the Australia and New Zealand
School of Government

Public Policy and the Universities: resolving the 'tensions'*

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Introduction

I am honoured to have been invited to speak at Universities Australia's conference for 2015 in this morning's session, evocatively titled 'Universities: Shapeshifters'.

Putting aside the fantasy-fiction associations of the expression, Universities have indeed been significant 'shape shifters' over the years. The extent of this has perhaps been even more evident to me as an outsider coming back into the system, as it may have been to those of you who have been participating in its transformation from within.

ANZSOG has an association with fifteen universities from across Australia and the Tasman. While these are a diverse group, reflective of the membership of Universities Australia itself, they are clearly all grappling with similar challenges. Many of these have policy dimensions to them which, given my background, I have found it impossible to ignore in preparing this presentation today (which I emphasise contains my personal views). In doing so, and in looking at how the public policy framework has evolved, a natural reference point for me was the 1997-8 Commonwealth Review of Higher Education Financing and Policy (the West Review) that was my first 'deep dive' into the sector and its connections with public policy.

If we take that year as a benchmark, the changes in the higher education sector since then, while largely anticipated as to direction, have been much greater than we imagined. Just three statistical snapshots are enough to illustrate their magnitude:

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- First, in 1998, there were some 670 000 students enrolled at our universities; today there are nearly 1.4 million.
- Second, about 10 percent of enrolments were foreign students at that time; today the proportion is 25 percent.
- Third, the participation rate for young Australians (17 to 24 years old) in higher education has increased by a third to around 25 per cent.

Reflecting on higher education as it was in earlier decades, the West Committee in its report *Learning for Life* characterized the system as consisting of a few well-established institutions catering to a small elite, one defined as much by privilege as innate academic ability. This is clearly far from what we observe today, with an array of higher education institutions across the country, comprising around 40 'universities' and another 130 or so 'non-university higher education providers', access to which has become almost open ended.

The three roles

Universities today, in contrast to their early antecedents, actively pursue three core activities: exports, research and domestic education. All three yield benefits to our society and economy, and there are obviously significant interdependencies among them. But it is the third and most traditional role – what economists call human capital enhancement – that continues to make this sector 'special', at least from a policy perspective. This fact has sometimes been overlooked in contemporary discussion about reform.

Export income is clearly important to our economy, but it has multiple sources and draws on scarce resources with multiple alternative uses; research is the primary feedstock of innovation, on which all progress ultimately depends, but it is not confined to universities, and the more basic forms which are best conducted there, while important, are possibly more so as a conduit to the much larger world of research outside Australia.

In contrast, 'higher education' – which, to quote from *Learning for Life*, "opens the mind, strengthens and disciplines its cognitive powers and sensibilities, and creates independent learners and knowledge builders" – is both pervasive in its domestic impacts and almost by definition the preserve of universities.

The West Committee, drawing on a rich literature and a variety of inquiry submissions, listed the skills and abilities that all university graduates could be expected to have acquired, which continue to resonate today:

- the capacity for critical, conceptual and reflective thinking
- technical competence in their fields of specialisation
- intellectual openness and ethical standards
- effective communication skills in all domains
- skills of information retrieval and discovery

- problem solving skills, and
- capacity for teamwork.

Skills of these kinds, built on foundations of literacy and numeracy acquired at school, can be expected to enhance the capacities of graduates to contribute at the highest level to the organisations that employ them, and thus to our overall economic performance. Notwithstanding the existence of so-called 'screening effects', in which university success acts merely as an indicator of innate ability, studies reveal significant increases in both the productivity and employment participation of recipients of a university education.

If anything, the relative contribution of such learning relative to that acquired in earlier years or through alternative forms of education, has increased over time as our economy has itself evolved from primary and secondary to tertiary activities. The advent of the 'information age' and 'knowledge economy' has placed increased economic importance on high level technical, analytical and communication skills.

The 'refinement of the mind' that ideally comes with a university education manifests itself in other ways beneficial to society, such as tolerance of others, adaptability to change, political awareness and the ability to engage effectively in public discussion.

It follows that a university education can bring benefits to society that transcend those individually captured by the recipients, substantial though these may be. (A range of empirical studies indicate differentials in lifetime earnings for graduates that are multiples of those otherwise achievable.) This is at the heart of the rationale for public policy intervention and, in particular, for the provision of support for individuals' tuition from the public purse, a point to which I will return.

Complementarities among the 'joint products'

As with other industries that produce multiple outputs, there are good reasons to expect significant complementarities between the more fundamental domestic educational role of universities and the other two. For example:

- The export activity of universities, to the extent that it involves in situ delivery, could be expected to enrich the cultural awareness of Australian students, promoting greater racial tolerance and broadening their personal and professional networks. At the same time, competition in international markets for students obliges universities to emulate best practice internationally in courses and teaching methods, and to be more cost conscious.

- For its part, academic research can be expected to generate findings and methods of inquiry that enhance courses, producing faculty who are at the forefront of their discipline and more able to 'stretch' and inspire their students.

However such beneficial interaction should not be overstated and cannot be taken for granted. Indeed, from my vantage point as an 'outsider/insider', the interactions among current policy settings for higher education appear to be having the effect of diminishing these natural complementarities and even creating tensions among them, tensions that potentially detract from the overarching human capital objective. One source of tension is the flipside of our success as an exporter of education services; the other relates to the demand driven system domestically.

Is the Export Tail wagging the Dog?

Educational exports have clearly been a success story for Australia over recent decades, currently amounting to some $17 billion annually, with Higher Education around two-thirds of that and accounting for around 6 per cent of total exports. As noted, foreign students now represent some 25 per cent of the total student body. This is nearly three times the OECD average and five times that in the USA.

The West Committee saw scope for further expansion of higher education exports if the sector could stay competitive enough in the price and quality of its offerings. But the subsequent surge greatly exceeded even its expectations. The explanation lies in two factors additional to price and quality that appear to have played a key part. One is Australia's migration laws as they relate to foreign students; the other is the deregulation of fees in this segment of the overall market.

A path to Australian residency?

Australia is one of the world's most attractive migration destinations. While our intake is high by OECD standards, at least in per capita terms, potential demand to come here is very much higher. And getting to the head of the queue can take a very long time, if at all. A student visa provides a means of potentially truncating this process and increases ones chances, with potential flow-on benefits to one's family. In the 1990s, immigration rules were changed to allow foreign students to work in Australia for a time and, more importantly for those who wished to migrate, to obtain additional 'points' and apply for permanent settlement while still in Australia, rather than having to return to their country of origin.

While I found it hard to get accurate recent data, it is apparent that a substantial proportion of foreign students extend their stay in Australia after completing their degrees, with many applying for permanent settlement. Several years ago, the Productivity Commission calculated that prior to the tightening of regulation that took place in 2010 around one-third of all foreign tertiary students had converted their status to permanent residency (PC, 2010).

The sensitivity of the foreign student intake to migration rules was demonstrated by a significant drop-off in numbers that occurred after the rules were made more restrictive.

Those changes, which were aimed at a number of private tertiary colleges offering dubious qualifications for visa reasons, also caught the universities, who naturally lobbied hard to turn this around. Eventually a more liberal regime was restored, with the then Immigration Minister observing that the new 485 Skilled Graduate Visas would "make Australia a more attractive destination for higher education"

The downsides

The use of immigration regulation as an instrument of higher education policy need not be problematic in itself. On the contrary, it is hard to imagine a better device for screening migrants likely to be a good 'fit' in Australian society than a period of study here leading to qualifications and skills attuned to local conditions, and the habituation of those concerned to our institutions and customs. Indeed the idea of easing immigration rules expressly to favour foreigners studying in Australia was originally proposed in a report during the 1980s by the Productivity Commission's 'economic rationalist' predecessor, the Industry Commission. However, as in other matters, the devil in a policy usually resides in the detail, particularly in the manner of its implementation.

Any policy or regulatory measure that can bring substantial benefits to certain groups or sections of society, creates an incentive for 'positioning' and abuse. This reality needs to be recognised in both the design and oversight of a policy if unintended consequences are to be averted. The policy of preferred migration status for foreign students is no exception. Indeed the stakes can be particularly high for foreign students, and temptations for getting around the rules could consequently be expected to be higher than usual for them. And incidents have been periodically reported (including the recent exposure of a profitable black-market in essays and assignment preparation).

In a free market, demand can be expected to bring forth supply, and some tertiary institutions, particularly among the 'for profits' in the non-university higher education/VET sector, have facilitated student needs with easy access to prescribed courses and easy marking within them. (The Kangaroo Education Foundation in Kathmandu boasts a "one hundred per cent success rate" for those seeking a visa.) There has been a spate of reports recently of thousands of visas being terminated and diplomas withdrawn. A major listed company has been much in the news for related reasons.

Universities, who primarily cater to local students, face more complex incentives, and above all need to preserve their reputations if they are to flourish. However their behaviour in relation to the export part of their market cannot afford to ignore its differential profitability. On average, each foreign student is 2-3 times as valuable in revenue terms as a domestic student and, if anything, this ratio has been rising over time.

To expand this source of revenue while preserving standards, universities have, among other things, made significant investments in 'pathway' colleges, to help bring foreign students up to the minimum standards (particularly English proficiency) needed to

undertake undergraduate study. This is a good development, and has become an important source of export income in its own right.

But indications persist that many of those who do get enrolled are not up to scratch, including rumours and anecdotes of easy teaching and marking to 'get them through'. This appears to be a truth that only occasionally dares to speak its name. (For example, one senior academic at ANU has referred to "functionally illiterate" students, while another at UNSW has said it is not unusual for foreign students to come to his office "accompanied by an interpreter".) In its nature it is a particularly hard phenomenon to pin down empirically, although an observed rise in average scores for foreign students over time, despite an increase in their numbers, is against the norm elsewhere.

You may ask 'so what?' Other export industries tailor their products to the dictates of the market. Why should this matter in the case of universities? There are at least two reasons. One is that, to the extent that specified skills are not adequately imparted, it undermines the very rationale for the student migration policy. But a more important reason is the potentially adverse effects on the domestic educational objective.

For the most part, export and domestic delivery of courses occur jointly (they are the same product). Any dumbing down to accommodate foreign students could be expected to impinge on the quality of the educational experience for Australian students. In practice, delivery to foreign students is to some extent segmented through the medium of accredited 'third party provider colleges' that cater wholly to foreign students, and to some extent through subject choice, which tends to be heavily skewed.

The most popular courses for foreign students are in the field known these days as 'business studies', where they collectively account for about one-half of enrolments. As more than one academic colleague has put it, business colleges or faculties have become the 'cash cows' of the university system, accounting in some cases for more revenue than most other faculties combined.

The power of the business faculties has over time seen them take over economics faculties, few of which any longer exist in their own right. While economics degrees have generally shared subjects in common with business courses, such as accountancy, in the broad the discipline is not primarily a business-oriented one. Its greatest relevance is to policy making, program design and evaluation – to the business of the public sector rather than the private sector.

This development has seen economics downgraded in several universities to being merely a subject or major on offer within a commerce or business degree. Although lack of domestic demand has been a factor, a further reason has been an absence of *international* demand. Economics involves more 'theory' and calls on greater literacy, with less tangible linkages to a job in business, than is attractive to many international students. (To illustrate from personal experience, a few years ago I was asked to speak at

the graduation ceremony for the Business and Economics Faculty of one of our remaining leading universities offering degrees in economics. Of the 300 or so foreign students in the graduating cohort, only a dozen received such a degree.)

A contributor to the demise of economics has no doubt been the relentless pursuit of A* publications for academic advancement, which has diverted faculty and shifted the orientation of degrees away from the practical and the relevant, to the novel and the abstract or mathematical (a case where in my view universities' research activities have not been helpful to their educational function).

The degradation of economics to such a subsidiary role, means that depth and breadth of understanding of the field cannot be properly acquired. My fear is that this will increasingly take its toll on the suitability of entrants to public service employment and detract further from the capacity of government to develop sound policies -- not only in the economic sphere, but also in vital areas of social and environmental policy, where a good understanding of general economic concepts and analytical tools is sorely needed.

Is 'Demand Driven' becoming a race to the bottom?

Following the Bradley Review, access to Commonwealth subsidies, which had traditionally been subject to quotas configured by university and faculty, was opened up from 2012 to any students that universities chose to enrol. Since then, there has been a rapid expansion in enrolments, with the Commonwealth subsidy rising from $4 billion to over $6 billion. At the same time, average entry scores have fallen. For example, some 80 per cent of applicants with scores between 50 and 60 were reportedly accepted in the most recent year, compared to 50 per cent in 2009. (ACU's Vice Chancellor has remarked that "One could fire a pistol through some courses and not hit a single person with an ATAR over sixty".)

A significant rise in participation was to be expected, and was indeed a core objective of the Bradley Review. The previous system unreasonably precluded students from studying courses for which they were capable, based on them falling below an arbitrary line related mainly to funding availability. (An extreme and ongoing instance is medicine, where in order to ration demand to available funded places cut-offs have had to be set so high that only a genius could expect to qualify.) That a demand driven system has conceptual merit was recognised in the earlier recommendations of the West Review.

The only quibbles from a policy perspective are around the extent to which students now being granted places are likely to have the attributes and attain the skill levels to justify public financial support.

The recent review of the demand driven system noted that while there had been a large proportionate increase in those entering university with relatively low ATAR scores, their share of all students was still low. For example, students with a nominal ATAR below 60 in

2012 (that is, those whose scores were below the top 40 per cent of the school cohort) represented just 2.4 per cent of enrolments. However it also noted that the drop-out rate for such students was very high, particularly for those below 50, which means that the consequent waste of public funds would not be trivial in aggregate. And the numbers have increased since then.

In practice, it appears that only a minority of students entering university courses do so via the conventional ATAR route and, for those who do, the actual score on a second or third round entry can be well below the headline one. Or it may be boosted through bonus points for various ancillary activities or skills. The data needed to get to the bottom of this were not readily available. I believe that only Victoria publishes ATAR scores realised *ex post*, as well as cut-offs announced *ex ante*, and the difference between the two has been substantial in some cases.

There are of course more determinants of success than can be taken from an ATAR score. The recent review of teaching degrees concluded that a more 'sophisticated' approach to admittance criteria for teachers was desirable. This may be right in principle, although the experts at ACER, drawing on international evidence, see high school performance as "the most valid indicator". But in any case how well a more subjective process works out in practice depends on the incentives facing the assessor. These are more likely to be skewed in favour of the admittance of less promising applicants, given the subsidy attached to them, than the contrary. (Indeed, the available data shows that there are many more offers than acceptances at lower ATAR scores.)

Moreover, there is a strong incentive, once having admitted the student, to ensure that he or she stays the course (literally). I learnt recently that 'retention' has now acquired a prominent place in the university lexicon, with faculty deans increasingly preoccupied with how to keep lower ability students on board. This contrasts strongly with my memories of an earlier era, when high failure rates tended to be worn as a badge of honour! The change in motivation has had the benefit of encouraging better teaching – which is likely to have contributed to higher satisfaction ratings over recent years – but it also encourages lenient treatment of under-performance.

These phenomena are understandable in circumstances where funds are scarce for the things universities need or want to do, which include capital works and research as well as teaching, and there is a guaranteed source of funds the magnitude of which depends on the number of students attracted and retained. As one Vice Chancellor recently put it, in such a regime, the pressure to raise revenue if channeled through quantity alone, will inevitably have an effect on quality. This is likely to be manifest in the more sparing use of teaching resources (being the main variable cost) and we have indeed seen a significant decline in both teacher to student ratios and 'contact hours' which technology can only partly explain.

The impact on enrolments is likely to be most pronounced in areas where the margin between costs and price is greatest, or could more readily be made so.

And both phenomena are likely to be more pronounced in those universities that are least well established, or in locations where there is a higher proportion of applicants with weaker school performance. (The statistics on cut-offs, such as they are, would seem to bear this out.)

'Pathways' and the school system

The solution to this tension on the domestic side between money and quality (and potentially reputation), is increasingly seen to be 'pathway colleges' and 'sub-bachelor' diplomas -- akin to the strategy employed for foreign students. The Review of the Demand Driven System agreed with the sector's argument that these should attract subsidies from government in the same way as proper university courses. This approach may well help (there is some evidence that those who do proceed to university perform almost as well as those who got straight in). But there are two aspects that niggle.

One is the apparent presumption that a university education is the only way forward in life, when for many young people a more limited vocational qualification or on the job training will be better options.

Second, there is the further implication that all a low performing student needs to do well at university is to be given further institutionalised 'preparation'. Implicit in this is an indictment of the school system for not having already prepared these students sufficiently. But rarely is this mentioned directly or does it lead to questioning whether something needs to be done about it at source. It is as if these young people needing pathways to university had arrived from outer space.

In an attempt at empiricism (or what might pass for it these days), I sought comment from a small focus group of people who could be expected to know these students best – namely, experienced year 12 teachers (all recently retired). Their verdict, harsh as it may seem, was that in their experience most of those receiving a ranking under 60 were unlikely to have what it takes to cope with the intellectual rigours of university. Those who had potential were seen as having been too lazy or lacking in motivation, with the boys in particular needing time to gain maturity before tackling a university degree.

But these experienced senior secondary teachers also conceded that the quality of school education, particularly in many government schools, is not what it was. That assessment finds support in Australia's reduced international standings in PISA and TIMMs tests, and the declining participation of senior secondary students in 'hard' subjects like higher level maths. A compounding factor in their view was the declining quality on average of trainee teachers emerging from the university system, who often lacked a sufficiently

deep understanding of the subjects they taught. This too has been corroborated by (proper) empirical analysis.

No one should have more at stake in the existence of excellent school teachers than the universities. It is therefore unfortunate that some seem to be treating education courses as another cash cow. This could prove to be one of the more costly longer term consequences of the current tensions in the policy framework for universities.

The ultimate practical test of a degree's utility is whether it leads to a job in ones chosen field. This has become a lot harder for those with education degrees, no doubt reflecting excessive enrolments relative to demand. But reduced confidence in the quality of graduates is also playing a part. For example, new rules for the accreditation of graduate teachers in NSW require satisfactory results in an 'exit test' in both literacy in numeracy, as well as in Year 12 English and Maths. Growing employment queues are also evident in other areas where enrolments have been expanding rapidly, such as IT, Law and Science. It is hard to escape the implication that society may be reaping diminishing returns from the more recent increases in participation in higher education.

Which path to take?

The current regulatory and funding regime, having freed some parts of the higher education market while constraining other parts, has in the process created incentives to pursue scale over quality to a degree that in my view serves neither the student nor the taxpayer well. Simply maintaining the status quo could only see the tensions in the system grow and changes will become inevitable. For one thing, regardless of what emerges currently, it is hard to imagine public funding per student not being cut back further over time, and for reasons beyond the mere budgetary.

I have to admit that in revisiting the sector, I have struggled to find a coherent conceptual basis for the Commonwealth's current framework of subsidies. But to the extent that there can be said to be some connection to induced social benefits, these need to be evaluated at the margin – for the students being added to each cohort – not on average. On this basis, we may already be in negative territory for some courses, especially when the extra subsidy inherent in the HECS-HELP scheme is also taken into account (which delivers the largest subsidy to the weakest performers).

In short, the system is at best falling short of the standards expected of good public policy, and at worst has become unsustainable. In either case, the welfare of the Australian community is reduced below what it might have been and should be.

So what's to be done? Abstracting for a moment from what is before the Parliament, there are three broad options: return to the *ancien regime*; tinker with the current hybrid one or embrace the market more fully. In discussing these, my intention is more to underline the complexity of the policy calculus than to proffer a solution. Indeed I should

make the further admission that the best path forward from here is not entirely clear to me. In this I am reminded of that well-worn Irish joke about the traveller seeking directions to Limerick and being told it would have been better not to start from here.

Back to 'Moscow on the Molonglo'?

When the renowned Australian economics professor, Max Corden, returned home after some years in the United States, he was so struck by the pervasiveness of the Commonwealth's controls about what, who and how many could be taught in our universities, that he famously likened what he observed to the discredited Soviet system.

Australia has since moved away from that degree of centralised prescription and control for good reason. For a start seeking to manage such a complex and dispersed sector from the centre was becoming increasingly fraught. Allowing students the right to choose where the subsidy apportioned to them goes has been the first step in creating a more responsive and efficient system. And reinstituting controls on Q as well as P would inhibit desirable access. So this is not an attractive option -- and in any case few would support it.

Tinkering with the current regime?

The main tensions in the system today, arise from a perceived lack of funds, at least relative to desired spending, and the particular mixture of autonomy and central controls (the blend of 'Moscow and Market') that has emerged. This has created a strong incentive to pursue funding opportunities by building up numbers in those segments that can generate the largest net margins. This in turn has given rise to the tensions just described. If these are to be alleviated, the incentive structure within the current hybrid system would need to be modified.

The following possibilities are among those that have been raised:

- A popular solution within universities is for government simply to fund universities more generously. This could be via increased tuition subsidies or direct grants for research and infrastructure, areas which tend to absorb much capital, and have traditionally been heavily cross subsidized from student tuition subsidies. However the former would require stronger evidence of net social benefit and the latter would still require some rationing or contested allocation method.

- A second possibility would be to raise the regulated limits on fees that universities can charge students. This would reduce the disparity with foreign student fees and potentially alleviate the quality trade-offs domestically. However under current arrangements it would also increase the call on budgets and the substantial additional subsidy to tuition through the HECS-HELP loans. It could be

accompanied by adjustment to HECS parameters, but this would involve a double imposition on students that has been strongly resisted.

- A third possibility would be to regulate entry requirements for all degrees, to stem any 'race to the bottom'. This would require consideration as to how and by whom these would be set. (If not accompanied by increased subsidies or higher regulated student levies, any increase in cut-offs above current levels could create financial difficulty for some institutions, particularly the regionals.)

Embrace the 'Market'?

The final option, the one furthest down the road from the Molonglo, involves fee 'deregulation' -- the 'BBQ stopper' of the current Higher Education debate. Enabling universities to set their own fees would give them more scope to compete on price as well as quality. It could also be expected to bring greater neutrality to decisions about export promotion relative to domestic delivery. And it could alleviate the need to go for the numbers at the expense of quality. On the other hand, there is the spectre of price 'gouging' which, if it occurred, would be widely regarded as unfair, not to mention politically challenging.

Whether price gouging – prices set at levels that are well above costs – would eventuate depends on the nature of the market. In most markets, prices are kept in check by competition, or the threat of it. While in principle this should also apply to higher education, there are some features of this particular market that complicate things.

- For a start, while competition has been heightened by the introduction of student-centred funding (long resisted by universities for that reason) its current extent is debateable. While the sector as a whole has expanded, the number of publicly funded universities has not increased since the end of the binary system, and some are now among the largest in the world.
- Secondly, the nature of the subsidy itself is likely to weaken resistance to higher prices. 'Study now at your government's expense; pay later if you can' has been a great Australian innovation in securing both access and equity, but it mutes the impact of price signals. This was evident from the very outset of the HECS system when, despite the accompanying (re-)introduction of fees, demand for university places actually increased. It is further illustrated by the recent scams detected in the VET sector. In one of these, door-to-door sales of relatively costly courses to relatively poor households, on the 'never never', have apparently proven a decent little earner for the companies concerned (even with a free laptop thrown in).
- Then there is the nature of the product itself, which is seen by many economists as variously having 'positional', Giffen or Veblen characteristics, such that higher prices may convey prestige or quality attributes to many purchasers (whether or not this is well founded) that in some circumstances could even see demand rising

with higher prices. It also follows that institutions would generally not wish to be seen as offering a cheap product.

For these reasons, no-one could be confident that freedom to set prices would not see them rise above what is justified by input costs and service quality. A number of Australian economists have raised concerns about this, including Prof Bruce Chapman, a principal architect of HECS. One eminent economist has even done so from the conflicted position of Vice Chancellor.

The experience with increases in regulated fee ceilings both here and in the UK, has been that most institution's prices were soon raised to the new limit. And in New Zealand, where fee deregulation accompanied the introduction of income contingent loans in 1991, price caps were reintroduced after several years following what were seen as unacceptably large increases.

Of course, being two-handed by training, some economists might argue that to the extent that this is merely transferring money from households to universities, the impacts could be merely distributional, rather than efficiency reducing. However, this would depend, among other things, on how universities chose to spend the transfers – that is, on what Vice Chancellors and their University Councils sought to 'maximise'. For example, using the extra resources to pursue higher international rankings based on research performance, might give less comfort than a mission of supporting local communities or providing scholarships to students from remote regions.

In short, in seeking to embrace the market through greater fee autonomy for universities, complementary measures to ameliorate downside risks deserve serious consideration. The possibilities include:

- *Staged interim increases in the caps on fees*, to enable impacts to be observed (including political ones) and facilitate learning by doing.
- *Independent monitoring of fee-setting behaviour* and its relationship to universities' costs, and the quality of their offerings, with scope to either take action or at least 'name and shame'.
- *Reducing the incentive for Universities to raise prices too high*, by imposing financial penalties, such as reductions in the (average) tuition subsidy, as recently raised by Prof Bruce Chapman and others. (The efficacy of this approach would among other things depend on its being structured to reduce the temptation to pass on the 'tax' through even higher student fees. I believe that some modelling is being conducted in this area.)
- *Raising the sensitivity of students to price rises* by limiting HECS to fees below some norm (eg the average or a calculation based on cost data) and/or making the loans more commercial in their conditions (including repayment obligations and interest applied). As an aside here, I must say that I find it curious that any

mention of taxpayers getting a normal return on the loans that in effect they provide to students is greeted with horror, when the market failure and equity rationales for these income contingent loans are primarily served through their *availability*, without the need for any further subsidization attached to them.

- *Enhancing the provision of information* about the real merits of different universities in different fields – including employment outcomes, student satisfaction etc -- to create more discerning consumers.

Throughout I have taken as given the current institutional architecture, including the AQF and TEQSA in relation to minimum standards and accreditation of providers. These play an essential role, but short of becoming highly intrusive, cannot ensure that standards are necessarily reflected in practice or in pricing.

Can we resolve the impasse?

Returning to what is currently being put forward in the Government's (revised) Bill, the lack of measures such as those listed suggests perhaps that the risks have not been seen as significant. However their absence has arguably contributed to the degree of contention around the fee proposal, and indeed the reform package as a whole.

Australia has had much experience of 'reforms' both good and bad. The ones most deserving of the name – those that have changed things for the better – have virtually all had three features in common:

- Credible analysis of a policy problem, the consequences of not addressing it, and the respective benefits and costs of different feasible actions.
- Effective public articulation of the case for change and why the chosen reform would achieve better outcomes for the community as a whole (even if not for all members).
- Implementation processes that provide some assurance that beneficial outcomes will be achieved in practice.

Often these features were buttressed by well constituted public inquiries and reviews, which not only provided a sounder basis for reforms, but also assisted the politics of delivering them.

Australia has shown itself to be so good at doing this that the OECD sometimes refers to policy reforms predicated on building evidence and public understanding as the Australian Model. However, as discussed in detail elsewhere, we seem to have lost our way in more recent years. And we have paid the price for it with a series of costly policy failures in such important areas as infrastructure, climate change, taxation, industrial relations and indeed education.

Against this background, there are signposts as to where things may have gone wrong with this latest round of higher education reforms. 'An unprepared public' probably sums them up best.

While the notion of fee deregulation has been raised from time to time, including by the West Review nearly two decades ago, there has been no recent public examination of the issues. (The Bradley Review of 2008 that recommended a demand driven system explicitly rejected the idea.) Its sudden emergence in a budgetary context alongside cuts to subsidies, made it look like it was primarily to do with compensating universities for cuts to government outlays, with students ultimately bearing the cost. However the Government's Commission of Audit had itself cautioned against embarking on fee deregulation without an in-depth public review.

That parts of the package were said to have emerged from consultations with 'the sector', is unlikely to have reassured the doubters. Unless there is perfect coincidence between private and public objectives (a rare thing) negotiated settlements with producer interests have a habit of turning out badly for the rest of us. To the extent that it can be demonstrated that more resources are needed to enhance the learning experience for students, support would come more easily. But it might require an admission that services are currently below par, which would pose problems from a marketing or reputational perspective. Also, the expansion of enrolments at current rates of payment would need explanation.

None of this has been helped by the degradation of public debate on key policy issues that we have all witnessed in recent years, with sloganeering that appeals to modern media displacing reasoned argument -- epitomized by the "great big tax on everything" and now "$100 000 degrees".

It may nevertheless be possible, even in this climate, to drag a negotiated policy settlement out of the fire that would still have broadly beneficial outcomes. But the odds are not good. In particular, the suggestion that, as a compromise, fee deregulation could be made conditional on the subsequent development of measures to mitigate risks, does not seem an ideal way forward. It is generally best in policy, as in farming, to put the horse before the cart. The dilemma we face at this point is that the horse has bolted.