Universities are, rightly, seen as essential parts of an adaptable and resilient society. All countries face the challenges of competing and flourishing in a globalised economy dominated by knowledge-based services that are being continually reshaped by large-scale technological and other disruption. While most attention is focussed on the potential of world-class research breakthroughs, universities have an even more fundamental role in preparing people for the future. If innovation is to be embedded in Australian workplace cultures then we need more than a few more entrepreneurs, scientists and venture capitalists, we need high quality and widely accessible universities to help people understand the complexities of the world and to rethink assumptions. The idea of a community of scholars may be over-romanticised, but a significant part of the value universities can bring to the economy is to educate the students who will constitute our future workforce in rich learning environments that can pass on disciplines of thinking as well as the best knowledge available to us in various areas.

This is of course a rather narrow economic conception of what universities can offer, but it is the one that is most important
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to those capable of supporting universities: governments and students. While there are many who will defend the broader ideas of universities as engines for social good and for fostering curiosity and broader intellectual development, the great majority also expect some enhancement of their job prospects and the skills to thrive in a profoundly changing and increasingly disrupted environment. With sluggish post-GFC economic growth and the prospect of ongoing job disruption coming from advances in computer science and robotics, the stakes involved are higher than ever. Almost every government knows this, and almost every country has moved from elite to mass higher education. Universities are important, and they need to deliver.

The good news is that they have. For what is a comparatively modest public investment Australia’s university system is in good overall shape. Universities are under financial pressure, but they have coped without major problems. Australia features prominently in world rankings for research. Students record high levels of satisfaction with their university experiences, they are not financially exploited, and their debts are manageable and equitably handled by income contingent loans. Students anywhere in the country and from all socioeconomic backgrounds have reasonable prospects of enrolling in a university that offers education developed and delivered, albeit not entirely, by scholarly communities linked to the forefront of their areas of expertise and also to relevant professions.

However, there is a downside. There is a large price tag attached to the traditional model of university education that promises to bring students directly or even indirectly into contact with the world of scholarship as constituted by a group of people who enjoy significant academic freedom and who are active in their areas of specialty. Almost all of the chronic policy problems of contemporary higher education trace back to two questions: ‘where does the money come from?’ and ‘can we be sure that
academics and institutions will act in the best interests of those who support them?’ These questions are of course common to almost any service, such as health, childcare or school education, but universities and higher education have features that make them especially difficult.

Our knowledge about the world is constantly changing and branching in different directions. The point of higher education is to introduce people to this changing frontier, and for them to learn from their own efforts, and from the work of teachers, the experiences and facilities provided by universities, the interface with the outside world, and many other factors. There is no fixed curriculum and we simply do not have reliable standardised ways to measure many of the fundamental aspects of what universities are expected to provide: from the quality of teaching to employment advantage and more generally the public and private benefits of what might be learned. We have many partial measures, and within universities academics certify the achievement of students in particular courses. However, we just do not have available the kind of information that those paying the bills might like, that might for example clearly distinguish one university from another on education quality as opposed to the ability to select high performing or otherwise advantaged students. There have been efforts to grapple with this problem, but solutions have been elusive.

This poses a real dilemma for both those who favour government control of the sector and those who favour market competition. There is no objective evidence to say how much higher education should cost, or how much of that cost should come from the public and how much from the student. In education more so than research, there is little robust evidence to either condemn or commend current practice beyond eliminating obvious fraudulent behaviour. The standard arsenal of government management tools – targets, compacts, financial incentives,
efficiency cuts, targeted funding, performance funding – delivers diminishing returns. Like the buttons for pedestrians on many traffic lights in New York some policy levers give the appearance of effective action without being properly connected to where the change occurs. All too often the envisaged changes to behaviour do not emerge and in fact existing patterns of behaviour are reinforced. Market forces will not come to the rescue because markets cannot operate as intended if student consumers do not have proper information. Publishing a patchwork of broad averages is useful accountability, but not so useful to students who want to know about specific subjects. Market signals are further diluted by covering the cost of student loans that are repaid when above average earnings are achieved.

In the absence of solid evidence about quality and standards, widespread concern has emerged that our university system is unsustainable. Those providing the money worry that it is unsustainably expensive, while many of those inside the sector catastrophise that it is under-resourced to the point of becoming unsustainable. These concerns persist despite decades of almost continual review and re-review, much of which have produced little tangible evidence about perceived problems. To date Australia has managed to strike a balance which has seen public expenditure for higher education and research stay at around 1 per cent of GDP over the past quarter of a century, compared to around 1.4 per cent across the OECD, despite massive increases in research funding and a doubling in the number of Australian students enrolled in universities. This has been achieved by controlling access to public subsidies, capping numbers of students, controlling fees and increasing the share of fees to be repaid by students.

Now things have changed. The aim of extending higher education to all those who might benefit from it was always somewhat at odds with the maintenance of caps on student enrolments.
And the removal of the lid in 2012 led to enrolments shooting up, further cementing the idea of university as a mainstream aspiration. There was little political support for reapplying caps on student numbers; however, rapid growth in enrolment meant that government spending also rose rapidly. Whether the spending growth driven by unchecked university expansion can be sustained within current settings is debatable, and growth has slowed in more recent years. The sector cannot hope to be protected indefinitely from cuts when the government is under pressure to support costs associated with ageing, defence and healthcare, and broader national infrastructure. Nor is the university sector by any means the government’s major priority in education: funding for schools and vocational training are both acute challenges and universities are just part of the continuum needed to educate and develop the workforce of the future. Governments might acknowledge the importance of higher education and research but they have been exasperated on a regular basis with the sector’s tendency to be self-absorbed about its importance, to complexify and exaggerate its problems, and to be habitual mendicants. One of the results of this has been to seek reductions in government spending on universities.

Throughout 2015 and 2016 the savings associated with the 2014 deregulation package continued to be factored into government budgets despite ongoing rejection of the reforms by the Senate. This amounts to a short-fall of some four billion dollars. This situation – which obviously cannot continue indefinitely – will leave the sector highly vulnerable when reality finally hits. Savings will either be forgone, testing further the willingness of government to increase direct outlays to universities, or they will not, and other offsets will need to be found. Put even more bluntly this means either that students will pay more, or universities will take a cut or, more likely, a combination of the two will emerge.
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What is even more clearly unsustainable is the situation in research. Over the ten years to 2013 governments doubled medical research grant funding in real terms and increased general university research grants from the ARC by 70 per cent. In contrast, infrastructure grants only grew by 25 per cent. Over this time the number of academics notionally involved in research grew by 37 per cent, slightly less than growth in student load. Yet despite increases in grant funds far outstripping growth in the academic population, demand for research grants has far exceeded supply, with success rates for grant applications falling to record lows. This has come about partly because more funds have been concentrated on the most successful applicants, and proposals to extend the duration of project funding would exacerbate this. Perhaps more significantly it has also come from the heightened stakes attached to external research funding for individual academics and for institutions. Global and national rankings, national audits of quality and funding formulas with further rewards for the successful all serve to reinforce the primacy of academic research as a marker of excellence directly impacting on reputation. Australia must strengthen its research base, but governments will not pour more money into the black hole of research indefinitely, even for medical research which usually and understandably attracts political favour. The solution is not to spiral inwards with an ever greater concentration on past glories or to pick winners or favoured universities. However, Australia’s future challenges are diverse and demand a research base that is also diverse and vibrant. The reality is that most research funding will find its way into the most research-intensive universities. Yet we need to be able to develop new fields, including interdisciplinary work that tackles our greatest national and global challenges. We must find ways of sustaining excellence on many fronts and in many places, which in turn will need sustained commitment of public funding.
together with healthy competition and fundamental changes in research expectations, academic roles, and institutional ability in order to match rhetoric about strategy and selective strength with effective action.

The challenge of supporting students and funding tuition in an environment of growing concern about public spending and deficits has led to a new appreciation of the potential for income contingent loans to take the place of direct grants. While Australia pioneered the mass provision of HECS/HELP loans to cover university costs, in post-GFC England the prospect of turning current spending into a loan asset that might even be sold to generate more revenue for current spending has gained traction, and the 2012 reforms in that country have moved much further along that path than we have seen in Australia. In England the bulk of public grant money has been replaced by student fees covered by loans, helping to relieve government deficits but creating substantial debt-related burdens for students. English students now pay the highest fees for public higher education in the world, and the government there faces an uncertain future burden of debt that might not be repaid, dependent as it is on the strength and rewards of future labour markets. The deregulation reforms proposed in 2014 in Australia did not involve such a large government-mandated increase to student debt, beginning with an average increase of around 20 per cent, but the extent of the market impact on student fees was unknown. It seems likely that the future will involve a greater emphasis on student loans as a way of handling rising costs. Thus one major focus of future government policy, given the weak track record of past efforts to use financial incentives to change the status quo in universities, will be on loans policy and the maximisation of repayment and minimisation of loan subsidies.

There are some limits that should apply to this trend. In England grants that formerly were provided to financially disadvantaged
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students for living costs are to be converted to loans. This will be combined with a reduction in real terms of the threshold for debt repayment, and so students who by accident of birth do not have family money to draw upon will face greater financial penalties should they go on to earn a decent income than their peers from more affluent backgrounds. This is effectively a tax on social mobility as noted by higher education analyst Andrew McGettigan. Australia has begun to take steps in this direction with the recasting of top-up scholarships for poorer students as loans, a policy that began under Labor and was confirmed under the Coalition government. Such shifting of support for the disadvantaged, from a grant when needed to a loan to be repaid if the recipient’s circumstances improve, deserves wider debate than was possible amid the flurry of measures that were put forward over the 2013–2015 period.

Another potentially bad idea in loans policy is that universities should contribute to the unrepaid debt of their graduates, as for example has been proposed in the United States from time to time. While universities should do all they can to improve the job and career prospects of their students, there will be problems if they are expected to help repay to the government the debt of students who do not earn enough after they have left the university. It could deter universities from enrolling students at greater risk, which largely includes students from disadvantaged backgrounds. The government might offer compensatory rewards but this would only amplify bureaucracy and create problems around timing and definitions of risk.

In general, the move from grants to loans and increasing the student share of university costs is about transferring the risks in undertaking higher education from the public to the individual. This is of course part of a wider shift in the relationship between governments and citizens that has taken place over many years.
in countries similar to Australia. But at a time when graduate employment prospects are more uncertain than ever, and the national need to make the best use of its intellectual firepower is greater than ever, we should be particularly cautious about the impact on current disadvantaged students and on future generations of graduates.

Having institutions share in this risk might seem sensible, but as we have argued in this book this is not best done by penalties or rewards attached to simplified measures of complex outcomes. Institutions do have responsibilities to their students, and interest in their future success, and their best contribution to lowering the risks of an uncertain future is to provide the best education possible and to support students in their studies. There is a great deal that can and should be done within universities to adapt to uncertain and challenging times. We do not expect that students or governments will be willing to underwrite whatever universities and academics might want, and so rationing of research funding and pressure for cost reduction in all areas will inevitably continue. Even if universities can and wish to operate in the future more or less as they do today, the pressure on traditional modes of academic work will become overwhelming, and the stresses are already showing. The spectral threat of technology-driven disruption is taking increasingly clear shape: universities might be able to survive by absorbing and adapting technology – we know that in a general sense they are resilient institutions – but they will not be able to do so while staying the way they are now. Changes are coming whether egged on by government incentives or not, and they will demand far-reaching changes in the way we organise and conduct academic and university work. They will require patience and competence, with governors, university managements and professional staff working with highly mobile academic communities whose allegiances are as much or more to their disciplines and

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careers as they are to a given institution. Our best hope for quality improvement, indeed conceivably for survival in the face of fundamental dislocation, will not come from bureaucratic oversight, but from having institutional directions aligned to academic cultures that are ambitious and as externally attuned as internally reflective, and that have strong peer respect for the quality of teaching as well as research. In practical terms, institutions need to know what underlies their costs and be able to take hard but broadly accepted decisions if they are to sustain a viable and vibrant university.

The main task confronting Australian universities over the past few decades has been the development of institutional strategies and cultures that enable them to adapt to fluid and demanding educational missions within limited resourcing and many demands for accountability, and to find their place in the hyper-competition for research resources. It is a task that is far from complete and if anything, universities are distracted rather than aided by the constant churn of policy ideas that seek to shift the locus of attention to issues of access to government money. The future will require much more unpredictable adaptation by institutions, particularly if the efforts of any of the many start-ups and new higher education models that are being actively developed in the United States and elsewhere prove successful.

Government funding is of course important, and is especially necessary in areas of particular imbalance such as support for research infrastructure and in general to enable universities to prosper and students to attend university. Public funding is also necessary to lubricate the wheels of collaboration, whether between universities and industry or among universities on various matters. However, the question of how much public funding is needed for the general operations of universities has had no clear answer. Universities can cover their costs by charging students for expenses not covered by government grants, as with
overseas students, and in areas of burgeoning potential such as corporate education and fee-based postgraduate programs. But when it comes to the large majority of Australian students who are in receipt of a public subsidy, there are a number of options for sustaining or improving the resource base. With all of them, however, we can expect that students would incur greater debt.

At the most basic level there are really just two choices. First, the government might continue to control the fees that can be charged for students who are in receipt of public subsidies. If the government sought savings, or if universities needed extra income, then the government could set corresponding increases in student fees. This has the virtue of simplicity but the vice of putting the onus on a remote and sometimes unwilling government to set the appropriate fee levels. The other option is to have some greater scope for institutions to set their own fees for publicly subsidised students. In this scenario, government and students will share a common concern about possible runaway increases in fees and student debt, and will want assurances about the rationale for fees and the uses to which fee income might be put. There have been various proposals put forward to counterbalance possible fee increases. The ANU’s Professor Bruce Chapman outlined an option for reducing government subsidies as institutions charge higher fees, while the Vice-Chancellor of Victoria University Professor Peter Dawkins set out a variant on this idea together with an enhanced program of support for disadvantaged students. Meanwhile Professor Peter Noonan, from the Mitchell Institute, has revived the idea of an independent ‘buffer’ body of experts to oversee a new financing system. Unfortunately the more flexibility institutions have to set their own fees the more these issues grow in complexity and the more potential there is for adverse consequences, particularly if the architects of policy seek to build in new incentives and accountabilities for additional funding.
Our present university system and its funding arrangements have resulted from years of compromise, lobbying and review, along with implementing and often later dismantling specially targeted funding. The idea that there are major changes for the better to be made without additional funding is not futile and should not be dismissed, but we do not need yet more reviews to revisit the same old issues. If we accept that the budget position of government is difficult, and that higher education is not a sufficiently high priority to warrant sustaining – let alone increasing – public funding at suitable levels, and that higher education and research are strategically important to Australia given developments in Asia and elsewhere across the globe, then the possible options for a realistic response to university funding policy are relatively few.

Funding from philanthropic and business sources should be encouraged, but we need to be realistic about the scale and scope of such endeavours: they will remain relatively small components of university budgets. The main game will involve new mixes of public funding and student contributions. The priority for public funding should continue to be undergraduate education and mechanisms to allow institutions some discretion to set their own fees should be put in place. Such mechanisms should be designed to provide a robust level of consumer protection and also to ensure that a more deregulated system does not entrench or exacerbate existing inequalities of access and opportunity. This will need both continuation of programs of direct public support for disadvantaged students and accountability from universities for their own efforts to improve social mobility and opportunity. It could take the form of an interplay between rising tuition fees, reductions in government grants, and increases in institutional commitments to equity programs. However, we need to be careful to avoid our national predisposition to develop an overly cumbersome architecture of countermeasures to fee increases.
Universities should be accountable for their level of fees and their use of fee income. But equally we should be realistic that institutions will have legitimately different strategic imperatives. There has been much hand-wringing about the apparent evils of universities cross-subsidising research from fee income, but an interesting silence on the necessary cross-subsidy of niche courses or regional campuses. And, of course, there is little airing of the biggest cross-subsidy of them all, that of international student fees supporting university operations in a range of ways across the sector. These are all matters for institutions to weigh, rather than for government to seek to micro-control. In the event of egregious abuses this approach might need to be revisited, but for research, as well as for teaching, there needs to be some scope for institutional choice in light of the evident inability or unwillingness of governments to provide what universities regard as sufficient base support.

We have acknowledged the limitations of market forces in higher education, but competitive constraints on institutional behaviour do exist. A period of testing the nature of institutional fee strategies within a relatively simple system of government controls should be allowed, with regular review undertaken to assess the direction of the new funding environment and its effect on participation, equity and other considerations relating to the public good, along with consequent revision of policy settings.

We also need to be very careful of arguments for special treatment and where they are raised to encourage informed public debate about such proposals, rather than seeing last-minute deals struck behind closed doors. Greater flexibility for institutions should encourage our political masters to be more sceptical of the outrageously self-interested lobbying we have seen in the past. Sometimes this lobbying is dressed in the apparently respectable clothing of encouraging excellence or diversity. At other times, it
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presents in the more tawdry garb of marginal seat politics and is manifested in bids for new campuses, or even medical schools.

Relinquishing government control over undergraduate student fees may be a practical response to the need to sustain our universities in the light of the realities of public finances, but it is no panacea. The real action is not about how higher education is funded, which is the primary focus of policy interest, but about what universities do in defining their own futures. Their individual paths will differ, but for all the task will involve reconciling their culture with financial realities, a rapidly changing professional landscape, technology-driven change, legitimate demands for accountability and, crudely, the obligation to deliver quality and value for money.

We should not expect that governments will relinquish the desire to exert some discipline on university funding, or exercise some level of influence over what is done with it. Where grants are made there will be demands for accountability and measurement, and broad priorities in areas such as research are a legitimate aim of public policy. But the limitations in both practice and principle, of government as a driver of change in academic activity and culture should be acknowledged. Governments cannot shepherd universities through potential technological disruption, nor can they orchestrate the diversity of approaches that are needed to adapt higher education to new models of work and to the bewildering pace of changes to knowledge and technology that we see across society.

Rather than categorising institutions into neat boxes or rewarding or penalising institutions with simplistic measures, we need to allow the emergence of different ways of adapting the university ideal to meet society’s changing needs within the resources society provides, whether these be public or private, campus-based or online, research intensive or otherwise. The goal should be to ensure that
the various forms of a quality university education are widely available and seen as financially attainable by those with potential and regardless of background. Within a given envelope of funding from government and students, government policy should be less preoccupied with efforts to cajole, second guess or nudge institutions and more focussed on how governments can best provide support. For students that means through consumer protection and support for the disadvantaged, and for research it means policy settings that enable universities to move beyond their traditional paradigms, and in the Australian context, this certainly means engaging better with business. The focus on addressing disadvantage cannot rely on government alone: inequalities of opportunity are complex and there are limits on public financial commitment and on the scope of government agencies to respond flexibly to the diversity of need. Too often poverty is connected with rural or regional location, and policy becomes distorted by politics. Stronger cultures of philanthropy need to be developed throughout the community and importantly in higher education institutions. And for research it means making strategic choices and investments of scale to better align university research capacity in order to support sectors of the economy that are Australia’s strengths and providing settings and incentives that enable universities to better engage with businesses. In the absence of such an alignment, there is a distinct possibility that Australian university research will become a one-trick pony focussed on huge investments in medical and life sciences research, but without the thriving local life sciences industry that can take advantage of these investments. Put a different way, when discussions of university policy centre as much on students in need and on the innovation needs of the economy and society as they do on institutional horse races we will have made progress.

Much of this book has been about money, accountability and economics, because those have been the principal interests of
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government policy and most students. Policy makers will acknowledge wider benefits of universities, for example in helping us to understand and address future challenges such as climate change or improving health or building a sustainable role for Australia as Asia develops in influence. There are even more intangible benefits of having Australians educated in institutions that promote reason-based understanding and exploration of the world and our place in it, and that can help realise the potential of human intelligence and creativity. We cannot clearly quantify these benefits, or parse them neatly into public and private components. We can neither accurately measure the risks or opportunities of expanding university education at a time of increasing disruption of the workforce or, conversely, the risks we take as a society by restricting the scope and reach of university education and research. However, in an uncertain world the value to the nation of having strong universities available to a wide cross-section of society is such that we should be prepared to absorb a substantial part of the financial and employment risks involved through public financial support, rather than have them sheeted home to individual students. And we should do so in a way that enables universities to adapt and thrive and students to have the best chance of securing a better future regardless of their background.

We can afford to sustain and even improve a university system in Australia that is already one of the world's best. This is not just about peaks of research performance but also about ensuring that this research is aligned to the innovation needs of the Australian economy. But, above all this is about a broadly accessible higher education system where the full promise of the university – that of linking what is taught with the changing frontiers of knowledge – is available not only to an economic or social elite. There is much yet to be done but there are no simple solutions to the challenges we all face: what is certain is that the fate of our universities is the fate of our society.