

The Future of Higher Education

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Thank you very much. Can I congratulate CEDA on organising this for her and you being interested in higher education which puts you in a very elite group, but it's only a very small group. David I wouldn't be too intimidated. The collective noun for a group of professors is a pride and you have a very fine pride here this morning.

I've been asked to speak about new models for higher education and I'm going to start with some of the things that David's just introduced. About the sort of curious public, private nature of the higher education sector. We often hear about the privatisation of higher education but in fact we were always there. They were established by statute and the Governments appoint some of our Government bodies and the whole idea of universities is that we are autonomous institutions. That we charged fees for what we did, which historically we did through our first hundred and something years. That we set our own curricula which is something for example that public schools could never do and that essentially we operated as private institutions. That is how we are framed and thought of and in a sense if you think about over the long history of higher education in Australia the big shift is in 1972 where something very different happened.

In 1972 an incoming Labor Government announced that it would be taking over the funding of universities and that it would abolish university fees and for many people this is the high point of higher education policy in Australia. There was a brief shining moment for around 14 years in which higher education was free in this country to Australian citizens and the Commonwealth provided all of the income for institutions. It was also the period of record spending on universities. In fact the golden year if you want to go back is 1976. Funding per student was never higher than in 1976. The last budget of the Whitlam Government came through. It was preserved intact by the Fraser Government and it provided the high point of spending.

Sadly every year since then there's been a fall in spending for student higher education. It's beginning to look like a trend but there are some other implications about this policy change that took a while to come through, and the key one is the one I mentioned, that the Federal Government would now be the sole provider for institutions. This meant we shifted from a nation of being funded by a combination of fees, State and Commonwealth income, to being solely dependent on Commonwealth income, and the implications of this would take some time to play out. Nobody worried about it at the time. Nobody saw it as a bad thing because they were so unhappy with the level of funding from the States. That going into the warm and gentle embrace of the Commonwealth could only be a good thing, and it took a while to see that we'd ended up with a system that Max Cordin described, that David's just summarised.

A system where the Commonwealth sets the price sets the volume. No pricing mills in the system. Essentially Commonwealth authority becomes to define the system. And no one took this up with more gusto than this man, John Dorkins, who famously in 1988, 1989 transformed the higher education system. He turned 63 colleges, institutes, CAEs into 36 universities. He imposed a single model of what it was to be a university, a single funding system. He provided a uniformity of the system unparalleled, never before, never since have we seen that level of consistency.

Now it's very fashionable to criticise John Dorkins and to say, "What a disaster and what a bad policy turn it was." I don't share that view. I never have. Hundreds of thousands of Australians got to go to university because this man reformed the system and opened up the opportunities. There were people whose lives are immeasurably improved because of the Dorkins reforms and we've got to be a bit careful that we don't just read those forms through the lenses of institutions. We're unhappy with what he did to our institution as opposed to what this meant for the people he was interested in, who were the students and in their lives he made a very big difference.

But one of the consequences of the change he introduced was to provide only a single model of what is an acceptable university. It has to be comprehensive. It has to offer everything from under graduate degrees through to PhDs. It has to, it has to have research at its core written into its mission. It has to have multiple campuses preferably as far apart as possible. If you can arrange to have no public transport that's a, you get a special tick for that. Ideally you should find a field somewhere where no one lives and where there are no links and that's the ideal place to build a campus. And we've, we've embraced that with enthusiasm.

Victoria's slightly different and in Victoria you can have a, have a perspective that's not shared in the rest of the country. We have dual sector institutions in Victoria, TAFEs and universities together. Nowhere else in the country does this appear to the best of my knowledge and this actually provides at least 2 types of universities in Victoria. Everyone else only has 1 type. But it is really noticeable. It's hard to find another country that has such uniformity in its sector. Where the mission statements of universities are interchangeable. You can't actually read them and say, "Oh yes that's ---." You don't get told what institution you're hearing about them and what happens in institutions is largely interchangeable.

And remember there are no price signals. So universities can't differentiate themselves on cost or quality of service. There are all of the usual markers in our market by which you get a stratification and difference, all missing from our sector. So the only way you can compete is on pretty dubious notions of prestige. Because there is no other form of competition available, and this is the affect of uniformity that was introduced. So we end up not with a system that's highly differentiated but with a system where what we have in common, is much, much more significant than what's different between us.

And this is the effect essentially of Government regulation. It's produced uniformity as the defining characteristic of Australian higher education and this has happened, I think one of the startling things is this has not happened on the sort of the watch of just one political party. When we had a change of Government in 1996 some people predicted we would see a new deregulation flow through the sector and indeed the second Minister of the Coalition Government, David Kemp attempted to do that. He was defeated. Not only by the sector rising in anger but by his own colleagues saying, "That's not how we want to go." And so at the end of 11 years of Coalition Government we have a more highly regulated sector than when we started. And so you have to conclude that there is a strong political consensus that says the university should be uniform, consistent, highly regulated and that that's how both sides of politics have wanted to see it perceived.

There is an exception to this though because in a sense it's not consistent uniformity. The exception is that in the latter day of the Hawke Keating Government there was agreement that universities could

begin to take fee paying overseas students. First in small numbers and then ever growing and this has become one of the defining features of the system, and it's slightly strange to have a hugely regulated domestic market and a relatively unregulated international market and these things operate in the same institutions. This is a, a useful chart because it shows you broadly what's happened. You can see that the rise in the number of domestic students has been quite modest. Over a 10 year period it goes from 350 to 400,000 but you see this huge increase in international students, the green line, less than 50,000 to more than 150,000 in the same period. That is, it triples and you can also see the number of fee paying Australian post graduates beginning to rise. Beginning to approach 50,000 students. In other words a significant part of the funding of the system now rests on international and fee paying students and we'll come back to that.

What this means is that as public institutions have lost funding per student they have substituted funding they received from fee paying students. This has produced an interesting picture. Here is the University of Melbourne's profile by income type. International course work students make up 27 per cent of our student cohort. This is the numbers of students. Domestic fee paying 30 per cent and Commonwealth supported 60 per cent. So that's where we're drawing our students and this is, University of Melbourne has a relatively large domestic fee paying student but this profile's not untypical of Australian universities and we're all variations on it. Some of them have slightly larger Commonwealth supported.

But when you say, "How does that line up with where the money comes from?" You get a very different picture. Here you can see although HECS and Commonwealth supported students account for 60 per cent of our student base, they account for 29 per cent of our income, our teaching income. A further 17 per cent comes from HECS payments made by those students, 35 per cent of our income from overseas students and 19 per cent from Australian students. In other words there's now significant mismatch between where you're drawing your students from and how revenues flow into the institutions. There's a whole range of quite fascinating elements to it. This trend is found in every Australian public university and there are now of course some public universities where a majority of their students are international fee paying students and it raises a sort of definitional questions about it. At what point do you cease to be a public university when most of your income is not public in origin.

Now the enrolment figures tell you a great story. They tell you that Australian universities have been hugely successful in creating this international industry, but it's no surprise to those of us working in the sector, and that's many of the people in this room. That that dynamism of our overall recruitment hides some pretty significant changes that are going on. Although our overall international numbers have risen this year and last after a flattening out the year before that, in fact the numbers are coming in from China and India and they're falling in most of our other traditional markets. They're falling from Singapore, from Hong Kong, from Malaysia, and the reason they're falling is simple. That those countries have begun to invest very substantially in their infrastructure and all those students we used to pick up because there were no opportunities at home, now have plenty of opportunities at home. There are a series of world class universities in our region. They are handsomely funded and they are doing extremely well and they are all now competitors to us because we as Australian universities have to be out in the international markets. That's how we fund our institutions and now we can see this quite important shift going on.

In Europe which has not been a huge source with the honourable exception of Norway have not been a huge source of Australian students. A huge source. These countries are beginning to urn from being exporters of students. That is they send students overseas to being importers. *11.53 University in Prague. A brilliant institution with hundreds of years of history now teaches a whole range of courses in English in order to attract students to come to Prague and teach there. The standardisation under the Bologna protocol of courses allows transferability and recognition of prior learning, and suddenly you've got a system where Europe is gearing up to become a major competitor in taking international

students. A market we haven't or competitor we've not had to face before. So alongside our traditional competitors in the UK and Canada and the United States we're going to see in our own region and in Europe a whole set of new competition.

Well how do we rate in this international market? Well under, under many of the standard markers of prestige we've got a challenge ahead of us. This is the 2003, 2004 *12.46 rankings. There's actually been one since then and there's one due eminently which we're all watching with a great deal of anxiety. But here there are no Australian universities in the top 50 in the world and only 2 in the top 100, which incidentally is exactly right if you take the Australian population as a portion of the world population. We're about 2 per cent off the world's population and we have 2 per cent of the top 100 universities. It's an interesting and unexpected correlation, but none in the top 50.

But in our region you can see a whole range of institutions that, that are becoming extremely strong and one of the things that's becoming clear about this *13.30 is increasingly it's the specialised institutions that are able to dominate the chart. I mean right at the top are the ones like Harvard. Harvard has \$29 billion US in endowment. It doesn't need any public money. It's in a position that the rest of us can only dream about. But once you drop below that it's the MITs and the *13.49. It's increasing the institutions that have a specialist focus that are doing extremely well on these world rankings. We cannot offer this sort of specialised institution under our current arrangements. The protocols allow it but the practicalities of how our funding works doesn't allow it. And so we haven't built up that sort of specialist, particularly graduate approach that characterises the United States, which of course dominates all of the world rankings.

And one of the reasons that we haven't is this very interesting chart which Minister Julie Bishop is fond of talking about. It says something about unmet demand. We are used to being in a sector where there are vastly more potential students than there are places and that means that the competition to get into universities has been fierce and it means every university has been able to fill all of its courses, and in that sense in a highly regulated system you can only teach these courses hasn't mattered as much because there's been demand for whatever it is you're teaching. But as this chart makes very clear, the growth and provision over the last decade and particularly through this decade means that the unmet demand is falling away quite dramatically. Indeed there are 7 universities that were unable to fill their places last year and a very interesting shift in New South Wales that started this year that suggested that a number there were also struggling, and this figure which is calculated by Universities Australia assisted with the ABCC just shows you how sharp that decline is.

Why? Well the first answer is this one. The unmet demand that still exists is now really only an issue for students who score less than 70 in their enter score. In almost anyone who got an enter score of 70 or above has been able to find a place. Maybe not in the first preference, maybe not in the institution of their choice. Maybe not even in the city of their choice. But if you get an enter of more than 70 you can go to university in Australia certainly if you're prepared to move. And that means that in a sense we've seen the distribution of the last great cohort. As the demographics fall we're going to see this more and more. We're going to see institutions actually struggling to fill places. It's going to be really significant.

And the second and probably increasingly important reason is this. Is these two important funding schemes in particular the second one. *16.22 allows students to take a loan of up to \$80,000 through the tax system supported by the Commonwealth which they can take to any institution. A public institution or a private higher education provider and of course we're now seeing alongside a number of ambitious TAFE colleges a whole range of private providers beginning to use fee help in order to build their business.

The last count I was able to do saw 62 accredited higher education providers. I remind you there are, there are only 39 universities. There are already more accredited higher education providers who are providing degree courses than there are public universities. And although the available numbers are already we know seriously out of date, this is the number of providers, we're seeing growth in this market. It's hard to measure what that growth is. It's probably at this stage somewhere around 5 per cent of the total system, unlikely to be higher than that. And a little hard to track down for us. It's growing, but just reading the budget figures about take up on fee help suggests that we are seeing the rapid emergence of a highly effective private market, and one of the reasons that public universities are not filling their places is because people now have an alternative.

For the first time ever they have a significant alternative where they can go and do particularly vocationally focussed courses elsewhere, and you've seen some of these players. This is the Blue Mountains Hotel School. It makes ambiguous but what it offers is a vocationally relevant degree. Come and do at your hotel management degree with us and we will make sure that you get a job and we will link you into the industry. Not get a broad, liberal education. Come and get a very specific vocational education. The Natural College, the Australian College of Natural Medicine likewise has an important role. These are going to be an ever important part of the world that we've gotten used to. These are going to be players who are going to start taking more and more students. They are going to create a large private sector in higher education. I think we had previously assumed that if there was a private sector it would be private universities. It would be the Bond and Notre Dame, and of course they're still there, but their growth has been modest compared to these private institutions and compared to institutions like this one, a lovely shot of their waiting room. The only shot I was able to get.

This is Carnegie Mellon which has opened up in Adelaide thanks to a very generous subsidy from the South Australian Government, \$20m and what's significant about Carnegie Mellon is that it brings an international brand into Australia and it allows Australian students to get an American degree, which is what they offer. They don't have Australian qualifications. They're actually offering their American qualifications which raises a fascinating set of regulatory questions about whether they have to go through the same accreditation processes as you would if you were offered an Australian qualification. I'm assuming Carnegie Mellon would be the first of many private universities from overseas that open up in Australia. We're already seeing Kaplan and Phoenix or Apollo as their owning group is called. Two very large US systems beginning to buy into Australia. Tribeca has been bought by Kaplan. We're going to see a whole set of private North American players move in and they'll move in only in areas where they can make money. I'm not expecting anyone to open a school of science, nursing or philosophy any time soon. It'll be business IT. It'll be in the areas where the public universities currently make the money that subsidises all of their other operations. This has very significant implications for all of us.

So I think you can say, if you ask where have we got to. A once sheltered public sector now faces competition on 3 fronts. On global markets, amongst ourselves and amongst private higher education providers, and in this sense the world has shifted on us. Absolutely, profoundly. There couldn't be a more profound shift even though looking at us from outside our regulatory system remains largely unchanged. The world looks very much like it did. In fact the fundamentals are shifting very fast and one of the interesting questions is, if you're in the public sector, can you afford now to have 37 public universities that are all largely the same in a market where people have many more choices than they once did. And in a market where you haven't got any price signals to tell you where people want to go.

There seems to be an urgent political consensus that says, the answer is it's time for diversity. I asserted this in a speech recently and then Stephen Smith put out a press release saying, "There is no consensus at all. How dare I suggest that there were." As an observer from a distance I have to say it looks more like agreement than disagreement to me but there are nuances in this I could have missed. We've seen in 2006 a paper from the Labor Party and in 2007 a budget from the Federal Government

which shows on both sides a willingness to think again about how universities are regulated and about where the sector might go, and we'll come back to this in a minute.

We've decided to give this a go at the University of Melbourne by consciously moving to a very different model. I acknowledge as I always do in the circumstances the great support we've had from Minister Bishop and from her officials in education, science and training have been excellent in working with us and helping us use the current system in order to produce something that we'll call the Melbourne Model. I'm, I'm not going to dwell on this. I'm very happy to pick it up from discussions but the logic being as, we've always been fascinated by the number of students who do not complete the degree they start or who shift halfway through or who go into the professions and say, "Why on earth did I do that?" This is the, this is where our students come from. Interesting or less than half of our students are school leavers and that's increasingly in the case of other universities. It's hard to find any Australian university now where the majority of the students are school leavers. They come from having failed to complete a degree elsewhere or they come to us as graduates having gone elsewhere. From TAFE and *22.47 and so on. There's a real shift around and you can see why. Here in Victoria the number of 15 to 19 year olds peaked in 2002 and it's going to fall away forever more unless the baby boom hits us and even then that'll be 18 years away. All of us are going to have to shift the base on which we draw students because there aren't going to be enough school leavers around to keep the current system going, and so we're all facing the same question. But I'm happy to come back to that in discussion.

But what we're offering in Melbourne essentially is a graduate model. We're all going to have to in any case think about how we frame ourselves against the new demographics and also against the new competition. So last week at the National Press Club on behalf of the Group of Eight for which I had the dubious pleasure of being briefed as the president, we set out a vision of where we want to go on higher education. This is the paper. It's treated with interesting disdain by a number of vice chancellors. In this morning's higher education supplement if you are interested to read how others have responded to it. But it is, it is a conscious attempt by us to say, "Here is where the regulation needs to go. Here is what a new sector would look like." And I don't intend to go through it in detail. Let me just touch on a couple of the key issues because I'm conscious of time.

Essentially we begin this paper by saying, very impressive changes are included in the 2007 budget and our key concern is where to from here? How do we build on those initiatives to provide something different? We want to see in our language specialisation. We want to see it possible for people to set up universities that go around a core subject area. Something you can technically do under the protocols but you can't do under the current funding system and in order to do that you need to have funding for students that reflects the real cost of delivery. At the moment we've got a fairly arbitrary set of funding models. They are historic. The last review of funding was 1990 with a relative funding model. A lot has changed since 1990.

We're arguing that the Productivity Commission should do a review of the real cost of delivering courses and that course fees should be based on real costs. Because at the moment they're not and so every institution is involved in a hugely complex number of cross subsidies because you can't make any money teaching engineering. You try and make money teaching business in order that you can fund engineering through the back door. So until you have real costs you can't specialise. If you decided to set up a specialist university in engineering you would be broke because there is no way you can make that pay, given remembering that the Commonwealth caps what you can charge. So in order to get away from the world of cross subsidies we need real costs and we need them reflected in the costs that students pay as well as the costs the Commonwealth pays and we need the capacity therefore for institutions to specialise. Hence our call for the Productivity Commission to be involved. And then we need a set of transparent regulations about who can be a university. What does it mean? What are the rules about what you can offer? How degrees are offered? And those rules should be consistent for

public and private alike. There should be a national body which will be called the Australian Tertiary Education Commission which regulates the whole sector including vet because it's clear, not that the systems are going to blur necessarily but it's clear that vet is going to be a very large part of higher education and that we're going to need really good pathways. Now everybody's been saying that for a couple of decades but truth is we've struggled to get to a system that can do so. Even in our dual sector institutions in Victoria we struggle to see the sort of numbers come through TAFE and onto university that we might expect. If we were being self interested as a university sector, something we never are, of course we'd have a particular in making sure that VET students have an easy capacity to come on to university because in a world of falling demographics that's going to be very important for us.

And so what we've set up in our system is an attempt to map what the real costs would be. An attempt to make sure that the funding systems operate that and an attempt therefore to make sure that we really address areas of skill shortage by, not by reducing HECs which has not been a particularly successful mechanism but by its alternative which is producing positive scholarships where students want to do areas such as nursing and teaching where there are clearly shortages. Also it gives us a method of trying to manage demand for it.

I've sort of rushed the end of the speech only because I'm conscious I don't want to leave you no time for discussion, comments and bits of personal abuse which I've learned over the last week is what follows making a sort of a major policy statement. But in a sense if I wanted to try to characterise what's happening, the sector is moving in profound ways, but the regulatory system lags those changes. We're moving into markets whether we like it or not and it's time for us in the sector and hopefully allies in the business sector, to begin pushing hard to say, "It's time to think again about what we've become."

Most people in higher education resent higher education ever being described as an industry and yet that is what we must think of ourselves as, and that's the sort of regulation you must look for. That we are not running a school system here. We are running a set of very complex institutions which needs to be able to operate. They need to be able to turn to multiple markets at the same time. They need a consistent set of rules. They need to be able to interact with the TAFE sector and the private sector in ways that are consistent and to o that we need a single national regulatory framework of the sort we see in other industries and until we start asking for that, no Government has any reason to offer it to us.

We have to press. It's got to come from us and it's got to come from those around us, particularly in the business community. People who see the advantages of that. Until we take some responsibility for ourselves for our future, no one's going to do it for us. Hence the policy paper. Hence the importance of forum like this. Hence the need for a public national debate about the future of higher education.

So David thank you very much for the chance to chat and very happy to open that up to discussion.

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