly charge the maximum legally-permitted student contributions.

In this *Policy Pitch* event, co-hosted by the Policy Shop podcast the following issues were examined:

- Why Australia has a hybrid public-private system of funding higher education
- Consequences for the demand and supply of student places of Australia's university funding system
- Consequences for student and graduate finances of student charges and HELP repayments
- Consequences for universities and the student experience

Moderator: Jim Middleton, Correspondent, Sky News

Speakers: Sophie Johnston, National President, National Union of Students
Glyn Davis, Professor of Political Science, Vice-Chancellor and Principal, University of Melbourne
Andrew Norton, Higher Education Program Director, Grattan Institute

JIM MIDDLETON: Ladies and gentlemen, welcome to this special event brought to you by the Grattan Institute and the Policy Shop podcast. As we know, the recent Budget announced significant changes to higher education funding, changes that will have a significant impact on the bottom line of universities and the pockets too of students. Increases in maximum student contributions and lower income thresholds for repaying student debt are just some of the changes. The Turnbull Government argues that these savings are a fair rebalancing of public and private contributions for the cost of university education. This evening we're seeking to answer the question of what is a fair price for university students to pay and we have a terrific panel to help us answer that very important question, not just for students at universities but also for the future of the nation as well. Sophie Johnston, who is President of the National Union of Students, Glyn Davis, who is Professor of Political Science and Vice-Chancellor of the University of Melbourne and Andrew Norton, who is the Higher Education Program Director at the Grattan Institute. We'll have about 45 minutes of discussion between us all, then questions for 20 to 30 minutes. The event is being recorded for the Policy Shop podcast and for ABC Big Ideas.

Let's get right into it. Andrew, first of all, you've written and been advising the government on all of this. Let's get to the basics of it first of all, how did we get here in terms of the Australian higher

education model? It's a hybrid public-private system of funding universities, students do pay high fees, but the government also contributes quite a bit to their education. How did we get here?

ANDREW NORTON: This has got deep roots in Australian history. Australian universities started in the 1850s, they were set up as institutions independent of government and they had a mix of public and private funding sources from day one. That has persisted through almost all of their history, with the exception of a 1974 to 1989 period. One of the reasons I think this has been the prevailing system in Australia is if you look around globally the kind of funding system you've got really depends on your overall tax and welfare system. In Scandinavia you've got relatively high taxes and you've got a very comprehensive welfare state which includes free higher education, but in countries like Australia, New Zealand, Canada, the United States and many Asian countries the state is much smaller and as a result there's private payment for education, health, retirement and a whole range of other things.

To me what's really important is these things integrate with the broader system, rather than being anomalies. I think England is now the anomaly where you have high taxes and high fees, but Australia is in the pattern where you have relatively low taxes and relatively high fees. That doesn't explain the detail of policy, but it explains I think the broad pattern of policy.

JIM MIDDLETON: The Dawkins reforms in the 1980s, why was it that we moved away from the free university education of the earlier 1980s? I'll declare an interest here, I'm so old that I neither benefited from Whitlam nor went through the HECS system so I paid my way, but obviously there are many in politics at the moment who did not. Why did we have to move away from that era of free education?

ANDREW NORTON: I think there were two reasons. One was that there were some people in Labor, including then Finance Minister Peter Walsh and the Education Minister John Dawkins, who had I think taken a longstanding Labor view that education was basically for relatively rich people and it wasn't the job of the Labor Party to subsidise these relatively rich people; that was not their constituency. So there was always an element of Labor thinking along those lines. I think the key trigger was in the '80s there was a very large increase in Year 12 completion rates, they realised there was going to be substantially higher demand for higher education, and the question was how can we finance and expand system within a constrained budget? Some form of fees was discussed from the mid-'80s, but I think in the late '80s they hit on the idea of income contingent loans which basically meant that students didn't have to pay upfront and would be protected from default compared to a mortgage system later on, and really answered many of the access concerns that the Labor Party had. I think it was that combination of Labor views plus the need to expand the system.

JIM MIDDLETON: On that score Sophie, we'll move on to other models, but John Dawkins and Peter Walsh were right, were they not, that there was a disproportionate number of middle class and wealthier students in the 1980s who were getting free education and with those Year 12 completion rates it was simply unsustainable in budget terms to continue, a contribution had to be made and the HECS introduced in the late '80s was, in its initial form, at least the way to go?

SOPHIE JOHNSTON: In 1980 the HECS was introduced to support student demand, but we've moved passed that now. We're in an era where almost 50% of Australians are going into some form of vocational training or university education. It's becoming a universal good in Australia. The HECS system, or the HELP system in its current form, doesn't support or work with the new era or the new

labour market that we're going into at the moment. This is a labour market where people are having to be retrained and reskilled maybe four or five times throughout their lifetime. Every time that someone needs to be retrained they can't rack up \$50,000 or \$60,000 in a HECS debt, that's going to contribute to this ballooning of the debt the government's receiving and it's just simply not working at the moment. So I think it's an important conversation to ask what students should be paying, but I think something else that we should be talking about is, is the system in its current form working for the needs of the labour market in the 21st century?

JIM MIDDLETON: Glyn, to you, you can pick up on Sophie's general point about whether it is in fact working and the question of social good, but also the issue of looking at the Australian model, this is a somewhat unique hybrid, are there better systems that would be suitable for a community like Australia's?

GLYN DAVIS: I agree very much with Andrew's characterisation of how we got here and his important point that how we do higher education is pretty much how we do most provision in this country. It doesn't stand out, it isn't different, which isn't to say it's the best way or that Sophie's point is not entirely right, that it may struggle in a world where people go and constantly have to retrain. Those of us who work in the system and who've spent our lives in the system of course passionately believe in higher education and want it to be extended to as many people as possible and therefore tend to be the people who most support low fees or no fees at all. Across the system that's the general view, but it's not a view shared by the Australian population. I can say this with feeling, having served as the Chair of Universities Australia, trying to go out into the general population and say, "You should pay higher taxes so that people going to universities pay lower fees" is a really tough sell and it tells us that most Australians expect students to make some form of contribution and they're pretty comfortable with the system. Our attempts to make higher fees a political issue have always failed, which tells us we are pushing against a pretty firm sense of public opinion.

JIM MIDDLETON: Yes, I have had senior figures within the Labor Party say to me that all their polling shows that parents want their children to go to university, but they think it is fair that there be a contribution. Now the argument is over what level of contribution. To the other point though, in terms of other systems, is there a better way of doing what we are doing here? Are there better examples overseas? Glyn, I'll start with you.

GLYN DAVIS: I don't know if there's a better system because Andrew's point that the system has to make sense in terms of the taxation system is the right one. There are lots of different choices. If you go to Germany it's all but free to go to university and universities are very high quality. If you go to France it's also all but free, but the universities struggle, the public funding for universities in France is very low and so the quality of the student experience is commensurate with that. So even in free systems you get quite different outcomes. In North America you've got both public and private, so you can see the difference in the provisions. The Australian system most closely resembles the public system in the United States, the great land-grant universities, the University of California and those systems, and I think the costs in Australia are slightly higher, the quality is probably slightly lower because the public income is greater. But our system is essentially the same as the rest of the Anglo-American world, so if we want to argue for a very different system I think it's not just a conversation about higher education, it's about what sort of country are we, what sort of taxation are we prepared to pay, who do we aspire to be like? That's a really important debate and one we haven't really much had, we just carry on a path that we've accepted without debate.

JIM MIDDLETON: Sophie, yes, there are countries around the world which provide much higher levels of public funding for universities, but they tend to be countries, do they not, where levels of taxation are much higher as well? Do you accept that we are not going to get a system in Australia with substantially more taxpayer funding of the system regardless of the argument about what level of debt students ought to incur?

SOPHIE JOHNSTON: It's important to note Australia has the sixth highest fees in the OECD, but we are also one of the worst government-funded education systems. So students in Australia are paying significantly higher fees than the rest of the world, but our quality of education is much lower because the investment that the government is making is significantly lower.

JIM MIDDLETON: Is that right Andrew?

ANDREW NORTON: I agree. It's very hard to do international comparisons of quality because we don't have any measures of how much people have actually learnt, so that's one major issue. There are some surveys of student satisfaction that have similar questions across countries; Australia comes out substantially lower than the US, little bit lower than the UK, so that's one possible indicator. On the other hand, we're probably not worse funded than the UK universities. A lot of this is around the academic cultures in different cultures, that if you look at surveys of American academics they see things like the personal development of students as part of their jobs, whereas in Australia you'll be lucky if your academic knows your name, let alone develops you as a person. So there are very different cultures and no matter how much money you throw at a university it's not going to change that culture anytime soon.

JIM MIDDLETON: I just want to turn to one other issue which is clearly a problem with the way in which we've seen universities develop, particularly in the last half-dozen years, and it's this. When Julia Gillard and Labor were in office the government lifted and removed the controls that had been there on the numbers of government-supported students in undergraduate degrees. What effect has that had on the higher education system in Australia? Andrew?

ANDREW NORTON: It's meant that it's much bigger than it would otherwise have been, probably 20% or 30% bigger than it might have been otherwise. It meant that when we hit fiscal problems very soon after the demand-driven system was introduced instead of what happens normally, which is the government freezes the number of student places, the number of student places just kept on growing until it stabilised in 2015. I think the one clear upside of this is that the proportion of students from low SES backgrounds, which had been stuck on 15% for 20 years, finally started increasing because it was drawing in much larger numbers of people. The effect on quality, the student surveys are basically showing the same results, so if that's an indicator of quality there's been no real change. The big impact for government has obviously been substantially more spending on higher education and that's really why we're here today talking about some shift in the public-private balance.

JIM MIDDLETON: So Glen, beneficial socially, but sustainable financially?

GLYN DAVIS: Andrew made the very important point that in the same year they introduced the system they started cutting the "per student" funding rate as they found out how many additional people went to universities and that's been the pattern ever since. We've had a series of cuts, so the funding rate "per student" has fallen steadily since the introduction of the demand-driven system.

There are two other effects that I'd point to. One is the extraordinary growth of institutions. Australia universities are now on average amongst the largest in the world. Your point about if they know your name you're lucky, in many ways not a surprise, we now have huge universities compared to the rest of the world because we've started no universities, despite a 20% to 30% increase just this decade. There have been no new institutions started; they've all been crammed into existing institutions which has made life difficult. The second and related outcome is we gutted the vocational education system unintentionally, I hope, as a consequence because if it was easy to get into university and, in fact, cheaper for many students because of the HECS system to go to university than to go to TAFE, we've changed the balance of attraction.

Now, I'm not against lots more people going to university, but we have not thought about the consequences for those Australians who may prefer a skills-based education, who may have preferred to go to a TAFE, and who've watched that system suffer tremendously under this change.

JIM MIDDLETON: And as this government is discovering, we are running into a very severe skills problem in this country which can only be fixed by migration, which raises other questions as well which we won't go into tonight. Sophie, clearly from what Andrew and Glyn have been saying, we're talking about universities as a market and I wonder if I could ask you a basic question, how do students react when it is put to them that what they are in is, in effect, a market?

SOPHIE JOHNSTON: I think the way that we see education is dramatically changing and that is a reflection of how many more students or Australians in general are accessing higher education. Many more people are, the idea that education is only accessed by a privileged few is incredibly outdated. In the next 10 to 15 years 40% of the current jobs will no longer exist so there is going to be a huge need for us to be reskilling our population. Not only that, but when you're educating your nation you're developing a highly skilled workforce, you're developing new industries, but you're also contributing to the social responsibility of individuals. Not only that, there was data that came out that said that for every 1,000 university students that received an education, an additional 140 jobs were created for people who never went to university at all. So I think you need to really look at those spill-over effects of higher education and what it means for Australia as a whole, rather than just looking at those individual benefits.

JIM MIDDLETON: Indeed. Glyn, before we move on, just on those of those points of Sophie's, this question of the social benefit, that we are encouraging a more socially responsible group of people to emerge from universities, and also the multiplier effect.

GLYN DAVIS: Both entirely accurate.

JIM MIDDLETON: Fair enough. Let's move on a bit to the impact that it has most directly on students, because that's a very, very important issue here of course. They are the people that the university system is there to support; that's why the university system exists. Andrew, the HECS system, as we know, now called HELP - I rather prefer HECS, it seems a bit less euphemistic.

ANDREW NORTON: everyone uses HECS, so it's a very strong, yes.

JIM MIDDLETON: Let's stay with that. Just how generous is it to students?

ANDREW NORTON: I guess there are two elements here, one is how much you pay in the first place, which we've been talking about, and another is how you repay. At the moment you repay nothing unless you earn about \$55,000 a year and at that point you repay 4% of your income, so about \$2,200. My view is that \$55,000 is fairly high and, as a result of that, we've got major financial problems in the HELP loan scheme with a very large percentage of the debt probably not going to be repaid. At Grattan we've done a report and the government's now adopted this of the lower \$42,000 threshold, which is two things: more realistic about having vocational education people in the system and reflecting the kinds of salaries they earn and, secondly, being realistic that many graduates will be the second income earners in the households working part-time and under the current system we're going to have lots of HELP subsidies to households that are relatively affluent.

JIM MIDDLETON: Sophie, I don't know how specific you want to be in terms of your response to that, but there were a number of key points there made by Andrew. One, \$55,000 as the threshold is too high, both financially and in terms of fairness as well, and \$42,000 is a more realistic figure and it brings people studying in the vocational system into the business, which one would think that is in part designed to restore vocational education to a genuine place within the culture and, thirdly, this point about it getting people who are second incomes within a family group.

SOPHIE JOHNSTON: Lowering the repayment threshold only adds to a crisis that we're already in at the moment and that is that this generation is going to be priced out of the housing market. We've had stagnant wage growth for decades, our penalty rates are being cut and now we're expected to take thousands and thousands of dollars of debt when we're earning just above minimum wage. Now there's an argument from the government or from Andrew that it should reflect different income support models and minimum wage, but a repayment plan of HECS, that's something that you take on for a significant portion of your life. Income support is not meant to be something that you're on for 10 or 20 years, it's something that lifts you up until you are self-sustainable, can get into a full-time job and pay your own way. HECS doesn't work that way; it is going to be something that you take on for a significant portion of your life.

JIM MIDDLETON: Do you see, Andrew, the point, the struggle that this change and this recommendation can make for people? This is tipping the balance, is effectively what Sophie is arguing.

ANDREW NORTON: Most of the new graduates will not be on \$42,000 for very long, often this is a transitional salary and they move up, so in some ways they're not the main concern here. The main concern are other people who are going to work part-time potentially for their entire careers and either never repay or only repay a small share of it. What the government has done here, we actually recommended a 3% repayment at \$42,000, the government's gone for 1% which is only about \$400 a year, so this is not a massive impost compared to a lot of other expenses and, indeed, compared to what we recommended.

JIM MIDDLETON: \$400 a year Sophie, that's \$8 a week?

SOPHIE JOHNSTON: What we're arguing is this budget is this comes in a long stream of attacks on higher education though. It's been used as a piggybank for decades by governments and I think we need to ask the question do we want an educated nation or do we want a nation that is completely locked out of education where only a privileged few can actually access education?

JIM MIDDLETON: I'll move onto you Glyn, it's a \$2,000 to \$3,600 increase in student fees for a four year course. Are you able to calculate what these changes might or might not do in terms of demand for higher education?

GLYN DAVIS: It's a very difficult question because evidence to date says that raising the price doesn't much effect demand for higher education, but there must be a tipping point, there must be a point at which it starts to have that effect. We haven't got there yet. We've seen in the UK where if you impose £9,000 fees you do start to lower it, so we're somewhere near that. I guess my view about the legislation that's being discussed that has this \$2,000 to \$3,500 increase is why are we increasing the financial burden on students at all? What is it about the budget that requires it? It is, after all, a budget that spends a lot more on the schooling system and a budget that has tax cuts for well-paid people and for small businesses, so what's the rationale that says universities should take a hit in distinction to the rest of the community? Sophie mentioned before the spill-over effects of universities, the difference they make in communities. Higher education is now this country's number one service export. It's also Victoria's largest service export, in fact the University of Melbourne is the largest exporter in Victoria. So it's not that universities aren't doing their part for the economy, for the budget, so why are we lifting the burden on students, even if we want to argue about the incremental nature of the lift, \$8 a week, it's still cumulatively, as Sophie rightly says, we've done this so many times now that we're actually asking an enormous amount of our students and it's not like we're putting more money into income support, it's not like we're spending more scholarships to support people while they're students, which seems to me the main problem with our system. The HELP or HECS system works very effectively and is a great innovation, even if it was invented by Milton Friedman, but we don't match it with money to support people while they're studying, which is often the most difficult part of it.

JIM MIDDLETON: Andrew, is that a problem do you think, that while HECS works well, the other side of the equation, the income support, needs to be looked at again?

ANDREW NORTON: Certainly Youth Allowance is fairly low. It was partly designed that you would work as well, so it's not designed to fully support you but, nevertheless, it is fairly low and I think the coverage, about 25% of students, something like that, actually even get it at all. So most people are self-supporting or supported by family members and so I think it's probably the gap in the system, that you can defer all these costs and actually the history of the demand is that these charges won't have any impact on demand, but people do struggle week to week to either earn enough or receive enough on Youth Allowance.

JIM MIDDLETON: And Andrew, what about Glyn's point about the role that education has within the economy, third-largest export earner, biggest services export earner for the country and, in the case of Melbourne University, the biggest exporter in Victoria. Why, as Glyn says, should students be slugged any more in that situation?

ANDREW NORTON: I guess this argument works both ways. It's a big export earner because international students pay vastly more than domestic students and they've got no loan scheme and zero income support, so it kind of shows you can run a very successful system with basically no government support whatsoever so that really works both ways in this argument. The reason we don't do it that way is because we do have these hybrid public-private institutions where, for various

historical political reasons, we do fund higher education, people expect it to be funded, but the reality is here and in other countries you can see that other much more expensive systems do actually work.

JIM MIDDLETON: One other question, I'll stick with you Andrew for a moment, it's a question of students from disadvantaged backgrounds. We saw how removing the cap on places, as you noted, very rapidly increased those from lower socioeconomic backgrounds. What impact do you think these changes, this lift in student fees another \$2,000/\$3,600, will have on people from lower socioeconomic backgrounds?

ANDREW NORTON: Again, history suggests very little. Even though it's counterintuitive, most of the research shows that once you control for the ATAR the rates of going to university are very, very similar right across the socioeconomic spectrum. The reason we see low SES students underrepresented is they either don't finish school or don't get the higher ATARs. What the demand-driven system has done is mean that the ATAR required to get into university has gone down and that has made it accessible to a much larger group of people that has been historically true. I guess they're all making very similar calculations that if I go to university I'll get myself into a different labour market and there'll be jobs that are higher paid than the ones I would get if I just left school without further education or possibly went into the vocational system. I think there's an interesting question about whether going to university is the right judgement call, but having made it I don't think these fees will make a big difference.

JIM MIDDLETON: Glyn and Sophie, on this subject what then, if we're talking about lower ATARs, is this having on the quality of the education that students are getting? Sophie, you've a point to make with that too if you could?

SOPHIE JOHNSTON: Yes, I was from a low socioeconomic school in a rural area, so I know firsthand what it's like for regional students to actually access education. They aren't thinking about going to higher education when they're in Year 12. They're starting to think about that when they're just entering high school. Now, increasing fees and lowering the repayment threshold for people from disadvantaged backgrounds, they have experienced financial pressures their entire lives. So seeing a huge sum of money in Year 7 or Year 8, they're going to make that decision then and there that university education is not something that those kinds of people can aspire to. I've seen it myself; very few people from the high school that I went to, it's increasing now, but very few people actually go to university because it's just not something that seems like a possibility for those individuals.

JIM MIDDLETON: Even in circumstances where we've seen as a consequence of the lifting of the cap that the figures show that many more people from lower socioeconomic backgrounds are benefiting from university study?

SOPHIE JOHNSTON: Absolutely. I think programs like HEPPP have gone a long way in growing those numbers of disadvantaged students, but it doesn't take away from that financial burden that they experience. Earlier this year a report came out about the retention rates of university students is lowering, so epeeps are finding it harder and harder to maintain their studies while they're at university. That goes hand-in-hand with problems like low wage growth and the fact that there are no jobs out there for us to be getting.

JIM MIDDLETON: Glyn, before we move on, has this stressed the university teaching system? Are you worried about what the consequence of increased numbers is doing in terms of quality of the education your students are receiving?

GLYN DAVIS: I think generally if you expand the pool that's coming in and you don't provide additional resources to support those for whom getting into university has become, for the first time, a possibility, not surprisingly the retention rates are going to go down and the failure rates are going to go up. That doesn't mean that the universities are doing something wrong, it does mean that they don't have the resources to put in to support those students who need them for whom this is often very difficult. So it's had differential effects, depending on the institution. I guess one of the things that's worrying me about the cuts in the budget proposed for this year is that it will hit hardest the most stretched already institutions for whom providing the additional support required is most difficult. So it's a differential effect, it will make life more difficult for those least able to respond.

JIM MIDDLETON: Glyn, you mentioned the cuts to university funding so let's go directly to that as an issue. There are two main changes, you've got basically a 5% cut to funding and 7.5% of funding held back if institutions don't meet indicators, KPIs effectively, around areas such as student retention, as you just mentioned, student satisfaction with teaching and employment outcomes. Now, you've got some beautiful new buildings up there on the campus nearby, Arts West in particular is an absolutely delight, but the government says things like that are an indication that universities have been splurging money on physical infrastructure so they would say, Simon Birmingham, the Education Minister, and Malcolm Turnbull too, that it's time for universities to tighten their belts. What do you say to that?

GLYN DAVIS: And they did say that, that was part of the justification. The first thing to say about those new buildings is there's not one cent of Commonwealth money in them. There is no Commonwealth funding for new buildings, it's not like spending the Commonwealth's money to build them. They're all funded through the surpluses that universities generate and so you get it coming and going. The Commonwealth criticised universities for having surpluses and then criticised what the surpluses were used for, which was to provide better facilities for the students, which is what those buildings are about. There's been a big shift in the way learning operates, there's been a really big drive towards providing facilities so that students can spend more time on campus, more library facilities, more common areas, more wireless rolled out across the campus, more infrastructure in IT so that students can access materials online rather than in person. All of these cost money and they've all been funded by the universities, not by the Commonwealth. So here are universities trying to do a better job and it's being used against them to justify budget cuts, so not entirely impressed.

JIM MIDDLETON: I know we'll come in more detail to the change in the funding mix that affects universities, but isn't there always a danger for public institutions that when other sources of funding are found government will say, "Well, you don't need the taxpayers' assistance in such great amounts"?

GLYN DAVIS: When the University of Melbourne first ran a fundraising campaign in 1953, on its hundredth anniversary, to try and raise a million pounds, which was a lot of money in 1953, it abandoned it after six months. It abandoned the campaign because it realised if it was successful the government would cut its funding on the grounds it could raise its own funding. All these years later we know government will cut our funding, we know government will cut our funding pretty much

whatever we do, so you have to do everything you can to try and raise other money. And yes, they then use it as justification, but we've now seen a succession of higher education ministers who've sought to cut funding to universities and that means cutting funding for the quality of education and that means cutting funding to students to support students. You start to wonder at what point does the government and does the broader public say no, we have to invest in universities for all the reasons Sophie's said and so that all the people who are educated by them or who aspire to be educated by them might have a chance of going. Instead of which, we are turning them from a mixed economy into largely private institutions because that's how money is being raised.

JIM MIDDLETON: Sophie, on that score, why do you think it is from the student perspective that there has been so little success in pointing out the realities as Glyn just has to successive governments - and this is Labor as well as Coalition - that these are the consequences of constantly removing or biting into funding of tertiary institutions?

SOPHIE JOHNSTON: I think the government has an obligation to provide a good quality public education system. They also have a responsibility to keep universities accountable and I don't think that should be pushed onto students. You're right, what Glyn said, for the past few decades governments have been using education as a piggybank, whether that's cutting funding or increasing fees. What we've seen over the past three years especially is an increase in class sizes, we're seeing staff being casualised or cut completely, and we're seeing an amalgamation of student support services so they're not there for the students who need them. There was a really interesting article that came out about a week ago about student poverty and one of the comments from the students was that our university is turning into a technical college. The student experience is being completely wiped out because either students aren't getting the support they need, they're trying to catch up on classes because they can't have that one-on-one learning time, or they're trying to fill their time with work so they can pay their way through university. It's becoming impossible really.

JIM MIDDLETON: Andrew, in the work that you did for government was this question of the change in funding mix that the sector now enjoys or has to deal with. Part of what you presented to them was the question of the consequences of nickel and diming public funding for universities, part of your brief. If it was, what did you say? If not, why not?

ANDREW NORTON: I can't really say what we said in private to the government, I've got a fellow panel member in the audience who'd report it.

JIM MIDDLETON: You can't forgive me for not trying.

ANDREW NORTON: I think one of the issues here is that there's claim and counterclaim about higher education costs, but there is really no rigorous analysis out there of these costs. There was a study done, Deloitte did it for the government, which essentially found that on average universities spend less than their total teaching budget on teaching. That has good historical reasons; they were originally funded to do research on other things as well, so the government is using that. I think the problem is we've not sat down and said what exactly do we want to get from this system, what is the desirable level of quality and other services, and then what is a reasonable cost for that? In a whole lot of other sectors, like hospitals and medical professions, there's been really sophisticated work done to work out what is a reasonably efficient cost and to try and hold hospitals to that. We've never had an equivalent in the higher education sector and, as a result, we're sort of in this claim and

counterclaim where there's really no robust evidence base and no standard against which we are agreed and judging what's happening.

JIM MIDDLETON: Glyn, Andrew's point, do you do anything of this kind internally within the University of Melbourne to attempt to get evidence-based data that enables you to look internally at least at your performance?

GLYN DAVIS: Yes, universities do a huge amount of work on this and the report by Deloitte that Andrew mentions drew heavily on work done inside universities, entirely appropriately. It's important to understand that government sets the funding rates, not universities. So the funding rate for an art student which is different to the funding rate for an education student which is different from a nursing student are rates set by government and some of them cover the full cost and some of them go nowhere near. So universities are very complicated internal systems of cross-subsidy to keep the range of disciplines going because the only way you can do it is by taking money off some disciplines that do well in order to translate it, otherwise you'd be closing down all bits of valuable parts of education that can't pay for themselves. So even if you knew the precise costs of delivering a law degree, that wouldn't answer all the questions about how a university should be funded and where the cross-subsidies should be. At the University of Melbourne we do significant cross-subsidies into education because we think training really first class teachers is a hugely important social good for community and a really important obligation for us, but if we just did the numbers we'd close the education faculty. That's not how anyone wants to run a university, but it's the reality of a system where the costs on the ground bear no relationship to the income that government sets.

JIM MIDDLETON: We have been having what, for me at least, has been a very interesting comprehensive and also valuable conversation up here. Shortly there'll be an opportunity for you to ask your questions, so get yourselves ready. I'll ask just a couple more questions and then we'll get into a question and answer session for a while as well. Glyn, a very basic question: should students be paying for research as part of their fees?

GLYN DAVIS: Well ideally no, research grants should cover the cost of research, but they don't even come close and so students do end up cross-subsidising research. As Andrew says, this is part of the mandate of the university. In fact, it's required by law that universities do research, so you can't just decide not to it. But even if it wasn't mandated by law, you'd then have to ask should research be part of the university mission? Absolutely. Students should be taught by people who are expert in the field, who are contributing to new knowledge and who can help students to do the same. Research is intimately bound up in the mission and yes, it necessarily is part of what we do when we fund a university.

JIM MIDDLETON: Sophie, Glyn's largely dealt with it from his perspective as someone who runs a university, but I wonder if I could ask you from the students' perspective, do you think that universities ought to be funded on performance indicators, on measures such as how many students get jobs which, after all, is one of the key reasons that people like you come to university?

SOPHIE JOHNSTON: No, I don't think they should. I'm quite concerned about how the performance indicators are going to hit the less well-off universities, some of the regional universities. If they're looking at retention rates, those areas have much higher rates where students are taking a few years off study to go into part-time work or dropping out completely. I'm worried that these performance

indicators are going to mean that the worse off universities have more resources ripped from them and they get pushed into the already well-off universities and how that's going to reflect on students and the quality of the education that those students are receiving is completely unfair, really.

JIM MIDDLETON: Indeed. Well that's fairly straightforward; at least we know where you stand. Tell us what you really think! It is time for some questions, but before I get questions from the floor I might just get one or two from people who submitted them when they signed up to be part of this audience. There are quite a few of them. I'll just take a couple. How can students trust university management to be on their side after they supported deregulation which would've seen student debt skyrocket? Glyn, I think that's one for you.

GLYN DAVIS: So let's go to context. I mentioned that on the introduction of the demand-driven system the costs for government went up much more quickly than they expected and governments in 2012 in the Budget introduced cuts the same year they introduced the demand-driven system, though in practice it started a year earlier. At the end of 2012 then Education Minister Craig Emerson stood up and announced that he was going to make further cuts in order to transfer money to support the Gonski Program in schools. So at that point the clear signal to universities was as long as you keep growing you'll be sustaining cuts. The point about the package in the 2014 Budget, the Christopher Pyne package, which I was a reluctant supporter of alongside many other Vice-Chancellors, but I was a supporter and I put my hand up and it was because we had by then endured significant cuts from both sides of politics, because the Christopher Pyne package was a 20% cut, and our argument was it didn't matter who was going to be in government, we were going to be cut. That mean the quality of education was going to fall and we needed to get out from under ministers setting prices and then cutting them each time it was convenient. We supported deregulation because it was a way of escaping from or partly escaping from the political imperative to cut universities so regularly. Our argument was otherwise they were going to go on cutting and the deregulation debate was lost and we now have a minister who's cutting again, and he's cutting us again with no offsets. It's not like we can raise the money some other way. Exactly what we thought was going to happen is happening. It appears not to matter who's in government, we get the same outcome. That's why I supported deregulation.

JIM MIDDLETON: Sophie, you may not agree with what Glyn's saying, but do you at least understand the logic behind the conclusion that he came to and the circumstances that universities faced at the time of the 2014 Budget?

SOPHIE JOHNSTON: No, it's pushing the burden straight onto students. They're not supporting this budget under the guise that it's pushing the burden onto students, so I don't understand why it would be any different in 2014. I think the challenge for both parties is to seriously and radically rethink the way that higher education is in Australia, what we need going into the future, going into new labour markets and also what individual people what skills they need, how we're investing people's futures.

GLYN DAVIS: I just want to come back to the burden on students question. Of course, you're entirely right, that's who is paying the fees, but it's important to remember how unfair the current burden on students is in this sense, that some students are paying 92% of the cost of their university education and others are paying 35%. What deregulation allowed us to do as institutions was to move to a more a fair and equitable distribution of how costs were being assigned across the student body, instead of having a minister decide for us that because you're an art student you're going to pay 92%, but

because you're doing agriculture or veterinary science the government's going to pay most of the cost. We could've done something about making it a fairer system for students if we'd had that authority.

SOPHIE JOHNSTON: I think both systems were bad and I don't think it does anyone any good to argue which one was worse. I think we need to seriously rethink a new system. I don't think going back on those ideals is getting us anywhere.

JIM MIDDLETON: One final question from the early birds who got in and did this as they registered and it's really, I guess, for Andrew and perhaps Sophie as well. Job readiness and required skills seem to be a hot topic at the moment, would it be possible and would it be beneficial to shift tertiary education to a traineeship model, that is five/six years for an accounting degree where the student both works and studies at the same time, for example?

ANDREW NORTON: That's not university education.

JIM MIDDLETON: Well it used to be a bit like the old law school model, didn't it?

ANDREW NORTON: Yes. A lot of professions have moved from that kind of model to a university model. It's certainly not the only way to train for the professions historically and we've even got some of the big consulting firms now saying they'll take students direct from Year 12 and bypass university. So I think there are alternatives, but I wouldn't want universities themselves to be turned into something quite different. They do have a broader intellectual mission and even law and accounting can be made a more intellectual thing which is intrinsically interesting. So I'm fine with separate training institutes, but don't convert universities into them.

JIM MIDDLETON: Glyn?

GLYN DAVIS: Got it in one.

JIM MIDDLETON: I'm sure you've got plenty of questions, let's get right to it.

AUDIENCE: I'm from a rural town in Victoria and I come from a single mum who isn't able to support me while I'm at university, so I have to pay my own way while I'm here. I don't think that a lot of people, especially the ones in the government who are making these decisions and the people that they get these ideas from - it's very hard to attend uni full-time. The amount of hours I need to be there, the amount of hours I need to study and put in to actually get the marks I need to get a good job, which is what the government was always telling me I needed to do, then also work essentially full-time. Penalty rates have been cut, so I'm probably going to have to work more and I essentially live on the poverty line because it's really hard to have that time and to get sleep. On top of that, a lot of students get serious mental health problems because when they try to do all that the pressure is a lot and they can't see friends because they just don't have time anymore. I want to know why you think the burden should be put more on students than it already is by lowering the threshold and by doing everything else that's being done when there are so many people in this country who have benefited from getting a free education and have benefited from not going through the struggles that students these days are but they're not asked to do anymore for us?

JIM MIDDLETON: It's a pretty interesting case study and I'll ask Andrew to address that, if you could please?

ANDREW NORTON: I think there are two slightly different issues there. One is the issue of student income support and I should've said that during the demand-driven introduction they did change the student income support system that made it more favourable, and that's probably one of the reasons also that low SES numbers went up. It's been largely unwound in the last couple of years, but it did work for a while. The actual changes that we're talking about now don't have any impact at all on your year to year income while you're a student. The impact of the higher student contributions will typically occur in about ten years' time, towards the end of your repayment period, but I do think there are issues with people who are really struggling. Youth Allowance hasn't been changed for a long time, it's completely unrealistic about rents in major cities and therefore I think that part of the system, even as someone who's relatively supportive of containing spend in higher education, I think does need attention.

JIM MIDDLETON: Glyn? And Sophie, away you go, you've got something to say. You're being endorsed there, here's a free kick, away you go.

SOPHIE JOHNSTON: Thank you Glyn. I think just going back to what Andrew said earlier about the threshold and the fact that graduates are only in a low-paying job for a little while. That might have been the case 20 years ago but that's absolutely not the case now. The employment market is incredibly uncertain, we're seeing more casualization of jobs and we're seeing more underemployment. Graduates these days are quite likely to stay in a \$42,000 job for a number of years. The high paying jobs, the privileged university students' mantra, just don't exist anymore.

AUDIENCE: Before I ask my question, it is relevant, I just wanted to say earlier you mentioned this idea of there's two counterarguments, one side's saying this and then talking about what is a fair amount to pay or what is a system with proper investment. I just want to note that the two counterarguments are students living and breathing the education system and people who got it for free 30 years ago. There's a big difference between people who are in that system now and understand what it's like to experience that and who got it for free and complained when it went up by \$100 years ago.

The question with that is how can we chastise universities for trying to make investments in infrastructure while doing the best they can with the funding they're given? I go to Latrobe and we just built a new building and that's one of the things that the government pointed out, yet the building that they just built is a science building and if you go to every other classroom I feel like I'm in the '70s. There's no air conditioning, it's overcrowded, there's nowhere to put my laptop and everything's online now, so that means I have to sit there and handwrite notes and then can't catch up with the online learning system. My question is how do you justify as an institute allowing as a public voice the government to say, "Well hey, this is a splurge" and then say, "Oh, students should pay more" but then cut as well? I just don't think it's realistic to say the universities are doing the best they can with the money they're given to try and make us up-to-date in a global stage where everything's changing, jobs are changing and technology is evolving so rapidly that students are willing to go to work for \$30 on Airtasker. I guess that's my question, how can we justify chastising people for doing investments the best they can while cutting funding and then putting in on students who are already struggling/ I

think we've already had the discussion publically about what is fair and what sort of system we want to see, it's just a select few aren't really listening.

JIM MIDDLETON: Andrew, I'll let you address that first and then Glyn.

ANDREW NORTON: I'm not quite sure where to go on that one.

JIM MIDDLETON: Well there are two questions, Glyn?

GLYN DAVIS: There are two parts. You're reinforcing the point that to criticise universities for investing in infrastructure for the benefit of students is a bit rich. You're also I think reinforcing the point that a number of people have made, that a system that asks students to pay more and gives them less, which is what's before us, that's the Budget proposal, is a very difficult one to justify and one that has no support from at least the university sector. There's a final thing that you said that's very important and it's one of life's unfairnesses and I have no answer to it, that is that some of us benefited from getting free education in that brief - we've had universities for 167 years and there was this 15 year window in that 167 years when education was free.

JIM MIDDLETON: It just so happens that most of the people that are in power now came through in that 15 years.

GLYN DAVIS: That's right. If you're a beneficiary of that, what do you do to make sure that you're giving back, that you're part of making it possible for the next group of students to come through? They can't have the world you had, but then you don't have the world they had. I mean, the quality of the facilities, the libraries, the IT is unimaginable for those of us who were students 40 years ago. It is a vastly better system, the universities are vastly better, the quality of the staffing, the quality of the support is better than it ever was. That's being funded by generations of Australians who build up our universities, invested in them, and it's something absolutely to be proud of as a country. The risk is that we have a generation of students who can't afford the universities that we can provide for them and getting that balance right is the ethical question.

AUDIENCE: There's been a lot of discussion around the relationship between the students and effectively the senior university bureaucrats and decision makers. There's another constituency there that ultimately gets impacted by university funding and that's the staff and the relationship internally within universities, this organic, unplanned change towards a more enterprise-driven corporatized model, which is obviously being contributed to by a very constricted, very inconsistent fiscal environment that universities have to change within. So I wanted to ask about that, are we seeing issues as a result of this ongoing funding debate that's been going on for a while that it's so difficult to plan 12 months in advance, let alone for building projects for three to five years in advance? Are there changes in the way that universities are making decisions and those kinds of issues?

GLYN DAVIS: Thank you for raising it. We had a 25 year debate inside the university sector about exactly that question and there's a set of standard arguments about what's happened and this is neoliberalism or some other explanation, but you can go a long way just thinking about scale, the question I raised before. We grew our universities incredibly during that period and what's possible when they're small and intimate and you know everybody and you can run systems on a more casual basis isn't possible when they're now very large enterprises. The University of Melbourne has 9,000

employees. It necessarily has all of the management systems you would expect of any organisation running 9,000 employees and that comes at the cost of some of the character of the institution as fondly remembered, including by me. The public accountability for the money requires you to have those systems, the ethical requirement to use it properly requires you to have those systems, and suddenly we all find ourselves in institutions that are very different from the ones we grew up in and potentially for staff in some senses not as enjoyable because more bureaucratic, because much more structured and organised.

On the other hand, as I said, the facilities that are available to students are also there for staff and the quality of the support to staff is often greater. I was struck to read recently that a majority of staff in Australian universities are now on casual contracts and that's a fundamental shift.

JIM MIDDLETON: Sophie, did you want to say something about the casualization?

SOPHIE JOHNSTON: I think it's becoming more and more common. After the deregulation policy was introduced and it failed we had four years essentially or three years of funding uncertainty and in that time we did see significant numbers of staff casualization and staff cuts. That cuts into the quality. We do want to be having the best facilities at our universities, but we also want to be having high quality teachers and casualizing them, telling them that they're not worth being there every day and being paid the requirements of being a full-time member of staff, I think that eats into the quality of education more broadly and it does hit students.

AUDIENCE: Due to the way higher education grants and student fees were indexed from 2011 in which they were tied in part to wage growth and professions, student fees have already increased in real terms. Indeed, had wage growth continued at 2011 levels, student fees would have risen by 5% by 2018, not far off the proposed 7.5% in the new bill. I don't think there were any protests outside the State Library about a fee rise via indexation, so what role does salience play in student responses to changes?

ANDREW NORTON: Can I give some context? This is a very sophisticated understanding of how university funding is done. For a while indexation was linked to the wage price index and so caught the end of the boom in the economy and, as a result, student contributions went up by unusually large amounts for several years, and that's sort of got parallels to what the government is now saying. I think the point of the questioner is that that actually raised no protests and had no impact, it actually coincided with the demand-driven boom and so possibly when we have similar increases if this bill gets through, which looks unlikely, we'll probably see very little behavioural change.

AUDIENCE: I just want to clarify something I heard a couple of minutes ago, I think I heard the Vice-Chancellor of the state's biggest exporter and one of the biggest members of the Group of 8 and the nation's biggest global export industry suggesting that on market efficiency and product quality grounds some of these big institutions should be trust-busted back by whether it's Alan Fells or Graham Samuel, whoever runs the ACC these days, back to the single campus universities that they were back in the '80s. Is that what I heard?

GLYN DAVIS: No, that's not what you heard. I am personally concerned that we only have one type of university in this country, the very large, and it's a slightly different point. We've grown all of our universities, the Go8, the non-Go8, doesn't matter. The smallest university in the country is Sunshine

Coast and it has 12,000 students; it's hardly small and intimate. Caltech has 2,400. Princeton has 8,100. As a student you don't have any choices in this country, you can't go to a small intimate university, you can't go to a liberal arts college, you can't go to a specialist university of any sort. One of the things that we did in the '90s is we wiped out all of the freestanding arts colleges and all of the other sorts of institutions that provided diversity and choice for students and we substituted a single type, a very large comprehensive institution. My sadness is not that some institutions are large and large exporters and all that, it's that if you're a student there's only one choice and it would be better if we had diversity in the system. Which isn't to say we should change existing institutions necessarily, but why can't we think about ways of accommodating growth other than simply making existing institutions bigger, which is the route we've taken for the last 20 years?

JIM MIDDLETON: On that question Glyn, is it simply the case that the economics of scale mean that provision of infrastructure at a level where you could have universities of 2,500, 5,000 or 8,000, with the budget pressures that the country faces it's simply no longer possible to have that diversity?

GLYN DAVIS: It may be the case, but it's not the case in other countries which seem to do this. Take a public system like Hong Kong, it has Lin Yang University, which is a fabulous little arts-focused university, it has less than 3,000 students and they're able to make it work very effectively. So there are public systems that have been able to support a broader diversity of institutions than we've achieved in Australia, so I think it can be done.

AUDIENCE: Just to go back to how much students should pay and the threshold, I guess I can accept that \$55,000 is acceptable, but I just want to point out that \$42,000 is nearly half the median Australian wage. My understanding was that the point of paying back your HECS at a certain income is that you were in a job that that education has provided you to enter. So how could you possibly tell a full-time hospitality or retail worker, those kinds of people, that they should be paying this massive HECS debt for a university degree that they've gone through when they're not actually working in the field that they've been educated to work in?

ANDREW NORTON: When HECS was introduced in '89, the legislation was in '88, it was obviously a very big issue for the Labor Party to try and get this through both their caucus and the parliament and one of the ways they solved this was basically by saying we'll link it to roughly average weekly earnings so that graduates will basically be doing better than everyone else on average. They thought that was a pretty costless promise because at that stage starting salaries were pretty similar to average weekly earnings. There was an obvious political and fiscal reason why they did that, but I think what we did was go back to first principles and say should people be guaranteed a good outcome? You say yes. We looked at it more in the context of HELP being another of the government's income protection programs and thought that the threshold should be more like what other people who have this protection face, people on welfare, minimum wage, things like that, rather than saying graduates are a special sector that deserve more generous financial circumstances than everyone else the government is protecting.

JIM MIDDLETON: The target does seem to have been revenue-raising, that's the point.

ANDREW NORTON: Yes.

JIM MIDDLETON: And whether or not that's right or wrong, in the process of developing that figure of \$42,000 as where the threshold should be, do you understand that there may be an unintended consequence of capturing people other than those second income people, for example, and that this is not as equitable for them as it may be in capturing this other category?

ANDREW NORTON: That's why we did look at all these other forms of government income protection and left it at a level comfortably above those, while still in our calculations achieving a fair bit of what we would like to achieve in lower doubtful debt.

JIM MIDDLETON: We are getting close to the point where we are running out of time, but there is one question I'd like to ask. Is the government right to say that universities and university students should be contributing to the task of budget repair? Andrew?

ANDREW NORTON: I don't believe they are special and exempt from all the burdens that other people are covering, so yes, I'm prepared to go along with this.

JIM MIDDLETON: Sophie?

SOPHIE JOHNSTON: Absolutely and they do contribute, they contribute by developing new jobs for people who don't go to university at all, they contribute by bringing in an 8.5% of GDP every single year for our economy, they contribute by investing in new industries, new job opportunities. We already make a huge investment to Australia's economic future.

JIM MIDDLETON: Glyn?

GLYN DAVIS: Happy to see contribution to budget repair if it's equitable and if it's distributed across the community in equitable ways. I think the argument here is that it isn't.

JIM MIDDLETON: Might have time for one final question from the audience.

AUDIENCE: My question is to the panel about the design of the HELP system. You seem to be fairly complacent that it's okay. One could think of redesigning it so that it better reflected the costs of different degrees, the mix of spill-over benefits to private benefits. Quite a lot of HECS is not repaid because people go overseas or it doesn't come out of their estate and so on. It seems to me we could do a heck of a lot better.

JIM MIDDLETON: Andrew first of all and then Glyn.

ANDREW NORTON: I haven't been complacent, I've written lots of reports on how we can get it back more effectively and a lot of this is really saying we've had this scheme for a long time and it was setup for reasons and in contexts quite different from now. We should do exactly what you're saying, which is to re-examine it in light of current circumstances.

GLYN DAVIS: Well John's an encomiast, you should always agree with economists.

JIM MIDDLETON: Sophie, one last word?

SOPHIE JOHNSTON: I agree, I think that we're in a completely different context, like Andrew said, and we definitely need to radically rethink the system in its current form.

JIM MIDDLETON: Now I will have more than one last word but it is the last word. That is unfortunately all we have time for. I'd like to say thanks very much to the Policy Shop podcast team, also the Grattan Institute for planning this event, and also to the State Library for hosting it in these terrific surroundings. If you do get a chance to subscribe you should to the Policy Shop on iTunes. It's a young podcast which iTunes has singled out to listen to as well. Their last episode with Angus Deaton on America's prescription drug crisis was superb. As I said, thank you very much to the State Library and thanks to all of you for attending. Thank you very much.

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