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**Introduction**

For many years our higher education system been a story of organisational uniformity, intellectual uniformity, declining academic standards, lack of innovation, rent-seeking and high costs. It is hard to see this story changing much in this bureaucrat and union dominated world without competition from new entrants.

Australia’s higher education system has so far been dominated by public universities. The few private universities we have (such as Bond and Notre Dame Australia) were created by State Parliaments under regulatory arrangements that no longer exist.[[1]](#footnote-1) The current regulatory regime was created in 2011, following the Bradley Review of Higher Education completed in 2008. Under this regime, the Tertiary Education Quality and Standards Agency (TEQSA) administers rules for accrediting new universities set by the Higher Education Standards Panel (HESP), which is made up of mostly university experts.

Australian policy makers and those who work in public universities find it difficult to conceive of anything else.[[2]](#footnote-2) Most of the people in the room tend to be alumni of Australian universities. The universities maintain large public relations departments and multiple well-funded Canberra lobby groups. University experts stack the policy advisory committees. There are cosy arrangements between the higher education bureaucracy, university management and the unions. Australian newspapers and websites which rely on university advertising are reluctant to antagonise those who send money their way. A game of mates?[[3]](#footnote-3) Perhaps even a cartel?[[4]](#footnote-4)

**Consequences**

These cosy arrangements have left Australia with a lack of competitive neutrality between private and public providers and high barriers to entry for potential new providers[[5]](#footnote-5). What are the consequences of this lack of competitiveness for students and the wider public?

One consequence is a **lack of diversity**. We have around forty public universities that are remarkably similar in structure and aspiration. And their marketing slogans: I doubt even many university staff presented with a list of universities and their marketing slogans would be able to match very many in a blind challenge. Throwing in a few slogans from the random slogan generator would be much better value for universities than their expensive consultants. Variation is mainly the extent to which universities live up to their claims to research quality, and in their financial position. This closely tracks their age.

It is hard not to think this institutional monoculture is part of the reason we have an intellectual monoculture. Take the examples of the education faculties in our universities and their attitude to phonics education, as highlighted by Buckingham (2009), or the approach to religion in our universities, as discussed in Oslington (2014).

Another consequence is a **lack of innovation**. One of the lessons of economics about innovation is that it tends to come from new firms entering a market rather than existing firms.[[6]](#footnote-6) Depending on the structure of the market, innovation will spread to the incumbent firms, with some incumbent firms who fail to adapt exiting the market. The lack of possibility of entry does not bode well for innovation in higher education in Australia.

As well as organisation innovation in higher education there is also the question of whether large bureaucratic and mostly comfortable institutions are a good environment for generating the innovation and collaboration with industry that Australia needs.

The potential for organisational and product innovation in a moribund industry is nicely illustrated by the recent history of the religion industry in Australia.[[7]](#footnote-7) It was a market dominated by a few large longstanding organisations (the Anglican, Catholic, Methodist, and Presbyterian churches), which were being abandoned by their customers from the 1970s. Then along came a new entrant, Pentecostalism, with a radically different organisational structure and leadership style, offering a product much more appealing to cotemporary Australians. Interestingly, the two largest Pentecostal churches Hillsong and C3 were started in Sydney by immigrant New Zealanders, outsiders who saw the possibilities more clearly than any of the executives of the incumbent organisations. The Pentecostal movement has now passed the Anglicans to be the second largest Australian religious group measured by attendance, behind the Catholics whose numbers have been held up in recent decades by large migration inflows.[[8]](#footnote-8) The story of the innovation and growth at Hillsong is told by Riches and Wagner (2018), and I have offered some reflections on the reasons for the growth of the movement in Oslington (2016), including the role of Alphacrucis, the national college of the movement.

**Rent seeking.** In a protected market, especially one where large government subsidies are on offer, rent seeking is likely to be much more lucrative for university administrators than efforts to innovate or improve the quality of teaching and research. Rents can be taken by administrators as high salaries, perks, large administrative entourages, or some combination of these. And it certainly looks like there is no shortage of takers in contemporary Australian universities.

**Unionisation.** One of the curious features of the Australian higher education system is that all universities have enterprise agreements with the academic union. The union enjoys a legislatively enforced monopoly position in Australian higher education. Academics may choose to join (and around 20% do) but regardless of whether they join or not, the union negotiates pay and conditions for everyone who works at the university. These enterprise agreements are extremely detailed, covering staff workloads, union representation on various university decision making bodies, promotion committees, union consultation about any workplace change, access to university resources for union negotiators, compulsory contribution to a superannuation fund connected with the union, arrangements for various services to be provided by union-controlled entities, and so on.

All of this adds up to high costs to students and taxpayers. Fees are high, but even more damaging are the incentives for incumbent universities to enrol as many students as possible to gain the government subsidies for enrolments. Hence the large marketing budgets. In many cases, students are persuaded to enrol, despite there being little chance of them completing or benefiting from higher education.. The otherwise laudable policy of income contingent loans for students[[9]](#footnote-9) magnifies the effects of the perverse incentives to enrol students, who are ill-equipped for university, by pushing the private costs for students back into the uncertain future.

It is hardly surprising that the quality of higher education in these circumstances is deteriorating, especially at the bottom end of the system. The incentives to erode quality in search of the government dollar are just too strong for university administrators to resist. Evidence of this includes declining employment rates and starting salaries for graduates relative to non-graduates. Results of the recently introduced government survey of teaching quality, Quality Indicators for Learning and Teaching (QILT), also shows that the few private institutions allowed into the system hold the top places in the rankings, above any of our public universities[[10]](#footnote-10).

**What Can be Done?**

**Facilitate new universities.** The combination of Australia’s underdeveloped culture of educational philanthropy and the hostile policy environment make it extremely difficult to start new universities. The Higher Education Standards Panel (HESP) sets the rules for accreditation of new universities, such as having three broad areas of study, degrees up to doctoral level, and substantial research capacity. Besides the category of ‘university’, there is the strange category of ‘university college’, which is a swamp designed by the university experts who wrote the original standards to ensure no new entrant passes through. HESP is currently reviewing provider categories, and should rewrite the category of ‘university college’ to fit high quality private providers who have no interest in the breadth or research requirements of universities, but deserve a title that allows them to compete in education export markets with lesser overseas institutions. This change would also allow institutions, which have been granted self-accrediting status by TEQSA in recent years, to apply directly for university status when they meet the requirements, thereby opening up public universities to real competition.

**Restructure public universities to facilitate takeovers and exit.** In the current environment, there seems to be an implicit political guarantee that no existing university be allowed to go to the wall, and certainly not a regional university, or university in an outer metropolitan marginal seat. What about forcing the incumbents to adopt governance arrangements that facilitate the transfer of control to a new management where the university is consistently making losses (which requires exceptionally awful management under the current regime of regulation and subsidies for public universities) or underperforming in other ways. Such changes in governance arrangements may preserve the institution’s not-for-profit status. If so, what is the incentive for a new management to take over the institution? It might be the lure of the monopoly rents on offer, which are taken by managers of not-for-profit organisations as inflated salaries and perks, in contrast to being taken as profits by the owners of a for-profit organisation. Or it might be a public-spirited consortium of locals who believe they can do a better job of running their university than the incumbents. Either way the threat of takeover can discipline the incumbent management and improve outcomes, even if takeovers don’t happen.

**Fight the threat of tying accreditation to enterprise agreements with unions.** One of the insidious trends in public policy is tying government contracts to so-called ‘best practise industrial relations arrangements’, which is code for an enterprise agreement with the relevant union. This gives the union massive power over the organisations, and it is not difficult to see this leading to ever more intrusive and efficiency destroying enterprise agreements with already cowering university managements. It is something to be vigorously resisted by taxpayers and students.

**Reform undergraduate domestic student degree funding.** The logic of the demand driven system links government subsidies to enrolments in accredited degree programs. This should apply regardless of whether the accredited degree program is in an institution that is public or private, university or not. At present this is not the case and needs to be fixed. Removing the iniquitous 25% FEE-HELP loading on the debts of students who choose private providers is also needed.

A more radical reform would be to replace FEE-HELP with student debt bonds sold on financial markets. This would cut out the government as a loss-taking middleman and make higher education institutions responsible for the student debt generated by their degree programs. Instead of subsidies for enrolments and FEE-HELP funding flowing from the government to institutions, the institution would sell bonds representing the repayments on the student debt on financial markets. The government would still set the rules of the income contingent loan scheme, still set repayment thresholds and interest rates (perhaps in relation to some market benchmark), but financial institutions would bid for the debt of various institutions degree programs. There would be no government guarantee offered on the student debt.

With this reform, there would still be the option for the government to provide supplementary funding to courses that have public benefits in excess of the private return to the student (such as nursing or teaching) or which are judged important for other reasons. The point of the bond scheme would be to properly price the private returns from higher education.

Financial markets could be expected to price the private return on degrees (based on likely incomes for the graduate) reasonably accurately because actuaries they employ are trained to make these calculations, and the large sums involved mean it will be a thick market (in other words a market where there is enough trading volume). To facilitate the market the government may even continue to recover income contingent loan debts through the tax system and transfer the funds to the financial institution which has bought the debt from the university.

The main advantage of this reform is that university administrators would get immediate signals of the worth of the degree programs they are offering. It is important the signals are immediate, so they impact current administrator behaviour, making administrators think twice about behaviour that reduces the value of degrees to boost student numbers.

The prices obtained for the student debt generated by various university degree programs would be public knowledge. This would provide potential students much better information about the worth of alternative degree programs than problematic information currently provided by published minimum ATARs for entry into degree programs, or by the information provided by commercially published guides. Especially as these guides rely on advertising from the universities, and in some cases, are even owned by the universities. Better information would improve student choice. Better information could potentially reduce the attraction for universities to spend large amounts on advertising.

A wise colleague suggested the price obtained in financial markets by some institutions for some degree programs would be derisory. I can think of business degree programs of a few universities for which I’d hesitate to offer twenty dollars for the student debts generated. Financial markets may even price the debt generated by some degree programs at zero, after administration costs.

If financial markets do not value the income earning potential of certain degree programs highly that would be a much-needed wake-up call for some administrators in the sector. Though no doubt the reform proposal would go down like a lead balloon with university vice-chancellors.

**Open PhD funding through the government’s Research Training Scheme to all accredited PhD programs.** I have been PhD Program Director at Alphacrucis for the last three years, and talked with many students who would have enrolled with us if they could bring with them the government living-allowance scholarships only tenable at universities, or if we could match the zero-fees offer from universities who receive approximately $50,000 per-student government subsidies. Our PhD completions attract a government subsidy of $0 even though accredited by TEQSA according to the same standards. This is not just a fairness issue but an efficiency issue. Students choosing an inferior PhD program at a public university because of the government subsidy means the government is not getting the best value it can for the limited research dollar it has to spend. Funding all accredited PhD programs regardless of the institution they sit in would improve efficiency and be budget neutral, as the number of students would not change but are simply reallocated between institutions.

**Open ARC research funding to private providers**. Again, the principle is that all accredited institutions should have a chance to compete for government funding, with the best researchers and projects winning. The research environment is already a large part of ARC assessment processes, so the complaint from incumbent universities that they offer a better environment for projects is already dealt with. Allowing all researchers regardless of institution to apply would be budget neutral as the available pot of money for which they are competing remains constant.

**Politics**

There have been several failed attempts to open public universities to competition in the past. Each has been defeated by a coalition of universities and higher education unions. There has been the $100,000 university degree scare campaign and the VET FEE-HELP debacle, which was a failure of regulation rather than of competition, and which university vice- chancellors are quick to invoke when opening them up to competition is discussed. Even though they know that VET markets and regulatory arrangements are very different to higher education.

Vice chancellors and unions are also keen to point out the evils of private ownership. But the distinction between public and private is increasingly vague. For instance, the governance structures of ACU and Notre Dame are indistinguishable; yet one is regarded as public and the other private. The real difference is that one began under older regulatory arrangements than the other.

It is not legal ownership but regulatory arrangements and the social character of the goods that matters (as pointed out by Marginson 2007). Even the distinction between not-for profit and for-profit is shady, and is perhaps just a matter of whether rents are cashed out by management above the bottom line as salaries and perks, or more transparently taken below the line as profits.

**Conclusion**

The potential gains from completing reforms like those discussed above are huge. Competition alters the cost and quality benchmark for public universities even if private providers remain small. Altering the cost and quality benchmark for universities means budget savings for government, savings and quality gains for students,and the potentially large export earnings generated by new private universities.

The vice-chancellors squealing loudest about the threat of competition from private providers are identifying their institutions as the most vulnerable to competition from private providers on anything like a level playing field. The louder they squeal the clearer is the need for a good dose of competition in teaching and research in Australian higher education.

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1. Glyn Davis (2017) provides a good recent history of Australian higher education policy. Andrew Norton (2016) provides a snapshot of the current state of the system. [↑](#footnote-ref-1)
2. It is interesting to contrast Australia’s higher education policy arrangements with school policy arrangements, which are some of the most neutral, between public and private schools anywhere in the world, and quite supportive of new private entrants. The potential for schools in Australia to take advantage of this has been limited by bureaucrats and unions. [↑](#footnote-ref-2)
3. Frijters and Murray (2016) briefly discuss the university dimensions of Australia’s game of mates, their elegant expression for cosy and lucrative web of government-corporate relationships that strips wealth from ordinary Australians. [↑](#footnote-ref-3)
4. Other cartels could only dream of a government that fixes prices for them, erects almost insurmountable barriers to entry, and even heavily subsidises their operations. [↑](#footnote-ref-4)
5. The language of public and private is used here because it is standard, but the language reveals part of the problem. Perhaps public universities would be better described as bureaucratic-political, and private universities as truly public because of their reliance on appealing to a public beyond the bureaucrats and politicians for their survival. [↑](#footnote-ref-5)
6. Palangkaraya, Spurling and Webster (‎2016) survey the literature on firm level innovation. [↑](#footnote-ref-6)
7. The literature on the economics of religion is discussed by Iannaccone (2012) based on an Economic Society of Australia conference keynote address. [↑](#footnote-ref-7)
8. NCLS Research (2001-16). [↑](#footnote-ref-8)
9. Chapman (2006) discusses income contingent loans. Under the Australian income contingent loan system the university gets paid up front for the enrolment, while the student repays the loan to the government over a long period if their income is above a threshold. [↑](#footnote-ref-9)
10. QUILT Reports are available at https://www.qilt.edu.au/ [↑](#footnote-ref-10)