

FUNDING DIVERSITY

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1. Introduction

The current debate about diversity in higher education in Australia has been conducted without a clear definition of diversity, or its purposes. Diversity could be referring to any of all of the following:

- Quality of Educational Delivery
- Discipline Breadth
- Purpose or Mission
- Geographical Diversity
- Socio-economic diversity

Policies designed to increase diversity in one of these domains will almost certainly affect diversity in one of the others. Unless you are certain of the definition and purpose, it is hard to set policy.

So what is the purpose of diversity? An obvious answer is to provide maximum student choice. However, that means that all that is required is that the **system** produces diversity. This could be achieved by each University individually providing that diversity; or by each University being very distinctive (in either research concentration or disciplinary specialisation) with the system having enough of each type so as to produce that diversity. Thus if the purpose of diversity is simply to maximise choice, it can be argued that the system already provides it.

Therefore the only sense that one can make about the point of a “diversity debate” is if the purpose of diversity is to generate economies of scale and greater efficiencies in the provision of higher education. For the rest of this paper I will assume that this is the purpose of diversity. If this is the purpose it follows that the definition of diversity must be about disciplinary specialisation and purpose and mission.

In the next section of the paper, assuming that the purpose of diversity is to promote the economies of scale and resource efficiency, I look at the tools currently available for that purpose. Section three of the paper looks at alternative tools that might promote diversity and analyses their effectiveness and section four of the paper provides some international evidence on diversity. Section 5 provides a prototype model of how to fund diversity.

2. Currently Available Tools to Generate Diversity

There are at least five current public policy tools which the government believes might generate diversity. These are: allocation of new places; collaboration and structural reform fund (CASR); new private Universities; alignment with the Bologna Process and research block funding. Analysis of each of these follows.

2.1 Allocation of Additional Commonwealth Government Places

In practice the allocation of additional commonwealth places has not positively impacted on economies of scale and resource efficiency of the sector; in fact it has had exactly the reverse effect. In the last 12 months, for example, medical schools and nursing schools have been added to campuses less than two kilometres away from existing medical schools and existing University campuses; it is hard to argue that this contributes to economies of scale.

Thus the question is whether **in theory** the re-allocation of places if done correctly could re-engineer the disciplinary base within Australian Universities. Since most Universities are comprehensive, and if you define “specialisation” as a profile with less than 50% of the disciplinary base, this would take a change of roughly 50% of the existing load of any given University. With the number of places each year being roughly 1% of existing load such a process will take 50 years if done incrementally. For a more radical “swap” of places, there is no guarantee at the current levels of funding that Universities would accept this additional or changed load. Thus this tool is totally inadequate in terms of load adjustments to achieve this diversity.

2.2 The Collaboration and Structural Reform Fund

The structural reform fund has not had any significant progress in achieving diversity for two simple reasons. First, the total level of funding is grossly inadequate to fund required disciplinary load displacement. Secondly, capital funding is ineligible to be applied for, which defeats the purpose as most major disciplinary re-engineering requires extensive capital re-development. In fact the CASR has done the opposite of diversity: by funding joint initiatives between Universities it keeps existing disciplinary profile intact. It creates efficiencies but not diversity.

2.3 The Encouragement of Private University Sector

People often look at the diversified University sector in the United States and the predominance of research intensive private Universities, and ask the question whether encouraging private Universities in Australia could replicate that outcome. This will be discussed more in Section 4, but the answer to that question is NO. If this was ever going to happen in Australia, then Bond University would have been successful in establishing itself as a research University.

No private University will invest in the big research capacity because they are not the areas of student demand. Instead, private Universities will concentrate on relatively low cost high demand areas, not areas upon which international research reputations are built.

2.4 Alignment with Bologna

The Bologna Agreement is designed to produce homogeneity and conformity in the Universities of Europe, to encourage both student mobility and employment mobility. The system includes a credit transfer system to generate conformity of subject offerings and methodology. Alignment of Australian Universities to common credit transfer arrangements with Europe, and therefore each other, drives conformity in Australian Universities, not diversity.

2.5 Changes to Research Funding

Australian publicly-funded research comprises three aspects: peer-reviewed research programs/centres/projects; formula-driven research block grants; and shared national Research Infrastructure. In the first of these, research excellence is funded where it is found, which is as it should be, as there is no other principle which makes sense. An often canvassed issue is whether some existing public Universities should be denied block grants. This debate is the biggest waste of time of all. Curiosity and therefore research is a natural instinct and will occur irrespective of whether it is made “illegal” in certain domains. Peer reviewed research will still continue, and will still need the indirect costs of research funded in some form or other, whether it is called “block grants” or something else. Moreover, changes in block grant formulas will produce no changes in disciplinary specialisation. Thus even a “binary divide” will produce little difference in the distribution of peer-reviewed funding or the associated research infrastructure/block funding.

With the current available policy settings our slogan should be “DIVERSITY – YOU CAN’T GET THERE FROM HERE”.

3. Alternative Policy Tools

Currently, Universities are funded for undergraduate domestic student load via an annual agreement which specifies the number of students, by cluster (discipline) and also specifies a maximum level of income received for each student. This income per student is the total of the Commonwealth contribution plus the maximum student fee which can be charged, and for which payment can be deferred via the HECS scheme. This regulatory regime, which sets both price and quantity (by University, course and campus) is one of the few surviving examples of Stalinist central planning remaining in the Western World. Would a partial or full deregulation of this system produce “diversity”?

3.1 Quantity Deregulation

Suppose that the government kept the price caps on student contributions, but instead of giving the funding directly to Universities, gave the “vouchers” directly to students. Thus, instead of handing out Engineering places to a number of Universities for example, they handed out the equivalent number of total Engineering vouchers to students to choose where they went. Some Universities with strong demand would phase in more places; others would phase them out in certain disciplines, such that the total number would remain the same.

This might produce some movement towards specialisation but would it produce a diversity solution? At current levels of Commonwealth funding, Universities substantially cross-subsidise from international (and domestic) full fee paying activities to produce acceptable quality teaching for Commonwealth supported students. Why would Universities add net additional underfunded places if they have to spread the international subsidy even thinner? But more importantly, why would Universities increase their “portfolio risk” by holding just a few eggs in their basket and run the risk of future adverse student demand or more likely, future adverse price and funding caps imposed by future governments? No Risk Management Committee of a University Council would ever allow exposure to such risks. This form of deregulation by itself will not work.

3.2 Price Deregulation

One of the reasons the current scheme and the quantity deregulation voucher scheme will not work is the need for substantial cross subsidies. If each University was allowed the resources per student necessary to attract and retain the best staff to be internationally competitive in their areas of strength, this would allow Universities to specialise. This produces the first insight into diversity: it is funding flexibility which produces diversity, not government regulation. This is profoundly illustrated by international experience.

4. International Comparisons

The United States and Canada are generally regarded as both the most dynamic and diverse University systems in the world. Figure 1 illustrates the source of that diversity – funding per student received by each University. In that figure I have plotted funding per domestic student excluding research income for Harvard and Stanford, the two levels of the California University system (the University of California and California State University) and three Universities in Canada. Funding per domestic student for the average Australian University is also plotted. Individual Australian Universities will vary marginally because of different profile; the calculations assume student fees set at 25% above HECS.

Why are Harvard and Stanford World Class? The graph is self-explanatory. Why is the University of California system more highly ranked than the Cal State system? It has nothing to do with mission or disciplinary specialisation – it is solely a function of funding. It is a sobering thought for those who think you can build an internationally competitive University system in Australia with funding capped at current levels. How can Australia compete for the best and brightest staff in an increasingly competitive international marketplace against that astonishing disadvantage? And why would we believe that at those levels of resources, Australian Universities could re-invent themselves as specialist institutions? It is not possible.

Figure 1 shows that the best funded Universities in Australia are capped at resource levels which are 70% of the second-tier funded Universities in California, and only 40% of the first tier. This shows how much resources per student must improve in Australia for Universities to hire the staff to run large specialist programs in small numbers of areas. The comparison is actually worse because in the US and Canada the indirect costs of funded research (roughly 60c in the dollar) are fully funded, whereas in Australia, these costs are funded at less than 20c in the dollar; thus the net amount available for teaching and learning is less than indicated. Second, there are far greater reporting requirements in Australia which further eat into available resources. Third, Australian Universities must pay payroll tax.

There is further evidence of the relationship between funding flexibility and diversity in Australia – the secondary school system. This system is characterised by public schools plus an increasing array of private schools that receive some government funding and charge fees which are uncapped. Figure 2 includes the funding per student for a selection of these schools. It is immediately clear what the differences are in funding per student. It would be naïve to believe that the diversity in the high school system is unrelated to funding levels and flexibility.

Figure 2 further puts University resourcing in Australia in perspective. Universities in Australia receive only marginally more per student than public schools. This gap is narrowing every year because of the different indexation arrangements. Yet Universities must supply a much greater level of teaching infrastructure and laboratories. The biggest anomaly is that Universities are capped at a level of resources per student approaching half that of the private school system, which has grown to almost 40% of that market. This is a public policy disgrace.

5. Policy Options

I have argued that price deregulation is necessary for a diverse Higher Education system, but is it sufficient? The answer is NO. Unless Universities have the ability to re-balance their academic profile there can no diversity. Thus the system requires a deregulation of both price and quantity constraints to effect greater diversity.

There are two major downsides to this deregulation. First, with current levels of government funding, there will be a mismatch between the cost of provision, and willingness to pay, especially in areas such as Science, Engineering and Nursing. This gap will require a substantial uplift in Commonwealth Contributions in these areas in conjunction with the removal of the current fee caps.

The second issue is the increasing cost of education to students from such a deregulation. Even though the HECS scheme is designed to allow for deferment of fees, it will add to HECS debt levels upon graduation. This will have two consequences: a potential negative effect upon socio-economic diversity, and an incentive for highly internationally mobile graduates to move overseas to escape the Australian tax domain.

How do you fund diversity? There are three important principles which the system must promote:

- an international competitive flexible University system
- an accessible system which supports the socio-economic disadvantaged
- a system which addresses skill shortages.

It needs to be noted that, relative to the OECD average, Australia:

- has a much higher participation rate in Higher Education (ie, a much larger number of places)
- has a much lower proportion of public contribution to private contribution
- has a much lower public dollar per student contribution.

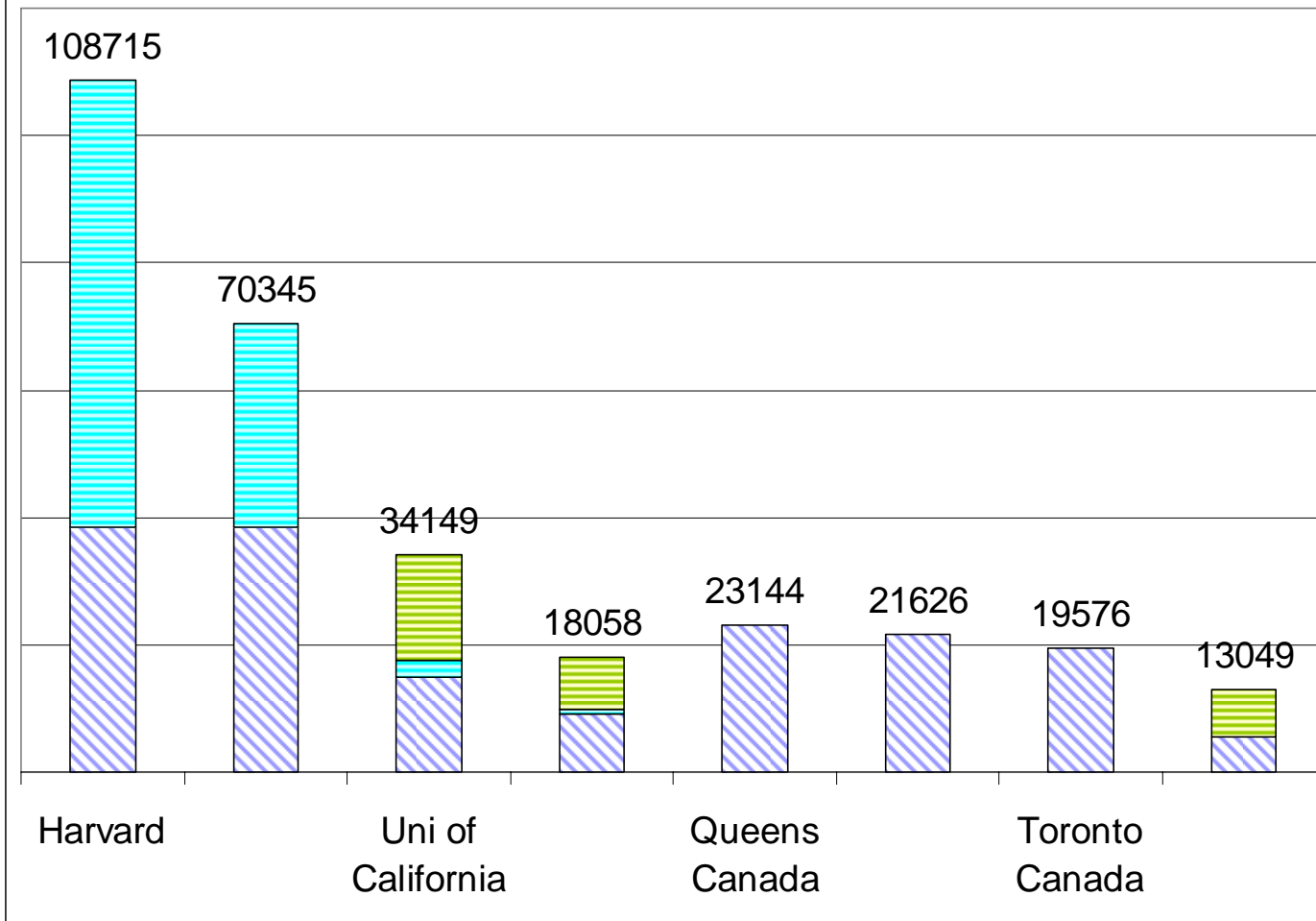
It follows that to provide the flexibility to fund a diverse and specialised system the following should be a part of a new package:

1. A freeze on the provision of additional underfunded Commonwealth supported places (and if necessary a reduction)
2. A removal of current price caps on fee contributions
3. Commonwealth Contributions re-packaged into 4 components
 - A Commonwealth Tuition Scholarship, allocated on the basis of merit
 - A Skill Shortage Tuition Scholarship, designed to reduce the gap between fee levels and the tuition scholarship in critical skill shortage areas
 - An equity voucher/scholarship to match price cap increases to promote socio-economic diversity in both priority (skill shortage) and non-priority areas
 - A HECS debt repurchase scheme to attract and retain graduates in key industries.

This package would see a considerable uplift in Commonwealth investment in Higher Education to take it towards OECD levels. It is the only way to provide the resources necessary to allow Universities to “risk” specialisation.

The message is DIVERSITY: FUND IT OR STOP TALKING ABOUT IT.

FIGURE 1: Funding Received Per Domestic Student



**FIGURE 2: Funding Received Per Domestic Student :
Universities and Schools**

