A brief history of education reform

Context

2.1 The government is committed to excellence in higher education and supports innovative, world-class learning environments which compete for student interest. Reforms heralded by the Higher Education and Research Reform Amendment Bill 2014 (the bill) aim to widen the range of options available to students and improve the quality of information available to them when they choose where, what and how to study. The government is of the view that, ultimately, it is students who stand to benefit the most if the bill is passed.¹

2.2 Although the bill represents an historic transformation of Australia's higher education sector—perhaps the most significant policy advancement since the 'Dawkins Reforms' introduced by the Hawke Government in the late 1980s to early 1990s—deregulation of the sector has been underway for some time.

2.3 It is therefore useful to view the bill in the context of the trajectory and evolution of higher education policy reform over recent decades.

Deregulation is not new

2.4 Students have been 'progressively making increased contributions to the costs of their higher education'² under successive governments since the 1980s. Successive governments have sought ways to maintain higher education funding without increasing—or necessarily maintaining—the Commonwealth's contribution. As a result, providers have increasingly struggled to maintain sustainable business models.

The last government half deregulated the system, and now I think we need to do the rest of the work and fully deregulate.³

2.5 The following chart, supplied by Group of Eight Australia,⁴ illustrates how sources of higher education funding have evolved over the past century:

---


³ Professor Scott Bowman, vice chancellor and President, Central Queensland University, *Proof Committee Hansard*, 9 October 2014, p. 3.

**The Hawke-Keating Government**

2.6 In the mid-1970s, the Whitlam Labor Government abolished university tuition charges in an ambitious effort to spread the benefits of tertiary education to all parts of Australian society. As put by Professor Glyn Davis, Vice-Chancellor of the University of Melbourne, in 2008, 'full Commonwealth financial responsibility for higher education and free tuition for students made sense in the politics of the time.\(^5\)

2.7 A decade on however, the Commonwealth was feeling the financial strain of free education, yet faced even greater pressure to expand education opportunity as rates of school retention to Year 12 had doubled in a single decade, creating 'a very large pool of potential university applicants'.\(^6\) Free education had very quickly become unsustainable, and the Hon. John Dawkins MP, then-Minister for Employment, Education and Training, needed a new means of financing more university places than could be afforded:

Dawkins needed to create an education system that could produce a dramatically higher number of skilled graduates to power the Australian economy in a competitive, globalised world, while at the same time curbing the spiralling costs of the sector in a tightening fiscal environment.\(^7\)

---

5 Professor Glyn Davis, Vice-Chancellor, University of Melbourne, address to the AFR Higher Education Conference, 13 March 2008.

6 Professor Glyn Davis, Vice-Chancellor, University of Melbourne, address to the AFR Higher Education Conference, 13 March 2008.

The Higher Education Contribution Scheme

2.8 An alternative means of funding higher education was flagged by the Committee on Higher Education Funding (the Wran Committee), established by the Hawke Labor Government in 1987 and charged with making recommendations for possible funding schemes which could include contributions from the direct beneficiaries of higher education. The Wran Committee recommended an innovative solution to the problem of demand outstripping the supply and affordability of university places: the Higher Education Contribution Scheme (HECS). HECS represented a way of transferring a considerable proportion of the cost of education from the Commonwealth to students, by offering loans students would later pay back.

Cabinet considered charging students 15 per cent of course costs on the grounds that Labor’s commitment to free university study, introduced by the Whitlam Government a decade earlier, had failed to increase access.

2.9 HECS was championed by Minister Dawkins, who flagged reforms to the higher education sector in December 1987 and later announced them in July 1988. Shortly thereafter, HECS was implemented under the Higher Education Funding Act 1988.

2.10 These reforms, which introduced deferred payment for higher education for the first time, underpin the Australian higher education system to this day. It has been said that the reforms:

…turned colleges into universities, free education into HECS, elite education into mass education, local focuses into international outlooks, vice-chancellors into corporate leaders, teachers into teachers and


researchers…He remodelled higher education and how it was funded in only a few years.\textsuperscript{13}

2.11 As put by Universities Australia:

The distinction between universities and colleges of advanced education was abolished. Through campus mergers, 63 institutions became 36… By the early 2000s the contribution by students to their tuition was greater that before the mid-1970s when the Commonwealth commenced subsidising students directly.\textsuperscript{14}

2.12 The reforms meant that the funds available to the higher education sector could be dramatically increased and more people, from a broader range of backgrounds, could pursue higher education without placing an undue burden on the public purse.

2.13 However, 'the switch to a user-pays system for students at Australian universities…was planned years earlier.'\textsuperscript{15} The Australian reported:

Cabinet papers reveal that although Labor opposed university fees, cabinet considered reversing the policy just months after ruling them out during the lead-up to the December 1984 election…And the Government laid the foundation for today’s $15 billion education export industry with a February 1985 decision to allow universities to charge overseas students full fees, with a 10 per cent cap on international enrolments at Australian universities…Cabinet considered charging students 15 per cent of course costs on the grounds that Labor's commitment to free university study, introduced by the Whitlam Government a decade earlier, had failed to increase access.\textsuperscript{16}

2.14 In effect, the Labor Government of which the Hon. John Dawkins MP was a minister had been advised that 'the abolition of fees in 1974 [had] apparently had little impact on the composition of the student intake,' and that 'the over-representation of students from higher socio-economic backgrounds [had] remained constant.'\textsuperscript{17} The development of policy in the higher education sector had been contemplated years before its introduction.


\textsuperscript{14}Universities Australia, Submission 60, p. 6.


The Howard Government

2.15 Deregulation of the higher education sector continued when the Coalition won office in the mid-1990s, increasing flexibility for students:

The debate continued after differential student contributions and a lowered income repayment threshold were introduced in 1998… Particular emphasis has been on the effects on low socio-economic status (SES) students.  

2.16 In 2005 the Howard Government introduced a partial deregulation of student fees, such that universities could increase fees by up to 25 per cent. This measure, however, was not comparable to the current reforms, as fees remained capped and the system did not allow for demand-driven enrolments, so that the access of institutions to Commonwealth Grant Scheme subsidies was limited.  

2.17 Domestic full-fee paying undergraduate places were also introduced, allowing universities to enrol additional students, that is, above their government-mandated load.

The Rudd-Gillard Government

2.18 The Australian Labor Party’s successful 2007 election platform promised Australia an ‘education revolution’. One of the first higher education policies introduced by the Rudd-Gillard Government was the abolition of domestic full-fee paying undergraduate places established by the previous government. Key universities opposed the abolition when it was announced, and argued that government compensation for the resultant loss of funding was inadequate.

The Bradley Review 2008

2.19 In 2008 then-education minister the Hon. Julia Gillard MP announced a major review examining the direction of the higher education sector, led by Emeritus Professor Denise Bradley AC. The final report of the Bradley Review made a series

---


19 Department of Education, answer to question on notice, 10 October 2014, p. 16.

20 Universities Australia, Submission 60, p. 6.

21 Universities Australia, Submission 60, p. 6.


of recommendations, and concluded that 'the established mechanisms for assuring quality nationally need updating'.

2.20 Labor implemented many of the review's recommendations, such as:

- establishing a national regulator;
- setting participation and equity targets; and
- introducing a demand-driven system.

2.21 However, Labor decided against following the review's recommendation for a 10 per cent increase in base funding for teaching and learning and, in April 2013, cut more than $2 billion from university funding. The Gillard Government obfuscated the reality of the funding cuts by pointing to previous spending decisions, maintaining that funding for university places was 10 per cent higher in 2013 than previously. Real, per student funding, however, remained below 1996 levels. As put by Universities Australia:

> In response to concern over the increasing cost to public revenue associated with the demand driven system, the Government announced, over an 18 month period, a number of reductions to planned higher education spending. The Senate has since opposed some of these proposed changes but if implemented, these cuts would result in per student funding being reduced to 2007 levels and 15 per cent below the levels recommended by the Bradley Review in 2015.

2.22 In 2010 the Labor Government announced it had commissioned the Higher Education Base Funding Review, tasked with making recommendations on the principles underpinning public investment and inquiring into what appropriate levels of funding might be. The Review made a total of 29 recommendations, one of which urged the government to lift the average level of base funding per student place. The

---

26 See Universities Australia, Submission 60, p. 6.
29 Universities Australia, Submission 60, p. 7.
30 Universities Australia, Submission 60, p. 7.
government accepted and implemented 13 recommendations, but did not accept the recommendation pertaining to a general increase in funding.32

2.23 Although the government did not increase its funding contribution, in 2012 limits on domestic bachelor-degree student numbers at public universities were nonetheless lifted:

This new system was called ‘demand driven’ because it allowed universities to respond to student demand and allowed more students to benefit from higher education. It replaced a ‘supply driven’ system, in which the government allocated student places to public universities.33

Challenges today

2.24 Productivity growth was strong in Australia—particularly through the 1990s—until the last decade, when a noticeable decline occurred. An aging population and declining commodity prices now suggest sluggish growth in living standards should the current trend in productivity continue.34

2.25 A healthy education sector is crucial for economic growth and community wellbeing. There is, as put by the authors of the Bradley Review final report:

…an international consensus that the reach, quality and performance of a nation’s higher education system will be key determinants of its economic and social progress.35

2.26 But, although important, productivity and economic growth are only part of the motivation underpinning this reform package. The government is committed to ensuring individuals are given the opportunity to fulfil their aspirations in every avenue of life, to building thriving communities and a strong, prosperous nation.

2.27 The committee strongly supports boosting productivity, recognising the paramount importance of education:

A well educated workforce is the key to enhanced productivity performance, particularly in today’s knowledge-driven economy. Research excellence and innovation plays an increasingly important role in the advancement of knowledge and technology, enhancing prosperity through the development, adoption and diffusion of more productive technologies and processes.36


34 Department of Education, Submission 98, p. 3.

35 The Bradley Review, final report, p. xi.

36 Department of Education, Submission 98, p. 3.
2.28 Access to education is crucial. As put by the Minister for Education, the Hon Christopher Pyne:

To support equity and access for Australian students, the reform bill also introduces a new Commonwealth scholarship scheme to support students from disadvantaged backgrounds, including from regional Australia. This is one of the most important and valuable elements of the reform package in the legislation...The passage of the reform bill will spread access and opportunity to higher education to more Australians...\(^{37}\)

2.29 As well as benefiting individuals, investment in higher education also benefits the entire community and wider economy. Universities Australia submitted that graduates are worth $188 billion to the economy annually. 'Although they comprise only 15 per cent of the population, they contribute approximately one third of the income tax collected.'\(^{38}\) As institutions, universities:

- teach 1.3 million students – over 985,000 domestic and 328,000 international students;
- employ 115,000 staff;
- spend more than $23 billion per year;
- pay $10.3 billion in wages;
- pay around $2.96 billion in income and payroll tax;
- underpin the nation’s research capability; and
- account for most of the $15 billion annual income generated from Australia’s education export industry – our third largest export and largest non-resources export earner.\(^{39}\)

\textit{We are at a tipping point}

2.30 While Australia performs well in terms of research quality and output, we rank 'last of OECD [Organisation for Economic Co-operation and Development] countries in terms of collaboration between businesses and the research community (higher education or public research institutions).'\(^{40}\)

2.31 Furthermore, as public funding for higher education has stagnated or fallen through successive governments, international rankings of Australia's top universities have remained static or fallen, especially relative to regional competitors:

…several places over this period. The 2014 Academic Ranking of World Universities includes only four Australian universities in the top 100, down from five in 2013. The number of Australian universities in the top 500 of


\(^{38}\) Universities Australia, Submission 60, p. 4.

\(^{39}\) Universities Australia, Submission 60, p. 4.

\(^{40}\) Department of Education, Submission 98, p. 4.
the Academic Ranking of World Universities has remained at 19 for the past four years.\textsuperscript{41}

…it is clear that over recent years federal governments from both sides of the political fence are only willing to continue funding our public universities up to a certain level. In the modern age, artificially compromising the ability of our universities to find their own funding sources in order to implement their missions could seriously affect their international standing and, in turn, damage Australia's third largest export industry… the Chinese centralised economy has been able to shift funding to certain universities which they want to ensure lift their rankings against international benchmarks.\textsuperscript{42}

We are being financially crucified between two thieves. No matter which way we look, there is no salvation. So I have not come to this position lightly, but I know as a matter of fact as someone who runs a university, as Father Uren never has, that, unless we get fee deregulation, we will not have a good university system.\textsuperscript{43}

2.32 The budget challenges the government faces today prohibit increases in Commonwealth investment. This bill is therefore the culmination of the government's commitment to maintaining a healthy higher education sector despite harsh economic realities which stand in the way of continued and sustained Commonwealth investment.

2.33 Budget constraints and the need for change in funding arrangements were acknowledged by submitters.\textsuperscript{44} Regional Universities Australia (RUN) explained that:

Given the tight public funding environment, RUN accepts that the deregulation of student fees is the only feasible way that the sector can maintain quality and remain internationally competitive.\textsuperscript{45}

\textit{Demand will continue to grow}

2.34 Today over 80 per cent of school students complete secondary education, up from only 30 per cent in 1980.\textsuperscript{46} Many of these secondary school graduates would contemplate higher education as a means of securing their chosen career. Certainly, in terms of career earnings, the benefits of higher education are indisputable:

\begin{itemize}
\item \textsuperscript{41} Department of Education, \textit{Submission 98}, p. 4.
\item \textsuperscript{42} The Hon. Phillip Neville Honeywood, National Executive Director, International Education Association of Australia, \textit{Proof Committee Hansard}, 8 October 2014, p. 2
\item \textsuperscript{43} Professor Gregory Craven, Vice-Chancellor, Australian Catholic University, \textit{Proof Committee Hansard}, 23 September 2014, p. 7
\item \textsuperscript{44} Group of Eight Australia, \textit{Submission 46}, p. 18; Regional Universities Network, \textit{Submission 56}, p. 2, Universities Australia, \textit{Submission 60}, p. 2.
\item \textsuperscript{45} Regional Universities Network, \textit{Submission 56}, p. 2.
\item \textsuperscript{46} Professor Peter Dawkins, Vice-Chancellor and President, Victoria University, Mitchell Institute Policy Lecture, 22 May 2014, p. 2. Available at: \url{http://www.vu.edu.au/sites/default/files/mitchell-institute/pdfs/reconceptualising-tertiary-education.pdf} (accessed 13 October 2014).
\end{itemize}
• Graduates earn on average $1.2 million more over their lifetimes than non-graduates.

• According to the 2011 Census, the typical graduate commences on a salary of around $50,000, however this will vary depending on their field of study.

• Graduates enjoy above average income growth over the course of their careers. Average graduate incomes grew in real terms at a rate of 5.7% per annum over the first five years of employment and 2.0% thereafter. Economy wide, real wages grow by around 1.0% per annum.

• In 2011, the top 20% of full time workers were earning at least $93,739. Graduates were over represented in this category, with more than 28% earning above this amount. After 20 years, 42% of graduates are in the top 20% of earners. Less than 12% of workers without any post-secondary qualifications earn this amount.

• In terms of weekly income, the average full-time employed graduate is $500 a week ahead of the average full-time employee without post-school qualifications by the age 35.47

2.35 Furthermore, the Department of Education (the department) cites reports from the OECD which indicate that 'the amount of education a person has received correlates with their propensity to be civically engaged and to have better health outcomes.'48

2.36 Given all the benefits of higher education, it is unsurprising that demand is rising. The department supplied the following figures:

Bachelor degree or higher attainment for 25-34 year olds has nearly tripled from 12.5 per cent in 1991 to 36.8 per cent in 2012. The number of higher education students in Australia (including international students) has also tripled from around 400 000 in 1989 to over 1.3 million in 2013. This is a substantial achievement for a modernising economy. In Australia, as elsewhere, this raises challenges, such as how to accommodate growing numbers of students without compromising the quality of education and without increasing funding pressures.49

2.37 There is little evidence to suggest that deregulation will act as a disincentive for people contemplating higher education. In fact, a 2011 report by Deloitte Access Economics, commissioned by the then-Department of Education, Employment and Workplace Relations, looked at the impact of changes to student contribution levels on the demand for higher education and found that:

The focus of the literature on HECS has been on equity and the participation of students from lower socioeconomic backgrounds as HECS

47 Group of Eight Australia, Submission 46, p. 4.
48 Department of Education, Submission 98, p. 3.
49 Department of Education, Submission 98, p. 3.
could potentially increase socioeconomic inequality. For example, people from lower socioeconomic backgrounds may be more debt averse and so be less likely to take on a loan to participate in higher education…there is little evidence in the literature to suggest that HECS has deterred participation in higher education among people from a lower socioeconomic background.\footnote{Deloitte Access Economics, The impact of changes to student contribution levels and repayment thresholds on the demand for higher education, p. 13, available at: http://www.industry.gov.au/highereducation/Policy/BaseFundingReview/Documents/HEstudentdemandreport.pdf (accessed 14 October 2014).}

2.38 It is clear from the Deloitte report, commissioned by the former government, that the HECS system has had a very positive effect on accessibility. The system does, however, need a more sustainable funding model.

Chapman and Ryan found that the socioeconomic composition of university students changed somewhat between 1988 and 1993. The main change was the relative increase of individuals from the middle of the wealth distribution, and the growth in participation generally was largely driven by the increased participation of females… Chapman and Ryan found that HECS did not discourage university participation in general or among individuals from low wealth groups.\footnote{Deloitte Access Economics, The impact of changes to student contribution levels and repayment thresholds on the demand for higher education, p. 16, available at: http://www.industry.gov.au/highereducation/Policy/BaseFundingReview/Documents/HEstudentdemandreport.pdf (accessed 14 October 2014).}

2.39 Ensuring that adequate and sustainable funding is available for the higher education sector—including non-university providers, discussed later in this chapter—is clearly more important than ever. Yet submissions to this inquiry almost unanimously concur that public funding has been inadequate over a long period of time, and has, in \textit{per student} terms, actually followed a downward trajectory:

Despite strong public support for universities and research, and the recommendation by the Bradley Review of the need to increase per student (or ‘base’) funding by 10 per cent, successive governments have reduced recurrent funding to the point where Australia sits close to the bottom of the OECD ladder for public investment in tertiary education as a percentage of GDP\footnote{Universities Australia, Submission 60, p. 4.}. While university enrolments have tripled over the past 30 years in response to policies aimed at increasing participation, public funding per student declined in real terms by 16.7 per cent between 1994 and 2012…This is not sustainable.\footnote{Universities Australia, Submission 60, p. 7.}

2.40 Universities Australia aptly concluded in its submission that:

...the experience of recent years represents a series of missed opportunities to establish a coherent, appropriate and above all, stable higher education funding regime.\footnote{Universities Australia, Submission 60, p. 7.}
2.41 It is important to make the necessary decisions to ensure the future stability of
Australia’s higher education sector:

To maintain the status quo would leave the sector partially reformed, but
not more fully opened to competition on the supply of places as envisaged
by the 2008 Bradley Review of Australian Higher Education. It would also
see universities continuing in a system where diversity and innovation are
effectively discouraged through over-regulation. As participation increases,
the sector would remain vulnerable to future cuts, due to continuing funding
pressures, with limited chance to address either costs or revenue.54

The reform package

2.42 The committee considered a range of views and consulted widely during its
deliberations, seeking to establish whether passage of the bill would indeed achieve
the government's objectives.

2.43 The bill enjoys overwhelming support from the higher education sector, with
the majority of university and non-university higher education providers and their
students supporting the bulk of the proposed reforms.55 Most of these providers are
nonetheless of the view that the bill could be improved, and the committee considered
their suggestions carefully. They are outlined in the following chapters.

2.44 At the same time, the committee recognises that there is considerable concern
about parts of the bill in some sections of the community, such as many students and a
number of academics.56 They are predominantly, although not exclusively, concerned
about the impact they believe the bill could have on student fees. Their concerns are
also examined in this report.

54 Department of Education, Submission 98, p. 2.
55 See for example Navitas, Submission 54; University of Notre Dame Australia, Submission 22;
University of Western Australia, Submission 45; Australian Catholic Universities, Submission
25; Council of Private Higher Education Submission 48; CQ University, Submission 53;
Avondale College of Higher Education, Submission 34, Group of Eight Australia, Submission
46; Holmesglen Institute, Submission 29; Universities Australia, Submission 60.
56 See for example University of South Australia Student Association, Submission 23; Politics,
Philosophy and Economics Society of La Trobe University, Submission 49; National Tertiary
Education Union, Submission 111; Mr Chris Jervis, Submission 2; Mr John McLaren,
Submission 21; Australian Council of Deans of Arts, Social Sciences and Humanities,
Submission 58.