“IGNORANCE IS LOOKING MORE AND MORE AFFORDABLE BY THE DAY”

SUBMISSION TO THE SENATE STANDING COMMITTEES ON EDUCATION AND EMPLOYMENT

PROFESSOR STEPHEN PARKER
VICE-CHANCELLOR, UNIVERSITY OF CANBERRA

GENERAL STATEMENT

I oppose the central measures in the Higher Education and Research Reform Amendment Bill 2014, for reasons which appear later in this submission. However my main introductory point is that there is simply no need for the rush with which the proposals have been formulated and pressed on the higher education sector.

The present funding system for Australian universities is arguably unsatisfactory, and the so-called efficiency dividend announced by the previous Government was very disappointing, but the package of measures now being considered by the Senate does not provide the answers. Just restoring the previous funding levels and current indexation method (under the Higher Education Grants Index) would stabilise the situation. Australia has one of the best university systems in the world, from the elite to the community provider level. The fact that some of our universities can continue to rise in world rankings without these changes undermines any urgent case for the reforms based on arguments about global competitiveness.

If the urgency is attributable to an unexpectedly tight national budgetary situation, it was (and is) open to the Parliament to shift the balance between the taxpayer and the graduate by reducing Commonwealth Grant Scheme amounts and raising Student Contribution Amounts correspondingly. I would have privately disagreed with that because I think the balance is about right now, but no one can categorically say where around the middle the balance should be struck between the public good and the private gain of higher education. Shifting the balance in this way would have saved public money, at the expense of university graduates, without the need for some of those savings to be diverted to private providers, without the need for a real interest rate to be applied to graduate debt (which is unlikely to yield a great deal over the forward estimates), without the need for a full uncapping of Student Contribution Amounts and without the need for various other aspects of the reforms which create the impression of an ideological agenda that seems to have come from nowhere.

As a package, these reforms have not been adequately discussed and considered. They were not flagged prior to the federal election on 7 September 2013. In fact, in the week before the election Tony Abbott MP twice reiterated that there would be “no cuts to education”, on ABC Radio\(^1\) and in a speech still available on the Liberal Party website\(^2\).

---

\(^1\) Tony Abbott, interview by Sabra Lane, 5th September, 2013, 2013, Brisbane.
Earlier in the year, in “Our Plan: Real Solutions for All Australians”, the Liberal party unambiguously said:

We will ensure the continuation of the current arrangements of university funding.\(^3\)

For the Government so quickly to reverse these positions and propose reforms which go further than any government in the world has gone suggests that they have not been sufficiently thought through. I do not assert that the pre-election comments were deliberately misleading, but if the intention to contradict such assurances was only formed after the election this reinforces the conclusion that there has been far too little open consideration of alternatives, or modelling of consequences. The National Commission of Audit recommended\(^4\) up to 12 months debate over arguably the most controversial proposal, fee deregulation, but this period of reflection has not been granted to us.

Under these circumstances, I believe the whole set of measures should be taken off the table and considered further. Any fresh package should be put to the electorate at the next election if that is the Coalition’s wish.

THE INTERESTS OF GRADUATES

In any complex debate it helps to have a starting point. My starting point is the interests of past and future graduates. I do not apologise if this seems unduly narrow as I have devoted most of my career to higher education, but there are also sound economic and public policy reasons why in a knowledge-based economy we need to get it right. The United States of America seems to be a society which is not getting it right, and whilst there are important differences between higher education in Australia and US, the prospect of crippling graduate debt is common to both if these reforms go through.

In the US, graduate debt has tripled in the last 8 years and now exceeds credit card debt. It threatens to distort economic incentives, let alone impair the prospects of a whole generation. Recent research by Penn State University and the Federal Reserve Bank of Philadelphia has found a significant negative correlation between changes in student loan debt and the formation of small businesses.\(^5\)

In their recent analysis of the Global Financial Crisis, Princeton University Professor of Economics Atif Mian and University of Chicago Professor of Finance Amir Sufi refer to the US “student debt debacle” as another example of “the financial system failing us”. They quote an unemployed college graduate with US$29,000 of student debt:

---


\(^5\) Brent W Ambrose, Larry Cordell, and Shuwei Ma, ”The Impact of Student Loan Debt on Small Business Formation,” Available at SSRN 2417676 (2014).
“You often hear the quote that you can’t put a price on ignorance”, he said. But with the way higher education is going, ignorance is looking more and more affordable by the day”.

Speaking in Canberra in June, US economist and Nobel Prize winner Joseph Stiglitz warned Australia in the strongest terms not to go down this road.

America’s failed financial model for higher education is one of the reasons that, among the advanced countries, America now has the least equality of opportunity, with the life prospects of a young American more dependent on his or her parents’ income and education than in other advanced countries.

Although Australia weathered the GFC better than the US, in 2013 the employment rate of Australian graduates was the lowest in 20 years. It is possible that the premium on a degree is now diminishing just at the time measures are imposed which can only have the effect of increasing graduate debt here.

In making these claims I do assert that graduate debt will rise significantly if fee deregulation goes through. I hear arguments to the contrary, particularly based on the idea that competition between universities, or between universities and private providers, will prevent a soaring of tuition fees, but unfortunately I don’t believe a word of it. As a minimum, except for occasional short-term tactical reasons, all universities will replace the reduced Commonwealth Grants Scheme amount with higher tuition fees – leading on average to an increase of tuition fees across the sector by about 30%.

Whether or not, for appearances sake or other political reason, some universities moderate their 2016 fees over and above that amount, it will not last. As is the case with international students, over time universities will charge domestic students what the market will bear in order to reduce backlog maintenance, support research and fund “strategy”.

And the market will “bear” quite a lot, I suspect. The HECS system dulls the price signal to the student, who at the age of 17 tends to believe they are immortal.

Private providers will only be interested in high margin, low cost courses such as law and business (where students already pay over 85% of prescribed charges). Students wanting to study most other disciplines will have to pay the going rate and there will be no competition from the private sector.

There will be little competition between neighbouring universities either. For a university to charge less than a near competitor will be to send a signal that it is of lesser quality: a sad reality with positional goods.

Assuming an effective regulatory limit on domestic tuition fees is implemented so that they cannot rise above international fees, I believe universities will simply re-assess their international fees. If it makes sense to raise those, and thus provide more headroom to increase domestic fees, universities will do so.

Even if one disagrees with the above assertions, the best available statement in rebuttal is only “nobody knows”, because nobody does know. No country has taken this particular path, but the United Kingdom

---

experience was that when permitted to do so most universities tripled their tuition fees. (Scandalously, it seems, some also reduced their student contact hours.)

If indeed, nobody does know, this suggests the need for better modelling, time to get it right, and perhaps controlled experiments in areas where there is some evidence of a truly competitive market being possible. None of this is being proposed.

Finally in relation to the interests of graduates, the imposition of a real interest rate to past graduate debts is grossly unfair to a generation which cannot now do anything to re-arrange their affairs. It will affect their capacity to borrow money to buy a house and their choices as to child-rearing and career direction. I hear about widespread speculation that the bond rate provision will be conceded by the Government, but it was proposed in the first place and it was not conceded when the Bill was introduced. I can only infer that this unfairness is intentional.

THE INTERESTS OF EQUITY

Various submissions to the Committee have already referred to modelling by Universities Australia and NATSEM (which is part of the University of Canberra). Particularly if a real interest rate is applied to HECS debts, the impact will be felt most by those from disadvantaged backgrounds and by many of those going into less well-paid jobs.

If one is from a disadvantaged background one is less likely to have a family which can pay off or reduce one’s HECS liability as one goes along; whereas I suspect that more affluent parents will want to do this, even if indirectly this translates into less willingness to pay independent school fees.

If one goes into a less well-paid job, the consequences of taking time off for family reasons may be that ones’ graduate debt spirals out of control. And if the return to work is on a part-time basis this will exacerbate the rise of the principal amount owing.

If her university chooses only to replace the foregone Commonwealth Grants Scheme amount with higher tuition fees, a female science graduate going onto average earnings for female science graduates would not pay off her debt for 13.9 years (up from 8.4 years today)\(^7\). Total repayments will rise from $44,200 to $95,700: this is a truly staggering amount for a science graduate to contemplate. A typical female teacher will face a debt of $49,054 rather than the present $31,395. Naturally, if her university does more than just replace foregone Commonwealth revenue, the situation for these typical graduates will be worse.

CONCLUSION

In speeches and media articles over the last few months I have laid out my objections to the Higher Education Reform proposals\(^8\), sometimes colourfully. But in this submission, which I deliberately keep

---


\(^8\) Stephen Parker, "Universities Are Not Milk Sellers, They Must Promote the Public Good," The Australian, 20/08/14 2014.; Stephen Parker, "Some Really Big Ideas for Higher Education Reform " The Conversation,
short and less colourful, I seek to emphasise the damage that these measures will do to future graduates, and indirectly Australian society, the unfairness to existing debtors of having the basis of their repayments changed after graduating, the inequitable nature of the proposals as between advantaged and disadvantaged people and the distorting impact that the reforms will have on some key professions such as teaching.

Like others, I have included my predictions as to consequences, but I finish by reiterating the point that nobody actually knows, and therein lies the danger. We are playing with fire, when the case for urgency has not been made out, and when alternatives exist for controlled and experimental reform to help us build up an evidence base specifically relevant to the Australian context, with its particular version of income-contingent deferred loan schemes, its already high quality university sector and the social values which I thought had been binding us together as a nation.
Bibliography


Hare, Julie. "Parker Distances Himself from UA’s ‘Negotiating Stance’." The Australian, 8th August, 2014 2014.


Parker, Stephen. "Universities Are Not Milk Sellers, They Must Promote the Public Good." The Australian, 20/08/14 2014.

