

# CAN UNIVERSITIES SURVIVE WEST?

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## 1.0 INTRODUCTION

The West Review discussion paper at least identifies the salient problems of universities in Australia today. It notes:

There is a feeling of unease in the universities. Many believe that traditional intellectual values and sound scholarship associated with higher education - and in particular, the pursuit of knowledge for its own sake - are under threat. ... There is also a perception that constraints in funding levels over the last fifteen years or so are making it increasingly difficult for institutions to fulfil their roles in Australia's social, cultural and economic life.<sup>1</sup>

But, although this could well have prompted a call for greater public funding of universities, the West Review suggests as a cure for these problems an even more stringent dose of the disease. It suggests a model for funding of teaching which, in essence, proposes to replace the current situation, where student load is funded by government provision, with partial government funding topped up by fees charged by the universities themselves. That is, it proposes to replace the current system of funding, analogous to hospital funding, with funding analogous to that in private medical practice. Under the 'student centred' version of the proposal, universities will charge students a fee, part of which will be covered by a government funded scholarship, up to a further 60% of the value of the scholarship will be covered by a HECS style income-contingent loan, and the remainder will be paid up front by the student. The Minister, Dr David Kemp, has rejected such a 'voucher' scheme, at least until after the next election. Under the version of the proposal closest to existing arrangements, universities will still charge a fee for a course, the government will provide grants for actual student numbers equal to the 50-60% of the operating grant per student currently provided, and students will contribute through HECS as they do now, although it is not clear that HECS will cover the entire gap between the government grant per student and the university fee.

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<sup>1</sup> *Learning For Life*, West Review Discussion Paper, 1997, p. 1

The Review also proposes to tighten controls over post-graduate research enrolments by withdrawing funding for research training from university operating grants after a transitional period, and providing a new 'student centred' funding scheme, where only those students sufficiently highly ranked in a national competition will be funded by scholarships for research training. The national competition will be moderated by weighting students' qualifications by the performance of the institutions which award them. One wonders whether the Minister's rejection of vouchers also covers this post-graduate voucher scheme, once again, of course, at least until after the next election. On top of this immensely increased centralized control over post-graduate study, the Review also proposes increased control over research, with priorities set by the ARC down to sub-fields, and infrastructure funds provided only for projects supported by grants.

In asking whether universities can survive the New Right, I shall look at the main impact of its policies, which have been dominant in governments of whatever party political complexion over the last fifteen years or so, at least in English speaking OECD countries and, to a certain but lesser extent, in other OECD countries as well. This is the shift from government provision in funding universities, usually based on 'user pays' principles, but also invoking the idea that universities should be disciplined by market forces, or controls which have the same effect as market competition, so that who pays the piper calls the tune as much with universities as with enterprises which operate in the marketplace. The discipline of market forces, along with imposition of a hard budget constraint, is supposed to reduce 'waste,' and induce cost-cutting changes in the way services are provided. If universities were subject to such discipline, their research and teaching would become more responsive to the needs of industry and government, and would also be 'student centred.' They would 'do more with less,' as they engage in 'continuous productivity improvement.' That such policies may undermine the ethos of the university is obvious in the case of severe funding constraints, as no organization can do what it does well if it is starved of resources. In fact, policies to reduce so called 'waste', and force universities 'to do more with less,' have led them to do less with less. In addition, there are pressures to compromise free inquiry and teaching standards, which flow from a demand, accompanying funding cuts, that universities survive by seeking out customers for services it offers.

In the following two sections, I will look at the West Review proposals as they impact on teaching and research, arguing that they rest on an unargued assumption that all goods should be allocated by the market, and a tacit adoption of the point of view of the wealthy. I shall

conclude that, while the proposal in the West Review that universities charge fees will arguably alleviate the most serious problem universities currently face, which is a lack of resources, it will do so only by leading to the allocation of the positional goods involved in education according to capacity to pay rather than merit. In the case of research, the proposals are likely only to intensify resource deficits outside those areas attracting ARC grants, and severely limit student access to post-graduate research degrees. Free inquiry will have even less of a toe-hold in universities, if explicit government priority setting predominantly determines allocation of resources for research.

## 2.0 TEACHING GOES WEST

Fay Gale (*The Australian*, 17/11/97) notes that the West Review has been ‘lauded for its intellectual strength, pilloried for its intellectual weakness, praised for its vision and damned for its narrowness.’ She applauds the West Review’s restatement of ‘crucial first principles,’ but does not question whether the West Review lives up to its laudable ideals. This paper does just that and, consequently, comes to pillory rather than praise it.

As noted in the introduction, West proposes partial government funding topped up by fees charged by the universities themselves. This is supposed to produce a ‘student centred’ system, to be contrasted with rolling triennial funding by the government, which has a ‘cost as it is accompanied by few incentives for institutions to respond directly to student requirements concerning the nature, range and prices of the courses and educational services offered.’ Of course, putting a price on courses will give universities an opportunity to ‘respond directly’ to student requirements with regard to such prices which, presumably, will be that they should be affordable. But it is not clear why universities cannot ‘respond directly’ to student requirements concerning the nature and range of courses and educational services offered, unless these are priced, or why universities, in any case, should respond to every student requirement that might have some impact on prospective earnings.

There are two reasons for doubting that having courses priced is necessary for universities to make ‘direct responses’ to student requirements. In the first place, universities have strong incentives to reach their target enrolments, since shortfalls are heavily penalised. This provides at least the less sought after institutions with a strong incentive to provide courses which are in demand. Even sought after institutions have an incentive to maintain their high cut-off scores for entry, and thus make their course offerings more attractive to students. But, secondly, it is part of the ethos of the university that it offer courses which provide up to date,

comprehensive and in depth knowledge of their fields of study, and which stimulate in students a desire to continue to question and learn. Universities thus have strong non-economic incentives to respond to student requirements.

Universities can be compared with hospitals which, because of the ethos of medicine, strive to provide effective treatment of illnesses according to need and prospects of benefit, regardless of what impact this might have on hospital earnings. The tension between this ethos and economic incentives is illustrated by the ‘case-mix’ funding policy in Victoria, where it is reported that a desire to prevent a year-end budget deficit led administrators at one hospital to urge that doctors only sparingly use expensive stents in angioplasty procedures, even if this were contrary to best medical procedure, or cost more in the long term.

On the other hand, despite some clear incentives to respond to student demand, universities may not respond to the same degree to each and every student preference, just as hospitals may put a low priority on merely cosmetic surgery, no matter how strongly some potential ‘customers’ may wish to have it. Thus a student preference for job credentials obtained with minimum effort will not necessarily be catered for to the same degree as a preference for up to date and in depth knowledge. And it is true that, although universities clearly provide direct incentives for teachers to respond to student requirements through surveys of student responses to the teaching they receive, funding by triennial rolling operating grants does not give universities ‘direct’ economic incentives for such responses.

However, the West Review does not explain how charging for courses could provide more ‘direct’ or more appropriate incentives for universities to respond to student needs. Under a fee system, the requirements of potential students who do not have a capacity to pay will not influence in any way what universities offer. A response to student requirements through prices is not really ‘direct,’ since it is mediated by capacity to pay. This is illustrated by the car industry, whose offerings are skewed upmarket to such a degree that this may itself be socially costly in a resource constrained world.<sup>2</sup>

Just as the ethos of medicine, expressed in the Hippocratic Oath, provides medical practitioners with incentives to respond to patient requirements, so the ethos of higher

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<sup>2</sup> Such income effects might justify a higher rate of indirect tax on luxury cars, but this will not register with economic advisors gripped by neo-classical theory, who aspire to a uniform indirect tax rate on all goods and services.

learning provides universities with incentives to respond to student requirements for learning. Although these incentives differ from those in medicine, largely because the latter involves much more severe negative sanctions for breaches of trust, they are still far more direct than any economic incentive can be.<sup>3</sup> That the West Review fails to register the blindingly obvious fact that the ethos of the university provides more direct and appropriate incentives to respond to student needs than can be derived from any pricing mechanism calls for some explanation. Before giving that explanation, I show that the West Review's proposals are hardly 'student centred' in any sense that might give comfort to students.

### *2.1 Increasing burdens for students in a 'student centred' system*

The only 'direct response' introduced by pricing university courses will be a direct response to the pricing itself. But will the 'direct response' of universities in the matter of pricing be what students require? The West Review envisages that government funding per student will be maintained in real terms,<sup>4</sup> explicitly rejecting the idea that it should be maintained as a proportion of GDP. This accords with the policy of the current government, which has 'taken the stance that institutions should fund wage rises above minimum levels provided by the Safety Net Adjustment' so that assuming 'higher education salaries move in line with economy wide price increases, the real purchasing power of operating grants will decline unless offset by productivity improvements.'<sup>5</sup> Assuming no change in the way university courses are delivered, this means that staff can be paid real salary increases in line with other professional salaries, ultimately only if the price of university courses increases, once the limit of increased student-staff ratios is reached.<sup>6</sup> In addition, if it is accepted that current levels of government funding are too low for universities to meet the challenge of international competition, then the price of courses will increase sharply, at least in those universities

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<sup>3</sup> This is not to say that economic incentives may not also usefully reinforce rather than undermine non-economic incentives, but it is to disagree with the presumption of the Global Alliance commissioned paper, 'Australian Higher Education in the Era of Mass Customization', published as Appendix 11 of *Learning For Life*, which cites Duhs, L.A., EJ Duhs and J.D. Stanford, 'Submission to the the Review of Higher Education Financing and Policy,' that economic incentives are always necessary.

<sup>4</sup> *Learning For Life*, p. 28 and Appendix 9, p. 145.

<sup>5</sup> *Learning For Life*, Appendix 6, p. 117.

<sup>6</sup> In my view, that limit has been exceeded already. My own discipline, which is funded at a student staff ratio of 27/1, can no longer survive over the long term as a productive research discipline, given that fewer staff must cope with a heavy student load and administrative burdens. But since philosophy is hardly likely to be a high priority research area, given the Gradgrind spirit of our times, this will hardly disturb the current government.

aspiring to equal the best in the world.

Indeed, one way of viewing the current system is that universities charge students a government controlled fee in the form of HECS. In their present resource starved state, a reasonable estimate would be that universities require growth in revenues of about 4% per year for three years to be funded at even a barely adequate level. If, as the West Review proposes, this revenue comes from lifting controls over students fees, with or without the window dressing of ‘vouchers,’ this would translate into an increase of about 10% per year in student contributions under new HECS, and even more for students under old HECS, who would find that they were no longer protected.

The West Review does not explicitly address this issue, but it does note that, with prices having risen sharply in the US in recent years, there is a ‘possibility of escalating costs for students,’ but opines that concern about this might be ‘overstated,’ and could be addressed by ‘phasing in’ and ‘government intervention.’<sup>7</sup> One might have thought such vague reassurances would detract from the ‘student centred’ approach of the Review and that, in any case, ‘phasing in’ its policies will at best only moderate the pace of price increases to be born by students. If we are to accept the estimate of Professor Gilbert, Vice-Chancellor of Melbourne University, that what is required to make our universities internationally competitive is a two or threefold increase in funding, then prices will rise very steeply indeed in the sandstone universities, and substantially everywhere else.<sup>8</sup> Apart from blighting the prospects of those who contribute learning to their country relatively to those who invest or manage capital, this will discourage poorer students from developing their talents, and lead to a loss of skills which our nation can hardly afford.

What reply might the Review provide to such a charge? There is some doubt as to whether its authors are consistently aware that prices for university courses might rise steeply, and thus substantially increase the HECS burden on students. The Review rejects some proposals to

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<sup>7</sup> *Learning For Life*, p. 49 and Appendix 9, p. 158.

<sup>8</sup> The Global Alliance paper, ‘Australian Higher Education in the Era of Mass Customization’, even envisages that there will be some “Harvards in Australia,” pp. 26-7, which would charge fees of around \$26,000 per annum, thus building the ‘virtuous circle’ of elitism leading to high graduate salaries, which would lead to ability to pay and endowment contributions, with high fees leading also to high staff salaries, which would lead in turn to high levels of research, leading to more prestige, more endowments, and thus a more elite institution. One wonders whether resource constrained students and their families would see this circle as so ‘virtuous.’

raise student contributions to 50% from the 40% or so currently contributed, saying that ‘stronger arguments are needed to justify what would be a significant increase in the tuition costs born by individuals undertaking higher education.’<sup>9</sup> This seems at odds with its recognition that costs for students might escalate, but perhaps the authors hope that new technology, which they also gesture at, may come to the rescue with appropriate competitive pressures and cheaper courses which, at the same time, will not be nastier. Or perhaps they think that escalating costs which are only ‘possible,’ and will be inflicted by universities, might not have the impact they would if they were directly imposed by government. In any case, they might hope that the HECS income-contingent loan scheme will moderate any increased impost on students,<sup>10</sup> and that incentives for university study might remain adequate, given that its internal rate of return has been shown to be ‘quite high,’ at least when compared with the return on bonds.<sup>11</sup>

Fantasies about new technology abound.<sup>12</sup> Increased internet capacity will enable a greater degree of effective external study than hitherto, and this will have a significant impact with mature age entry and second degree students. But new technology is unlikely to be a panacea. In particular, it is not likely to produce educational opportunities which are more than partially substitutable for internal study, which involves participation in a university culture reflecting that of the nation, and opportunities for networking. New technologies may allow educational opportunities at less cost than internal study, but they are unlikely to prevent escalating charges for the latter.

And, as I shall argue in the next subsection, although the West Review is committed to equity, its principal reason for advocating charges for university courses implies that the moderating role of the HECS scheme will be limited. Further, it is not clear that the return on higher education is so great that the impact of increased imposts on incentives for higher education will be negligible.

## 2.2 ‘Diversity’ and the HECS scheme

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<sup>9</sup> *Learning For Life*, p. 143.

<sup>10</sup> *Learning For Life*, Appendix 9, p. 162.

<sup>11</sup> See Bruce Chapman, ‘Changes in Costs for Australian Higher Education Students From the 1996/7 Budget,’ *Australia’s Future Universities*, eds, John Sharpham and Grant Harman, (University of New England, Armidale: University of New England Press, 1997) and also his commissioned paper for the West Review.

<sup>12</sup> See *Learning For Life*, Appendix 11.

In this subsection, I shall show that the logic of the West Review's advocacy of 'diversity' implies that offerings in an educational market should be differentiated as a result of significant variations in students' capacity to pay for education, which in turn require that students face substantial HECS burdens, or must pay up front at least part of higher fees charged for courses. The latter is most likely, as the West Review indicates that the HECS scheme will only cover a government approved fee, and that any excess or 'gap' will, as in the health system, be paid up front.<sup>13</sup>

But, even if textual evidence from the Review is not decisive, as the recommendation that students pay up front for an excess over a government approved fee is only explicit in two of the options proposed for a 'student centred' scheme, no other outcome can more surely produce the 'diversity' which the Review thinks higher education should involve. Of course, everyone thinks some kind of diversity is desirable in higher education. One kind of diversity springs from the purpose of the education provided. Thus one function of higher education is the transmission of received practical or theoretical knowledge in a field, at a greater depth or more comprehensively than in secondary education, while another function is education which prepares students for challenging or extending received knowledge in a field. There is some overlap between these processes, since the latter clearly presupposes the former, but they involve qualitatively distinct learning cultures.

The latter form of higher education is arguably best taught by teachers who can model the process of challenging and extending knowledge in their field, that is, by staff with research commitments. For only staff with research commitments can authoritatively sustain a learning culture in which received knowledge is challenged or extended. Other things being equal, teaching within a research culture will be more costly than teaching whose purpose is simply the transmission of accepted knowledge. But, while it may be desirable to have different institutions serving these different functions of higher education, it is not clear that a diversity of more or less adequate provision of either of these functions is desirable. Nor is it clear that students would want to have such a choice available in the absence of financial pressures.

Also, a higher education system which aspires to meeting the educational needs of students with diverse abilities and interests, must involve a diversity of stages and fields of learning. By their very nature, universities as sites of challenges and additions to knowledge should

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<sup>13</sup> *Learning For Life*, Appendix 9, p. 160.

promote such diversity and, although the frameworks of intellectual disciplines which enable the acquisition and transmission of knowledge sometimes also stifle new directions of inquiry, universities in Australia have been pretty successful in providing such diversity, even at times, expensively successful, despite the absence of a profit motive for introducing new intellectual ‘products.’ While such diversity also involves differences in costs, it is not clear that students want their choices between science or medicine, say, and humanities or law decisively influenced by how much study in each area costs. The West Review itself canvasses the option of having students charged according to differences in course costs, but does not want to argue that students should be encouraged by any pricing scheme to elect for the ‘low cost options.’<sup>14</sup>

These kinds of diversity in a system of higher education which provides students with choices in the light of their interests and abilities should not be confused with the diversity of having more or less expensive, and more or less adequate, versions of essentially the same good. The latter kind of diversity only arises where customers have significantly different budget constraints in relation to the worth of the good they seek. Once confusions between different kinds of diversity are dispelled, it is clear that the West Review is proposing policies which will lead to diversity deriving from income effects in higher education.

Thus the Review deplores a tendency within the ‘unified national system’ for all institutions to combine teaching and research. It observes that an absence of tuition fees means there is no real incentive for universities to ‘seek low cost delivery options.’<sup>15</sup> Now, on the face of it, this claim is strange. It must surely be obvious to anyone with any knowledge of the situation in universities, that the hard budget restraint imposed by government in recent years has forced them to look at ‘low cost delivery options.’ These constraints have even, despite the Review’s claims, provided ample incentive for universities ‘to work towards cost efficiency and productivity improvement.’<sup>16</sup> But what it has not produced is the ‘diversity’ found in markets like the car market, where both luxury and basic models are offered.

In the sphere of education, this kind of diversity is found in the US higher education system, where access is rationed according to capacity to pay. According to McPherson and Shapiro, in the US, only about one in eight students from the lowest income group (out of the six:

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<sup>14</sup> *Learning For Life*, p. 32 and Appendix 9,

<sup>15</sup> *Learning For Life*, p. 19.

<sup>16</sup> *Learning For Life*, p. 21.

lower; lower middle; middle; upper middle; upper; richest) go to private or public universities as compared with about one half of the richest, while about one half of the lower income group go to two year colleges as compared with about one in twelve of the richest students.<sup>17</sup> In the two year community colleges, we have ‘low cost delivery options’ with a vengeance, providing less favourable job opportunities than universities for poorer students.

If we asked what would happen in the US system if a HECS style income-contingent loan scheme were introduced to cover fees, it is clear that many of the more able poorer students, once they were no longer constrained by up front fees, would immediately apply for admission to a university, rather than begin study in two year colleges, as they do at present, in the hope of doing well enough to win a scholarship to a proper university. Community colleges would then be forced to upgrade their offerings to maintain enrolments, while places in the better institutions would increasingly be allocated by results, rather than personal or parental income. We would thus get some of the convergence between institutions which the West Review deplors.

The diversity of the US system relies on a substantial income effect in the education market and, while HECS style loans would maintain that effect to some extent if they imposed a substantial burden, only up front fees can reliably produce the division between first rate, second and third rate forms of university higher education advocated under the ‘student centred’ approach of the West Review.<sup>18</sup> Students do not freely choose low cost ‘options’ for the same type of education, but have to be forced by budget constraints to forgo Rolls Royces.

#### *2.4 The private return to higher education*

Further, we cannot expect that the private return to higher education will necessarily cushion the impact of the West Review proposals, since the return on higher education may not be as high as Bruce Chapman suggests. There is reason to believe that HECS charges are already too high in Australia. Chapman’s exercise of calculating the internal rate of return to higher

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<sup>17</sup> Michael McPherson and Morton Shapiro, ‘Access and Choice in American Higher Education’, paper prepared for the *Funding Higher Education: Performance and Diversity* Conference, 21-22 July, Adelaide, pp. 7-8. The authors note that this differential widened from 1980 to 1994.

<sup>18</sup> Appendix 11 from Global Alliance explicitly notes that, after the emergence of “Harvards in Australia”, there will be demand from ‘price-sensitive’ students and their families for a basic form of ‘chalk and talk’ undergraduate education, where teaching is not combined with research, p. 27.

education, which he concedes is ‘stylized,’ shows that the average male graduate had a rate of return of 10.11% under HECS in 1996, and a return of 9.42% under the Howard government’s differential HECS.<sup>19</sup> The average female graduate had a lower return of 6.31% under old HECS, and 5.77% under new HECS.

The exercise is stylized, because it calculates income forgone and benefits from higher graduate incomes with reference to average non-graduate income whereas, in reality, the income forgone and benefits of higher education should be calculated in relation to the average income of non-graduates who are nevertheless qualified to enter higher education. This is the appropriate comparison for two reasons. The first is that the income forgone by students is really what people who have done as well in school leaving would earn if they sought employment, and the benefit derived from higher education is the difference that education makes to such earnings. Secondly, students are not just passive consumers of educational products, but employ already developed skills to produce higher level skills, and arguably would earn skilled wages if they were paid for their study. It is also stylized in that it asks what would be the discount rate which equates the present value of benefits with the present value of costs. The estimate of the internal rate of return is thus much more sensitive to benefits and costs incurred in the near future as opposed to those received in the distant future, and is thus sensitive to forgone earnings, student income, graduate starting salaries and the length of the course studied.

However, it is not clear that prospective students are as driven by proximate costs and benefits in the way this model suggests. High unemployment, which substantially raises the rate of return to university study, does encourage increased university enrolments, but not proportionately. Also, male architects, for example, have a low rate of return because of a relatively low starting salary, but prospective students still seem drawn by its high ultimate earnings.<sup>20</sup> Finally, students in general seem to be influenced by the absolute rather than discounted present value of their HECS burden, worrying that it will bear down on them just when they are considering buying a home, or forming a family.

More importantly, the rate of return of higher education, as estimated by Chapman, is only ‘quite high’ in comparison to returns on safe investments such as bonds. BHP notoriously sought an 11% return on its investment in a reduction steel plant in the Kimberley, and asked

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<sup>19</sup> Chapman, ‘Changes in Costs’, pp. 64-5.

<sup>20</sup> See Chapman, ‘Changes in Costs’, p. 65, but compare this with graph on p. 72, which shows male architects’ salaries rising ultimately to a level comparable to those of lawyers and engineers.

for the resignation of board members who failed to deliver. Since investment in higher education carries some risk of not getting a job one is qualified for, as many who have undertaken PhDs in the hope of obtaining academic employment are now discovering, and since individual salaries can be significantly lower than average in most occupations, the rate of return of higher education should be compared with that of risky rather than safe investments. In that light, the return, as estimated by Chapman, may well be too low. And, if fees were charged on top of HECS, risk averse students could be excluded from higher fee, more prestigious universities, or could abandon higher education altogether. We must ask whether Australia can afford the consequent increased inequity in life outcomes and freedoms, and the loss of talent involved.<sup>21</sup>

### **3.0 CONSTRAINING RESEARCH**

Research in universities has two aspects: research training; and independent research undertaken by individuals or groups of academics, with or without the assistance of project grants. The West Review proposes to constrain both, presumably on the ground that only research which fits in with 'national priorities' and only 'excellent' research should be funded by an economising government.

Once again, a 'student centred' approach is advocated. This, however, is just a proposal to take control over admissions from individual institutions and vest it in a competitive granting body. This body will award funding and in some cases, stipends, to students who rank highly in national competition, with qualifications being weighted by the performance of the institutions which award them. This immensely tightened centralized control over admission to post-graduate study is once again sold as giving students choice. The reality, of course, is that students will be constrained to enter high performance institutions if they aspire to post-graduate study, and students who return to post-graduate study will have little or no chance of being funded for it. Only universities with resources to offer unfunded places would be able to accommodate students without scholarships.

The attitude of the West Review to academic research is expressed rather obliquely by saying

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<sup>21</sup> It should be said that the Industry Commission submission to the Review has much higher estimated internal rates of return than Chapman's, possibly because of the way it deals with part-time earnings of students while they study. I have taken Chapman's estimates because they have been open to scrutiny, and the Industry commission chooses not to show why its estimates are superior. All of these costs and benefits exclude non-monetary benefits and costs (such as time committed to study) of higher education and its alternatives.

that staff appointments should not ‘necessarily include the automatic right to undertake competitive research.’ It is not clear that current appointments ‘necessarily’ include an ‘automatic right’ to undertake ‘competitive’ research. Academic staff are entitled to apply for competitive grants, but they have no right to get one. Staff do not have to undertake research, but can elect to concentrate on teaching, administration and service to the profession and community.

The change West seems to envisage is that academic appointments should be teaching only in the first instance, and that research time would be applied for. These conditions apply in some US universities, where staff are employed as teaching staff for nine months of the year, and then either have to undertake summer teaching, or win research grants to support them for the remaining three months. This proposal, to reduce the standard conditions of employment of academic staff to something like those in former CAEs, is hardly likely to win endorsement from academic staff. Nor will it improve the international standing of Australian institutions.

Restriction of research time to those who can bid for it from their institutions, is coupled with restrictions on which institutions will be funded for research in the Review’s ‘higher impact’ models.<sup>22</sup> Rather than all operating grants including a component to cover some research effort, which must then be topped up with further grant and infrastructure funding, the Review proposes that institutions will compete for large block grants, so that only some institutions will be funded as universities, recreating the old binary divide, but with some moderation, in that individual academics from all institutions will still be able to apply for project funding. Even under transitional arrangements, the report advocates increased centralized control over research through priority setting. It says: ‘A country of Australia’s size cannot afford to spread its research resources too thinly and should actively seek to determine where available funds will be best used.’

However, while adding extra resources to areas of research strength is a sensible way of ensuring resources are not spread too thinly, the West Review seems to have in mind that areas not designated as ‘priority’ areas, and areas which are not so strong, will be starved of resources so that others might flourish. Why an ideology which opposes ‘picking winners’ in the economy supports it so strongly in the ‘market-place’ of ideas is not easy to explain.

An OECD report on higher education suggests some of the thinking involved. According to

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<sup>22</sup>*Learning For Life*, Appendix 10, pp. 168-9.

this report, ‘administrators and policy makers’ regard arguments against a strictly utilitarian approach to higher education as a ‘self-interested defence of privilege on behalf of second-rank academics who will not themselves make a significant addition to knowledge and of second-rate students who would benefit themselves and society more by a focus on directly useful capabilities than by status-conscious dedication to academic disciplines.’<sup>23</sup> That there might be moral hazards in presuming to classify academics and students as first and second rate, and suggesting that the ‘second rate’ be treated differently, seems not to have occurred to these ‘administrators and policy makers’ who, no doubt, include many who are second rate themselves, though no attempt seems to have been made to ignore their advice.<sup>24</sup>

To suppose that only ‘first-rate’ academics and students should expect the resources traditionally provided by universities, including the opportunity to research, teach and study freely, is to make an error like that inspiring the eugenics movement, which supposed that the human race would be strengthened by weeding out genetically inferior specimens. However, the assumption that weeding out inferior genes will always improve the situation for those remaining, founders on phenomena such as heterozygote vitality, as illustrated by the gene for sickle-cell anaemia, which increases resistance to malaria on its own, but leads to fatal anaemia when doubled. Populations in malarial regions which sought to eliminate this gene entirely, because of its pernicious effects, would lessen rather than increase their fitness. In the same way, a total concentration of research resources can only constrain the ‘first-rate’ as well, and cripple the diversity of ideas which sustain university cultures. We cannot afford to have lectures and research in physics performed only by Richard Feynman. Other academic physicists may be second rate by comparison but, by making their own attempts to look at physics in their own way, they provide the soil from which Feynmans may grow.

#### **4.0 IDEOLOGICAL BASIS OF PRO-MARKET ‘REFORM’**

In terms echoing a standard critique of central planning, the Review states:

In an age of mass education, the student population is highly differentiated in terms of ability, interests, needs and preferences. The current system of centralised resource

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<sup>23</sup> OECD Secretariat, *Universities Under Scrutiny*, (Paris: OECD, 1987), pp. 15-16.

<sup>24</sup> Indeed, if poisoning the atmosphere of universities by having students pay more for less, and attempting to exploit resulting resentments through a recently abandoned ‘Dob a Don’ campaign is any indication of the quality of Australian policy makers, we could do worse than surmise that they are second rate without exception.

allocation and controls over tuition fees, however, encourages a 'one size fits all' system. There are few incentives for institutions to offer a more differentiated range of services and prices to a diversified student body that reflect the circumstances and goals of the particular institution.<sup>25</sup>

We have already seen that the claim that our universities constitute a 'one size fits all' system is either nonsense, or is advocacy of differentiation among universities into more or less expensive versions, with access determined by capacity to pay. It is noteworthy, though, that the West Review seems entirely unconscious of the fact that choices in markets are often wealth constrained. This suggests that the Review tacitly adopts the standpoint of those for whom wealth constraints are indeed of little or no moment.

This suggestion is confirmed by the Review's treatment of target enrolments. It claims that under current arrangements 'students judged capable of successfully completing studies by a particular university may miss out on a place in their course or at the university of their first choice because the institution's targets have been met.'<sup>26</sup> Yet, clearly, under the arrangements proposed by the Review, the same may happen to students because they cannot afford fees charged by their preferred institution.

With a HECS scheme covering the entire gap between government funding and the course fee, this constraint may be less absolute, but risk averse students may still be unable to attend the university of their first choice. Of course, since lack of means or unwillingness to incur debt may well be seen as the background against which students make their choices, these precluded students would not even bother to put their names down for entry to their preferred institution, so that we would not notice that they missed out on their first choice in the way that we do under current arrangements. And it could be said that their aversion to a substantial HECS debt is their own choice.

However, students under current arrangements who miss out on their first choice because of a low TER score are not excluded absolutely either. They can resit exams or wait for mature age entry to their preferred course or institution. And, if they are reluctant to resit exams as many times as it takes to get their first preference, once again we can say that this is their choice. The only crucial difference between rationing according to capacity to pay and rationing according to administrative controls, such as setting target enrolments with entry

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<sup>25</sup> *Learning For Life*, Appendix 6, p. 109.

<sup>26</sup> *Learning For Life*, Appendix 6, p. 107.

based on academic achievement, is that the wealthy will have no problem with the former kind of rationing but may well be precluded from their first choices by the latter, despite their wealth and the life advantages it brings them in other areas.

In this regard, it is significant that the Howard government has already moved to eliminate this regrettable disadvantage. Accompanied by a smoke screen raised by Amanda Vanstone's criticism of the straight jacket of TER based university entry, the government already has a policy of allowing Australian full-fee paying students entry to courses of their choice, up to a limit of 25% of the target enrolment. Thus wealthy students who may have missed out on their preferred course or institution because their TER is relatively low, now have a way of buying access to their first choice. The West Review can be seen as completing the beachhead thus opened up.

Even if it were true that a proper university education should be a scarcer good than it is now, the West Review provides no argument whatever for its presumption that this good should be allocated according to students' capacity to pay, rather than by educational achievement. University education is an important part of what Sen terms 'capabilities,' providing members of society with life opportunities, which Sen equates with freedom.<sup>27</sup> Given that government should substantially subsidise higher education to meet social needs for university qualifications, and given the nature of the good involved, which is development of intellectual talent, the ethical basis for its provision should be demonstrated potential for learning. Scarce higher education opportunities should go to those who have learned well so far, and have thus established a potential for further learning.

As Walzer claims, it is important to recognize that social goods can be diverse and that no single distributive principle is likely to be adequate for the allocation of all kinds of good.<sup>28</sup> Thus while the market may be an appropriate vehicle for allocating seriously scarce, discretionary goods, especially where income effects on their allocation can be minimised, it would be wrong to distribute vital medical treatment in this way. Why should success in the market, or at gambling, give one individual a greater lease on life than another? Once a community gives a commitment to the provision of vital medical treatment, it should provide it to all members 'equally,' that is, according to need and potential benefit. Similarly, we should ask why one's own, or one's family's success in the market, or at gambling, should

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<sup>27</sup> See Amartya Sen, 'Well-being, Agency and Freedom: The Dewey Lectures 1984', *Journal of Philosophy*, 82, April 1985.

<sup>28</sup> Michael Walzer, *Spheres of Justice*, (Oxford: Basil Blackwell, 1983), pp. 21-26.

give one superior opportunities for developing skills.

Certainly, success in school leaving examinations should not be the sole criterion for determining whether a person has scholastic aptitude. But it is at least a criterion, and not merely a statistical indicator, as is the capacity to pay of students or their families. The latter is certainly a predictor of university success, since richer families will have better resourced their children's education up to university entry, and are more likely to have impressed on them the importance of university credentials. But to rely on it as such is to compound the undeserved advantages that can be derived from personal history or family background.

Walzer claims, perhaps rather quaintly, that a society is subject to 'tyranny' when wealth won in the market enables goods to be obtained, which should be allocated instead by a principle other than capacity and willingness to pay. Whether 'tyranny' is quite the right word, a society which permits or encourages the wealthy, or the powerful, to command goods which should instead be allocated according to need or desert, can be called corrupt, or even 'totalitarian'.

In this light, the Howard government's proposal to admit full fee-paying students, where students are otherwise admitted only on the basis of academic achievement or aptitude, is thus a corruption of the ethical basis on which society should provide university education. The proposal of the West Review that universities charge fees for their courses will potentially allow for entry to courses and institutions on the basis of capacity to pay to merge seamlessly into the system. But it would only compound the corruption of the ethical basis of entry to university education which has already begun.

It is this kind of corruption which prompts protests from conservatives such as John Gray.<sup>29</sup> The protest may seem surprising, since Gray is strongly in favour of reducing the role of government.<sup>30</sup> However, Gray looks back to an era when government provided security and support for institutions, but did not seek to control them. This reduction in the role of government is not that envisaged in the West Review's pro-market 'reform.'

These 'reforms' fall in with a program to substitute markets for government provision in the allocation of scarce goods. Gray rejects such free market totalitarianism because he opposes imposing a single scheme on all aspects of life. He favours a diversity of institutions, in each

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<sup>29</sup> John Gray, *Beyond the New Right: markets, Government and the Common Environment*, (London: Routledge, 1993)

<sup>30</sup> Gray, *Beyond the New Right*, ch. 1.

case guided by their own distinctive ethos, rather than by market forces merely, and fears that the attempt by the New Right to make market forces the universal principle of social regulation can only succeed in destroying the traditions which he, as a conservative, wishes to preserve. While John Gray deplors the New Right because he fears it will rend the stabilizing fabric of society, and is suspicious of the political intervention necessarily involved in imposing markets from above, those of us who resist the idea that the interests of wealth should prevail over all others can join Gray in opposing 'economic rationalism.'

#### 4.0 CONCLUSION

Inspired by examples provided in the Review,<sup>31</sup> I shall conclude with a little story of the adventures of Stella, a student facing the challenges and opportunities of the new West-based system of higher education. Stella has done well in her school leaving, but is from a poor background and reluctantly decides that she cannot afford her first option, which is studying law at a prestigious sandstone university. The fees charged for this course have been set well above the government approved standard fee. The university in question has estimated that it will have strong demand from students coming from wealthy, private school backgrounds who, because of the educational advantages they have already enjoyed, are likely to have appropriately high entry scores, and will be willing to pay their HECS charge up front or, at least, take on a HECS loan and pay the substantial surcharge up front. The revenue from law, a low cost course, is used by the university to support its own independent research program, as government funding for research is now only available in government priority areas. The university considers that the price it has to pay in terms of equity of access to law is necessary to maintain the privilege of free enquiry in areas such as philosophy and pure mathematics.

In the hope that further academic achievement might enable her to win a scholarship to cover fees in her preferred law course, Stella enters Social Work at a lower status institution, which charges less than the standard fee. But, at the end of her first year, this Social Work course is closed down, since competition from better endowed institutions has drawn students and staff to the point where Social Work is, as a middle cost course, no longer financially viable. Stella is told that termination of her course is unfortunate, but she had accepted this possibility upon entry, signing away any common law right to compensation when she enrolled.

Having fruitlessly used up one year of her entitlement to government support for higher

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<sup>31</sup> *Learning For Life*, Appendix 9, pp. 163-4.

education, Stella decides to take employment in the hope that she will be able to save enough to cover the more affordable fees charged by another institution for entry to law. However, she requires qualifications for a job with earnings above the poverty line - the government, you understand, has deregulated the labour market at the same time as the West Review was implemented - so Stella elects to use up two further years of her entitlement in a TAFE course to obtain a qualification for a job she has no liking for, but expects may enable her to save enough for entry to law. Just when her lack of interest in the course threatens her with failure, and thus using up yet another year of her entitlement, which would put even the cheaper law course beyond her reach, Stella is told that one of her weekly Lotto tickets has come good, so that she will, after all, now be able to afford law.

There is little need to dwell on the career of Paula, who faces the same opportunities and challenges, but comes from a wealthy family of lawyers. If it is not already obvious, our story shows that the only respect in which the West Review approach is 'student centred' is that it proposes to impose on individual students the hard choices it claims must be made. As we have seen, government funding constraints have built a fair amount of suppressed inflation into the university system, and students face perhaps a one third increase in their HECS liability, if government allows universities to charge their own fees. At the extreme, students face increases in HECS up to the limit that can be recovered over student lifetimes, and the reality of paying up front surcharges for entry to sandstone universities.

The West Review merely assumes that such hard choices must be made. However, given that the Howard government has chosen to maintain defence spending in real terms, and has handed earners of investment income \$2 billion in tax rebates rather than maintain higher education funding as a proportion of GDP, it is not clear that universities have had to be squeezed half to death by government policy. The West Review notes that Australia already has a low cost system, so that there is little prospect of squeezing more out of the system through continuing to impose a hard budget constraint. Having squeezed so much out of the system, why is there not a compelling case for government to increase its level of funding? Or does the prosperity of the nation somehow depend on continuing to reduce the proportion of government budgets committed to higher education, while placing the burden of maintaining a viable system onto students?