

FUNDING HIGHER EDUCATION AT COMPETITIVE LEVELS

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1. Introduction

In the last decade, total Government investment in education in Australia, as a percentage of Gross Domestic Product (GDP) has fallen, in contrast to our competitor countries who have all increased their investment in education as a percentage of GDP. These countries are investing to meet the needs of this century – the century of innovation and ideas – in which production, trade and standards of living will be determined, in a carbon-constrained world, by new technologies. Those countries that will thrive are those with a highly skilled workforce and innovative culture.

Thus, after a decade of declining investment, Kevin Rudd’s “education revolution” promised so much and was so strongly endorsed by the electorate. Already, increased investment has flowed to pre-primary, primary and secondary education. But of all the sectors, higher education has received the greatest decline in investment as a percentage of GDP and is most in need of a revolution. You cannot have an education revolution without addressing the higher education sector.

2. Comparing Australia with the OECD

What should be Australia’s investment levels in various activities? Benchmarking our performance against the OECD is a useful way to answer this question. It is particularly useful in education because human capital creation is an increasing determinant of future economic performance. But comparisons for higher education are even more relevant for another reason.

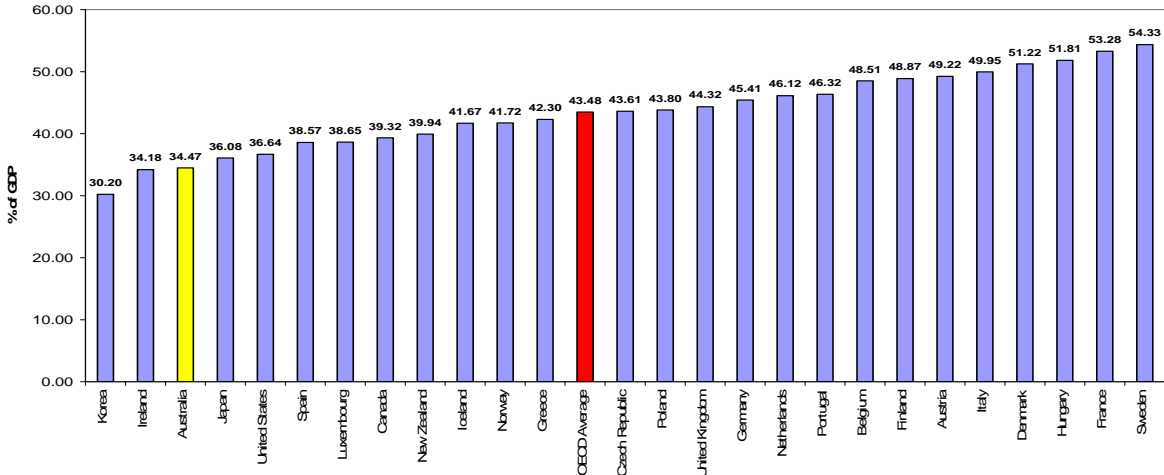
The current trends in international education paint a picture for the future decade which is very different from the past. **The single biggest issue for the next decade will be the attraction and retention of quality staff.** This is already an issue in many disciplines, but will become worse for the following reasons:

1. There is an explosion in worldwide demand for English language academics in both Europe and Asia to bolster their export markets;
2. The baby-boomer retirements in the next few years are huge and it is a worldwide phenomenon;
3. The low production of Australian postgraduate students, the traditional feeder into academic staff;
4. The much higher investment levels and resources available to higher education in our competitor countries.

This means that to offer a competitive quality higher education system we must have equivalent investment in higher education to that of our competitor countries. Otherwise, we cannot attract staff in an increasingly globalised market. As demand significantly outstrips supply, only university systems that have the resource flexibility will remain competitive. The quality of our universities will also be a significant issue in remaining as a competitive education export market.

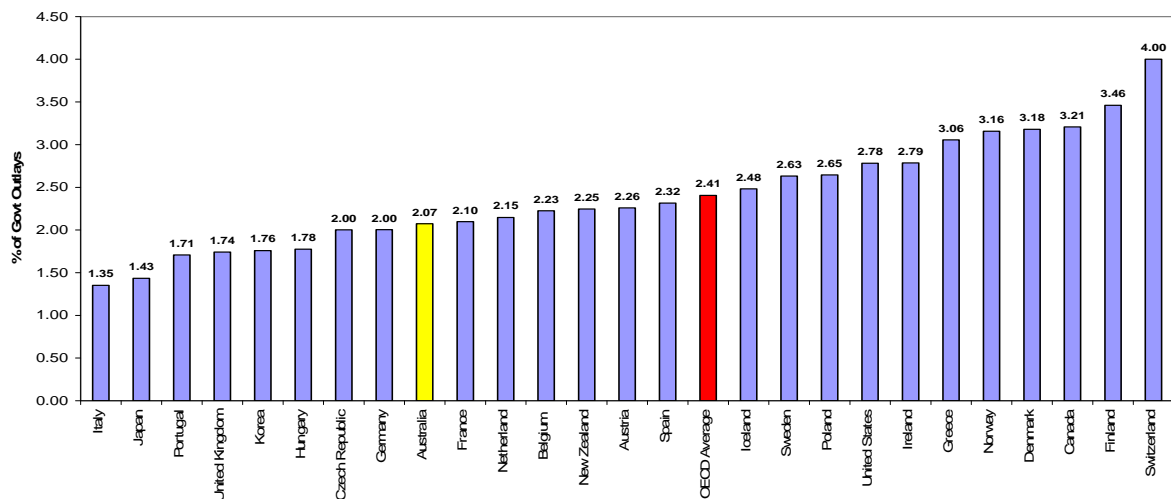
Education, and particularly higher education, faces two funding issues. First, over the last decade in particular, Australia has become a low tax / low government expenditure country. Figure 1 shows the proportion of government expenditure (for all levels of government combined) to GDP for the OECD countries for 2006 (the latest year for which comparable aggregate data is available). Australia is in yellow, and the OECD average is in red.

Figure 1: Total Government Expenditure – % of GDP 2006



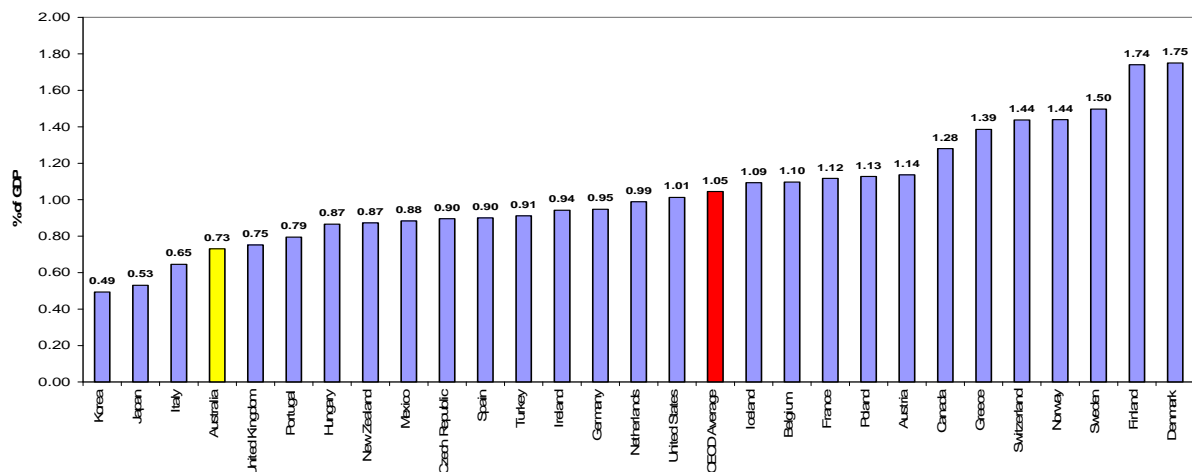
The second issue is that even as a proportion of government expenditure, higher education in Australia is well below the OECD average proportion. Figure 2 shows the OECD data for 2004, which is the latest year for which there is comparable data for individual components of expenditure across the OECD. Even the United States, with its huge private higher education sector, invests a much higher proportion of its government budget on higher education than Australia. The problem for higher education in Australia is that we receive a smaller slice of a smaller pie – a double whammy. The problem is exacerbated by the fixed fee levels which universities can charge.

Figure 2: Tertiary Education Expenditure – % of Government Outlays 2004



The combination of these two problems produces an outcome in which we invest well below our major OECD competitors (figure 3).

Figure 3: Government Direct Expenditure on Tertiary Education – % of GDP 2004



This graph actually overstates public investment per student in higher education because of a much higher participation (although not success) rate in Australia. This investment gap between Australia and the OECD average is currently \$3.5 billion p.a.

Comparison with the OECD is also a way to analyse what have been Australia’s investment priorities. Figures 4 to 6 compare other levels of education. As can be seen from figure 4 we substantially under-invest in pre-primary education (the gap to the OECD average translates to \$3.1 billion p.a.), we are marginally above the OECD average for primary education (which shows that we can invest appropriately in education if we have the will), and we under-invest in secondary education. In the case of the latter it is complemented by the encouragement of a substantial private secondary education sector.

It is clear from the comparisons that the issues for both economic development and social equity and inclusion relate to the pre-primary and higher education ends of the spectrum. Attention has already been focused on pre-primary.

Figure 4: Government Direct Expenditure on Pre-primary Education – % of GDP 2004

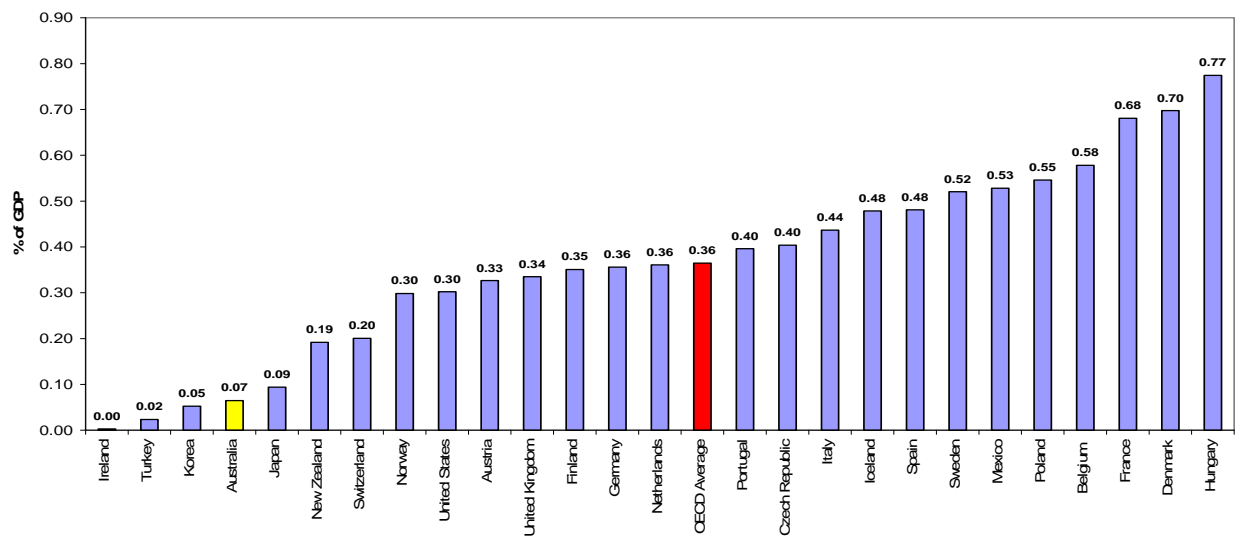


Figure 5: Government Direct Expenditure on Primary Education – % of GDP 2004

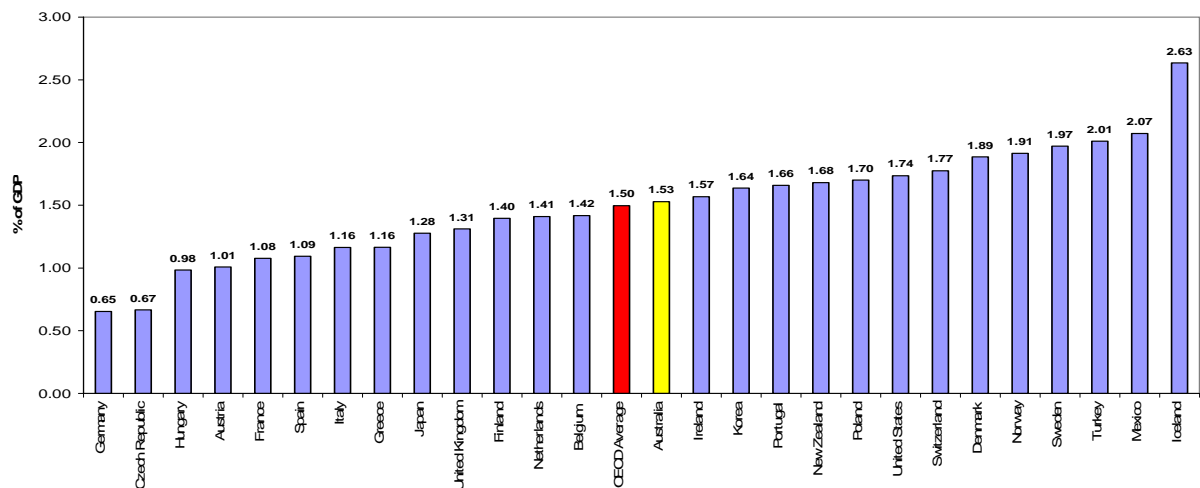
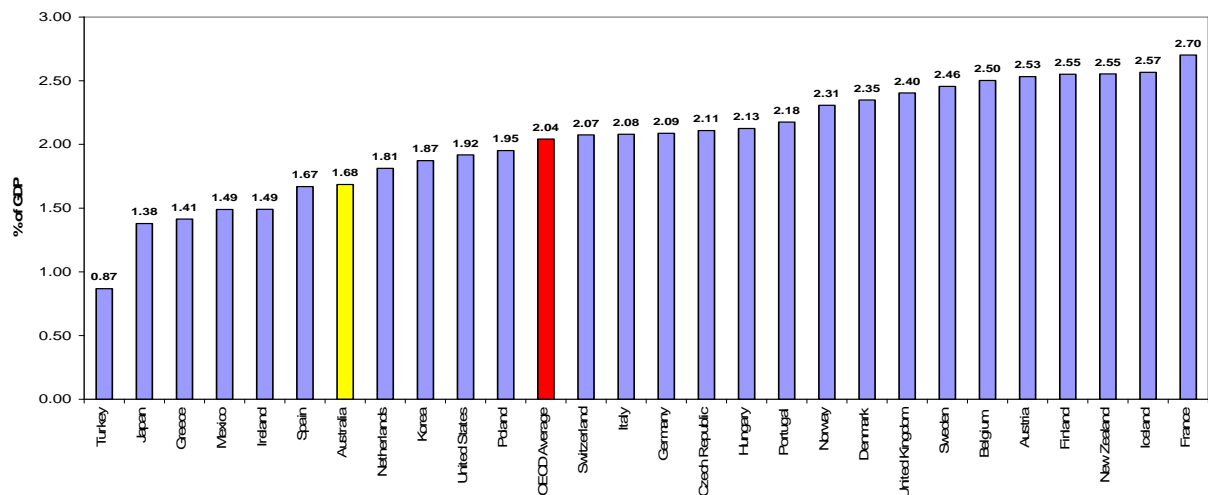


Figure 6: Government Direct Expenditure on Secondary Education – % of GDP 2004



If we are under-investing in education, are there areas of over-investment? The answers are surprising – they are not the usual suspects. Figures 7 to 10 show that there is NOT over-

investment in the following: general public services, health, social protection (welfare), or recreation, culture and religion. Expenditures on these are well below the OECD average.

Figure 7: General Public Services Expenditure – % of GDP 2006

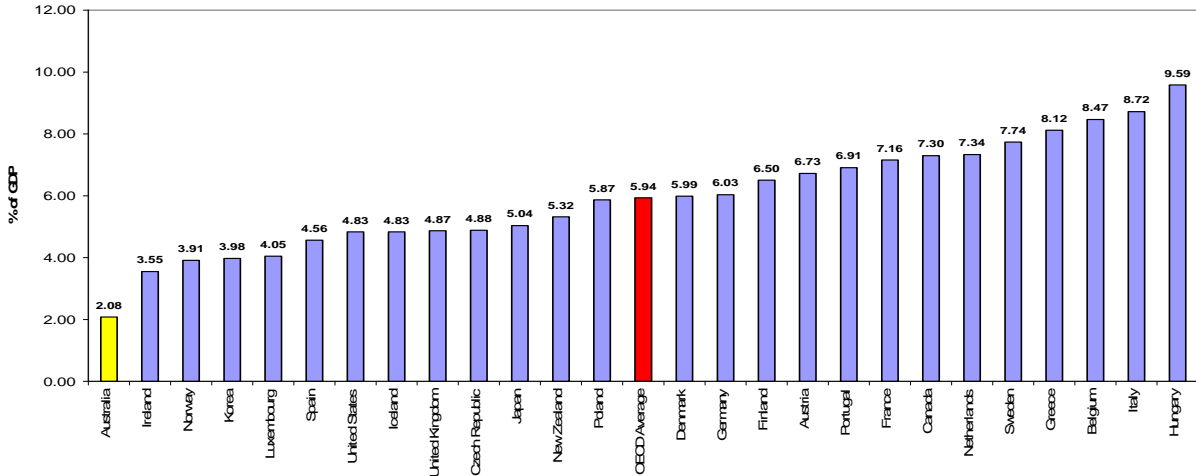


Figure 8: Health Expenditure – % of GDP 2006

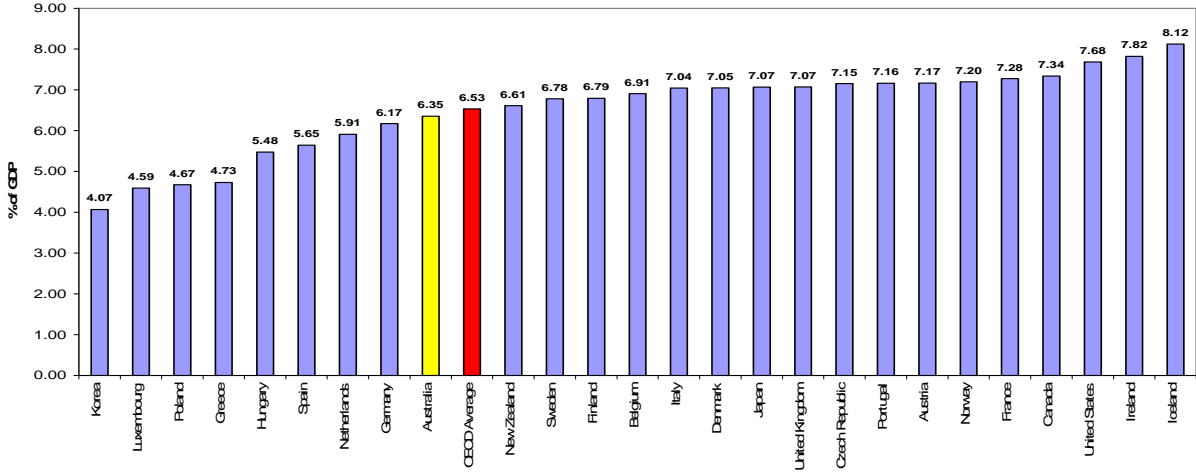


Figure 9: Social Protection Expenditure – % of GDP 2006

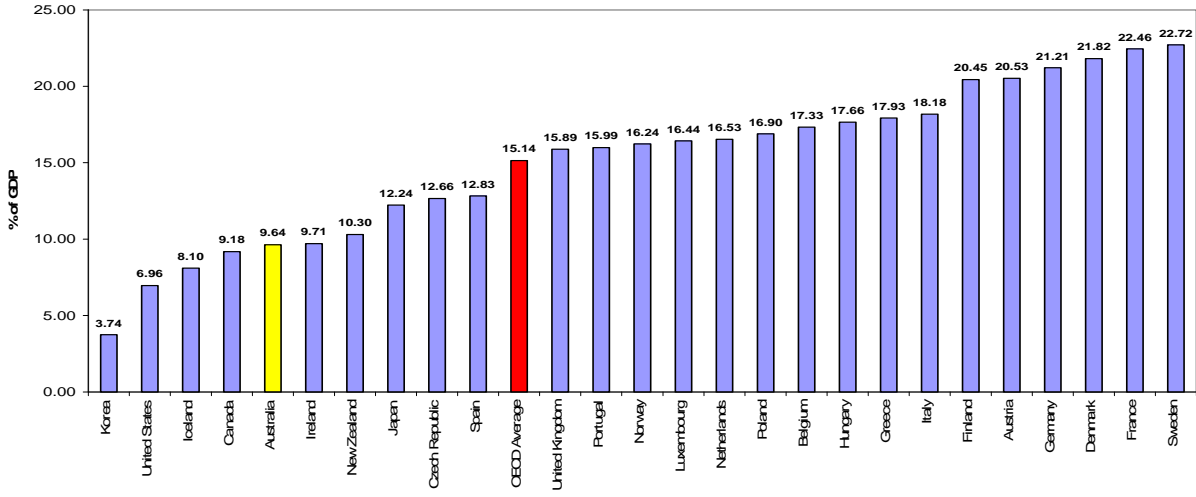
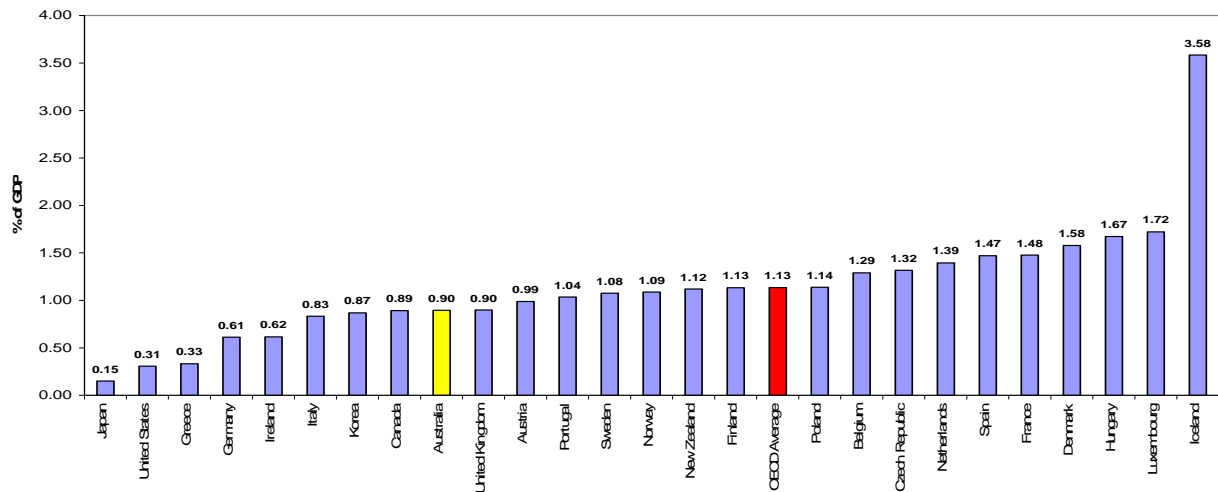


Figure 10: Recreation, Culture and Religion Expenditure – % of GDP 2006



We do however, over-invest in public order and safety, defence, and housing and community services (figures 11 to 13).

Figure 11: Public Order and Safety Expenditure – % of GDP 2006

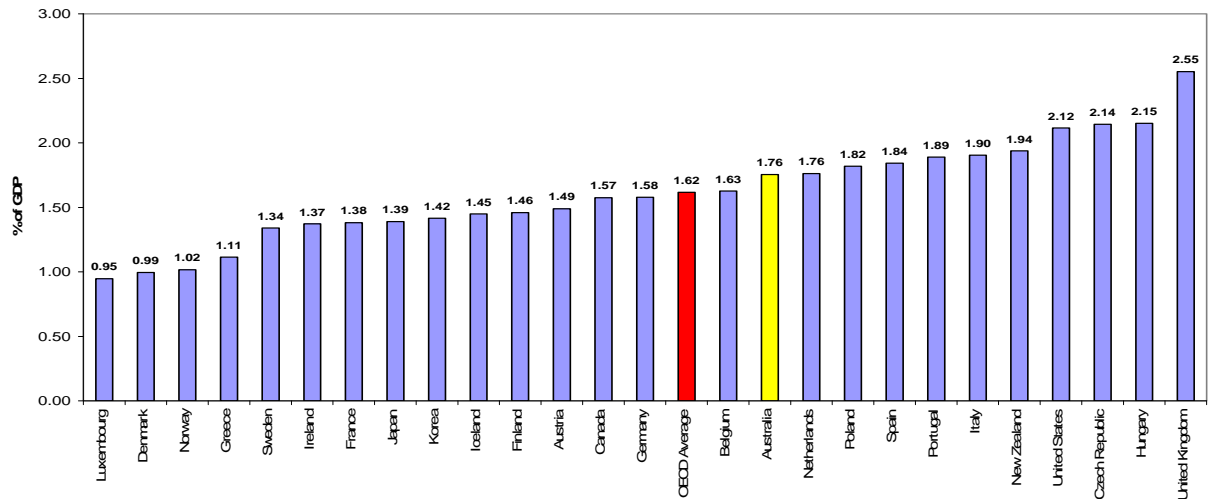


Figure 12: Defence Expenditure – % of GDP 2006

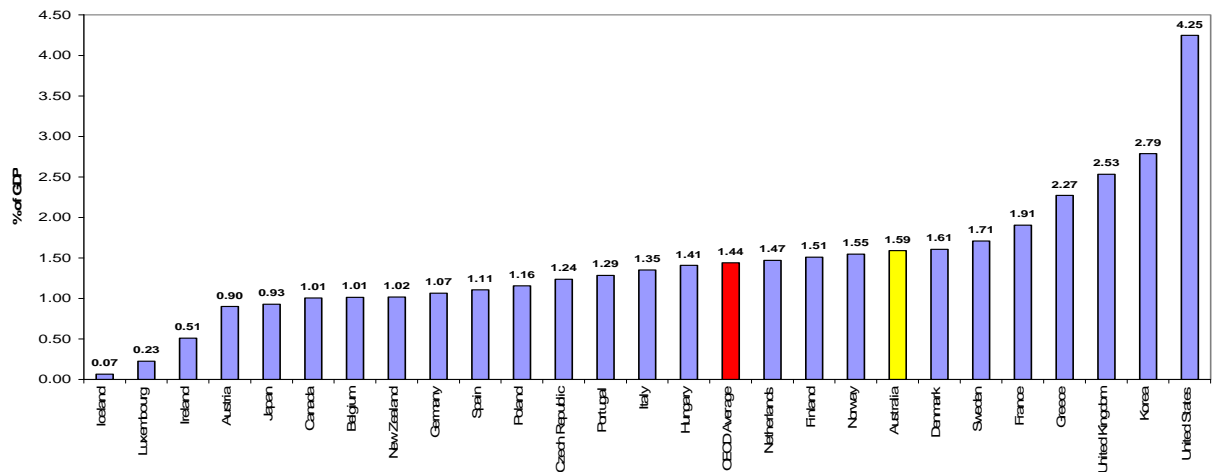
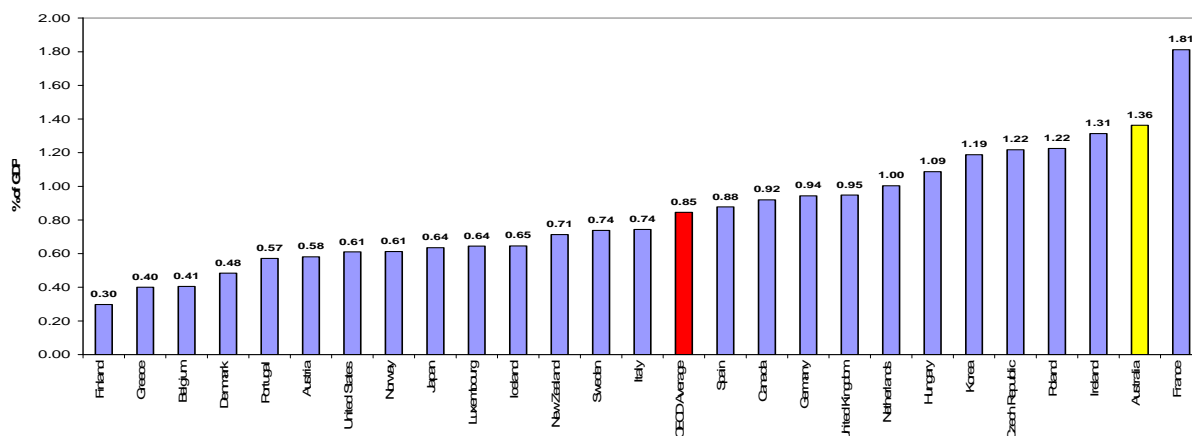


Figure 13: Housing and Community Amenities Expenditure – % of GDP 2006



These graphs paint a picture of us as a society. We under-invest in those things which lead to greater participation and inclusion, and ultimately contribution to society, and as a result of that under-investment, generate a stratified society with pockets of exclusion and disadvantage; and we then have to over-invest in things which try to cure the problem, particularly law and order, public housing and community services. To under-invest in prevention and to over-invest in the cure cannot be the right policy setting.

3. Methods of Funding

As indicated above, relative to the OECD average, Australia under-invests in higher education by \$3.5 billion p.a.; the equivalent investment required in pre-primary education is \$3.1 billion (already underway). There are at least four methods of financing this gap.

1. Increase revenue from the existing base.
This will imply no further tax cuts, and allowing tax collections to rise with income.
2. Find new revenue sources.
A review of taxation is underway which should produce this. The emissions trading scheme will also drive revenue to the Government.
3. Re-prioritise expenditure decisions.
Currently Australia over-invests in defence relative to the OECD, yet it is education which is the first defence of a nation. Reducing defence and housing and community services (admittedly a harder ask) back to OECD averages produces \$7.2 billion p.a., more than is required for education.
4. Reduce the surplus.
The current surplus is running at over \$20 billion, for fear of inflation. However, investing in productive capacity boosts supply not demand and is not inflationary. The surplus alone gives threefold more than sufficient resources to invest in education.

The conclusion is that each of the strategies is more than sufficient to reinvest in education after a decade of decline. Using all four approaches above means that each one only has to provide a small amount of the funding required. We do have more than enough to fund the education revolution, so let the revolution begin!