



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Reference: Higher education funding and regulatory legislation

FRIDAY, 10 OCTOBER 2003

CANBERRA

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SENATE
EMPLOYMENT, WORKPLACE RELATIONS AND EDUCATION
REFERENCES COMMITTEE

Friday, 10 October 2003

Members: Senator George Campbell (*Chair*), Senator Tierney (*Deputy Chair*), Senators Barnett, Carr, Crossin and Stott Despoja

Subcommittee members: Senators Carr (*Chair*), Crossin, Stott Despoja and Tierney

Participating members: Senators Abetz, Bartlett, Boswell, Buckland, Chapman, Cherry, Jacinta Collins, Coonan, Denman, Eggleston, Chris Evans, Faulkner, Ferguson, Ferris, Forshaw, Harradine, Harris, Humphries, Hutchins, Johnston, Knowles, Lees, Lightfoot, Ludwig, Mackay, Mason, McGauran, McLucas, Moore, Murphy, Nettle, Payne, Santoro, Sherry, Stephens, Watson and Webber.

Senators in attendance: Senators Carr (*Chair*), Crossin, Stott Despoja and Tierney

Terms of reference for the inquiry:

To inquire into and report on:

- The principles of the Government's higher education package
- The effect of these proposals upon sustainability, quality, equity and diversity in teaching and research at universities, with particular reference to:
 - The financial impact on students, including merit selection, income support and international comparisons;
 - The financial impact on universities, including the impact of the Commonwealth Grants Scheme, the differential impact of fee deregulation, the expansion of full fee places and comparable international levels of government investment, and
 - The provision of fully funded university places, including provision for labour market needs, skill shortages and regional equity, and the impact of the 'learning entitlement'.
- The implications of such proposals on the sustainability of research and research training in public research agencies
- The effect of this package on the relationship between the Commonwealth, the States and universities, including issues of institutional autonomy, governance, academic freedom and industrial relations
- Alternative policy and funding options for the higher education and public research sectors

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Committee met at 9.06 a.m.

CHAIR—I declare open this public hearing of the Senate Employment, Workplace Relations and Education References Committee. On 26 June 2003 the committee was asked by the Senate to inquire into the policy and principles underlying the government's higher education package, as set out in the ministerial statements entitled *Building Australia's future*. The committee was asked to consider the effects of these proposals in the light of the government's stated intention to deliver policies characterised by sustainability, quality, equity and diversity. The committee is examining the implementation of these objectives, with particular reference to the financial impacts on universities and students. This includes consideration of radical initiatives in fee deregulation and the expansion of full-fee paying places, both of which are the consequences of changes to the Commonwealth Grants Scheme.

Other issues covered in the terms of reference include the effects of the proposal on research policy and funding, university governance issues, academic freedom and industrial relations. Legislation to implement the government's policy has only recently been introduced, although this committee is due to report to the Senate on 7 November. It is highly likely that the deliberations of the committee and the findings it produces will have a significant effect on the shape of the legislation if it is to pass the Senate. This hearing is being conducted by a subcommittee of the Employment, Workplace Relations and Education References Committee. One of our members, Senator Trish Crossin, will be participating in these hearings via telephone link-up from her Darwin office. Before we commence taking evidence today, I state for the record that all witnesses appearing before the subcommittee are protected by parliamentary privilege with respect to their evidence. This protection goes to special rights and immunities attached to the parliament and its members to allow them to carry out their duties without obstruction. Any act by any person which may disadvantage a witness as a result of their giving evidence to a Senate committee is to be treated as a breach of privilege. I welcome all observers to this public hearing.

[9.09 a.m.]

BALDWIN, Dr Kenneth George Herbert, Chair, Policy Committee, Federation of Australian Scientific and Technological Societies

DENHAM, Dr David, Vice-President, Federation of Australian Scientific and Technological Societies

GASCOIGNE, Mr Toss, Executive Director, Federation of Australian Scientific and Technological Societies

CHAIR—Welcome. The committee has before it submission No. 376. Are there any changes that you would like to make?

Dr Denham—No.

CHAIR—The committee prefers all evidence to be given in public, although the committee will also consider any request for all or part of your evidence to be given in camera. However, I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Dr Denham—We appreciate the opportunity today to contribute to this inquiry. As you know, FASTS is the peak council representing views of approximately 60,000 working scientists and technologists. Our main concern is how the changes proposed in *Backing Australia's future* will affect our capacity as a nation to produce the top quality scientists and technologists that we need for Australia to prosper in the future. As we all know, and as emphasised by the Prime Minister last year when he spoke to the Committee for Economic Development of Australia, science and technology are central to the nation's priorities. We must ensure that we have a ready supply of high quality people in these sectors for us to make real progress.

In this context, we strongly support the principles of sustainability, quality, equity and diversity, articulated in *Backing Australia's future*. FASTS believes that the government should provide the environment and the resources for these four principles to be realised so that we can look forward to a sustainable and prosperous future; however, we are concerned that the proposals outlined in this document appear to fall short of what we believe is required to achieve the vision which is articulated there.

I would like to quickly go through some of the key issues which we believe affect science and technology. The first one is public investment in education. It is important that there are some targets on the percentage of GDP the government will invest in higher education. This is necessary so that we can have long-term plans in place. We also believe that this target should be above the OECD average, because we believe that investment in higher education is the key to the future and we have to be up there with the best. We would like to see a target in terms of public investment in GDP.

The second issue is funding models. FASTS supports the funding model that links Commonwealth course contributions to the cost of courses. Institutions should be funded to reflect what is actually taught, with disciplinary weightings applied, rather than the present system of part funding extra places at marginal cost, which has been detrimental to science based disciplines. The third is course fees. We believe that a 30 per cent increase in fees would impose an unacceptably high burden on many students and make our higher education fee structure one of the most expensive in the world as far as percentage of money contributed by students.

We believe that HECS should be reduced for science and technology, as there is now evidence that the HECS debt may be discouraging students from studying these disciplines. This is particularly so for science and mathematics teachers. Universities will, by preference, charge higher fees for courses in high demand. This may discriminate against resource allocations to science and technology and also may not be aligned with national priorities.

The innovative ideas outlined for scholarship programs in the document are terrific, but the amount of funds proposed are really very ineffective—\$2,000 a year is not sufficient to encourage a person from a low socioeconomic group to go for a university education. A higher education system will operate more effectively through collaboration rather than through competition. This has been accepted and identified in the document, but we are not convinced that the \$20 million additional moneys over three years—which will have to be distributed between 38 institutions—will be enough, particularly in the science courses, where laboratories have expensive equipment. To get effective collaboration, we feel that more money will be needed there. Finally, we support a plurality of funding sources rather than the channelling of money through one funding agency. Science is unpredictable. The most valuable discoveries come from unexpected sources, so we must have diversity, quality, equity and sustainability to make these new discoveries.

CHAIR—Perhaps I could begin with the reference you have made to collaboration. We have not discussed this with very much within the hearings, but part of this package is the proposal for there to be a change in the relationship between universities and our public research agencies, particularly the CSIRO. There is some dispute about the terms being used. Some say it is ‘closer integration’; others say it is ‘greater collaboration’. You would be familiar with the views of a number of vice-chancellors. I do not want to name any here, but I am aware that many vice-chancellors believe that the CSIRO should be broken up and that this package may provide the vehicle for that process to occur. What is your response to such a proposition?

Dr Denham—That the CSIRO should be broken up?

CHAIR—Yes; and that the research capacity should be farmed out to various universities around the country.

Dr Denham—No, I would not agree with farming it out. There are two issues here. One is whether we need a national organisation like the CSIRO to do the long-term strategic research in the country. I think that is vital and I do not think it should be completely farmed out to universities at all. I think the CSIRO’s role is well defined. It links in with industry. It does the basic strategic research. Maybe there are organisational matters in the CSIRO which I could take issue with, but I do not think that this is the place for that.

CHAIR—Have you had a discussion with the Vice-Chancellors Committee about some of the attitudes being expressed by vice-chancellors to the various inquiries that have now been established as part of this package? There have been some 12 separate inquiries.

Dr Denham—No. But we have had discussions with people in the CSIRO about the future role of the CSIRO.

CHAIR—Are you familiar with the views being expressed by vice-chancellors about their perception of the need to break up the CSIRO?

Dr Denham—I have read it in the papers, but I have not had detailed discussions with them.

CHAIR—Were you surprised by the level of intervention by a Commonwealth minister—to the point of actually determining courses—that is proposed in this bill?

Dr Denham—Yes, I was a bit surprised by that. For example, in the negotiations it seems that the Commonwealth will negotiate with each institution as to what courses it will fund. It is fairly vague in the document as to how that is going to be done, but there is scope there for intervention. Then, of course, there are workplace relations parts in there. But there are strange things in this document: a reference to funding for training schemes for board members in the new university environment—that seems a bit strange to be in this document.

Mr Gascoigne—It has long been our view that Australia should have a national vision for what it wants science and technology to do in the interests of the country, and we have been calling for that now for the best part of a decade. We think that we should have a strong national vision determined by government in consultation with the community and that the institutions which perform the science, technology and research should be allowed to pursue that under that broad umbrella. It has been our view that the elements of that long-term vision for science and technology in fact are not in place.

CHAIR—There is considerable support for the notion of the establishment of research priorities. There may be an argument about how they are determined, what they are precisely and all the rest of it, but I am just trying to recall whether or not there has been any legislation before the Commonwealth parliament before that would allow the minister for education to pick and choose which courses are funded. Take the debate about stem cell research, for instance. It is a matter of some controversy in this place. Some senators say that there are grounds for concern about the direction of research in stem cells; that is, beyond the cloning issue.

Dr Denham—It is a balance, really, that you need. As Toss says, you need the big vision. I think the Prime Minister's speech in November last year outlined the key priorities. Then it is a question of how you apply those at the detail level. There has to be some balance there. I do not think that you can really specify what university course you do, and how many people should do this course and that course. I think that that would be—

CHAIR—But isn't it an integral part of this bill that the minister will have the power to pick and choose the courses?

Dr Denham—I have not read the bill in detail.

CHAIR—Perhaps you could make a supplementary submission to us with regard to that, if you have time. Clause 30-25, for instance, goes to the funding agreements and the powers of the minister, or the secretary of the department acting on the minister's behalf, to determine at an institutional level which courses are funded or not funded. Might that have implications for research, particularly unpopular or controversial research?

Dr Denham—It certainly could.

CHAIR—Thank you. You have raised an issue about how science will be treated. Do you fear that science might be ghettoised under these funding arrangements?

Mr Gascoigne—Before we answer that, perhaps I could return to your previous point. We have also expressed a long-term view that there should be a range of funding sources open to science. We are opposed to the notion that all science funding should be channelled through one institution, that the field should be narrowed. We think it is very important that there are a variety of funding sources, all with their own internal priorities—for instance, CRC programs, CSIRO block funding, NHMRC funding, ARC funding and so on. I think the effect of that diversity, that plurality of funding sources, is that it would be much more difficult to impose one set of values on how the funds are allocated. The difficulty, of course, if you have one set of values applied to how the funds are allocated is that you get one set of views on that. The trouble with science is that it is unpredictable, and the most promising discoveries can be made in the most unexpected fashion. So one would hope, through having a diversity of funding sources, that the mistakes that, for example, the CSIRO made through their priorities would be redressed by a different set of priorities which would come through from the ARC.

CHAIR—There was an article in the *Australian* today by the Vice-Chancellor of the University of Melbourne. He is a man I am not always in agreement with, but he does draw to our attention the number of occasions on which governments have sought to influence day-to-day management issues at the University of Melbourne through his time as the vice-chancellor. Given the nature of this legislation, which proposes to put into law the capacity of the Commonwealth minister for education to have extensive discretionary powers on the day-to-day running of a university, and given the nature of the political system we live in, is there not the capacity, therefore, for political decisions to be made about the allocation of specific funding for specific programs? If so, what are the consequences for scientific research?

Dr Baldwin—Perhaps I can answer that by pointing to the example you raised of stem cell research. One of the ways that society assists the scientific process is by providing a community consensus as to what is appropriate and what is inappropriate in terms of conducting scientific research. We believe this consensual process is the best approach for determining those sorts of priorities. Indeed, there are debates in legislatures overseas where these things are discussed openly and widely amongst not only the scientists and the legislators but also the general community, and a consensus is arrived at. We would be very concerned if this consensus process were short-circuited directly by ministerial intervention in the operational profile of a university, whether it be in its teaching courses or its research activities, because that would bypass the consensual community process that discusses where the scientific, leading edge research is impinging upon the ethical considerations of the society in which it is based.

CHAIR—I will ask the witnesses from the other academies that are appearing here today similar questions in their fields, particularly in the humanities, because I think the same arguments might apply to some controversial areas of research. Islamic studies is one that people have mentioned to me. Others might suggest questions about the nature of our historical interpretation, a dispute raging at the moment, and whether or not some views might be regarded as unacceptable to government—whether funding allocations could be influenced on such a basis. I would be interested if you could have a look at the legislation for the committee and make a supplementary submission, if you have the opportunity, as to the potential impact of such requirements. Given that we do not know what the guidelines are going to say, you may well say to me, ‘We do not know what that is,’ but the detail of what the legislation actually says raises some issues which I would ask you to comment upon. In regard to the distribution, for the impact of this legislation, this package, on the teaching and studying of science and science related disciplines, is it your view that there is a risk that science, mathematics and such related matters might be disadvantaged?

Dr Baldwin—Yes, I think so. If you consider the ways that universities operate when they allocate resources, you will see that they are driven by the number of students on seats, effectively, and by the return on students. The proposed legislation is looking at increasing the limit for fees in particular areas by 30 per cent. If this is done in areas of high-demand courses, clearly there will be an incentive for universities to try to allocate more resources to those subject areas. Traditionally, science and mathematics have not been a high-demand area. We know that there are shortages in some areas of science and mathematics, in graduates in some disciplines. So the likelihood is that subjects like economics, law, et cetera may well be able to charge 30 per cent higher fees and still fill the number of places available, but that in science and mathematics this may not be the case.

Our concern is that there could be a resource shift, a natural process by which the universities are putting more resources in the areas of greater return for them. We believe that this needs to be monitored very carefully—that the generation of new scientists and mathematicians that is being produced needs to be carefully monitored so that we ensure that there is replacement of not only our current scientists and technologists but also people with the scientific knowledge and scientific literacy to make decisions and produce new ideas in other areas of the economy and other areas of society. We do not think that there will be ‘ghetto-isation’ as you say, but there may be a shift in resources that means that the more expensive disciplines in science in particular are discriminated against in favour of other subjects that can return higher fees.

CHAIR—Thank you very much.

Senator TIERNEY—Often public funding follows what grips the public’s imagination. If we go back to the 1960s with the space program, this seemed to generate a great interest in science in the community. We even had TV programs like *Why is it so?* with Julius Sumner Miller. I have not seen a popular science program like that at 6.30 at night for quite a while. Governments put money into science blocks, you will recall, at the 1963 election. When we got to the 1980s, science ministers like Barry Jones, who was an expert in the area, wrote a book called *Sleepers Wake!* He could not get the cabinet to do this. Under his ministry, science funding declined. The point I am coming to, and I would like you to comment on it, is this: given this decline in interest in science relative to the 1960s, what strategies does your organisation have to fire up the public

imagination and reverse that trend so that there might be a better argument in the parliament for further science funding?

Dr Denham—I think that you cannot escape the connection between the priorities we are facing as a nation and the need for science. Defence, dryland salinity, wealth from resources, transport, communications, health—everything that is high priority has that science core in there. If we are going to be a wealthy country and we want a sustainable lifestyle with that wealth, we cannot escape the science. The science will sell itself because it is essential in these areas. You are going to get these funny little debates on controversial issues, which may sidetrack things, but basically the core science thing is there, and I do not really see a problem in that, because it is going to be crucial to all policy development.

Mr Gascoigne—I agree with the broad thrust of what David says. I am not sure that selling itself is enough; I think we do have to take active steps. One of the things that concern me about science these days is that it is increasingly seen as a difficult subject by the general public and within educational systems, so there is a sort of cleavage in the population. There is, possibly, a smaller group that understands, is hooked onto and appreciates the benefits of science, and there is another larger group that perhaps feels it is a bit too difficult and is quite happy to leave it up to other people. I cite as convincing evidence in this respect the pages of—mostly women's—magazines. If you look at *Woman's Day* or the *Women's Weekly* these days, you will see that they have a page on tea leaf reading, horoscopes, various Chinese remedies or fortune-telling, but there ain't much science in there. It seems to me a matter of some concern that people seem quite willing to look at these alternative non-scientific solutions to difficult issues rather than the scientific ones. So, when you raise this issue, Senator Tierney, I think that you identify a problem. I think that science does have to keep on selling itself; it does have to keep reminding people not only of the importance of investing in science but also of the consequences of not investing in science.

Senator TIERNEY—In terms of the way universities spend their dollars in different courses, Senator Carr was saying that the bill is too interventionist. We have a situation where, in law next year, 19 per cent of graduates will get articles, which means that 81 per cent will not. That means that there are maybe too many law courses in this country. Courses relating to surfboard riding perhaps should be over in TAFE. We need to have a greater focus on subjects like physics, for example, in universities. Given that there are so many billions of taxpayers' dollars involved, should the minister have at least some discretion in this matter and not leave it totally to the universities—if the balance of courses are not meeting the national need?

Mr Gascoigne—There is a risk of market failure in this area, I think. When you place educational institutions under the financial hammer, and they are desperately trying to find funds from whatever source, science can become an at-risk subject. It is a rather undesirable combination: it is high cost and it is viewed by potential students as challenging. But it is very important. That combination means that sometimes vice-chancellors under the hammer financially may be looking at diverting funds into other courses.

Dr Baldwin—The other aspect of this is that you have a better chance of meeting national need if you have diversity in the system. If you have a system which is too interventionist then that diversity is at risk. So our view would be that, if you allow diversity to exist in a higher

education system, you have a better opportunity to provide the graduates and the research opportunities that you need for a nation to move forward in a broad range of fields.

There is the market failure aspect of having a system that does not look at the big picture, and this is something that we believe could be addressed by improvements in collaborative approaches between universities. Part of the problem at the moment is that the system is extremely competitive. The reason that universities make these decisions is that they are trying to fight their counterparts for students and for research funding. It is our view that there are insufficient funds available for collaborative activities. We can cite examples in the sciences where this already happens. For example, in physics programs in teaching in Perth and in the geosciences programs in teaching in Melbourne there are already collaborative processes under way to address the issue of expensive disciplines with few students, so that collaboration between institutions can address the need for these subject areas in those locations. Therefore, there are ways, through collaboration, of getting around the sorts of problems that you outline: that you have insufficient graduates in particular areas. They can be addressed by a collaborative approach in a diverse system.

Senator TIERNEY—Obviously, that is not working, in terms of where students are in certain courses, if we have five times more law graduates than we need and we do not have enough physics graduates.

Dr Baldwin—We agree, but that is probably the result of the fact that the system is a competitive system rather than a collaborative system at present.

Senator TIERNEY—I wonder if that is the case. Sticking with that example, surely it is possible that universities see law as low-cost courses and physics as high-cost courses.

Dr Baldwin—That is also true.

Senator TIERNEY—Therefore, they will go for the lower-cost course. They may not necessarily be in the national interest—or the students' interests, if there are no jobs at the end.

Dr Baldwin—That is absolutely right. But, on the other hand, if there were collaborative incentives and mechanisms in place that would allow cost-sharing between universities for, say, an expensive courses like physics, then this would help fulfil the national need and there would not be a system where the universities are fighting for resources. It would be one where they are cooperating in the production of graduates that we do need.

Senator TIERNEY—I have no problem with that concept. But, again, in relation to the shift in where the students are, my argument is that possibly there needs to be a little more central direction than there is at the moment, and that is what this bill makes possible.

Dr Denham—It is quite a complex set of parameters that results in where the students go, in any case.

Senator TIERNEY—In terms of governance, you are critical of the training of board members. I am on the Council of the National Library, and Senator Carr is on the Council of the Australian National University. We could possibly have done with some training—I do not think

we got any, actually. Yet we are talking about the boards of organisations responsible for billions of dollars and a major part of the infrastructure of the country. Surely it is reasonable—seeing that we train people in virtually everything—to train people in some governance procedures if we want the governance protocols to be more focused on running universities, as the huge enterprises that they are, efficiently?

Dr Denham—It seemed to me a bit anomalous that you have this big picture stuff in here—the big national vision, the big picture and the national priorities—and then, right at the back here, you say that you want funds to educate the board members. This is part of the arrangements. I think that, if you are going to serve on a board, you should be capable of serving on that board without having that particular institution pay money and have training programs for you.

Senator TIERNEY—I find that curious, having served on boards. I think it is a good idea.

Senator CARR—What kind of training did you have to come here, John?

Senator TIERNEY—Quite a lot, actually. I majored in political science at university. That was good training.

Senator CARR—That is true, but the parliament did not put on any special training for you.

Senator TIERNEY—Perhaps they should have; perhaps we would all be a bit more effective if they put some training in, and it is the same with board members.

Dr Denham—It says:

Each governing body should have in place a formal programme of professional development for members to build the expertise of the governing body and to ensure that all members are aware of the nature of their duties and responsibilities.

Senator TIERNEY—What is wrong with that?

Dr Denham—They should know that by the time they are there, shouldn't they? Why are they there, otherwise?

Senator TIERNEY—We do not have a bank of professional board people, fully qualified and trained, to appoint to boards in this country. That is not the way that we put together the council at the ANU, the council at the National Library or the council of any other organisation.

Dr Denham—I would think you would appoint people because they have the particular skills or the particular experience.

Senator TIERNEY—That is not the way it is structured at the moment. There are representatives from the parliament, and they do not have any training in it. You have student representatives, and they do not have any training in it. That is the point we are making.

Dr Denham—That is a marginal issue.

Senator TIERNEY—It was just a curious statement. Dr Denham, you mentioned that you did not like funding at marginal costs. Are you are aware that that goes under this bill? We are funding 25,000. We are converting them to full places.

Dr Denham—Yes, I am aware of that. But that is the present scheme, and that will go under the bill.

Senator TIERNEY—I just wanted to correct that. You initially commented on the scholarship program. You are one of the few who have, which is a bit disappointing, because I think it is quite a revolutionary move. I would like to perhaps take issue with some of the things that you said about it. The fact is that scholarships were abolished when universities were free—on the basis that they were free—and then, when the Labor government brought back HECS, they forgot to bring back scholarships. Costs came back but scholarships did not. This bill rectifies that.

One can always say that there is not enough money in this pot or that pot, but surely a scholarship which actually helps offset costs for poorer students—and that is what one of them does; another one helps offset accommodation costs—would be supported. It is not supposed to be a full income. That is not the purpose. It is for disadvantaged students to offset the real costs that they have. So why is there a problem with that?

Dr Denham—As I said, I have absolutely no problem with the concepts in there. They are very innovative, and there is international travel in there as well. But I think that, if you are living in a low socioeconomic group and your parents and peers have never been to university, you are going to need more than \$2,000 a year.

Senator TIERNEY—And you are going to need more than zero, which is the current situation.

Dr Denham—That is right.

Senator TIERNEY—So the bill makes a start.

Dr Denham—It makes a start. All I am saying is that I do not believe that is going to be enough to get a few people to go to university. It is not just the money; it has to be attractive. When your sister is going to be a hairdresser and your brother is going to be working at McDonald's or something like that, I feel that it would be very hard to break out of that. I am not sure whether the \$2,000 is going to be enough. That is all I am saying.

Senator TIERNEY—But there is nothing there at the moment.

Dr Denham—I know.

Senator TIERNEY—And there is \$10.6 billion over 10 years, which is the additional public money in this bill. There are all sorts of ways that you can push the money across the whole sector, so you end up with compromises at the end.

Dr Denham—Sure.

Senator STOTT DESPOJA—Continuing on the issue of fees, Dr Denham, are you aware of or have you undertaken any research that examines the impact of the fees as they currently are, particularly science and other courses being in the second or higher HECS bands? The added issue, which we have discussed before, is the issue of science teachers, who incur that larger HECS debt. First of all, I would like to know if there is any evidence of the impact of those changes that were introduced back in 1997.

Dr Baldwin—It is always hard to distinguish cause and effect, but we can certainly point to the numbers of students graduating in particular disciplines over the last 10 or 15 years. There was a report issued in parliament around this time last year which showed that, in the enabling sciences of physics, chemistry and mathematics, the number of graduates in those disciplines has declined progressively over the immediate past six or eight years. This decline, if continued, would mean that there would be zero graduates in some of those disciplines by about 2015 or 2020. It is that sharp a rate of decline.

We are not saying that that is going to happen—it will probably tail off at some time—but, clearly, evidence is showing that students are moving away from what you might call the hard sciences or the enabling sciences at the moment. The fact that there is an additional disincentive—in the form of a higher HECS payment—to study these subjects may have a causal effect in that process. But, as I say, it is very hard to distinguish cause and effect. One thing that we can point to is the fact that, in the teaching profession, a teacher in science currently has a lower take-home pay than a teacher in history or a teacher in a non-science subject. That is because they have a higher HECS debt. We believe that that is a clear disincentive for young people going into the teaching discipline in science and mathematics. The answer to your question is: we do not have a direct causal relationship in these areas, but we can point to evidence which shows that there is a decline in the graduates and teachers in those areas—areas in which Australia desperately needs teachers.

Senator STOTT DESPOJA—The issue of science teachers in particular has obviously been an ongoing debate. It is one that some of us have been particularly involved with and it is an issue that repeatedly comes up when talking to FASTS and other science groups. Do you remember that we got a commitment from the minister at the time—in fact, he is now the minister again—to investigate or examine the impact of science being in that second HECS band? My understanding is that that review or study never took place. Is that your understanding?

Mr Gascoigne—Yes, it is—and we remember the commitment.

Senator STOTT DESPOJA—Have you had any meetings in recent times with the current science minister? Have you been able to ascertain whether the government has any intention to perhaps keep that commitment? It is getting a bit stale now—six years old. Is there any movement on the government side?

Mr Gascoigne—We have not had any meetings with the minister on that issue.

Senator STOTT DESPOJA—Would a recommendation that you would make to this committee be that the HECS band for science should be changed?

Dr Baldwin—In terms of the teaching discipline, we know that the recommendation is that teaching as a profession be made more attractive by reducing the HECS level. But that does not help the science disciplines within teaching itself. If you do a science degree and then you go and do a Dip Ed, you still have the HECS debt associated with the science degree. That means you have a lower take-home pay as a science teacher after your Dip Ed. That issue has not been addressed. We would like to see that issue addressed. That is a very important issue.

Senator STOTT DESPOJA—You referred earlier to some of the issues to do with how marketable science courses were. I am not sure if you have had any discussions to this end, but do you think that many institutions would be in a position to increase their HECS fees by up to the 30 per cent figure for science courses? Obviously there is a huge group or band of courses that could be considered to be science. Do you have any information for the committee on that?

Dr Baldwin—One way of looking at the demand for a discipline is to look at the TER score required to get into that discipline. If you look at the TER scores required to get into science disciplines across the country, you find that they are all below law, economics, accounting and the other high-demand disciplines, which will inevitably attract a higher HECS fee once this legislation is enacted. I think it is quite clear from the TER scores where the demand is. From that information, one can get a fair indication as to where universities are going to increase their fees, given their flexibility to do so up to 30 per cent. It is unlikely—I would guess—that universities would increase their science course fees, simply because the demand is not there and, indeed, the demand may fall away if they do so.

Mr Gascoigne—It is a problem that has quite a long lifespan. You can probably trace it back to the teaching of science and mathematics in high schools as well. Perhaps the country is inheriting a problem which may have a 15- or 20-year life cycle. I think the average age for a science or mathematics teacher is somewhere in the upper 40s, which means that they probably did their initial training around the time when Apple Macs were being invented and they probably have not done very much formal training since then.

A lot of teachers confess to being unconfident about teaching science and mathematics. People are teaching possibly beyond their capacity and beyond their subject disciplines. If you have a cohort of teachers about whom you can make those broad, general statements, it makes for an uninspiring teaching experience for students who are going through that area, which means that students get turned off from doing science through university. So you have a cyclical problem, and you have to cut into the cycle at one stage.

Senator STOTT DESPOJA—There seems to be an ongoing debate on course costs. We have had Minister Nelson tell us that students are paying around 25 per cent—a maximum of 27 per cent—of their course costs. Whilst recognising that different courses cost more, do you have any up-to-date figures generally—so the average amount—or, specific to institutions, the percentage that science students pay of their course? Do you know of any available research on that or can you take that on notice? I know that NTEU and, I think, NUS have provided the committee with some figures, but it would be good to see if there is anything more specific available.

Dr Baldwin—The Australian Council of Deans of Science may be able to provide that information for you, but I would venture that you will find that course costs are higher in the sciences. Consequently, the student fees returned as a proportion of the course costs are lower in

science and expensive laboratory disciplines than they are in subjects that do not require these sorts of facilities for their teaching—the pencil and paper or computer and paper type disciplines. It is inevitable, when universities are looking at resource allocation, that they look much more closely at courses like science, which have a high ratio between the cost of delivery and the fees returned. This is our concern in terms of resource allocation with the ability to charge higher HECS fees.

Senator STOTT DESPOJA—On the issue of infrastructure, are students getting value for money? More importantly, what state would you say the facilities are in for the teaching of science in Australia? Are our laboratories up to date? Have we got best practice materials and safe environments? We have heard a lot from students who would argue that perhaps there is a lot to be desired.

Dr Baldwin—There is no doubt that the higher education system as a whole has been squeezed for some time and is still being squeezed. Resources allocated to state-of-the-art cutting edge teaching laboratories are not as they should be. I am not saying that safety standards are being compromised in this process; I am just saying that we are not at the leading edge, whereas other countries are, in the provision of this sort of infrastructure. The answer to your question is that the underfunding of the higher education sector as a whole is directly reflected in what is delivered to students in this type of subject. Our concern is that in the sciences, where it is important and essential to have laboratory training courses for disciplines from biology through to physics, education is being compromised by the inability of universities to fund cutting edge laboratory infrastructure for teaching.

Senator STOTT DESPOJA—Dr Denham, you threw out the challenge regarding the percentage of GDP: do you want to name a target? You have encouraged Australia to adopt a target.

Dr Denham—I would say .75 per cent.

Senator STOTT DESPOJA—When you said above OECD averages, what is the OECD average?

Dr Denham—Ours was .75 per cent in 1996-97. So let's get it back to that, to start with.

Dr Baldwin—That is public funding.

Dr Denham—Yes. You have to look at that in the context that students are paying more now than they did then. You have to look at the total thing. One of the disappointments with this is that it should be linked into GDP. Defence is linked into GDP and lots of other things are. That is the only proper way to do it when you are making a long-term national investment. Secondly, it does not really say how many students are expected to go through higher education courses in five to 10 years time. It is a funny document: the big picture stuff—the vision—is really good, and then you have all this detailed stuff like how many dollars to the last cent they are going to get in 2006. It is that in between stuff which, to me, seems could be improved a bit.

Senator STOTT DESPOJA—Mr Gascoigne, you mentioned women's magazines. What is FASTS doing to promote women in science?

Mr Gascoigne—One of our members is the excellent organisation WISENET—Women in Science Enquiry Network. At our last board meeting in Sydney about two months ago, we had a special section of the meeting, which ran for about an hour, devoted to the preparation of a position paper on women in science. That was a joint presentation from a number of women representatives. Some were board members and there were also representatives from the CSIRO Staff Association, from the National Tertiary Education Union, from the Association of Professional Engineers, Scientists and Managers and from WISENET. There is an active group of half a dozen women now who are preparing an occasional paper setting out a position with recommendations to launch in the public arena. I think that is midway through completion.

Senator STOTT DESPOJA—Do they have a position on the legislation? My broader point would be: do you feel there would be a deleterious impact on the role of women in science or even the number of women taking on science degrees as a consequence of some of the changes that we are looking at today?

Mr Gascoigne—I do not know; I have not looked at it from that position. I do not know that the group would have looked closely enough at the legislation to have a position, but I will make inquiries and I will get back to you on that one.

Senator STOTT DESPOJA—If you could take that on notice, that would be appreciated.

Mr Gascoigne—The second brief thing I might mention is that the same group has organised two annual conferences of women in science. Both of them have been quite successful.

CHAIR—Thank you very much for your appearance here today. Your advice has been most welcome.

[9.58 a.m.]

BEATON, Dr John Mark, Executive Director, Academy of the Social Sciences in Australia

McCALMAN, Professor Iain Duncan, President, Australian Academy of the Humanities

CHAIR—Welcome. The committee has before it submission Nos 391 and 464. Are there any changes that you would like to make to either of those submissions?

Dr Beaton—No.

Prof. McCalman—No.

CHAIR—The committee prefers all evidence to be given in public, although the committee will also consider any requests for all or part of your evidence to be given in camera. However, I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement. Dr Beaton, would you like to go first?

Dr Beaton—Happily. You will note that our submission, which is in fact my submission, is brief and addresses a couple of points that I thought the social sciences could make uniquely without boring you with the repetition that you must have encountered over many weeks.

CHAIR—We are members of parliament; we are not unfamiliar with repetition.

Dr Beaton—I would not want to add to your burden. There are a couple of elements to this that I would like to address. They are not things I would necessarily like added to the submission but things that I think need airing in this forum. I was asked to sit on the minister's Crossroads review. I have watched—having come back to this country after quite a number of years overseas at the University of California—the development of Crossroads and tried to keep as in touch as I could with the volumes of written material that have crossed my desk and the things that I have heard. I am struck by the absolute need for something along the lines of this review to work. Whether elements of it get changed by negotiation, that is always a good thing no doubt. But I would have to underline the fact that I have not seen a more committed group of individuals contributing to something almost entirely as volunteers over the last year and a bit, and I would like to pat all those people on the back for all the hard work they have done in a very good cause.

There are a couple of things that I think are key turning points. One of them is that if I had a severe criticism at all of any set of recommendations to reform the Australian tertiary education system it is that the system needs to specialise in ways that it has not done. There is no sense in 38 universities trying to compete for exactly the same students across a broad range of disciplines and trying to do undergraduate teaching, postgraduate teaching and research in the full range of course. It is a recipe, and an absolute prescription, for mediocrity.

If there are opportunities in the future to get some universities to narrow their courses such that they can commit more of their funds to doing something that they can do truly well—

imagine James Cook doing tropical biology and tropical medicine perhaps and marine studies and maybe getting out of philosophy—it might be a very wise thing for the students of North Queensland to go to, for instance, Melbourne rather than to expect to get it at home. That is something that I would like to see the tertiary education system here do. The reason I think that that is an absolute requirement is that any look at the sums that are available for tertiary education suggests to me that there is no way in the world that you can provide the kind of education that we would all want at 38 different locations.

Prof. McCalman—I would like to endorse what my colleague has said about the considerable efforts that have gone into the consultation side of Crossroads. Certainly, the academy has tripled its workload in recent times in an effort to try and make some of the submissions and meet some of the requirements and sit on committees and so on. I also think that there is no doubt that we need a substantial review of the sector along these lines. We welcome the fact that this review has drawn attention to the need for more funding.

That said, I want to mention the specific concerns of the Academy of the Humanities because that is my brief. Our most crucial and urgent concern is that the existing discipline specific load funding—the way in which the Commonwealth Grants Scheme operates—militates very severely in practice against the health of the humanities. In a couple of instances I believe this is going to have, and is already having, a seriously detrimental effect not simply on the functioning of universities but on our national interest—in particular in the areas of language erosion, both European languages and Asian languages. That is a major concern that I think is distinctive.

Other than that, we have some more general points to make about the particular ways in which fee paid funding may operate and about the ways in which we fear the collegial based structures of governance of the university are being eroded by business models which are replacing them. Finally, we have some concern about what is happening where salutary things are being done—for example, the recognition that regional universities require extra and special assistance because of their situation. That that assistance should be tied to reforms in the workplace does not seem to us to be relevant. Those I suppose are the general points.

CHAIR—Thank you. Both of you represent areas of academic inquiry which have been not as highly regarded in some quarters of government in recent times as other areas perhaps. You are not as commercially attractive. You represent areas of inquiry that some people think are less valuable. I put that to you as a provocative statement. I think it probably can be demonstrated by considerable amounts of evidence from a number of politicians who have spoken in recent times. I put it to you in the context that this bill provides for an enormous level of potential intervention by the political process into what is actually taught, researched and discussed at university. I put that to you in the context of 600 years of history of the independence of universities. Dr Beaton, have you read this legislation?

Dr Beaton—That and a good deal more, yes.

CHAIR—So you will be able to advise me, on your reading of clause 30-25, which sets down the nature of the funding agreements and which gives the minister or his or her delegate the capacity to determine which courses will be funded, whether—given what you are saying about the need for specialisation—you think it is appropriate that the issue of what is taught or not taught at universities should be determined at a political level. How do you respond to that?

Dr Beaton—I would highly recommend the passage in my little submission which is taken from the wisdom of a man who knows, and will always know, a good deal more about these things than me, Peter Karmel—this is his submission to the Crossroads inquiry, which I will leave with you—and he suggests, and I think very wisely, that we return to something like the Commonwealth Tertiary Education Commission, CTEC. I think it was disbanded in 1987. It stood as an independent body between government and the universities. It would, in a sense, defuse the abilities of any government to ride roughshod—if that is not too crude a way of putting it—over a tertiary education system and would also be able to communicate to government on behalf of the university system in a better way than I think we are doing with the seemingly endless rounds of reviews we are doing. Something like that, as Peter recommends—a return to a statutory independent body—would be wise.

CHAIR—Thank you, Dr Beaton, that is a very worthy statement of objectives, but the problem we have is the legislators.

Dr Beaton—That is not on the table.

CHAIR—This bill asks us to pass judgment on a specific set of propositions which dramatically enhance the discretionary power of this minister and any other minister that follows him. Professor McCalman, I take it you have read the bill now.

Prof. McCalman—I have, yes.

CHAIR—I have here a statement made by the member for Farrer on the second reading of this bill where it was said we should consider the cost of education. It says:

Where would it end? Should students be able to attend university at taxpayers' expense for 10 years, studying the classics, archaeology, fine arts and other topics that may take their fancy, without a realistic prospect of being gainfully employed in these fields? Clearly they should not.

Under this bill, will there not be an enormous capacity for individual members of parliament to lobby the minister about what should or should not be taught at the local university? Under that context, do you think that studies of the classics, archaeology and fine arts would do well?

Prof. McCalman—No, I do not think they would do well. I do not think they are doing well in general. I think that the utilitarian calculus that is applied by political parties to education in this sense can often be misplaced. I will take up several points that you mentioned. One misplaced idea is that the humanities are not commercial, for a start. It is an untested phenomenon. We had a substantial summit two years ago and produced a large set of papers, which have not been printed. The summit was put on by DEST to prove precisely the opposite: that the humanities are commercially viable if you allow them the same opportunities that the sciences and applied sciences have been given through programs such as the cooperative research centres. That is one problem. The second problem is that utility can vary. The current situation where, for example, there is no longer a chair in Russian language in this country may seem to be sensible since Russia is no longer part of a Cold War warrior that we worry about, but things can change historically. If we erode our infrastructure of European and Asian languages we are going to be both commercially and politically much less able to respond to future challenges. I think that interference of that order from either government, whatever political

party, is dangerous. There is a danger that people think they can pick winners. Thinking they can pick winners is one of the biggest illusions. Those who spend time at the racecourse will know that. Thinking they can pick winners in education is completely fatuous. I have yet to see people who have managed it either in the United States or Britain or here. So I worry greatly about this degree of interference.

CHAIR—I come back to the proposition that we have to consider practical measures being proposed to us by government. We will have to recommend to the Senate what should be done with this bill. Are you recommending to this committee that those provisions be substantially amended? You have read the legislation. Just what level of renovation is required to preserve those basic questions of university autonomy, academic freedom and student choice?

Prof. McCalman—There are larger and more specific points. I make a specific point that is relevant to this particular legislation and that comes back to the discipline specific: load funding. According to the Commonwealth government scheme, in the humanities you are returned \$4,180 at a university per EFTSU. That is half the average across the system, the average being \$8,113. The great incentive of a scheme such as this for universities is to avoid the humanities because there is no money in it. The point of doing this is absurd when in fact the humanities are attracting the largest number of students. We are leading to an extraordinary dysfunctional sense of operation in the university system. That is a specific point that could be changed with great ease. It is not a problem that requires renovating the entire body of legislation.

CHAIR—In that case, though, the issues raised for instance about the conditions of the Commonwealth Grants Scheme, which is the core of the bill, will not be addressed by just fixing up the industrial relations and doing a sweetheart deal on aspects of industrial relations. They go right to the very heart of what is being proposed here about the change in the definition of the university and the relationship between the Commonwealth and institutions, and the Commonwealth and the states. Would you agree?

Prof. McCalman—I think they would, yes.

Senator TIERNEY—You make an argument about centres of excellence and concentrating faculties where you have critical numbers. I raise a few points about that. One is that to some extent we already do that. Obviously universities like New England specialise in agriculture and things such as that. But I wonder whether you had considered the other side of the equation—that is, what the students want in terms of accessibility. You gave the rather amazing example of students from Melbourne going to James Cook University or vice versa. As a parent who has had five children go through university and graduate, such prospects fill me with horror. They were very widespread in their choice, but they certainly did not go interstate. In terms of access, is there not a case for not concentrating too far? I understand the research benefits, but could you not overcome those problems perhaps with collaboration between faculties on like projects, particularly in the information age, and in terms of course access from academics working in those fields allow a wider geographic spread in such a large country as Australia?

Dr Beaton—I fully appreciate those issues—absolutely. There was one crucial matter that I would feel terrible if I went home without drawing your attention to. That is the expectation that anything substantial is going to be resolved by our friends in the IT industry with respect to getting our faculties to collaborate across great distances to provide what they effectively call

distance education. I sat on a high-level committee at a very well funded university system for two years to study institutional collaboration across eight campuses at the University of California. We resolved in the end that the main thing distance education did was it distanced students from any form of education and we dropped it. The simple reason is this: there was no way that we could have the conversation that we are having here right now over email in less than maybe a day. We could not do it. If I am instructing you about this, it is a physical matter. I need to hand it to you and ask you to turn it upside down, at which time you do and discover something that I have not seen. You need to look me in the eye and know that I am telling you the truth and I need to look you in the eye and know when you get it, when you truly understand.

Just quickly, I will leave that and say: let us be very cautious about the IT promise of what distance education can do, recalling that these are also the people who promised 15 years ago that the biggest problem we were going to have in our lives now was what to do with our excess leisure time. So much for that. Perhaps one way to resolve what you can do about what I suggest with the specialisation is maintain what breadth you can at the undergraduate level, but at the postgraduate level you need to get students to move. That is the time at which they are most able to receive funding in scholarship form, and that is a time when they most certainly need to be in an absolute centre of excellence. There are no good departments of anything with three or four faculty members, and some faculties have only two persons in a department these days. That matter has to be resolved.

Senator TIERNEY—Back to the early point on distance, the centrepiece of the Labor Party's last policy happened to be an online university of 100,000 students, which I think we all agreed at the end was not a workable concept, particularly at the undergraduate level. Going back to the central point you are making on this distribution, you are saying you want to do it more at the postgraduate level, but how do you structure that? If you have a faculty in any location, it will be only undergraduate and postgraduate. Are you suggesting that the wider spread be ones who are just doing undergraduate courses and not postgraduate courses? It cuts against the way in which universities are traditionally organised.

Dr Beaton—It cuts against the way that the universities have been traditionally organised since the Dawkins reforms. It does not cut against the grain of international university systems, which are quite often tiered—you have some universities that provide high-quality teaching and their faculty members are expected to do a little research. They provide a superb basis for the students to understand the breadth and depth of their field, and then, when it is time for them to work on their postgraduate qualifications, they pack their bags and go. That is not an unusual way to manage it.

Senator TIERNEY—I would like to turn to the issue of the development of off-budget sources of funding within universities over the last 15 years. Just due to the nature of the activities of departments that have a commercial orientation, the sciences tend to do a little better with funding, perhaps, than the humanities. My question relates to what happens internally in universities with the total pool of funding and the way in which that balances across the sciences and the humanities. Are your academies taking up this issue across the system? In my experience of sitting on the council of a university, the way humanities were treated always seemed a little unfair. It seemed that the surplus of funding that came in was not sufficiently moved across the entire university. Obviously a lot of your courses cannot be commercial and you cannot raise the sort of money that some of the sciences and business schools can.

Prof. McCalman—I think that is a very good point, but I have one or two caveats. For a start, part of the problem is that we are excluded, in a sense, from proving our abilities to raise money commercially. Let me give you an example. Ten years ago I managed to bring about the first special research centre in the humanities—there are still only two in the humanities, compared with the sciences. I got the new centre up despite the fact that the framing of the application is quite patently levelled at scientists and not at humanists in any way. That centre still exists and for the five-year period it has been operating at the ANU it is the fastest external raiser of money in the university bar none, not in terms of its absolute amounts but in terms of its proportion. That is a humanities and social sciences institution.

We are barred by the ARC's structures from applying for cooperative, collaborative or special research centres. There is an assumption that the humanities are less able to raise money. I know you are a member of the Council of the National Library of Australia, Senator—that is largely a humanities institution and is a considerable raiser of money, as are the museums and the operas. These are part of the humanities remit. I think a new way of thinking about the humanities needs to be instituted. But the second part of your question is absolutely correct: the situation is true in universities where the bulk of students are in the humanities and the bulk of funding goes to the sciences. That happens because universities are rewarded internally by heading in that direction.

Senator TIERNEY—Given there are so many humanities and social sciences academics across the country and you have two peak organisations, which you represent, what lobbying have you done of universities or of the AVCC to try and change these formulas that seem to work within universities?

Prof. McCalman—We have done intensive lobbying but, again, there are certain structural anomalies that we have to deal with. There is no chief social scientist or chief humanist; there is a Chief Scientist. There are no humanists or social scientists on PIMSEC. We do not get access. We are now going through a phase of developing Backing Australia's Ability mark 2. There is no humanist represented on the committee for mapping the success of mark 1 and therefore building on that. There is no social scientist either. We have been lobbying intensively again and again to get ourselves represented despite what I think is a very successful exclusion, largely on the part of the sciences, of humanities and social sciences representation on these bodies.

Senator TIERNEY—There must be some vice-chancellors around out of the humanities and social sciences. Are you making any headway in those areas?

Prof. McCalman—Making a bit of headway. The vice-chancellor of the University of Queensland is a humanist and has certainly been lobbying for us. The former vice-chancellor of UWA was also a good lobbyist for us. We do not have an equivalent body to FASTS; we are getting one up. I think that will help greatly. We are starting a body at the moment and I think that will help us, but we are a long way behind the eight ball.

Senator TIERNEY—Professor, in the Academy of the Humanities submission, you are critical of the way in which fee paying might work to bring in students of a lower standard. Surely fee-paying courses by their nature are going to be high demand courses. Is it the fact that, if the cut-off is 90, you might be bringing in someone at 89 or 88? It would, in a lot of cases, be fairly marginal—between super bright and very bright.

Prof. McCalman—But it is the super bright we want, don't we?

Senator TIERNEY—Yes, but it is right on the margin, though, in a lot of cases— isn't it?

Prof. McCalman—In some cases, I think it is.

Senator TIERNEY—People just miss law at this university, pay a fee and go there, and it then frees up a place for someone else at another university.

Prof. McCalman—I agree with you—commonsense says that that is what would happen a lot of the time. But I think that, if a university vice-chancellor pursues fee paying in a quite reckless or ruthless way—as has been done, for example, with the Asian market, as we know—that can lead to some severe skewing.

Senator TIERNEY—That is the overseas markets. That would be a different question.

CHAIR—I understand Senator Crossin would like to ask a question.

Senator CROSSIN—Earlier in your evidence, you made mention of the fact that you believed that universities needed to specialise and have narrow courses. You gave the example of James Cook University. Do you believe that each student around this country has a right to be able to access a basic arts or science degree, no matter which university they go to?

Dr Beaton—Could you repeat the last part of that question, please?

Senator CROSSIN—Do you believe that students, particularly those in regional universities and those who live in regional Australia, should be able to access at least basic arts, science or business courses in each of those regions?

Dr Beaton—The answer is, bluntly, no. I do not think the facilities are available to fund it, and I will tell you very quickly exactly why. I note that there is \$9.6 billion available to fund all of the programs at the 38 universities. That is to do undergraduate teaching and postgraduate teaching and to keep some of the research trundling along.

By comparison—and I am sorry if this sounds invidious but it is—the University of California system has only eight campuses. They try to provide undergraduate and postgraduate teaching and research at a high level. That is their conceit. They think they do a reasonably good job of it. They put \$A170 billion a year into that. To get back to your question on whether the student has the right to access any of those courses at a regional university, the answer is that they cannot in those circumstances. If the student cannot pack up and move to where the teaching is then the student needs the kind of motivation that perhaps government could offer to encourage them to do that. It is not a bad thing when you consider that no-one is guaranteed employment around the corner from their existing home. They may have to move to take a job. Why shouldn't they have to move to go to university? They should get used to it.

Senator CROSSIN—Except that there is very limited assistance to get people who live in regional and rural Australia to move interstate in terms of airfares and rental assistance. Particularly under the current Youth Allowance provisions, many families struggle not only to

get their children through university but to relocate them, in my case, to a southern capital city. At the end of the day, it would seem that a lot of students do not go to university but they might well otherwise do that if they had access to courses close to them. I appreciate your comment, but do you not believe that if students actually attend regional universities they will be more likely to stay in their region and benefit their region?

Dr Beaton—I have no evidence one way or the other for the latter. My suspicion is that students probably do not stay in regional locations anyway. The draw to big cities is an international phenomenon that you cannot do anything about in this forum. You want to consider the fact that, if you try to spread too few dollars over too many regional and other universities, what you are asking your students to do, even though it may be more comfortable and even more affordable for them, is to take part in a lower quality education than they would get if they went to a centre of excellence. There are ways of managing moving students. To my way of seeing the current situation, there is no way of supplying a centre of excellence everywhere here.

Senator CROSSIN—Thank you.

Senator STOTT DESPOJA—Maybe you would be prepared to take some questions on notice if we run out of time. I was going to ask you, Dr Beaton: what happened to those robots that were supposed to save us all that housework time? More seriously, on the issue of the Australian Universities Commission, I wanted you to expand on the recommendation with regard to what you call a buffer between government and higher education institutions. Do you think that we have suffered because we have had a lack of independent, government funded, available advice?

Dr Beaton—Immensely. We are doing it now. I do not know whether this is suffering or not, but going through Crossroads and the various reviews is tortuous. In our institutions, people are asked to do their third or fourth volunteer job for this. We really do need somebody with a bit more grunt than the AVCC, for instance. We are looking to do something with a whole of government approach to resolving problems. Can we not have a whole of intellect approach to meet with that, where we have social sciences, humanities, sciences, technology and engineering jointly intellectually providing advice? The element of trust must come in here at some stage. The Canadians in recent years—and I am not one of them—have put billions into education. Their federal government have put billions of dollars into their tertiary education system. They did it by creating something like a CTEC except giving them the money and saying—can you imagine this?—‘We trust you. You are the people who know best how to spend on your own problems at universities. Just tell us how you’re going from time to time. We don’t want to know in the first instance.’ We need an element of trust between government and tertiary institutions.

Prof. McCalman—We also need a recognition that we are professionals in our sphere and that we do know what we are talking about.

Senator STOTT DESPOJA—Despite the temptation to pick up some of those issues in relation to autonomy—the Chair has already questioned you about those—it is interesting that yours is one of the few submissions that make a recommendation about the provision of advice. When I have asked other witnesses about whether we need some kind of formalised board—and you have, obviously, recommended a commission along the lines of one we have had previously—they have claimed that there is not a lack of independent evidence per se but a lack

of formalised, government funded independent evidence. Did you have a view on or were you aware of the workings of the National Board of Employment, Education and Training—the NBEET board—that used to exist?

Prof. McCalman—No. It was before my time.

Senator STOTT DESPOJA—Owing to the time, I will put further questions on notice.

Dr Beaton—I highly recommend Peter Karmel's paper.

CHAIR—We will accept that as supplementary evidence to your submission. Thank you to both of you for coming today.

Proceedings suspended from 10.36 a.m. to 10.50 a.m.

CHAPMAN, Professor Bruce, (Private capacity)

CHAIR—Welcome. Is there anything you would like to add about the capacity in which you appear?

Prof. Chapman—I am a Professor of Economics at the Research School of Social Sciences at the Australian National University. I wrote a submission focusing on the financing issues raised in the budget. That is an area I have been interested in and done a lot of work in over about the last 15 years.

CHAIR—The committee has before it submission No. 403. Are there any changes you would like to make to that?

Prof. Chapman—There is a change to one of the net present value calculations in table 3. It is too precise to take up any time now, and I will fix it later. It is just that one of the figures is incorrect. I did some recalculations. I do not think it is material to the major part of it.

CHAIR—You will give us a supplementary—

Prof. Chapman—I will do that, yes.

CHAIR—Thank you. The committee prefers all evidence to be given in public, although the committee will also consider any request for all or part of your evidence to be given in camera. However, I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Prof. Chapman—Thank you very much, and thank you for inviting me into this process. Apart from the technical issues which I am particularly interested in, I thought that the Crossroads process was a productive one. It was carried out in a very inclusive way. I think the minister and the department have done their best in an open-minded way to seek consultation in a way that I think is a template for government inquiry. The second point I would like to make is that my submission is mine only and does not represent the views of the Australian National University—or of anybody else, as far as I know. Thirdly, I want to keep my remarks and observations focused on the financing issues—that is, the changes to HECS, the nature of indexation, the potential introduction of fee help and the questions of what price flexibility means for student debt and student access.

There are a couple of broad issues which lie behind my concerns and interests in financing of higher education in Australia over the last 15 years or so. The first major point relates to indexation. The indexation arrangements introduced in 1995 are essentially about adjusting public sector funding for assumptions about cost increases. In the context of enterprise bargaining, this is very unlikely to mean there will be the maintenance of public sector financial support to facilitate the nature of wage and salary adjustments that will happen in an enterprise bargaining system. I think you only need to understand the indexation changes from 1995 to 2003 to have a good sense of why universities feel like they have been in trouble. They have been in trouble essentially because the wage bargains have exceeded the cost adjustments by

roughly 1½ or two per cent a year. If you do that over nine years then you get a shortfall—which we have currently—of the order of \$600 million to \$700 million compared with what there would be if the adjustment process was in accordance with percentage changes in average weekly earnings, which it has not been.

The second point is that I have thought for a while that some price flexibility is appropriate. In general, I would support the thrust and the directions of HECS help. In particular, I think it is a useful thing in the context of price flexibility that the resources go directly to the universities rather than straight into the Treasury, which is where HECS revenue has always gone. There are no resource allocation implications from that; it is basically the government switching pricing responsibility or resource responsibility away from taxpayers and towards students. There is a case for that, but things can be done better in terms of allocation efficiency—and that is part of the budget proposals, and I think that is a productive step.

I think extending income-contingent loans to full fee-paying students is a positive thing. However, that only moves the policy from very poor to poor. I believe that the case for having full fee-paying arrangements is a weak case. I will discuss, if invited—perhaps even if not invited—why price capping is and should be a fundamental way of thinking about higher education financing. That leads me to believe that fee help arrangements are fundamentally in error. I think they are in error for several other reasons as well. A real interest rate on the fee help debt is unnecessary and administratively very clumsy. All the fee help arrangements could be moved straight back into the HECS system without any cost at all. It would be a fairer and more progressive system.

There are a couple of things missing from this document and missing, in my view, from the nature of the debate. I sound a bit like a broken record; I must have said this a thousand times before and I will keep on saying it: I think the TAFE funding arrangements are very, very poor. If we think that there is a capital market failure which promotes for policy the idea that an income-contingent payment scheme is entirely appropriate for tertiary education, it is very unfortunate that this has not happened in TAFE. People say, ‘Oh, but TAFE is a states issue’. But capital market problems are exactly the same with TAFE funding, so to have up-front fees with scholarships and exemptions for TAFE when you actually have a mechanism to allow income-contingent to full protected loans I think is very unfortunate. I also think there is capacity to extend HECS loans for income support across the board, particularly for regional students. The idea that somebody in the country or in a rural town faces similar costs to somebody in the city is not accurate. You can actually extend HECS type loans, in my view, in the long run without cost, and I will explain that when asked. Thank you.

CHAIR—I might begin, Professor Chapman, with an article that you wrote for the *Sydney Morning Herald* of Monday, 18 August. That concerned the controversy that emerged around the research that was produced by Tom Karmel. The government cited your research to counter Dr Karmel’s research. Have I understood the proposition you are putting to us—that there was no inconsistency between the findings of your research and Dr Karmel’s research?

Prof. Chapman—They were asking empirically different questions. The research that I have been involved in looked at the socioeconomic mix of higher education students over time in terms of enrolments. There was some analysis of that done by Tom Karmel and his colleagues, but much of the attention was focused on the issue of applications. None of the work that I have

been involved in looked at applications. You have to understand that in a supply-constrained system there are two steps to getting in: one is to apply and two, if considered qualified, is to accept or not accept a place and to become enrolled. The work that I have done, particularly with Chris Ryan, really focused on the enrolment issue, and we found overall that there had not been a change in the socioeconomic mix of higher education students from 1988 to 2000.

The Karmel work looked at applications. I think that you are more likely to find a price sensitivity in applications than in enrolments. For one group, males from relatively poor backgrounds applying to band 3 courses—which are the more expensive ones; bands 1, 2 and 3 were introduced in 1997—there was a decrease. I have had quite a close look at that work. I think it was competent work, I think it was carried out with intellectual curiosity as its basis and I wanted to make that statement in the *Sydney Morning Herald* that I thought it was a good thing it was made public, that it was worthy of serious attention and that the issues to do with data and the alleged inconsistency between the work I had been doing and the work of Karmel and his colleagues was not real, because we were looking at different issues.

CHAIR—You have commented on how good the consultation process was in the run-up to this package, yet that critical research, prepared by government officers, showing that there was an effect in terms of demand for certain courses—which is not unreasonable; if you increase the price by 132 per cent, you may well affect people's capacity to pay—was suppressed. Why do you think that was? Was it methodologically flawed, in your judgment?

Prof. Chapman—No, it was not methodologically flawed, in my judgment. In terms of consultation, I cannot comment on what goes on within government, as I am not within government. My comment about the process was in terms of the inclusion of people outside of government interested in this process, of whom I was one. I was very happy with the way it went.

CHAIR—But if we are to have a proper consultative process and a policy that is evidence based, or evidence driven, surely the withholding of basic information such as that, available to the government and prepared for publication—the authors of the report believed it was prepared for publication—casts some doubt on our capacity to have confidence in the genuine nature of the consultation?

Prof. Chapman—I was just pleased that it finally did get released. It is an important contribution.

CHAIR—I note that you have suggested—and so has David Phillips—that the proposals for FEE-HELP and full fee-paying arrangements may have quite serious implications in equity terms. Do you think the \$50,000 cap on FEE-HELP loans could lead to people having to pay top-up up-front fees?

Prof. Chapman—I think that is quite possible. I do not know how this might work in practice, but I am trying to imagine a scenario where you would like to put a cap on loans of this kind. One possible scenario is that you believe that the cap will influence the pricing policy, such that a particular course within a particular institution will say, 'We're going to get a lot of students who have already got a FEE-HELP debt of \$40,000, so if they are going to do our graduate diploma or our public policy master's then we'll limit it to \$10,000 so it doesn't go

over.’ But I actually think that is not the way this would work. I think the economics of that would mean you would actually have rough guesses about the level of total debt of the students applying but you would not know.

I think as an instrument to encourage restrictions in terms of price levels this will be ineffective. One of the consequences of it being ineffective is that students who drop out for some reason—they may have a medical condition or some other problem—who have to repeat or who take on an extra course might be faced with a cap of a debt of \$50,000. What is the story then? It takes you straight back to the capital market failure which characterises all higher education investments. Banks will not lend because they have no collateral to sell. It is the most critical reason to have an income contingent loan, because, in the absence of some financing mechanism which means you do not have to find the resources at the point of entry, you will stop poor people coming. In this case, there is the potential for some individuals with a debt already of \$50,000 needing to find \$6,000 or \$7,000. Where do they get it? I have no idea. This is basically going back to the original debate which encourages and strongly justifies the use of an income contingent loan mechanism. So I think it is an error—potentially an important error.

CHAIR—The committee has heard evidence that there are some difficulties with the administrative arrangements that accompany these proposed loans. Is that your view? How do you see the administration of such a scheme working?

Prof. Chapman—Apart from the cap, which we have just discussed, there is an interest rate regime on FEE-HELP, which is not true for HECS. I will explain briefly for the record how I understand it. If I incur a HECS debt of \$20,000 and then incur a FEE-HELP debt in year 1, there will be two debt streams being adjusted in the Australian Taxation Office. The HECS debt will be adjusted for the rate of inflation, while the FEE-HELP debt will be adjusted for the rate of inflation plus 3.5 per cent per annum for 10 years.

Let us say that after the first year I incur another FEE-HELP debt. The adjustment process for stream 1, which is HECS, has inflation all the way along and nothing on top. For FEE-HELP stage 1, I get adjustments of 3.5 per cent on top of inflation for 10 years, and then in the 11th year it goes back to being like a HECS debt. But meanwhile I have incurred FEE-HELP for year 2, so that adjustment process still goes on at 3.5 per cent of that clump of debt in year 11. So already in this fairly simple scenario, I have three adjustment processes going on.

Simplicity is really important in public policy. Often economic textbooks do not do it very well, because they do not understand simplicity. If I am trying to sell or facilitate the adoption of a scheme with at least potentially three, four or five regimes of interest rate adjustments and I say to a student, ‘How much do you think you owe?’ do you imagine they will have any idea of how much they owe? With HECS it is very simple. To put this adjustment process on top of a system which works okay seems unnecessary to me. It is also regressive.

One of the reasons that we want relatively small adjustments in a HECS debt in the future is to minimise risk and uncertainty. The basic problem with undertaking a human capital investment is that we do not know where we will end up in the future. So a system like HECS says, ‘We do not want you to worry about that too much, because if you are not over the threshold there is no adjustment. If you are over the threshold, we are only going to adjust it for inflation.’ So things are fairly straightforward. In a world where you potentially have three, four or five—I am

exaggerating a little on this, but it could easily be two or three—debt adjustment processes going on, students will not have easy access to their economic circumstances in that context.

Senator STOTT DESPOJA—I want to follow that up. You may have pre-empted or answered this, but you talked about the system being regressive. I can understand the complications and you have outlined the difficulties with administration, the adjustments et cetera. What about the equity implications of students having to pay back their HECS debt first? This presumably inevitably delays them repaying their FEE-HELP, which as you have said could be one or two lots. What impact does having to pay the non-interest bearing loan back first have?

Prof. Chapman—It is designed to be financially efficient for a government. Once the debt is incurred, there is a subsidy going on to students who do not pay it. An interest rate on top of it fixes it for the government and for the budget but not for the student. That is why I thought it was financially prudent but not good policy to have the HECS paid first and the FEE-HELP paid later. This can all be fixed absolutely trivially. HECS, as currently designed and as has been operating since 1989, has a real interest rate on it—a very blunt form of real interest rate. It takes the form that if you, I or anybody pays HECS up-front they get a 25 per cent discount. In other words, anyone who incurs the debt is going to be incurring about a third more on paper in real terms. It is progressive in the sense that if they do very poorly in the labour market, are unemployed or in a part-time job, it takes them a relatively long time. Because the adjustment process is not the real rate of interest, you have an ongoing subsidy which says, ‘We want means testing but we want means testing over your life cycle.’ That is what HECS does and does effectively, because it has no real rate of interest on top of the debt. FEE-HELP does not do that; it does away with it.

If you took a FEE-HELP debt, you could say for somebody—let me just make up some figures here—the charge is \$1,000. It is more likely to be \$10,000—let us agree it is \$10,000. You can pay the \$10,000 now or we are going to get put it straight back into your HECS account—they will all have HECS accounts probably. You have to incur a debt in real terms on paper of \$12,500. So it goes in there. After that, there is no further adjustment—no nasty shocks, because you are under the threshold for five years and your debt is accumulating at 3.5 per cent plus inflation, which will be probably in the order of six or seven per cent. People find this difficult to deal with, and it happened in New Zealand. With a real rate of interest on the debt in New Zealand, after six or seven years \$20,000 debts suddenly became \$40,000 for students without jobs, who were rearing children or were unemployed. This was a shock, and they had not taken it into account.

Under the HECS system the real rate of interest is there in terms of the up-front discount. That makes it completely simple. It does away with the regressivity of the people who are doing poorly in the labour market incurring the 3.5 per cent ongoing in circumstances over which they typically have no control.

CHAIR—This bill, when examined in detail, does not, according to the evidence we have received, do what the government says it intends to do. For instance, the question of the 30 per cent surcharge is confined for one year only. Would you agree?

Prof. Chapman—I do not know. My understanding of the bill is that that would be introduced in 2005. I just presumed that that would continue.

CHAIR—That is not what the bill actually says.

Prof. Chapman—I was not aware of that. If it does mean that, and that is a really serious issue, are you implying that in 2005 if all this goes through you have a one-off potential to increase a HECS charge by 30 and after that it all goes to FEE-HELP?

CHAIR—I could point you to that matter. I could point you, for instance, to clause 36-35, which states that there may be:

... a course of study that the agreement provides is a course in which the provider must not enrol persons in units of study as Commonwealth supported students ...

There could be 100 per cent full fee-paying students—100 per cent—and there could in other clauses be a variation on the surcharge. Given that we do not have this sort of detail nailed down, how do you think that affects the operation of this particular program?

Prof. Chapman—You are implying that HECS-HELP can become FEE-HELP. In other words, the 30 per cent cap can become price discretionary for an institution. I can address that not with respect to your interpretation of the clause, which I have no reason to doubt and I will take on notice and look at closely myself, but if you do turn a situation more into FEE-HELP then the poorer is the policy. The arguments for price capping are very strong. In a world in which the best placed universities do not pay rent and they have a major advantage in geography, and in a world where many institutions have had a hundred or more years of public sector subsidies to establish their reputation, then when you restrict supply—and by the way, not just restricting supply—and say, ‘You can charge whatever you like,’ you deliver very substantial rents to those institutions in ways that are inconsistent with good economic policy. That is a fundamental point. That is why I have always been in favour of a price-capping regime, including for PELS, instead of unfettered price discretion. The unfettered price discretion is part of FEE-HELP and in my view this would radically alter the balance between the provision of subsidies or financial support from taxpayers towards students.

I put that back in the initial context in which I made the observations about indexation. The lack of full indexation, which started in 1995, was always going to create a tension in the institutions until there was a price instrument. There has been a price instrument, which is overseas students, and that was an important way to alleviate that problem. But that stops at some point. What the government is doing now is introducing a further price instrument, which is flexibility on HECS-HELP, which I think is good policy, but it is totally discretionary on FEE-HELP. The system with its current arrangements must inevitably mean that if there is no change to the indexation then this price instrument will cause a radical change in the burden of financial resources. No institution will be able to survive down the track without increasing the HECS charges. That is because for every year that they do not do it you have potentially a two per cent shortfall coming from the lack of full supplementation. All the institutions down the track will, in my view, have higher HECS arrangements. The better placed ones, the Universities of Melbourne, Queensland, New South Wales and perhaps Western Australia, will go very quickly to situations in which the number of students paying full fees will increase. Melbourne has already announced that and I think Sydney will.

CHAIR—Monash has; a number of them have. You are saying that that is inevitably spreading throughout the system.

Prof. Chapman—If institutions have in an ongoing sense basically less than full supplementation from taxpayer resources and they want to stay where they are or improve their level of financial resources, they have got to use instruments. There is now a price instrument and, as I said, it is complicated. Some part of the price instrument is a good idea; another part is not. I think some institutions will very rapidly fill up their quota, which now stands at 25 per cent, to the 50 per cent of full fee-paying students—no surprises at all; we could pick them now—and that will happen. The reason it will be more radical than has been supposed in media statements or perhaps even by the government is that there is now an income-contingent loan available.

There should be no surprises that allowing the institutions to charge whatever they wanted to up-front had almost no take-up—6,000 full-time places since 1997 out of a total student undergraduate population of 600,000. There is no surprise there, because you have got to find the money: you have got to find the \$15,000 or the \$20,000. This is a capital market which will not work without government intervention. You might even be surprised that there are as many as 6,000 or 7,000 students. Once you have got an income related loan, you do not have to find the money. So the idea that the number of places would approximately double because the quota has gone from 25 per cent to 50 per cent misses that fundamental financing point. I think the potential for that being big is significant.

CHAIR—You are arguing that it is inequitable, that the situation will arise where people with the same or similar TER scores may well have different financial relationships to the university. For instance, there may be persons who have a similar entry score but some are paying on a HECS place and some are paying for a full fee place and so will have considerably different financial obligations to the university. Have I read your submission correctly?

Prof. Chapman—I think I come at this pretty much where David Phillips comes at this. We have worked together over the years on these issues. His notion of the appropriate way to go in pricing has several dimensions: (1), to treat all the students identically in terms of debt; (2), to have price discretion—he suggests up to 40; I think that is a little high, but I could live with 30, and that is what HECS-HELP is about; and (3) not to put quota restrictions on it. The government could still supply the same amount of subsidies across the board, but then to say to the universities, ‘Above and beyond that, if you want more students, we will let you decide.’ Who has got the information here? I think David’s plan is basically correct. It will give a lot of price flexibility. He would focus, maybe even more than I would, on the inequity of individuals doing identical courses but paying very different charges.

CHAIR—My question goes to the issue of discrimination. How will you determine which student pays the full fee and which has the HECS place, if we are acknowledging that similar TER scores will no longer be an automatic entry? This is accentuated because there are no demographic growth funded places in the system to 2007 and very few thereafter, on my reading of it. Won’t that lead to a discrimination?

Prof. Chapman—I do not know that I would use the word ‘discrimination’. It certainly would lead to a very differential treatment of students who look roughly the same. There has got to be a

cut-off point. I imagine that the University of Melbourne Law School will quite quickly fill its quota, and that means 50 per cent of the students will be incurring debts of maybe \$15,000 or more compared to people sitting next to them who look approximately the same in terms of entry qualifications but who will be incurring debts of about \$6,000.

I also do not know what will happen after year 1. I have spoken to several vice-chancellors who have different views about this. View No. 1 is: as a vice-chancellor, is the university going to allow students to continue to come in under full fee-paying HECS covered debts? You cannot then transfer it to a HECS scholarship in year 2. That looks a little strange. For instance, let us imagine I did not do as well as I potentially could have in high school and then I did brilliantly at university but I am still incurring and will continue to incur a full fee-paying charge, even if I finish top of the class. You are making these critical points at the point of entry, which will have four- or five-year implications.

The other issue associated with that, not just inequity but matters of scholarship, is that it has to be seen in the context of the price capping. If I undertake a four-year degree and I am paying full fees—let me just make up a figure of \$15,000 a year, which is approximately what law at Melbourne would be—when I get to year 4, if I have not been allowed to move to a HECS place suddenly I am up to \$60,000. Where is the other \$10,000 coming from? It goes back to price capping. I can see lots of problems with that. Similarly, there might be other issues of equity associated with people who do move onto a HECS scholarship. These are matters which seem to me to be important details that are not that clear at this point.

CHAIR—There is also the question of the legal implications. Will it not expose universities to serious legal challenge? I would have thought that every entry could be judiciable. If two students with similar markings and similar TER scores are being treated differently in financial terms and may move between the two streams—fee paying or HECS places—could it not lead to serious legal implications for universities?

Prof. Chapman—It could very well do that, but this issue has been around since 1997. Institutions have had the capacity to charge full fees—and, indeed, without recourse to an income related loan—since that time. So there are still 6,000 students in the system who are facing extremely different financial arrangements than HECS students. This would make it more widespread.

CHAIR—But the difference is their TER scores. We have heard evidence of up to 20 and 25 points difference. That is a substantially different situation from what we are facing today, where students with the same TER score may be treated differently, in financial terms, by the university.

Prof. Chapman—I guess that David Phillips and I are making that point differently. The inequities do seem to be strange. I approach this more as the neoclassical economist and then ask myself the question: what sort of reasoning will justify full fee-paying discretion at the institutions? I think the case is very weak.

CHAIR—You have proposed to government that there should be a surcharge up-front. That is the policy position you put to government through the Crossroads review, isn't it?

Prof. Chapman—What do you mean ‘surcharge’?

CHAIR—For full fee-paying students, instead of having an interest rate contingent loan, you proposed that a student be charged a surcharge at the commencement of their program. Is that correct?

Prof. Chapman—I have always been strongly against any up-front charge of any kind—

CHAIR—Did you not propose a surcharge arrangement rather than an interest rate—

Prof. Chapman—Oh yes, that is certainly true. That gets us back to the nature of the interest rate adjustment on FEE-HELP compared with HECS or HECS-HELP.

CHAIR—I misunderstood you. It was not an up-front charge but a surcharge built into the repayment.

Prof. Chapman—Yes. If I am going to enrol in a course and I have the money—or my parents or my partner have the money and they are prepared to take the risk that I am going to do so well in the future that they are better off paying now with a discount—that is the right way of organising a blunt form of real interest rate. If you have got the money and you want to pay it, as has been true since 1989, just pay the money and we will leave you alone. If not, you incur debt which is higher in real terms.

CHAIR—Why was that proposal rejected? Were you ever given an explanation?

Prof. Chapman—Which proposal?

CHAIR—The proposal to have the surcharge built into the repayment schedule.

Prof. Chapman—It was not rejected in 1989. It was part of policy.

CHAIR—I am talking about the current arrangements. You put this position to government within the last year, did you not?

Prof. Chapman—Yes, I put that position to government. Lots of positions that I have put to government do not get taken up—the vast majority, I would say. People do not actually say, ‘Bruce, you and 500 other people have made submissions—

CHAIR—It was my understanding that this was a matter of some substantive debate within the department in the run-up to the announcements. I was wondering whether or not you were ever given any indication as to why that particular argument—your side of the argument—was lost within the policy framework process.

Prof. Chapman—I am just guessing, but it might be that this concept of the up-front payment getting a discount as an interest rate is a very hard concept. Most people do not think of that up-front payment as a 25 per cent discount. It is actually the other side of the coin, being an implicit real interest rate on the incurred debt. These are financial matters of some complexity. To my shame, I do not think I really understood that until a few years ago. That is a useful way of

thinking about that. It just may be that the matters of detail and the financial sophistication has meant that, in the absence of it being explained with total clarity—and perhaps I have not done that—it has not been fully understood.

Senator TIERNEY—I would like to start with some international comparisons. In the United States of course there is a much more extensive private system of universities with fee systems for undergraduates. Could you explain in a nutshell how students in America undertaking such courses and paying fees actually pay those back?

Prof. Chapman—I should say first of all that the extent of debt and the extent of fee obligations in the United States is very diverse—public sector state universities are quite different from private institutions.

Senator TIERNEY—There is a much higher proportion of private institutions, isn't there?

Prof. Chapman—Yes, certainly compared to Australia. At the best institutions, particularly the best private institutions, in the United States the charges are significantly higher than they are in Australia. There are loan mechanisms. There is actually an income-contingent loan mechanism in US legislation, but I defy anyone to understand it. The complications in the way it is written and presented suggest to me that there were commercial bodies dedicated to having this system not work—and they have done that extremely successfully because the take-up of the Clinton administration's income-contingent loan is trivial. Something like 94 per cent of students questioned in surveys have never heard of it.

Most of the loans are operated in a means-tested environment—that is, means-tested on the basis of family income—and are mortgage type loans. The financial resources come from a bank and are guaranteed by government. The government guarantees have several implications, or at least reasons for being. One is that, in the absence of a government guarantee, a bank will not provide the money because the default risk is too high. What that does is to promote higher defaults because banks do not want to chase individuals when the government is going to pay the debt for them. So they turn out to be fairly expensive for taxpayers. I will give you an example. In US proprietary colleges, which are roughly equivalent to our TAFEs, the default levels of debt are around 50 per cent. A rough rule of thumb for the Sallie Mae debts, or the other mortgage type bank debts, would be somewhere between 15 and 30 per cent.

Most importantly, the debts show no sensitivity to future income, and this is the main reason to have an income related loans system because it takes away all default risk if it is designed properly. I actually think it is too generous at the moment. I think the first income threshold is too low; and I think one productive thing out of this whole debate has been that the government wanted to lift it to \$30,000, and the ALP supported it going to \$35,000. I think that is progress. In the United States of course if you incur one of these debts and you have a really bad year—you lose your job, you are crook or you are in only part-time work because of some reason which you have no control over—the bank is still knocking on your door asking for that money. That is a major credit risk for individuals because once you default on the payment of a student loan it effects you access to whole lot of other loans potentially bigger than that one; for example, a loan for a house. This is the problem with bank loan arrangements. You can fix up the default problem for the lender—that is, the bank—by having the government offer a guarantee

but you can never fix up the default problem, the credit risk, for the borrower unless you have a system which shows sensitivity to future circumstances, which are typically hard to know.

One of implications of the US arrangements, particularly with respect to lawyers, is that, given that the debts are so high and the sensitivity to income is nonexistent, there is a major issue in terms of job choice. These days in the United States people come out of the top law schools with debts of \$US120,000—and that is not unusual; \$80,000 would be fairly typical. Those graduates are not going to work for the equivalent of legal aid anymore because they cannot afford it. They have to become corporate lawyers. There have been major implications for job choice because of their debt arrangements.

Some of the law schools—I will not keep on talking about US law schools much more; in fact I only know about another 30 seconds worth in total on this topic—now have schemes to encourage public sector law job choice. We do not have to do that, and neither do other countries with income related loans, because if you choose a low-paying job in this country you are faced with a debt which shows sensitivity to the repayment obligations. In a nutshell, I really do not like the way the US does it. I think it is fundamentally flawed.

Senator TIERNEY—You have not mentioned their interest rates. You have mentioned banks being involved and knocking on your door. What sort of interest rates are they?

Prof. Chapman—I do not know the details but I imagine they would be something like the real long-term government bond rates, so roughly add four per cent to inflation. In Australian current circumstances, it may be seven per cent per year.

Senator TIERNEY—Before we got into government, I went over to New Zealand to have a look at their StudyRight scheme, which superficially at that stage looked reasonably attractive. People could borrow money for fees, books and living costs. It seemed to have a problem with the real interest rate, which I think was then running at about nine per cent. What are your views on that scheme, and how might they have varied that scheme or updated it?

Prof. Chapman—If they have understood the nature of the HECS real interest rate adjustment, then that would have been a more sensible way to go for the reasons that I alluded to before. In the New Zealand system, they put a real rate of interest on the debt, which I think is poor economics because it does not remove the uncertainty. The problem with a real interest rate, or an income related debt, is that this is practically the only loan you can take whereby you do not know how much you are going to pay if you have a real interest rate on the debt. So I might find myself in New Zealand with three years worth of debt. Let us imagine I did really badly in the labour market: for example, I did not finish my degree. As 25 to 30 per cent of students do not graduate, you want a system of repayment which is sensitive to that. So I am in New Zealand and did not finish and I have a pretty poor job because I did not graduate. I am incurring this really large debt because I am under the threshold—or just over the threshold—so the debt accumulation with the real rate of interest of four per cent or whatever it is is beyond my control. So I am sitting there, aged 24, and thinking, ‘Wait a minute. This debt is just cranking up here. I did not want this contract. I wanted a contract which gave me default protection.’ Default protection is much more likely to be the case when you have a situation where there is no real adjustment on the rate of interest after the initial point.

Getting back to the Australian debate, this is the problem with FEE-HELP; it is not a problem with HECS-HELP. Whoever designed FEE-HELP, if they were going to put a real rate of interest on it, they got it about right by having it stop after 10 years. It is not a huge issue; it is nowhere near as poor as it would be if it was ongoing, because it stops after 10 years.

Senator TIERNEY—The New Zealand one keeps compounding upwards.

Prof Chapman—The New Zealand one has gone through several stages. They had a real rate of interest independently of circumstance, as I understand it. For four or five years it was pretty unpopular. Most of the student complaints were about that, as far as I could tell. Adjustments were then put in place which meant that, under certain circumstances written in legislation, the real rate of interest would go to zero if you satisfied certain criteria, during the period in which you were studying or if you had a child. It is now administratively very expensive to run the New Zealand system because of the complexities associated with real interest rate adjustments. The other thing in New Zealand is that a lot of people leave, and the adjustment of their debt while they are overseas is ongoing and quite tough. I have spoken to New Zealand graduates who say, ‘Every second I sit here talking to you I am incurring another three bucks because of the debt over there.’ That is one of the reasons that people do not want to go back to that system.

We have that problem in Australia as well. Even though you have not asked me about this, I would like to make a policy suggestion. Some proportion of Australian graduates will leave the country. If you are from my era, you drive the Kombi around Europe until the engine falls out of it and then your mum flies you back home. You do return. But there will be a proportion of students who will not return, and they will have a HECS debt. There is no reason why we cannot fix that problem. I think the way to fix that problem is that, when people decide to agree to incur the repayment of an income-contingent loan like HECS, they also sign an agreement which says, ‘In the event of going overseas for more than six months, I will agree to pay the minimum HECS per year.’ Under the current arrangements, that would be something like \$1,000. If I am overseas I can still have legally binding HECS debt. We cannot run it through the tax system because it is too complicated, but having a minimum can fix that problem. You got me off the track, but I really wanted to say that.

Senator TIERNEY—Going to the discounts in up-front fees, which is a system you support, you are saying that people pay it off and then it is out of the way. I wonder if it is realistic to look at it that way, given the circumstances of most people. If you have an enormous amount of discretionary money, that is true; but the vast majority of people have mortgages and car debts, which have a considerably higher rate of interest than any of these. If you have discretionary money, isn’t it more sensible to pay off the home loan or the car loan, which are at a much higher rate than that of the up-front payment, as you tend to advocate? There is another side to the economics of it that covers their full life circumstances, not just what happens at—

Prof. Chapman—At the point of entry or once they have incurred the debt?

Senator TIERNEY—At the point of entry.

Prof. Chapman—It may be sensible, if you have the money.

Senator TIERNEY—I would put it to you that probably 98 per cent do not.

Prof. Chapman—That is why we have an income related scheme: you do not need the money.

Senator TIERNEY—I understand that; but it is much more economical for the individual, who has a choice of paying back that or paying back the home or car loan, to pay off those other debts because the interest rates are far higher.

Prof. Chapman—That is right. If you have incurred the debt, then for every year you do not pay that stock of debt, you are implicitly getting the financial benefit of a real rate of interest on the debt. You will not see it like that, and no-one will ever talk about it like that, but that is what it means. It is always in the individual's interest to pay off the higher rate debts as well. The system was designed so that individuals in difficult circumstances were not getting further penalised, and that is why the real rate of interest after you have incurred the debt was set at zero.

There is one other point I would like to make about this concept of debt. People talk about debt aversion, and you alluded a little bit to the stock of debt. I do not think it has been good public policy that this has not been explained properly. It is a stock, but the way HECS works financially is more as a flow of debt. You can say to somebody, 'My God! Look at this terribly huge stock of debt you have—\$30,000 in HECS! Aren't you worried about that?' I have said that to people and they say, 'Yes, I wish I didn't have that big stock of debt. I only have to pay it when I can afford to, so I try to ignore it.' Most graduates have a stock of debt at age 25 that is about \$1½ million. If you want to scare the clappers out of a young graduate, tell them, 'Your stock of debt is not \$25,000 in HECS; it is \$1½ million, because that is what you are going to pay in income tax in the next 40 years.' In administrative, practical terms—not in conceptual terms—HECS should not be considered a stock any differently than an income tax burden should be.

That is why there have been no major implications from this with respect to access. Even though the stock looks horrendous, in reality, because of the default protection it has not had important behavioural implications. You could make it have such implications by increasing the rates of repayment to make them very high or by bringing the income threshold back down, which would affect things. But your implication that this is kinder than a car debt or a house debt is completely accurate.

Senator TIERNEY—There has been a lot of concern expressed in terms of this bill about full fee-paying places, domestically, but of course the opportunities have been there for some time to do that. On your own figures, since 1996, it is running at about 6,000 students out of 600,000 students—about one per cent.

Prof. Chapman—I think that that is a cross-sectional empirical observation. Currently there are about 6,000. Since 1997 there would have been a stock which—

Senator TIERNEY—I assume you mean per year?

Prof. Chapman—Let us agree it is one per cent.

Senator TIERNEY—Yes, at one point in time there are maybe 6,000 students out of 600,000 students in the system. So what would your assessment be of a dramatic change in take-up rate under this bill? Surely it is always going to be fairly low?

Prof. Chapman—It will certainly be much higher than double. Let us just look at the legislation.

Senator TIERNEY—So you are talking about two per cent, then.

Prof. Chapman—No, I said ‘much higher’, not just double. The reason it will be much higher is that first of all, in legislative terms the quota goes from 25 to 50. By the way, it is not 25 or 50 on top of the current stock; it is 25 to 50 of the total number of places. So I would imagine that at the University of Melbourne in 2006, if this legislation passes, of the entry-level law class of 100, 50 will be paying full fees and 50 will be paying HECS.

Senator TIERNEY—That is on those high-demand courses.

Prof. Chapman—That is right.

Senator TIERNEY—If you go to your normal run of courses, you would not get anything like that. You would not get to fifty-fifty.

Prof. Chapman—Well, there will be some courses which will not do this at all, but there will be many courses which will do this, and do it with great enthusiasm. The reason the number will be far more than double is that there is now an income related borrowing facility.

CHAIR—Some will be 100 per cent, under this legislation.

Prof. Chapman—I would interpret that—

Senator TIERNEY—In very high-demand courses.

Prof. Chapman—The reason that that income related borrowing facility really matters to an assessment of take-up is that, currently, to get in a full fee-paying student, I have to have the money. In the future, I will not need the money. So the sensitivity of response to that particular institutional change has the potential to be very big. I think you are right: obviously it will only be in high-demand courses, but there are a lot of high-demand courses and a lot of very well-placed institutions with strong reputations sitting in the best part of town—and I have mentioned them before—that will be associated with big take-up here if this happens.

Senator TIERNEY—But as a percentage of the total 600,000, though.

Prof. Chapman—At the moment we are sitting at one per cent. The bottom line will be two per cent. I think that is not right. Who knows? It depends on the way the institutions react. Some of them will not want to do this in the short run but some of them will see over time, because of the lack of full indexation, that this is one way of supplementing that they did not have before. So I would say by the year 2007—and I hate to say things like, ‘Don’t quote me,’ because this is all being written down—it will be five or maybe 10 per cent. It will be much bigger than two.

Senator TIERNEY—But still, 90 or 95 per cent will not be. I am just reversing your figures.

Prof. Chapman—In some courses it will be very big.

Senator TIERNEY—I appreciate that, but I am talking about across the total student body. We are still not looking at a massive proportion. My point here is that, in the publicity from opponents, you get that impression, which is probably not accurate.

Prof. Chapman—I come at this full fee discretionary thing not just from the point of view that, ‘Well, in the long run, there won’t be that many students affected;’ I come at this more from an academic perspective. If I were to design a policy which was consistent with sound economic principles, it would not be one that allowed full price discretion for the reasons I have mentioned before. There is a geographical reason—rents are free, so the institutions have a huge capacity to charge that which is not reflective of economic scarcity—and they have had decades, at least 100 years in some cases, of public sector financing, which has resulted in significant reputations which have nothing to do with a capacity for price discretion with the current cohort of entering students.

Senator TIERNEY—Would you like to comment on this fairly rare thing—we actually have a Labor alternative policy?

Prof. Chapman—I do not want to comment on what you just said about that, no.

Senator TIERNEY—I am not asking you to comment on that specific point, but it is out there. It is called Aim Higher; it came out on 23 July this year. It sank without a trace within a day, but it does—

Prof. Chapman—Actually, I was reading it yesterday.

Senator TIERNEY—Terrific.

Prof. Chapman—It has not sunk completely.

Senator TIERNEY—Okay. It is put up as an alternative scheme if, obviously, there was a change of government. Do you have any comments on what that would do, in the long term, to the university sector if it was adopted?

Prof. Chapman—There are some things in that document that are consistent with my submission, and there are some things that are not. Point No. 1, the indexation rules are to be changed to be made more generous. As I said before, if you wanted to understand one thing that has led to a sense of burden in universities, particularly those without discretion for overseas students, it is the indexation arrangements. The Aim Higher document addresses that to some extent.

Senator TIERNEY—But it is only indexing from this point in time, so it would only be maintaining real value from this point in time.

Prof. Chapman—I thought there were increases in the number of places and some other financial implications. I am not an expert on the detail but even if it indexes from this point in time, or 2005, it has got to be an improved situation for universities compared to the past.

Senator TIERNEY—Why is it improved if it is not increasing the real value of that?

Prof. Chapman—But it is. The basic problem, as I understand it, is if you have an indexation arrangement which adds to price inflation in supplementation terms. It has got to take some of the stress away from the essential problem with an enterprise bargaining system wanting unions delivering—

Senator TIERNEY—Doesn't it just maintain it though? Because if it is only maintaining the real value—

Prof. Chapman—What are we comparing this to? If we are comparing it to the current indexation rules, it has got to be a more generous arrangement for the universities.

Senator TIERNEY—But then it takes away a whole lot of other discretionary ways in which off-budget universities can raise money.

Prof. Chapman—Which are you referring to? I am not here as a defender of ALP policy, but an indexation arrangement which is more generous than the current one is an improved way of thinking about public sector obligations.

Senator TIERNEY—It is an assertion—they are not in government; it is just an assertion—that they would maintain full indexation. Given your experience in the sector, I do not think the history would give you a lot of confidence, would it? It is subject to budget year by year.

Prof. Chapman—I refer to the work by David Phillips and Gerald Burke—and it is in my background paper—which basically asked the question: what would funding arrangements be today if the indexation process had been equivalent to average weekly earnings, which is approximately what the unions will ask for and mostly get? The shortfall—they gave the data from 1995 to 2001-02—is over \$½ billion. This is a big number.

Senator TIERNEY—But there has also been a massive change in the balance of private-public funding of universities, which has given a rise in the total moneys.

Prof. Chapman—I am talking about HECS plus taxpayer.

Senator TIERNEY—I am talking about the total funding of universities. It is significant in relation to what we are now discussing as the Aim Higher document takes away a lot of those or reduces the options for the universities on the private side of the private-public mix of funding for the total funding of the university. Wouldn't you agree with that from what you have read so far?

Prof. Chapman—The only thing I feel qualified to comment on in terms of my research perspective concerning Aim Higher's fee or debt regime is that I think there is a case for some price flexibility. In my submission to the Crossroads review, to the last Senate inquiry into

higher education, and indeed it is also in the background paper here, I said that I thought there was a case for some limited price flexibility in the order of 25 per cent and Aim Higher does not have that. Because we have all written these things on paper, it would look very strange if I thought that that is correct. I do not. But at the same time, Aim Higher implicitly, and probably explicitly, rejects unfettered price discretion. As I have said, there are very strong reasons to support that, that the idea that there is a good economic case or a social case—or any case—for allowing price discretion, as is explicit in fee help, is not good policy.

Senator TIERNEY—So, broadly, the policy takes away a lot of this discretion and in terms of indexation it is a matter of faith as to whether, budget by budget, it would actually happen, which past experience would indicate—

Prof. Chapman—It does not really look to me like a matter of faith to say, ‘We want to change the indexation rule, and we will make it more consistent with a wage adjustment process which doesn’t come from the safety net like the current indexation does but is more generous.’ If you are saying that governments can change their minds from one year to the next—

Senator TIERNEY—Absolutely.

Prof. Chapman—Of course. That could happen, just as this government could change its mind about its current indexation rules.

Senator TIERNEY—I am just saying that you could not really rely on them saying, ‘We are going to index this from now on when we are in government,’ with faith that that would actually fully occur.

Prof. Chapman—Maybe I am a little bit more innocent than that, but I presume that if a political party says, ‘This is our policy’ then—

Senator TIERNEY—You would believe it.

Prof. Chapman—For a little while, yes.

Senator STOTT DESPOJA—Professor Chapman, I want to begin by asking whether, in your answers to Senator Tierney about education in the United States, particularly about up-front fees in relation to law, you were talking about private institutions. I am assuming you were not talking about not-for-profit so-called public universities in the United States.

Prof. Chapman—In a generic sense what I have been saying crosses both. In an empirical context, the private universities will charge more. But it is true that there are up-front fees through the US system through the state colleges, and it is also true that the loan mechanisms are very typically mortgage type loans—that is, you have to pay depending on time and not circumstance.

Senator STOTT DESPOJA—And they may be commercial loan arrangements? Is that what you were talking about in some aspects of your answer?

Prof. Chapman—Yes, as I said to Senator Tierney, I have basically already said everything I know about the US. I had one of these loans from graduate school, and the institution that I had it from did not have a full weight of interest on it. It was about seven per cent a year when the rate of inflation was about five per cent. I think there are interest rate subsidies. Some of the law schools in the US are actually trying to accommodate this issue of public sector job choice through law schools by actually forgiving the debt repayment for individuals who are in the equivalent of legal aid. It is not as severe as I may have implied, but it is pretty severe.

Senator STOTT DESPOJA—You mentioned the issue of behavioural implications as a consequence of fees or charges. Obviously, you have done a lot of research and you have included evidence to demonstrate things one way or the other. But my more general interest, as I asked the previous witnesses, is whether we have sufficient independent evidence in Australia and whether we have sufficient independent government funded evidence in Australia to monitor what is actually happening in our higher education system, particularly as a consequence of fees or changes to the fee structure.

Prof. Chapman—I think we know a lot in aggregate. I do not think we know a lot for particular specifically defined areas. One of the reasons we do not know a lot is that the nature of the data that you require to assess the implications, particularly on socioeconomic access, is quite sophisticated. If I were to run a cross-sectional survey today on 20-year-olds and I wanted to know how many poor people there were then I could not measure poverty that easily, because the definition of ‘household’ would probably not be what I really wanted. What I would really want was what was going on when they were 14, 15 or 16, not when they enrolled.

Senator STOTT DESPOJA—When you say ‘household’ do you mean postcodes in terms of the methodology that is often used?

Prof. Chapman—I can talk about the postcode issue. One way of measuring household wealth, and a very inaccurate one, is to take the average income of a postcode. The problem there is that the variants within the postcodes or, even more precisely, the census districts, are very high. When I was referring to households I meant it literally, in terms of family background, rather than in measurement terms.

The way to address that empirically is to survey people not at a point in time but over time. All of the work that I have been involved in uses the Australian Council for Educational Research’s longitudinal database. This is data for all the people identified who were born in a particular year but in different years. I do not mean they were individually born in different years—that is fairly creative. I mean that they took a group who were all born in 1965 and then a group who were all born in 1970. Then they started chasing them in survey terms. We knew, for example, what the family background of individuals aged 15 was and then what happened to those individuals four years later with respect to access to higher education. So we could do econometric work which says, ‘Let’s try and work out the relationship between your family income when you were 15 and the probability of your being enrolled in the sector aged 18 or 19.’ You can already see that, empirically and in survey terms, this is hard stuff. It is very expensive. It is very complicated, mainly because of attrition rates of young people, to trace people over time to actually test these models.

We do not want to imply that there is some problem going on with government data collection. The government has now instituted, through the Department of Family and Community Services, a survey which will help sort this out—in about 10 years, we will really know a huge amount—and this survey is called Household, Income and Labour Dynamics in Australia, HILDA, which is coming from the University of Melbourne. It is now in its second wave. It is exactly what labour economists in this country have wanted for a very long time. It is longitudinal. It involves 9,500 households, 14,000 individuals and a cross-section randomly selected. These people will be followed until they drop or until Family and Community Services decides not to fund the survey anymore. Then we will know.

The people who have been involved in this process—and I am one of them—have had input into the nature of the questioning and how it will work. There has certainly been a lot of attention focused on questions of family background and its implications for educational success and transition from school to work. They are fundamental to all this. We have not had it, so we have had to rely on other disparate data sources—for example, the Australian Council for Educational Research numbers—which have been tested by lots of people, not just me, and they all basically say the same thing. None of these data are very strong.

Senator STOTT DESPOJA—I acknowledge your point about disparate data and data being out there, and we are aware of the ACER research, but would you consider the reconstituting of a body like the AUC, as the last witness said? We have talked about NBEET or, more specifically, groups like the Higher Education Council. Is that something that you see the government having a role to provide or is that essentially satisfied by the HILDA project in the Department of Family and Community Services?

Prof. Chapman—You would take away my employment opportunities! We have to get the data ourselves. We chase the stuff. I would think that there is a case for a more organised clearing house of information and of statistics, motivated just by this issue. Ever since this debate started—and I have been interested in this debate since about 1998; that is how long it has been going on—the most fundamental question that has come up is: what is the implication of introducing a charge or HECS or changing the parameters for repayment and interests rates and what does that mean for poor people? This is a really big issue. It is not just a big issue because we care about the success of people who are just unlucky enough to have poor backgrounds; it is a big issue because, if you invent systems and put into place policies that stop poor but talented students, we all lose. The society does not actually deliver the educational outcomes which are best for the society. That is what motivates things like income related loans. For 15 years, hardly a week has gone by without people talking about the potential for a change in the financing policy or Austudy or asking age of independence questions. All of these issues come down to this question which we have not been able to address in as full a way as we could because the data requirements were too much.

Senator STOTT DESPOJA—Obviously I am aware of your interest, because I have been following it since about the same time. I still find it interesting to look at the evidence that you provide in your submission, particularly evidence from Marks and Evans, in relation to post-1997 HECS rates not necessarily having an adverse impact in terms of participation of any particular wealth group. However, in the same submission you provide us with a figure that talks about participation rates for the lowest quartile up to the top quartile and you see a disparity between those two groups, I think in the late 1980s, of around seven per cent. The figure you

give us here is that there is a 25 per cent differential in terms of the participation rates at the lowest and the top quartiles. Is that of concern? Is that something that in a roundabout way could suggest that there is, if not an adverse impact on any particular wealth group, a different level of participation among those quartiles?

Prof. Chapman—It has always been true in this country—and in any other country that I know anything about—that participation in higher education is systematically much more likely to be by people from relatively privileged backgrounds. Indeed, that was a major motivation for the introduction of a charging system: the apparent regressivity of a no-charge system. That has always been true. It is as true today as it was in 1988. So I think that one thing you can say with some confidence is that the Higher Education Contribution Scheme did nothing about that. Indeed, I could not understand how it could do anything about that, because you were basically imposing a charge.

The other, more complex, point is: have these arrangements hurt the poor more than they have hurt the rich? You can respond to that in several ways. One way of responding to it is to say that the proportion of relatively poor prospective students enrolled in the system today is higher than before. Roughly, the increase and the proportions between the lowest quartile and the top quartile are about the same. In absolute numbers, they are more for the relatively advantaged because their group was bigger. If there is one group that has actually expanded relative to the bottom quartile and the top quartile, obviously it is going to be the middle. The middle has expanded in ways that I do not really understand that well. That has particularly been the case for young women.

The other point I would make about these data is that, because we needed evidence that was particularly focused on targeted groups or groups much more likely to be part of the system, the focus was on young people. So I really cannot tell you with much confidence what is happening to people who are mature age. The work from the department implies that there was some decrease in applications after 1997. But, overall, there was not that big a change. I am now into territory where I wish to acknowledge that I agree that the data are not strong, for reasons that include some you have not mentioned.

CHAIR—At the time the government chose to move against NBEET, the department of education gave a commitment to this parliament that they would take responsibility for monitoring the equity effects of the HECS changes. Tom Karmel appears to have tried to continue that with his research, but the government itself has now moved to suppress that material. So how can we say that the Commonwealth is actually fulfilling the undertaking it has given to the parliament to monitor the equity effects?

Prof. Chapman—I cannot comment on the internal processes. I really have no expertise in that. I did say before that I am pleased that that report is out. I have acknowledged in the *Sydney Morning Herald* that it is methodologically professional. I am pleased that it is there, but I cannot really say anything about the internal politics of that process. I would say that when HECS was introduced the Senate—mainly, I think, through the influence of the Democrats—insisted that there be an independent monitoring process, and I thought that that was productive. That happened, at least in the periods I followed it closely.

There were surveys done in the early nineties, not just of students who were in the system but also of people who qualified for places and then chose not to turn up. They were asked why not, and empirical work was done to see the extent to which it was a problem of income support, geography, parental attitude and/or HECS. That happened from groups that I think were motivated purely by professional curiosity and wanted to get it right. I thought that the legislation, in the periods that I followed it, worked well. It was an entirely appropriate part of this process. But I am not sure where we are at with that. When NBEET was around—and the Higher Education Council, in particular—every year one of their briefs was to give us a report on access and equity, and that was motivated by the introduction of HECS.

Senator STOTT DESPOJA—Have you done any work or do you have views on the cost that students are contributing towards their courses? This goes to the issue of cost shifting. I note that Senator Tierney was talking to you about the overall increase in money in the higher education sector, yet I recognise that there is a higher proportion being paid by students. We have been told by government recently, particularly by the minister, that students are now paying around 25 per cent and a maximum of 27 per cent of their course costs. That does not ring true to me. That seems to take into account the up-front discount and research money. Do you have a view on the average amount students are contributing to their courses these days?

Prof. Chapman—Not precisely, but I think it is accurate for you to suggest that you do not want to take the total budget, because about one-third of that will be for research. One-third of it is research in base funding notions. The new lecturer will be assumed, roughly, to spend one-third or his or her time on research, so you do not want to charge students for that. I do not want to do the figures now, because I will muck them up, but you could probably take one-third off straightaway. On the other hand, you do not want to look at the HECS charge as a debt as the true cost, because of the interest rate subsidy. You really want to look at the up-front fee that is paid for people with a discount as the cost. I think 25 per cent does sound low. If on paper it looks to be 35 per cent, as the HECS debt rather than the up-front charge, then in present value terms that is probably closer to 25 per cent. But the big mover and shaker in terms of the empirical importance of what you said would be to take the research funding off that. So I think it has to be more than 25 per cent, but I do not know how much.

Senator STOTT DESPOJA—You have talked, now and in the past, about designing a system which is based on a combination of income-earning potential and the costs of actually running a course. Am I right in thinking you described the introduction of the new, three-tier fee arrangement in 1997 as a distortion of the original HECS structure?

Prof. Chapman—I think I used the word ‘hybrid.’ See how uninteresting I am! ‘Distortion’ is much more powerful.

Senator STOTT DESPOJA—And value laden. I do not mean, therefore, to put words into your mouth. Do you have any views on the specific impact not of HECS overall—obviously you have done a lot of research on that and included it in your submission—but of the three-tier system that has been operating since 1997? We were talking earlier with the scientists about the perceived or actual impact of science courses being in the second band.

Prof. Chapman—When the Wran committee released its report, which led to HECS, three tiers were suggested. It was a cost recovery model. You could design this to be partly motivated

by an attempt to get more financial resources from people who are presumably likely to be successful in the future—people doing law, medicine or accounting, for example. But I do not think that is the way to design a policy like that. I think you need it to be thought of essentially as a cost recovery policy. The reason you do not want to think about it in terms of anticipation of future success is that the most important variable to understand in the labour market is not the average but the variance. Many people will do law, for example, who (a) will not graduate, (b) will get an arts degree instead of a law degree or (c) will not work as corporate lawyers. The major distinction between what happened in 1997 and what was recommended by the Wran committee in 1989—but not adopted—was that the differential charges reflected in two instances a presumption about future circumstance. Law was put in the top band and nursing, which is expensive, was put in the bottom band. I can understand the politics of that, but the economics of these processes would be more accurately understood as being those of cost recovery.

You can actually target future circumstances a little bit by designing a system which does not have a real rate of interest on it—and that is the current one. In other words you could say: if you do really well in the labour market, we want you to pay more in the present value terms. You do that by having a system whereby the people who do best early pay quickly—and it would take about four years for a very successful young lawyer to pay off their debt. That means that compared to someone who takes 10 years a person in the former example loses six years of an interest rate subsidy. So, in present value terms, the person who does very well pays more in HECS. That is an important design feature of it, I think, because if you believe that means testing is an appropriate way to organise social policy—and I do—then the next question is: on what basis do you means test?

We means test most of our social security at point of entry and with respect to family income. An income related loan with no real rate of interest means tests in the future because, if you do really badly, we give you a bonus: for every year that you do not pay in present value terms, you are paying less than the real rate of interest. So you can do both. I did not think there was a strong case for charging more for law, but I could see the politics of it, particularly when it came to nursing. There is a cynical way of looking at this with respect to mainstream economics: the right way to organise financial relationships with respect to government subsidies is for government to allocate scarce resources to the extent that the spill-over—the social benefit—is financed. So you now have a situation where people studying law are paying probably as much as courses cost in full.

Senator STOTT DESPOJA—They will be paying 81 per cent after this legislation goes through. It will potentially be 105 per cent if the changes go through and they take advantage of the 30 per cent increase.

Prof. Chapman—I think it is getting pretty hard to justify that unless you think the social value of lawyers is close to nothing.

Senator STOTT DESPOJA—I will not comment on that! In your comments you have mentioned the threshold at which graduates begin to repay their debts. Are you advocating an average weekly earnings threshold?

Prof. Chapman—I will take myself back one step. The conceptual basis of an income related loan is that you really want to get a contribution from individuals when they get a return on the investment which is high and private. With that as a rough rule of thumb we asked the question: what is a high private return? Let us define ‘private’ as individual income and ‘high’—these things will always be a bit ad hoc—as more than what average Australians working for pay earn. That was the original scheme. I think it was quite consistent with the conceptual basis and theoretical discussions motivating income related loans, which go back to 1955. When the first threshold for average weekly earnings on an annual basis was reduced from, in current terms, about \$36,000 to, in current terms, about \$24,000, in my view you were starting to undermine the conceptual basis that motivated the design of the system.

The other point to make about that threshold is that, if you really want to design a system which takes from individuals who have been successful in and derived a high private benefit from the system, you do not want a threshold which takes from individuals who did not finish, because the private rate of return to an incomplete university degree is pretty close to nothing. You get the benefit of being a graduate by being a graduate, not from being enrolled. When you have a first income threshold that is somewhere between \$25,000 and \$30,000, you are getting an awful lot of people who do not finish—as I said before, that is 25 per cent of the group.

I think that, in conceptual terms, you want to avoid as much as you can the presumption that you are going to penalise, or ask for contributions from, people who are unsuccessful in the system. That is the equity in this: you really want a contribution for people once they are getting the private benefit. You are on pretty safe ground at \$36,000, which is where you would be today; \$30,000 is obviously a lot better than the \$26,000, which is where it will be in 2005. If I were asked to pick a number, it would be higher than \$30,000 but lower than \$36,000, and politics decides the rest.

Senator STOTT DESPOJA—Is that figure that the government has suggested based on 2005 prices?

Prof. Chapman—Yes.

Senator STOTT DESPOJA—So what does that mean as of next year? If you take that in 2004 dollar terms, what would that actually be as a threshold?

Prof. Chapman—It is about \$36,500 now and you have to add two years on top of that. Let us assume wage inflation of 3½ per cent; so add seven per cent to \$36,000, which is about \$2,000. It may be about \$38,000.

CHAIR—So it is a substantial amount.

Senator CROSSIN—Professor Chapman, most of what I was going to ask you has been covered by other people, but I would like to know whether or not you have looked at the impact of this package on Indigenous students and women.

Prof. Chapman—I have not specifically looked at the impact of this package on Indigenous students. The data is poor when it comes to specific groups. As we know, the participation of Indigenous students is low. So you are talking about quite demanding data needs to look at that

appropriately, and I have not done that. I have looked at the impact of this package with respect to women. All the work that we have done with respect to access did it specific to gender. What we found—and this is a bit curious, and I do not really know why—is that female participation went up much more than male participation, and indeed slightly more than we would have expected from trends.

There has been an increasing number of women enrolled in higher education. This number has been going up consistently for about 35 years. I think that we were a little bit surprised to find that the extent of female participation, particularly women from the middle of the socioeconomic scale, went up more than it did for others, and certainly more than it did for males. Males in the middle of the income distribution, as measured by parental income, did not change too much in the first five years—and I think probably did not change much at all from lower end of the socioeconomic scale. We do not really know the reasons for that.

Senator CROSSIN—In your assessment—given your comments on the deregulation of the system and the likely impact of paying full fees—do you believe that this will cause greater disadvantage in terms of attracting more women into higher education than has previously been the case?

Prof. Chapman—I do not think you would see an effect with respect to sex. One reason for that is that, when these debts get really big, it is the individuals who participate less in the labour force or who over their lifetimes earn less who are less likely to repay them. That is another interesting point for the financing: if you want FEE-HELP to be uncapped—and, maybe, the debt to go up to very large levels—then at some point in time it is going to get so big that unless people start working through to about the age of 107 or something you are not going to get the money back. So I doubt whether it is going to impact markedly on people who expect to have a debt remaining at the end of their working lives. We know that the actual subsidies for females are slightly higher than they are for males. The reason for that is that women, on average, will earn less and it will take them longer to pay off any given HECS debt. Because of the nature of the interest rate subsidies, that would imply that the impost of an increased debt on women, on average, will be less than it will be for men.

Senator CROSSIN—Are you suggesting that over time we will see perhaps a greater number of women who are unable to repay this debt during their working lives?

Prof. Chapman—With the current arrangements that is unlikely to happen because there is a cap of \$50,000. If the cap was not there and you had debts of \$80,000 to \$100,000 then not a majority but a significant minority of people would not pay that back in total. The proposed legislation caps the debt at \$50,000. At \$50,000 you will get the majority of that money back, but, for other reasons, I thought that it was a fairly poor idea to cap the total amount of debt from FEE-HELP. Indeed where I am coming from on this suggests that there is no strong case for price discretion. If you believe that that is the case then FEE-HELP should be moved back into HECS-HELP, or the current HECS arrangements, which means that the total level of debt would not get anywhere near that.

Senator CROSSIN—There is a lot of evidence that shows that there has been a market decline in Indigenous students accessing higher education, particularly since the changes to

Abstudy some years back. In your research have you looked at the impact that student assistance has on people accessing higher education?

Prof. Chapman—Most of my research work on this issue has been pretty much focused on the impact of variations to HECS charges, HECS interest rates and HECS repayment parameters to access. It has been fairly broadly based. I cannot say anything that comes from my experience as a researcher on that issue, but I would say that HECS is less likely to diminish the access of individuals who do not expect to do particularly well in the labour force because of discrimination. The impost of the present value of the charge—the proportion which will have to be paid back—would be lower. That is one point about HECS that matters. The other point is that there are good reasons to believe that there will be price and income support instruments that can effectively change the participation of particular groups, but I would not want this debate to stop at the beginning of the process of the entry into higher education. Family background, family circumstances from age one or less are absolutely critical in determining access to higher education, so the question of student income support through Abstudy or through the old Austudy and believing that you can do major things at the point of entry exaggerates the importance of those instruments. This is an ongoing socioeconomic process which has to be addressed and considered in a life cycle context which is not really going to have a huge impact in year 12.

Senator CROSSIN—If this package gets through, is there a genuine capacity for regional universities to increase their fees—even if it is up to the 30 per cent limit? It has been put to me by some of my constituents that, if I was going to access higher education and the fees went through the roof, I may as well go to Melbourne or Sydney rather than stay in places like Townsville or Darwin. Do you think that there will be a view around this country that higher fees and access to those courses in capital cities as opposed to regional centres would mean better quality—in other words, the cheaper the course the poorer the quality? Will that be an outcome of this package?

Prof. Chapman—Down the track if these arrangements go through, as I understand them, there will be quite different implications for different institutions. Those located in the centres of large metropolitan areas such as Sydney, Melbourne, Brisbane and Perth will definitely have a greater capacity to increase their prices—several universities have already announced that they will do that. Regional universities will have less of a capacity, but at the same time their financial needs to attempt to increase their prices must be influenced by the ongoing indexation arrangements. So over time the institutions in less advantaged areas in terms of geography and taxpayer subsidies historically will have less capacity and fewer resources than other institutions. Whether or not you think that is a good or bad thing is a more complicated question, but empirically it is incontestable.

The other point I would make about regional students, as opposed to regional institutions, is that I think there is a case—and I have put this in the background paper to the submission—for getting rid of some of the up-front costs that might be associated with educational mobility, which neither this government nor parliament generally has considered. We still have the very strong likelihood that people who come from non-metropolitan areas and move into metropolitan areas to study face, at least initially, relatively high costs that are not true for their metropolitan sisters and brothers. There are also other barriers, which are more obvious than those associated

with mobility, which impinge on access and are related to up-front costs which still exist. For example, union fees, textbook charges and administrative charges exist.

The thing that is interesting, if you like, about this complaint is that you can think about this in a way that costs government nothing. You could allow all students—and, perhaps, even particularly rural based students who have to move—access to financial resources which look a little bit like HECS; for example, \$1,000 a year for somebody who has to move or \$600 a year for anyone to pay a union fee or administration charge, to buy textbooks or to pay other associated costs. If you organised it in the same way that HECS is organised, you would have a surcharge on top of it as part of the debt. So it would be, ‘We are giving you \$600; we want you to pay back \$800. But we are just going to put that into your tax file box as part of your HECS debt. If you don’t want to take it, you don’t have to take it, but it is there.’ In budgetary terms, if you get the parameters approximately right the cost to the taxpayer will be nothing. The advantages to the individuals in some cases could be very high.

CHAIR—Professor Chapman, due to the great benefits of technology, I am getting advice here from the Philippines about the proceedings occurring today. I understand that the Philippines government has rejected the idea of interest rates on their proposed student loan scheme. Is that the experience around the world? Is it becoming increasingly common for governments to move away from real rates of interest on student loan schemes?

Prof. Chapman—When New Zealand adopted an income related loan they put a real interest rate on it. In conversations I had with the New Zealand economists, they said to me that we only got it half right here, because we did not put a real interest rate on it. As I said before, we had a form of interest rate because of the up-front payment discount. In the United Kingdom, which has recently moved towards this system, they have gone the way HECS has gone with respect to the adjustment of the debt, once it has been incurred, to be inflation only. In the South African model I understand that there is a real interest rate of zero as well. I find it so hard to read US legislation that I could not even work that bit of their model out. But, in general, I think it is accepted that there are important costs of having a real interest rate. I do not know about the Philippines debate, but if they have decided to promote an income related loan system for education and/or training without a real interest rate, I think that they can add to that in a more sophisticated way by providing a discount for an up-front payment, which allows more financial resources in the short run and accommodates the same purpose without uncertainties.

CHAIR—The advice I am getting here suggests that—for similar reasons, which I have outlined today—there is a view being taken that it is iniquitous. Is it your submission to this inquiry that the parliament should reject the provisions of this bill relating to FEE-HELP?

Prof. Chapman—I think that the real interest rate arrangements on FEE-HELP are unnecessary. They are administratively very complicated and they are more regressive than the current system. They can be made much simpler without any budgetary implications. Not for the full-fee-paying FEE-HELP but for the FEE-HELP arrangements, for example, in PELS you could move all that back into HECS and say, ‘If that’s your fee obligation and you choose to repay through the tax system, you have to pay a bit more.’ In other words, there is a discount for an up front payment. It is what we currently have. In administrative terms, and in economic and social terms, it just seems to me to be fairly straightforward.

CHAIR—So your straightforward advice to the committee is that that is what we should be recommending?

Prof. Chapman—Absolutely.

CHAIR—Thank you very much for coming today. I greatly appreciate your advice to the committee.

Proceedings suspended from 12.29 p.m. to 1.39 p.m.

BURVILL, Ms Christine, Director of Higher Education, New South Wales Department of Education and Training

LOBLE, Ms Leslie, Deputy Director-General, Strategic Planning and Regulation, New South Wales Department of Education and Training

CHAIR—I welcome officers from the New South Wales Department of Education and Training. The committee has before it submission No. 465. Are there any changes that you would like to make?

Ms Loble—No.

CHAIR—The committee prefers all evidence to be given in public, although the committee will also consider any request for all or part of your evidence to be given in camera. However, I point out that such evidence may subsequently be made public by order of the Senate. I now ask you if you would like to make a brief opening statement.

Ms Loble—Yes, thank you; I would like to make a very brief statement. New South Wales acknowledges at the outset that most of the universities in New South Wales have welcomed aspects of the Backing Australia's Future package. The universities point to elements like an additional \$1.5 billion over four years, the replacement of marginally funded places with fully funded places and a new Indigenous higher education commitment. That said, the New South Wales government has outlined significant concerns with certain aspects of this package, and I would like to emphasise a few of those. In our submission we went into quite a bit of detail.

First, the issue of cost shifting to students remains of concern. As this inquiry has investigated, fees are increasing and there are inadequate funding increases to compensate for the growth in costs and demand. As is reasonably well known but was confirmed by the independent study of the higher education reforms, between 1995 and 2001 the Commonwealth share has declined from 57 to 44 per cent of funding at the same time that the student contribution share has grown from 24 to 37 per cent, so there is a very clear shift. HECS fees with the 30 per cent surcharge are of significant concern, as obviously are the issues around full fees at commercial interest rates as well.

A second collection of issues revolves around participation and opportunity. The growth in places is entirely through full fee payments and will not keep pace with population growth. The same independent study that I referred to estimates that the national shortfall will reach 39,000 by the year 2011, and that is just to keep pace with the participation rate of 2002. In New South Wales we are already significantly disadvantaged in the number of places relative to our need. We are quite concerned about that.

The third collection of issues is around regional impact. Regional universities have a very significant economic role—by one estimate, more than a billion dollars per annum in direct and flow-on economic benefits, roughly equivalent to 28,000 jobs. There is important access and opportunity for rural, Indigenous and lower income students through those regional and rural universities and, critically, the regional loading is not compensating for that. I think probably a

fair amount of attention has been given to the particular issues around the University of Western Sydney, and that university has made it clear that it expects a \$14 million shortfall over two years and that there are anomalies of major urban based universities with regional campuses receiving extra loading and not UWS.

Finally, returning a bit more to the issue and more particularly to that to do with places, I would like, if I can be indulged, to emphasise the point that the New South Wales participation rate already is below the national average. Indeed, in the 15- to 19-year-old age bracket the New South Wales participation rate is the lowest other than for Tasmania and the Northern Territory. We have the second lowest net entry rate and the second highest level of unmet demand and we have a higher minimum university entrance score than any other state besides WA, which is a clear reflection of the fact that there is a lot of demand and not enough places. I will leave it at that and we can answer questions.

CHAIR—Thank you. We have now spoken to every state in the Commonwealth; we have not spoken to the Northern Territory or the Australian Capital Territory yet. The states are coming back to us with a pretty common theme, obviously taking away special interests in terms of protecting their regions. There have been concerns expressed about the question of consultation about this package, but your submission makes that point. Have you had an opportunity to look at some of the constitutional issues in terms of the change that this legislation proposes in the relationship between the Commonwealth and the states?

Ms Loble—We have at a very preliminary stage begun to look through that. The advice that we can give you today is not formal government advice, but we have started to look at it and I am happy to share the emerging issues with you. Basically one issue is: can there be an imposition on a state or territory to change its legislative arrangements around these universities as a condition of funding? Our preliminary advice is that that would not appear to be constitutional and would be a reach into the domain of state prerogative. A second issue that we are looking at is: can funding go directly to universities without going through the states with the enabling legislation and authorising entity? There, as you say, all states are looking at this and one state has suggested that that would not be constitutional either. We are also going through the legislation very carefully. It is large and complex. One other area of examination may be around the ability of the Commonwealth to establish a provider without going through state authorising processes. There appear to be significant potential constitutional questions, and we would be happy to share further advice as we get it.

CHAIR—I take it you are taking this matter further in investigating those issues.

Ms Loble—Yes.

Ms Burvill—We also did investigate this issue in 1999, when the Commonwealth attempted to impose a condition upon funding related to voluntary student unionism. We sought the Crown Solicitor's advice then, and that advice suggested that that change would have been of doubtful constitutional validity. We think there are direct parallels between this case and that former case, although we would have to get proper legal advice on that. We note that the AVCC had very similar advice at the time: that a challenge could be mounted in the High Court against that attempt if the proposed legislation became law. It is really a repeat of what happened in 1999 in the area of imposition of conditions upon funding. That advice was not necessarily repeated

around all states and territories. I have spoken to my counterparts in some other states and they have said that their advice from their solicitors-general brought a different result, as often happens.

CHAIR—That is on the VSU issue. On the issues of the direct funding of the universities and the conditionality of funding vis-a-vis the government's matters, is your preliminary advice that there may be a problem?

Ms Loble—There may be, and we are investigating it further.

CHAIR—With regard to the section on the Commonwealth grant scheme, which of course is conditional upon the states changing their legislation to take into account the Commonwealth government's protocols—these arrangements which were announced about three weeks ago by press release—is it the intention of the New South Wales government to change the state legislation to bring it into line with this press release?

Ms Loble—Even before the Commonwealth legislation, the government has asked—in response to some of the universities' questions about governance—that the vice-chancellors and chancellors present options or recommendations to the government. The government has changed legislation in recent years around commercial guidelines, because it has been a significant concern to the government that the governance arrangements be sufficient to protect the basic mission of universities and to ensure adequate risk management and due diligence—those sorts of issues. So, in relation to the issue of the size of the governing council in particular, no substantial case has been made yet that there is a magic number that will determine whether there is good governance or not. There is also the issue of parliamentarians—and New South Wales is a state that has parliamentarians on university councils. I can only refer to one of our vice-chancellors' submissions—that is, of Professor Gavin Brown—who has said that parliamentarians bring a very important point of view and community input to governing universities.

CHAIR—Is there any intention currently before the New South Wales government to change legislation?

Ms Loble—As I said, there is nothing scheduled. At the moment, we have yet to even receive advice from the universities themselves about whether they want changes or in what form those changes might be. The government would then have to consider that and make a decision.

CHAIR—I will put it to you this way: the state is responsible for universities, constitutionally and legally. They have direct reporting lines to state parliament. All of them are required to report to state parliament. There is, clearly, a responsibility with regard to borrowing requirements—to seek approval—given that the universities' borrowing requirements have to meet the state Loan Council obligations. Is there any intention for the New South Wales government to move away from any of those measures?

Ms Loble—I am certainly not aware of any intention on the part of the government to move away from that.

CHAIR—In regard to the role of the politicians themselves, there have been a number of quite serious developments in New South Wales universities in recent years. I refer to the ICAC reports and the Auditor-General's reports. There was the situation at the University of New South Wales with the Educational Testing Centre and there was the Hall case of scientific fraud. There have been quite an extraordinary number of events. It has been put to me through my sources that members of parliament have actually played a significant role in those matters. Do you find as members of the public service that access through having independent people on the councils—that is, people you can talk to—is of any benefit in establishing what is actually going on, given that we have problems of these major proportions from time to time at universities?

Ms Loble—The parliamentarians and the outside points of view are an important part of the balance that New South Wales sees as appropriate in governing bodies. There has to be a mixture of internal and external, and the external participants are very important in ensuring that there is public access and scrutiny. The ICAC and other issues very much lie behind the decision to proceed with commercial guidelines and regulatory activity for governing bodies to tighten up the functions, as I was outlining briefly before. A very important part of that is public scrutiny, and we would not want to see only internal representatives on those governing bodies.

CHAIR—I think there would be general agreement on both sides of the argument that there needs to be a balance. There may not be agreement as to what the numbers are. We have had evidence before this committee that most of the universities that people refer to as the strongest in the world have substantially more than the 18 on their governing councils that this government claims to be the ideal number. The University of Queensland has more, and so do a number of others. So I think there would be no real argument about the question of the need for balance, but whether or not that can be determined from Canberra is the area in which there is some dispute.

Ms Loble—We would agree with that. As you point out, the University of Queensland has 34, from recollection, and it would seem far more appropriate to leave that to the institution in the context of state requirements for probity and the other issues that we would expect.

CHAIR—You have referred to Professor Brown already. He has indicated to us that there are obvious deficiencies in the reform package. He says that there is:

... ill-conceived commitment to Voluntary Student Unionism ... there is an overly tight straitjacket for the distribution and re-distribution of government subsidised university places ... there is an excessive degree of control inherent in the discipline mix, with the potential for gross intrusion upon university autonomy, academic freedom and student choice ... there is a totally illogical link between increased funding and ideological components of industrial relations ...

He goes on to talk about indexation and the failure to provide indexation, and says that the package is:

... not sustainable in the medium to long term ...

They are pretty strong words. With how much of that does the government of New South Wales concur?

Ms Loble—It concurs with quite a bit of it, to encapsulate it in a phrase. It is very concerned about the number of places and, as I outlined before, the significant shortfall just to continue at the level of 2002, which already is inadequate. Funding disparities across universities—of course, exacerbated then by the capacity of some universities to compete more for the full fee-paying dollar—could potentially drive that even further. New South Wales is a large, diverse and highly dispersed state. While our Sydney based universities get a great deal of attention, there is highly dynamic work occurring out in the regions and rural areas, and we would hate to see disparities there. The conditions attached would seem to be far more appropriately left to the individual institution. Even the sorts of governance changes that we have introduced have very much left it to the institution to guide its own affairs within some very basic probity outlines. So we share many of those concerns and have expressed those.

CHAIR—The funding arrangements that see a redefinition or a rebasing of the funding for each university, in terms of its actual enrolments by discipline, will see a shift in the relationship between the Commonwealth government and the universities from one of being a grants based support for institutions to one of being a purchaser of services. When you read the legislation you see that there is a suggestion that there is an enormous level of discretionary power vested in the Commonwealth minister. It has been put to the committee that the infrastructure that is being built here, with the student identifiers and the grant schemes, may in fact lead to some perverse consequences. Those consequences could be that the infrastructure has been established for a voucher type funding arrangement for the future; that it may well lead to a significant expansion in the number of private providers; and that it will give the minister enormous discretion as to what courses can and cannot be funded and, in particular, what institutions can and cannot be funded. Have you had a look at any of those issues in terms of the regional impact they might have on New South Wales?

Ms Loble—I will make a few statements and then hand over to Chris, who has been following this very closely. Yes, we have started to go through the legislation. We have identified concerns, certainly around the growth in places being primarily transferred to private institutions, which would appear to be potentially opening up another channel for private institutions. That is one of the issues we are getting into the detail on, to make sure that the state enabling capacity is there, regardless of whether public or private. The burden shifting that you are referring to also is of great concern to us. Chris can comment more on the details of the funding and loading factors, and how they will play out.

Ms Burvill—It is definitely a shift to a purchaser of services model. There is no question about that; I think the Commonwealth department has been open about that. In the briefings that it held on the legislation, that phrasing was used: ‘We are shifting to being a purchaser of services from you, the university.’ So I think the infrastructure is there in the legislation to do that and to open up a very competitive higher education market, giving an enormous boost to the private sector. Where you position yourself on that is one thing, but the issue is whether that has been publicly and openly debated through this process. I suggest that it has not been. We need to think about what kind of balance we want between a private sector in higher education and a public sector. We are in the position where our universities are saying that this package is not even sustainable for them as public universities. We have to ask serious questions about why we are putting more providers into that mix. It is a question that needs to be answered. I am not sure about your question about the impact upon regions. Do you mind explaining?

CHAIR—This opens up a whole new method of allocation of places. It potentially becomes a highly political process.

Ms Burvill—It could be.

CHAIR—It is potentially there.

Ms Burvill—To be abused.

CHAIR—The minister has enormous discretionary powers. In the normal process—clearly in the way this building works—I have no doubt that members of parliament will take a very keen interest in what facilities are provided in their electorates, or maybe in their states. It could well be that that has an impact in terms of trade-offs for legislation, particularly in the Senate. You could see particular regions advantaged or disadvantaged. You could see particular fields of study advantaged or disadvantaged. Do you not agree, given the powers that are quite explicitly stated within this legislation?

Ms Loble—Earlier I referred to one of the questions that we are looking at, which is in relation to where the legislation refers to establishment of providers by the Commonwealth. How far is that going in terms of a circumvention of the state's capacity to recognise and quality assure university provision? My recollection is that it is Professor Brown—but if it is not him it has been others—who has pointed out an apparent inconsistency between arguing for more market forces and at the same time having highly interventionist purchasing policies that in fact tie the hands and, as you say, potentially bring back directly to Canberra even locally based decisions.

Ms Burvill—We would agree that the scope is there for politicisation of the process and for abuse of power in the hands of the wrong decision maker. The essential issue here is one of academic freedom, and academic freedom is a really important principle in Australian higher education and in our democracy. So I think there is a lot to lose if this is abused. That is the issue, really.

CHAIR—It just strikes me that, with a balanced Senate where a government requires the support of a couple of Independent senators—and I am not casting aspersions on them, because it is just often the case, and a Labor government might face the same problem, so I do not mean specific senators—where the numbers are close it may well be that this is a case where trade-offs will occur. As I said, it is a highly politicised arrangement. I do not know if you noticed Andrew Norton's piece in the *Higher Education* supplement this week. Andrew Norton, as you know, has been a strong supporter of the deregulatory model. He is recommending that we do not pass this bill. He says in the headline 'Bill's fine print makes allies of enemies'.

Senator STOTT DESPOJA—I think he is talking about you, Senator Carr!

CHAIR—I think he is, too. He says:

The bill gives the minister power to vary the maximum student contribution through guidelines. So an incoming—

he says in this case—

Labor minister could reduce the maximum amount to the standard HECS amount, nullifying the reform.

Presumably, the same principles would apply in a whole range of other areas. In the advice I understand you to be saying you are providing to the committee by way of, perhaps, a supplementary submission, could you have a look at the issue of ministerial discretion? What is your advice as to the extent of that, given the nature of what is in the legislation? Just how far do you think it could go?

Ms Loble—I am happy to do that. The other thing that occurs to me is that it is important for us to keep in mind the developments in the VET sector, where conditions being attached have shifted more and more of the decision about delivery to being driven nationally and not necessarily in sync with local needs. I am talking here about the pressure for new apprenticeships and those sorts of conditions. While there is certainly still a healthy role for states—in providing two-thirds to three-quarters of the VET budget—increasingly, all of that is being played out against national priorities.

CHAIR—The difference in that case, though, is that the national guidelines go to issues of quality and national consistency of application. This is a different proposition again. This is ministerial discretion right down to the course level.

Ms Loble—Yes. I would agree that that is significant. I was referring not so much to the quality issues—which I agree are there about national consistency—but rather to the demand based purchasing of courses, which has shifted us in a certain direction. But I completely agree with you that this would be the equivalent of reaching into an individual provider and determining what they would provide. I was referring, though, just generally to the trend across the education sector.

CHAIR—You are only too well aware of how I have pursued these issues, so I am not going to pretend otherwise. This is, however, a substantive change in the philosophy of how we run universities in this country. That is the point I am trying to get to. Is it your judgment that this is a significant change?

Ms Loble—That is right. That is one of the issues that we are looking at.

Senator STOTT DESPOJA—Thank you for a very comprehensive submission—in fact, it is one of the few submissions that acknowledge that the glaring omission in this government policy is income support. Is there anything you want to put on record in relation to the New South Wales government's views in relation to income support or other mechanisms that we should perhaps be addressing? I know that that is somewhat hypothetical, in the sense that we are not going to be debating that per se. You could either provide that now or take it on notice, if you would like to. I have in mind changes to common youth allowance, Austudy et cetera.

Ms Loble—We certainly can look at that in more detail. I appreciate your recognition of the submission. Even in your conversation with Professor Chapman, which preceded this one, and the discussion of his work around quartiles, it becomes clear in his work and in that of others that HECS, while it goes a long way towards being a far more equitable approach and income contingent loan basis—

Senator STOTT DESPOJA—If you are going to charge fees.

Ms Loble—still there is a problem with the lowest quartile gaining access. That is, in part, because they simply cannot forgo the income while they are studying. Even with a loan they still need something to live on. I think we can also see that tremendous pressure in the growth in the hours of part-time work engaged in by full-time students. We are now at about 17½ hours on average per student per week—and that is for full-time students. That is a huge burden to be placing on students, whom we would hope would be devoted full-time to scholarship or even a much lesser amount to working. So income support is, in our view, a very important part of opening up the access.

Ms Burvill—I will just add a couple of things. One is that a surprising number, an alarming number, of students live below the poverty line. I think that you had ACOSS addressing you a couple of days ago and ACOSS provided you with data on this. The second issue is the issue of the learning scholarships and how far they go towards actually helping low-income students. Our position on that is that there are too few scholarships and the amount of money is too little. But, over and above that, because those scholarships count as income, it counteracts what the student receives. Something must be done about that part of the package in the interests of low-income students actually being able to attend university. We asked for a review of income support in our submission to the review. We are very, very disappointed that that has not occurred.

Senator STOTT DESPOJA—Me too. You point out that the Commonwealth must clarify the status of postgraduate nursing and teaching pre-registration places. Can you elaborate on your concerns in relation to those specific places?

Ms Loble—Yes. Taking nursing first, the Department of Health estimates that at this moment in time there are 1,600 vacancies in New South Wales hospitals for registered nurses. Out of the new places, New South Wales is only getting 50, or less than 25 per cent. The work done on behalf of the Council of Deans of Nursing show that for New South Wales we are looking at a shortfall of more than 1,600 graduates, growing to nearly 2,000 by the year 2006. So a problem now, a problem growing, and we are cognisant of the issues of retention. Those are being addressed in a variety of ways. We cannot do it without places as the work of Preston and the Council of Deans of Nursing point out.

Similarly, on teaching, if you will allow me to walk through that, overall there is not a teaching shortage in New South Wales. We have two per cent turnover at the moment, a low vacancy rate, applications going up, entry into courses and demand is going up. That is the good news. Nonetheless, we anticipate, and indeed have, shortages in particular regional areas and in particular subjects—maths, science and technology. We are not alone. These are very similar across all the states and territories. I can tick off for you 10 different strategies we are engaging in at the state level. We are putting in \$88.5 million over four years. We are creating an institute of teachers to establish a series of levels of professionalism and competencies so that people can keep moving through their careers. We offer 200 scholarships per annum for teaching where we pay 100 per cent of the HECS—and, parenthetically, we are paying nearly 95 per cent on top of that in FBT. We have rental subsidies that we provide for people. We have accelerated teacher-training programs where we take people from industry and get them into maths and science in particular and IT. We have a teacher mentor program. We have a retention benefit. And we have programs aimed at rural and regional areas. The state is trying in any number of ways to deal

with the retention issues, and even the entry issues, and all we ask is that there be sufficient places so that people who want to go into teaching can get there.

Senator STOTT DESPOJA—Your concern relates not only to that, and that is clearly the significant concern, but in your submission you talk about the issues relating to the HECS debt plus the repayment of the fee help. Is there anything further on that that you are recommending in relation to those particular schemes or some form of additional assistance or an alleviation of the debt that should apply specifically to nurses and teachers?

Ms Loble—Clearly we think the HECS level is an important thing to be looking at, and we would be very concerned if supplementary fees were being levied on top of that and making it even harder for people to access those professions. I know that we did make a couple of other comments. I should also say that we are developing specific proposals around the teaching area because we think that, even with some help to match some of the things we are doing here, we could open up a lot more opportunities.

Ms Burvill—Our concern was sparked by reading the *Independent study of the higher education review*, in which Phillips Curran set out some figures about how much it would actually cost for somebody to do an undergraduate course in areas where we have shortages like maths, science and technology and then come into teaching through postgraduate study. They looked at the cost all up of HECS plus full fees, and we could be looking at up to \$40,000. That is a significant deterrent for an area which has been problematic in being hard to staff. I think the same still applies to nursing and postgraduate study. Many of the areas of shortage are in things like midwifery, which is a postgraduate qualification, and we do not want deterrents put in the way of future employees in our work force when we have shortages.

Senator STOTT DESPOJA—I realise we are short on time, but I have a few quick questions. First of all, has the government held formal meetings with the vice-chancellors of the universities in your state with a view to discussing, for example, the potential governance changes?

Ms Loble—Yes. As I stated earlier, the outgrowth of that was a request, if the concerns are shared by the universities, that both the vice-chancellors and the chancellors work on a combined set of proposals. But we have not received anything.

Senator STOTT DESPOJA—Is this a regular process? Do you have a formal—

Ms Loble—We do. The minister meets regularly with universities and then we as a department meet even more frequently with university vice-chancellors or their representatives. Those issues come up from time to time, but frankly the issues that have been discussed far more in our meetings with vice-chancellors have been around places and funding in this package.

Senator STOTT DESPOJA—You would know that, as part of the package, as announced in the budget, there is to be an increase in the costs of registration for providers and increased visa charges for overseas students. I am wondering if the New South Wales government has a policy view on these increased imposts on not only international students but the universities and other providers.

Ms Loble—The government's position has not been established down to that level of detail yet. If you would like, we can take that one on notice as well.

Senator STOTT DESPOJA—Yes, please take that on notice. Finally, something I pursued earlier today—and you may have heard—was the issue of independent, government funded advice. Does the government think there is an additional role for the Commonwealth to provide more advice on an independent, Commonwealth funded basis to do with HECS or demographics within universities et cetera?

Ms Loble—The government is aware that those issues have been raised through this process, and those are among the issues that are now being considered as we go through the detail of the legislation and more formally develop a position around it. That issue will be addressed.

Senator STOTT DESPOJA—Thank you.

Senator CROSSIN—I have just one question. I would like to know if the New South Wales government has had a look at any figures that might show whether or not students who come from regions and who access regional universities tend to stay in those regions once they have completed their studies.

Ms Burvill—We have had lots of dialogue with Charles Sturt University in particular, and Charles Sturt has always claimed that it is a good investment to put teacher education places out there because people trained in the bush stay in the bush. We have not analysed the data in any detail with them, but they tell us that they have that data and they are very happy to share it. I am sure that they would share it with this committee. They claim that that is true in a number of different professions, not just in teaching. So I think it is a really important question about where places go.

Senator CROSSIN—In your submission you spend quite a bit of time looking at the impact of this package on the regions and regional universities. Is it the view of the New South Wales government that this package will have a detrimental effect on regional universities and go some way towards ensuring that they are not as effective as they could be if the funding arrangements were somewhat different?

Ms Burvill—The New South Wales government is concerned about that question. In fact, the minister has made a couple of speeches in parliament about that very issue—the extent to which regional universities will be disadvantaged by this package. We are really concerned about the emergence of a two-tier system. Regional universities will be disadvantaged if they are unable to raise HECS and if they are unable to charge full fees. While we do not support either of those things, we believe that the capacity of regional universities to do so will be much less than their metropolitan counterparts. So we are very concerned about the possible emergence of a two-class system, which will limit opportunities for students in regional areas and may also down the track diminish universities to the point where there is loss of jobs, flow-on effects to country towns et cetera. Having said that, we also need to stress that the government is also concerned about the impact upon all of the universities in New South Wales. The point about there being no indexation in the package for funding is really important, and that will impact upon all universities. But for regionals we think there are specific impacts.

CHAIR—Thank you very much for coming down today. It is much appreciated. It was a very good submission, by the way.

[2.23 p.m.]

CHUBB, Professor Ian, Chair-elect, The Group of Eight

WALSH, Ms Virginia, Executive Director, The Group of Eight

CHAIR—Welcome. The committee has before it your submission, No. 310. Are there any changes you would like to make to it?

Prof. Chubb—Not that I am aware of.

CHAIR—The committee prefers all evidence to be given in public, although the committee will also consider any requests for all or part of the evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I now invite you to make a brief opening statement.

Prof. Chubb—The Group of Eight—as any group of vice-chancellors would—finds some parts of the Crossroads reform report worth supporting and, to a different extent and in different ways, some of us have some difficulties with some parts of it. The Group of Eight is no different from that. Some of my colleagues are strongly supportive of some aspects; some of us are a little less supportive of those aspects and we do support some of the equity initiatives and matters of that type. I think I would rather cut straight to the questions and have you identify the bits of our submission or other matters that you would like to raise with us.

CHAIR—You have indicated in the press that you thought the IR proposals were the straw that broke the camel's back—or words to that effect. I was wondering if we could examine what the other straws were—before the IR one—that concerned you in regard to this package.

Prof. Chubb—That is difficult to answer as the Group of Eight, because we would all have slightly different ones. For example, I personally do not support the issue of full fees and extending the capacity of universities in that regard. That is a personal thing. I am here representing a broader group of people, some of whom do support that. I should make it quite clear that, on a number of these issues, we do have a range of views—which I think is quite healthy, and we have some healthy discussions about our differences of opinion on some of those matters. I can talk about what happened when I, for example, and some of my colleagues, saw the nature of those IR guidelines and so on. Some were saying, 'I will support a package because it is a package and because there are pros and cons to that package from the perspective of the individual vice-chancellor.' When we saw some of the detail of the IR reforms, then people—to my knowledge, anyway—publicly, to a person, opposed those. Of course, that means that a principal plank of the other package, the Commonwealth Grants Scheme, is then notionally at risk unless there is some trading to be done. But I think that we all really did find those IR proposals too intrusive, too detailed, with too much micromanagement—and all of those comments have been made by my colleagues, including most of my colleagues in the Group of Eight. We are pretty well as one on that issue, as far as I know. On some of the other issues, we have had some variability, but we went along with the package, as I said, because it was a package and there were pros and cons in that package.

CHAIR—One of your number, Professor Brown of the University of Sydney—which, it might be argued, does quite well from having the capacity to charge up-front fees and various other things—says to us that there are obvious deficiencies in the package. He says:

(i) there is the ill-conceived commitment to Voluntary Student Unionism; (ii) there is an overly tight straitjacket for the distribution and re-distribution of government subsidised university places; (iii) there is an excessive degree of control inherent in the discipline mix—

and I think this is particularly significant—

with the potential for gross intrusion upon university autonomy, academic freedom and student choice; (iv) there is a totally illogical link between increased funding and ideological components of industrial relations—

and so on. He talks about the international activities. He goes on to say that, if there is a significant defect, it is the lack of an effective mechanism for indexation, and then he says that the package is not sustainable in the medium to long term. These are profound criticisms by any measure. Do you think the Group of Eight at large would share those areas of criticism?

Prof. Chubb—It is a hypothetical question because we have not discussed it in that sort of detail, but I can say that I agree with him. I think it is fair to say that, at different points, you would find that many of my Group of Eight colleagues would share most of those views, but we have not had a sit-down discussion about them in the sort of detail that you might like me to respond in.

CHAIR—I appreciate that. Would you like to see amendments to those areas?

Prof. Chubb—Yes. I think voluntary student unionism is a distraction. Speaking as a single vice-chancellor, I think that the redistribution of subsidised places is overly tight. I was asked this September to predict what my enrolments will be by subject in 11 different course clusters next September, when a third of the people who will be my students next September have not sat their year 12 exams yet. The question is: what will be done with that information? I have advice that it will not be used to substantially shift budget around if the students are making a choice; it will be if we shift student distribution around. There is only one way you can stop that happening and that is prescribed subject quotas or subject study streams with quotas attached.

I talked about the distribution if you take a weighted student load—that is, according to their clusters and where the students appear. At ANU—and do not forget that we are small with respect to undergraduate student numbers—we have had a multimillion dollar shift in budget simply between the first day of the first semester this year and the second semester audit date in September. Students do make choices; they do change their minds. Have they got a job? Is it a full-time job or a part-time job? Do they study full time, part time, half time or three-quarter time? Is there a timetable clash? Do they actually like what they chose on the first day of the first semester? They have a month to change their minds after the semester starts, and they do. They should be able to.

I agree with Gavin that there is an overly tight straitjacket. In a way, that goes to the explosive degree of control inherent in the discipline mix. You could say that it is theoretical. You could say that it will not be used to shift large chunks of budget around between institutions or

whatever, but the capacity to do that is there in the way that it was presented in the report: ‘increased funding and ideological components of industrial relations and unduly formulaic changes in governance’. I would agree with his point and the taxes and so on. I could agree with most of what is on that list. I think a number of my colleagues have made similar comments publicly about those points, but not as a consolidated group.

CHAIR—The Vice-Chancellor of the University of Melbourne, an old friend of yours, said that he supported the policy directions of this package. However, he said:

... it is with the deepest regret and with considerable astonishment that I have witnessed the gradual emergence of the guidelines that are being developed by DEST to implement the provisions of the Higher Education Support Bill 2003 should it become law. Unless there is some rethinking of these various guidelines—not all of which we have seen of course—which will impose a degree of bureaucratic complexity and micromanagement on Australian universities that is without precedent, the essential dynamism of the reforms will be lost. The interventionist regime that would be created by the IR guidelines is but a single example of across-the-board bureaucracy run riot

To what extent do you think concerns about the level of intervention actually go to the detail of this legislation that will not be fixed just by fiddling around with the IR package?

Prof. Chubb—Let me give an answer and see if it answers the question you asked. From discussions with my colleagues, including within the Group of Eight, we are all concerned. We all supported the minister, publicly, privately and in every other possible way, in his commitment to reduce bureaucracy and red tape. He thought, as we think, that there is too much. It ties us down for too long. We were all hopeful, I think, that he would be able in this process to reduce that—you cannot eliminate it—in a way that enables us to have some flexibility and freedom as we judge best for our institutions in their particular context. In my case, that is this city; in Gavin Brown’s case it is Sydney, and so on. We were looking forward to some of that.

Professor Gilbert said, ‘But its best intentions appear to be ending up a bureaucratic nightmare.’ We have to hope that, in the course of these discussions, a lot of that will be eliminated. A lot of it is unnecessary. What is the use of my predicting 12 months in advance when a third of my students have not completed their schooling yet what they will be studying next year? And what is the implication of my having to do that for budget and future directions of the university? Is it to say that there are certain things I cannot teach? Is it to say there are certain things I should not teach? Is it to say that, as a consequence of that, there are certain things I should not research at the university and so on? I do not think we had anticipated that there would be some sort of reduction in student choice—that we would be able to manage the ebbs and flows of student choice and demand in our universities. It is different for us all, because we are in different places, different sorts of universities, different sorts of course structures and all the rest of it, and we find that we are not getting that; we are being forced more down a single path. As I said when I began, we supported the minister in his attempts to reduce the red tape and his commitment to that, but it does not appear to have worked. Is that an answer to your question?

CHAIR—It goes to the question directly. Professor Gilbert has been a strong advocate for deregulation. He has at various points probably claimed responsibility for the shift in the government’s thinking on a lot of these things. But now he is saying:

By not exercising enough control over the development of these guidelines I believe the government is in danger of losing control of its own agenda.

That is the evidence he has presented to this committee. What concerns me is this: to what extent does the detail of this legislation involve a level of ministerial discretion of an unprecedented nature and to what extent can that be addressed by a discussion? Does it not require substantive amendment to the bill, given that we are not talking here about intentions anymore; we are talking about a piece of legislation which appears to go way beyond anything you, as vice-chancellors, have actually discussed with the minister up to this point.

Prof. Chubb—It is true that I have not been involved in discussions that have taken us in this direction. We have had discussions from time to time with the minister during the development phase of his approach to this. I do not think that I can answer your question, because I have not seen all the guidelines. I think that a lot of this is going to be down to guidelines and they have not all come out—or at least, if they have, I have not seen them. The only ones I have actually seen, with time enough to read, are the IR guidelines, and you know the reactions of me and my colleagues to those. With the rest of it, I really do not know—although, of course, when they are guidelines, I guess that goes back to your question about ministerial discretion. I do not think I can sensibly add to that because, until I see those, I cannot really predict.

CHAIR—I understand the point you make and that is, like so much of this, unknown. We do not know about the research package, which is another part of it, and you make that point in your submission. But what we do see, for instance, in the legislation is that there are provisions that cut directly against what we have been told are the policy directions of what the government claims to be its position. For instance, there is this question of the numbers of full fee-paying students. Clause 36-35 talks about particular courses of study that ‘the agreement provides is a course in which the provider must not enrol persons in units of study as Commonwealth supported students’. I take it you have had a look at that particular clause. My reading of it is that that could mean 100 per cent full fee-paying students in a course. That is nowhere to be found in any ministerial statement, but that is what this bill says.

I am sure you have had a look at the bill. You will have seen clause 35-25, where there is a whole series of conditions set down as to the minister’s capacity to determine course load at an individual institution. I am wondering which vice-chancellor discussed that proposition. I find it inconceivable that any vice-chancellor would agree to such a proposition for any Commonwealth minister to have that level of discretion over your day-to-day operations. Can you enlighten the committee?

Prof. Chubb—I can only speak for myself and say I did not encourage the minister to have that much discretion over the distribution of load at my university. I cannot speak for what my various colleagues have said to him. I have not heard it said publicly that we would like that; indeed I have heard the opposite. I think most of us think that that is not a useful way for us to develop our education in the coming years in Australia, but other conversations have taken place. I think your interpretation of that first point is as I would read it and, indeed, as my colleagues would read it. I think one of our submissions indicates that, as you said, and I cannot believe that that is what was meant. I do not think I have ever been part of a general discussion amongst my own colleagues where we have ever asked for, argued for or even argued about having 100 per cent of subjects in some course available only for full-fee students.

Ms Walsh—That is correct. I think with this that there is so much uncertainty because so little is known about the detail, and that really is of great concern. There are other issues relating to the legislation which are about intention: was it actually intended that this particular part of the legislation would have this effect? That is certainly not something that the Group of Eight has ever proposed. We have never been in a conversation where that has been put to us as something that was perceived as one of the outcomes of the legislation. So my first reading of the story about this part of the legislation was that it was not something that would be generally supported and was it really the intention to go down that path.

CHAIR—The problem we have is that we are required to make reports to the parliament about a piece of legislation which some of your colleagues tell us must be passed by Christmas. We have got eight days of parliamentary business left on the present schedule. There are 50-odd bills, including major packages on health, industrial relations and telecommunications, not to mention this. Given the level of uncertainty and given the propositions that I put to you today about some of the profound consequences of this legislation, how realistic do you think it is that this parliament give this a tick and flick, which is what has been implied by the submissions to date by some of your colleagues?

Prof. Chubb—I do not know that I can answer that. As far as I am concerned, the university sector has been seriously underfunded for a long time. I think that on other occasions—indeed before an earlier inquiry—we have made the point that if our grants had been indexed at average weekly earnings we would have another \$550 million in the sectoral budgets this year than we actually have. So I can easily imagine that some of my colleagues would argue that some of the money associated with this reform package is essential for their future wellbeing. We are either at the beginning of or part of the way through the process of—and in a couple of cases near the end of—the fourth round of enterprise bargaining with inadequate indexation. I can imagine that a number of my colleagues would think that some extra financial help in our budgets to help them accommodate the fourth round of enterprise bargaining with inadequate indexation is an important thing for them to seek. I can imagine that some of my colleagues who will not be charging full fees or will not be increasing HECS to the maximum extent possible, because of where their university is located and the likely impact of that on their environments, would argue that the other parts of the package should be passed. So what you are seeing before you is a problem that you have eight vice-chancellors of different sorts of universities in different parts of the country with different pressure imperatives and all the rest of it and we will take a different response to what we see to be some of the intrinsic benefits going into that.

I know that some of my colleagues have said publicly—indeed, Gavin Brown said it in the submission you referred to earlier—that you begin to think through what the likely impact will be on your capacity to manage your institution to enable it to be what you—that is, the staff and students of that institution—want it to be when your budgets are so tight and so clipped and you are enterprise bargaining and so on. I can understand why you get that sort of response from some of my colleagues. It is an inevitable consequence of where we have been to get where we are.

CHAIR—The difficulty is that this bill proposes a potential level of political intervention that we have not seen in the day-to-day operations of universities. I do not think that is an arguable point. It is clearly the black and white reading of the legislation. Would you agree with that?

Prof. Chubb—Yes, everybody is saying that, I think.

CHAIR—In his speech last night, for instance, Vice-Chancellor Gilbert said:

As public funding declines in proportion to the total funding, governments have in recent decades tried to increase, not relax, their control over universities, often in ways that would be comic if they were not so potentially serious.

So there have been quite a number of examples, and I can think of quite a few in regard to Melbourne—

Prof. Chubb—He does give good speeches.

CHAIR—Yes—quite a few, actually.

Prof. Chubb—Quite a few good ones or quite a few speeches?

CHAIR—Perhaps there were a few more that should have been. The point I am making is that there is plenty of evidence to suggest that governments do seek to get involved with universities, perhaps in inappropriate ways—for example, in teaching, whether or not certain persons who are critical should be employed. I remember a dispute in Melbourne about whether or not people who were critical of the Indonesian government should have the welcome mat put out for them at our universities. There have been cases of students' behaviour at university—

Prof. Chubb—Are you saying that they shouldn't?

CHAIR—No, that is my point—I am saying that this is wrong. This is not the role of the politicians or the minister.

Prof. Chubb—Absolutely.

CHAIR—But this bill, on my reading of it, provides for greater scope for that to occur. Would you concur with that proposition or not? Is there a potential or a danger in the provisions of this bill in terms of academic freedom, institutional autonomy and student choice?

Prof. Chubb—Along with most of my colleagues, I would say that those possibilities are there. As I said earlier, the one we have focused on and, so far as I know, and certainly publicly, the one we have all expressed most anxiety about is the IR guidelines. We were counting them up yesterday and I think there are something like 11 guidelines in there that go to things like caps on this and who can represent there and who can come here. I do not need that. Thirty per cent of the staff at ANU are on contract, and it would probably be the same at the University of Melbourne and the University of Sydney. Gavin Brown makes the point in writing better than I could do orally. He sees exactly the same sorts of problems with that.

Where it is down to some of that level of detail, I think there is cause for concern. It is easy to say, 'You're paranoid,' or, 'Don't worry about it; that will never happen.' I can remember 14 years ago when HECS was introduced that it was not going to be increased other than by CPI. I can remember that the threshold for repayment was not going to be reduced either. But I cannot think of too many consecutive years when there have not been changes to those things. From the

political end, the reasons might be perfectly arguable, but I have concerns. In a speech I gave—because I give the odd one too—I said, ‘How many thin edges of a wedge do you have to see before you get worried?’ I think that would be a concern of mine. I cannot speak for the Group of Eight in that respect. They may have different views.

CHAIR—Out of deference to you, Vice-Chancellor, I would not quote your speeches in such an environment. I would draw your attention to the comments made by your colleague Gavin Brown, where he talked about the ‘transformation of the minister from prince to frog’.

Prof. Chubb—Gavin has a turn of phrase that I am not allowed to have.

CHAIR—As I said, I would not dare to quote your speeches.

Prof. Chubb—No, I would never say anything like that.

CHAIR—Gavin Brown also says:

We have been offered a Faustian bargain—it would be better for the sector to face lower quality arising from an inadequate resource base than to place ourselves in a place of total impotence.

What do you say to that?

Prof. Chubb—I would never want to be impotent.

Senator STOTT DESPOJA—Professor Chubb, in your submission you indicated concerns about lack of scholarships and income support. You talked about HECS. One question I have is: in relation to fee help—that is the 3.5 per cent real interest rate plus CPI—is that something to which the Group of Eight objects or do you support that proposed fee help arrangement?

Ms Walsh—We do not actually have an agreed position on the effect of the interest rates. But, again, a number of vice-chancellors within the Group of Eight have spoken independently against the introduction of interest rates.

Senator STOTT DESPOJA—My understanding is that the AVCC has expressed its concerns about that proposed interest rate, but you are saying that the Go8 does not have—

Prof. Chubb—We are all members of the Group of Eight, so we must have agreed.

Senator STOTT DESPOJA—Right. In relation to the student support mechanisms and scholarships, among the Group of Eight universities you provide 64 equity scholarships. Do you think they would be sufficient in light of these proposed changes or do you see that there would be an increased responsibility on your institutions to provide more scholarships in addition to the number proposed by the government under this legislation?

Ms Walsh—The scholarships issue is a really tricky one. We have a number of scholarships for equity students—or students from low socioeconomic areas—who achieve well in their entry requirements for our universities. We would like to have many more. In fact, in addition to the Group of Eight equity scholarships the individual universities have their own equity scholarships

too. Some are sponsored by business and individuals. There are some problems, though, with the scholarships. At the moment, students in receipt of these scholarships are actually penalised by having their access to youth allowance reduced. In the case of a Group of Eight scholarship where a scholarship holder receives \$3,000, their youth allowance can be reduced by approximately the same amount. So in those instances we are removing one form of support by providing another.

As much as we know about the scholarships that are to be provided in this new government package, the same effect will take place. In other words, the government may provide scholarships for students, but the students may then lose an entitlement to another form of income support from the Department of Family and Community Services. So that is a major concern. Beyond that, the number of scholarships is not enough. I think the government indicated that there were 27,000 students commencing university each year from low socioeconomic areas, yet the package of scholarships that they offer falls well below a number that would satisfy the interests or needs of that group.

Prof. Chubb—I have no doubt that some of my colleagues who seek to charge fees will convert some of that income into equity scholarships. They have been very vocal about that and quite constant in their attitude to that. I have no doubt that they will do that. You can no doubt find in various speeches that some of them have made that they would actually convert some of that income into equity scholarships. Of course the real answer to your question is yes, it is an issue. Yes, there will need to be some other approach to that and more social support schemes.

The other discussion we have had at Group of Eight is whether it is worth our while providing scholarships that simply subsidise another Commonwealth department because they in turn cut the allowance to those students. All we are doing is using department 1's money to subsidise department 2. Before this package, we were having a discussion about how many of these scholarships we should continue to offer, simply because we were cross-subsidising government departments.

But the answer is yes, there will need to be more. I have no doubt that some of my colleagues would use the extra income from HECS or fees to establish some of those scholarships. Whether there would ever be enough to establish scholarships for the 28,000 students from low SES backgrounds who commence each year and then pipeline out times three, roughly—so 70,000-odd—is entirely another matter, and quite moot. I do not know the intricacies of the financial arrangements of the universities.

Senator STOTT DESPOJA—Professor Chubb, can we assume that the Group of Eight's view on voluntary student unionism is the same as that of the Australian Vice-Chancellors Committee—that you are opposed?

Prof. Chubb—We are all members of the AVCC, but you can assume that, yes. We have resiled from that, I think, in exactly the same way as the AVCC.

Senator STOTT DESPOJA—Have you or your predecessor, Professor Gilbert, had meetings with Minister Nelson in relation to the issues you have raised in your submission with us today?

Prof. Chubb—I am brand new at this representative role—

CHAIR—Are you just learning?

Prof. Chubb—I am learning. I haven't had any meetings.

CHAIR—Do you take much advice from Professor Gilbert on this learning process?

Prof. Chubb—Our views are very close on a number of issues. We probably differ mostly when it comes down to things like fees. There are all sorts of reasons for that. We do talk to each other a lot about some of these issues. Professor Gilbert, for as long as I have known him, has been very strong on the autonomy of universities. He has never wavered in that. I can remember back at least 10-plus years where he has been a strong defender of the need for that autonomy, which is almost a pejorative these days, because it sounds like—it is often spun out to make it sound like—avoiding responsibility, or whatever. But Professor Gilbert has never taken that view. He has always been very strong that the best way for us to develop a good higher education system is to enable us to develop our institutions according to our particular context.

CHAIR—That would be the view of all the Group of Eight, though, would it not?

Prof. Chubb—That would be the view of all the Group of Eight, yes. And in different ways we would have expressed that too—and Professor Brown does in his written submission to you. He has for many years too. So yes, I think we could safely say it is the view of all the Group of Eight. We would then approach that a little differently. My approach to some aspects of that might well be a little different from Professor Gilbert's, but our commitment to that general principle is equally strong.

Senator STOTT DESPOJA—Professor Chubb, I refer to the changes that were announced as part of this package in relation to overseas students. Is there a Group of Eight perspective on those increased visa charges for international students and, indeed, increased costs for the providers of international education? You may be aware that we had a debate in the Senate on this in an attempt to disallow those increases. That disallowance was not successful. I have asked witnesses whether they would like us to reconsider or whether the Senate should revisit that decision. I am happy for you to take it on notice if there is not a policy position today.

Prof. Chubb—I might have to do that, Senator, because the Group of Eight generally advises me and I have not been part of a discussion within the Group of Eight where we have actually got down to that in any detail at all. So we can take that on notice and we will get back to you.

Senator CROSSIN—An article that reviewed the report that was commissioned by Phillips Curran and KPA Consulting states:

The report predicts the lion's share of increased revenue from deregulation of course fees will go to the Group of Eight universities where there is high demand.

What is the view of the Group of Eight with respect to the impact of this package on regional universities, which obviously will just get the kitten's share of the increased revenue, as opposed to the lion's share?

Prof. Chubb—The best answer I can give is that when we, as a larger group of vice-chancellors, contemplated how we would make a submission to the review process in its early days, and how we would try to influence the outcomes of that, we tried to get up a package of proposals that was complicated enough to give every university an opportunity to develop some extra revenues that would in part be related to their goals and objectives, where they were and so on. We kept emphasising this to the minister because it was inevitable that some parts of it would advantage some universities over others. But we had always hoped that there would be yet other parts that would rectify some of those shifts and accommodate the differences. So I suppose the short answer to the question is yes, it is probably true that universities—at least a number of the universities in the Group of Eight—stand to get income from charging fees, and some of my colleagues have already announced what they plan to do.

There are other parts of that—and we thought there were other parts of that until the IR guidelines came out—that would enable most universities to get some extra revenue, even those that were in a country location or that were the type of university that would not easily be able to charge high fees yet keep the same enrolment numbers or enrol even larger numbers. So the answer to the question is that the package was complicated enough. I have had exchanges with the minister about the fact that it is true that a university does not have to charge fees and would be able to get extra revenue. It will not be the same for each university—it will not be the same dollars per student for each university—but I think that each one has the same opportunity.

Senator CROSSIN—I suppose the Group of Eight does not need to worry about the extra revenue that could be generated from this package, seeing that you have the capacity to charge extra fees—and you will probably get them—and you have the capacity to increase your full fee-paying places, and they will be filled. But apart from the regional loading for regional universities—which in a de facto sense is being diminished day by day as more regional universities are included in this net but the bucket of funding does not increase—there is really no other capacity for regional universities to get additional funding out of this other than the regional loading. Is it not perhaps the case that the minister has very cleverly created a wedge between the haves and the have-nots who get even less under this package?

Prof. Chubb—I doubt that that was the minister's intention and I do not know that those differences do not already exist; I think they do. Not every one of the Group of Eight stands to make as much revenue from fees. My university is in a small country town, as some people put it. I think it is a civilised city but it is still relatively small. To attend the Australian National University, 45 per cent of our students have to come from outside the region and therefore bear the extra cost of accommodation and so on. That does not give me scope for a lot of movement in the way in which I can increase the cost to the individual student.

So we do not all stand to gain in quite that way. Of course we get resources in other ways—and I am not going to sit here today and pretend that we are totally impoverished; that would be a waste of our time—but, in the specific terms of your question, we will not make a lot of out of fees and the flexibility that that gives. I hope that the Commonwealth Grants Scheme proposal gets through and that there is an extra \$410 million, and in four years from now we will be getting another 7.5 per cent on our base grant.

I hope that, between now and then, the government of the day will see its way clear to providing appropriate indexation for our grants. I hope that regional funds and the like will

accommodate some of the equity funds which will no doubt flow into the system, and will probably flow differentially into the system, and enable some of those universities who are not charging fees but taking a larger share of the students who come in from, say, lower socioeconomic backgrounds to get better support than they presently get for those students. I think that there are ways and means where this can be accommodated. I do not think that any university in Australia in five or 10 years time will have the same number of dollars per student, but that does not mean to say that they will be impoverished as a consequence of those differences.

Senator CROSSIN—The Phillips Curran report also says that the price of courses will affect students' decisions and it is highly probable that cost will be seen as a proxy for quality. Do you agree with that statement?

Prof. Chubb—If I was buying wine I would, but I do not know that I would necessarily translate that straight into education. I think students and the people who advise them are quite sophisticated in working out where they can get what the student would like to study, at a place they would want to study in and at a price they can afford. Price will have an impact. The government's own paper indicates that there is a price sensitivity. I just remind you that there is a table that talks about the variability of HECS in the report. It makes the point that in their national priorities, which are education and nursing, it will not allow universities to vary that HECS upwards from the present rates. The range for those courses stops at the present HECS rate of \$3,854. So there is a price sensitivity—that is absolutely clear. Whether the students would say, in addition to those sorts of incentives, 'I will go where I have to pay a lot because it will be better,' I do not know. Some will, of course. We are talking about 750,000 human beings. Some will make the decision on those grounds; others will dig underneath the surface and find out what is on offer, by whom, how good, where, the other things around that program of study, the sort of university and make their choice accordingly. I cannot predict what the numbers will be like. I think part of the problem with some of this is that we cannot actually predict what the impact will be.

Senator CROSSIN—If I had to pay \$50,000 up front as a full fee-paying student, don't you think I would be more likely to buy a course, say, at the University of Sydney than perhaps at Charles Sturt?

Prof. Chubb—I could not possibly name universities, Senator, in that comparative sense.

Senator CROSSIN—Perhaps if I pick one of the Group of Eight. If I have to get myself in debt, borrow tens of thousands of dollars—not hundreds of dollars—why would I not choose to buy myself a course at one of the Group of Eight universities as opposed to one of the regional universities?

Prof. Chubb—I do not know. You might want to do that. I would hope that you would find out the sort of program of study, the sort of study assistance, the sort of staff, the sort of facilities, the sort of infrastructure, the sort of job prospects and so on that you would get out of whatever course you chose, whatever you were paying for it. I think that is becoming more and more part of what I see as a quite sophisticated approach to course selection by our students these days. I have no doubt that a university in a big capital city would be able to charge fees for a number of its courses. They tend to draw from the top small percentage of the student cohort

presenting in any given year. That gives them a lot of scope to enrol some students who are just under that small percentage. Yes, they will get students in their fee-paying courses, and they will be able students and they will be able to do what they want to do. I think, though, that if you are going to pay a lot of money like that—I think you said \$100,000 or something for a course—then I hope that you would go beyond the reputation of the institution and have a look to see what you get for your money. What you might get over a period of time are much better educational opportunities. They will be improved because people will say, ‘What do I get for this?’ The answer is very complicated because it is a very complicated issue.

Senator CROSSIN—How many Indigenous people are there at the ANU?

Prof. Chubb—Not enough. There are about—

Senator CROSSIN—Do have an equity target?

Prof. Chubb—We do not have a particular target. Over the last six months we have just started making a concerted effort to increase the number of Indigenous staff and, as a consequence of that, to increase the number of Indigenous students. I think you could rightly say that over the years the ANU have not participated enough in the education of Indigenous people, and they are changing their track as we speak.

Senator CROSSIN—How encouraged are you going to be to do that when there are only five postgraduate scholarships on offer for Indigenous staff in this country?

Prof. Chubb—In the reform package?

Senator CROSSIN—Yes.

Prof. Chubb—We have some obligation to look after them too. We are spending quite a bit of our own funding to attract Indigenous staff, to provide scholarships for Indigenous staff and to support them and the students when they do come to the ANU. I think you would find that most universities either have those programs in place or are developing them. It is just that some universities are much further ahead than others. We have not been an early starter in that regard.

Senator CROSSIN—The requirement is for universities to have an Indigenous employment strategy in order to access some of this money that is on the table. Do you think universities should be required to have employment targets and perhaps even allocate a percentage of their money towards ensuring Indigenous people get access to training and further education?

Prof. Chubb—In our next enterprise agreement, we will have an employment target for Indigenous staff. I am embarrassed to say that I cannot tell you what it is right off the top of my head.

Senator CROSSIN—Do you think that should be part of the industrial relations reforms that the government is pushing, rather than just suggesting each institution have an employment strategy? Should there be concrete outcomes expected of universities in relation to that strategy?

Prof. Chubb—As part of our equity arrangements, yes, I do not think there should be any industrial relations reforms as part of this package, and especially not with funding contingent on it.

CHAIR—Professor Chubb, I have one question with regard to the ANU. The department's figures were published a little while ago now about the so-called winners and losers. Your university was said to be losing \$3.1 million by 2005. Have you had an opportunity to evaluate that claim?

Prof. Chubb—Yes, and it is wrong.

CHAIR—What is the correct figure?

Prof. Chubb—As best as we can work it out right now, the ANU will come out just slightly ahead. The reason it is wrong is that we have a very complicated relationship with the Commonwealth where we get a block grant for research for the Institute of Advanced Studies and a block grant for the faculties which provide education for undergraduates. The Commonwealth gives us one single-line budget, and it is up to us to divide that up internally as we wish, with historical constraints of course. It depends on how you subtract one or the other from the total sum and what you include in that, and that gives you the outcome that was published. The Commonwealth just assumed an amount for the Institute of Advanced Studies. Did you say the figure was \$3.5 million?

CHAIR—\$3.1 million.

Prof. Chubb—So when you correct the sum we come out about half a million dollars ahead for the faculties component of the ANU.

CHAIR—How can we have confidence in the department's figures if they get a basic calculation like that wrong?

Prof. Chubb—No, I have to defend the department. It is our calculation. They have no role in deciding how we divide up our recurrent grant at all. That figure in the paper referred only to the faculties component of the ANU, not the total recurrent grant. When we told them what we actually did—and you can calculate a different figure—on the faculties component we will end up just slightly ahead.

CHAIR—Given that, and the current push from the Chief Scientist to move away from block grant funding, how strongly do you oppose that measure?

Prof. Chubb—I oppose it very strongly. I think it is a misunderstanding of what we do in universities, how we manage them and the approaches we take to the support of research in our universities. I think I can safely say here, on behalf of the Group of Eight and not only as Vice-Chancellor of the ANU, that we have now publicly put a position that says that we do not support the transfer of block grants to some other scheme to come back in some order of magnitude that is probably less strategic than we are able to offer ourselves.

CHAIR—Finally, the AVCC have recently sent me a copy of their submission on the research collaboration exercise. I understand they have opposed a version of the RAE project under the English system, modified for Australian conditions. Is that the view of the Group of Eight?

Prof. Chubb—No, it is not. Our view is that there should be something like that. There are some contingent comments on that with respect to the quantum and so on, but our view is that something that enables a distributive mechanism based on some real assessment of quality is an important component and an important improvement in the way some of these funds are allocated.

CHAIR—Were you familiar with the AVCC position that is being distributed?

Prof. Chubb—I saw it this morning, yes.

CHAIR—After it had gone out?

Prof. Chubb—Yes, but that is probably my fault. I have been having a lot of issues—

CHAIR—Presumably, the other seven members of your group saw it too.

Prof. Chubb—I do not know about that. It probably went to the board of the AVCC. I have been grappling with how I intend, at a local level, to handle the IR guidelines. That has occupied a fair bit of my time over the past short while. I take responsibility for not having looked at the draft—if I saw a draft—closely enough to have commented on that. At a personal level, I have been arguing for a long time with a number of my colleagues from the Group of Eight, and others from within the AVCC, that we ought to have something better than a little surrogate for quality. We need to get real about that.

CHAIR—In my role as the shadow minister in this area, I have taken the view that you have on that issue. I was surprised to see that comment in the submission. As you know, I am very keen to do whatever the AVCC wants in these things—

Prof. Chubb—I have noticed.

CHAIR—I was surprised to see that such a controversial question had been raised in such a manner without any comment from anywhere else.

Prof. Chubb—There is an AVCC board meeting early next week. You will probably find that matter is raised.

CHAIR—I am pleased to hear that.

Prof. Chubb—I am absolutely equally certain that a draft would have come through my email at some point and I can be equally certain that I did not look at it closely enough to pick up that one sentence in the whole thing. But within the Group of Eight where there has been some discussion about the transfer of block funds to some other organisation like a research council, which would then give it back to us tied up in little packets associated with some grant because it believed that we would not use it for the purpose intended, it would be a totally inappropriate

way to identify these funds. It would be a totally inappropriate way to assume that you can take a strategic approach to the development of research in Australia were you to do that. All it would result in would be a further atomisation with a one-in-five chance of succeeding. That is basically the success rate for some of those. One in three, one in four—it does not matter what the rate is; it is not one in one. There has to be a much better way of doing it than what is presently being proposed. You mentioned the Chief Scientist saying, ‘Get rid of the block grants.’ I do not know that that is more than a bargaining position.

CHAIR—I hope you are right. Thank you very much for coming today. I appreciate your advice.

[3.22 p.m.]

ALLEN, Dr Maurice, Director, Education and Assessment, Engineers Australia

HARDWICKE, Ms Leanne, Director, Public Policy and Representation, Engineers Australia

STEPHENS, Dr David Hector, Policy Consultant, Professions Australia

CHAIR—Welcome. The committee has before it submissions Nos 347 and 396. Are there any changes that you would like to make to those submissions?

Dr Allen—No, thank you.

Mr Hardwicke—I have one change, which I can pick up in the opening statement, relating to an additional member who has recently joined our organisation.

CHAIR—The committee prefers that all evidence be given in public, although the committee will also consider any requests for all or part of the evidence to be given in camera. I point out that such evidence may subsequently be made public by order of the Senate. I invite you to make a brief opening statement. Do both organisations want to make a statement?

Dr Stephens—Yes.

Dr Allen—Engineers Australia is the peak body for engineering practitioners in Australia and represents all disciplines and branches of engineering, including information technology. Engineers Australia has over 70,000 members Australia wide and is the largest and most diverse engineering association in Australia. All members of Engineers Australia are bound by a common commitment to promote engineering and facilitate its practice for the common good.

Throughout the DEST 2002 review, Engineers Australia challenged the government to invest in higher education at a level which will support Australia's transition to a knowledge based economy. As rapidly changing technology and globalisation transforms the pattern of demand for skilled labour throughout the world, raising the proportion of young people who participate in higher education can only become more important to Australia's global success.

While Engineers Australia welcomes the reform package generally, it is unfortunate that the package has failed to address a number of important issues. Firstly, there have been no attempts to restructure the student income support system and the financial capacity of students to study has not been considered. Secondly, issues related to the validation of academic standards, through the use of external examiners and international benchmarking, have not been adequately addressed. This is particularly disappointing given the role Engineers Australia plays in accrediting engineering degrees to ensure that they meet the best international practice.

Thirdly, problems faced by universities in trying to maintain laboratories have also been overlooked. There is a genuine need for the government to provide one-off funding allocations

for universities, and particularly for groups of universities, to quickly update and purchase laboratory equipment to meet present and future requirements. Another issue that has been neglected is the need for rationalisation and specialisation in the university sector. Engineers Australia believes that resources for engineering education are currently spread too thinly and that, regardless of the increased funding provided by the reform package, course offerings should be rationalised to facilitate the use of resources more effectively.

Finally, the reform package has not addressed the issue of maintaining specialist areas of study crucial to the Australian economy regardless of the student numbers enrolled. In engineering, some disciplines—for example, high voltage power engineering—are in danger of disappearing despite being vital to the economic health and defence requirements of Australia. While the need for additional support to provide high quality graduates in areas of nursing and teaching has been correctly acknowledged, Engineers Australia believes that it is also in the national interest to proactively support specialist areas of study and the further development of an engineering skills base.

These issues and others still need to be addressed. We welcome the opportunity provided by the subcommittee to discuss further the particular difficulties faced by engineering in the present policy environment, along with general issues surrounding the proposed changes to the funding and regulatory environment of higher education in Australia. Thank you.

CHAIR—Thank you very much.

Dr Stephens—First, I apologise for the absence of our President, Mr Barry Grear, who is unable to attend today because of other commitments. Professions Australia are a national organisation of professional associations. We currently have 11 member associations, including Engineers Australia. There is a list in our submission which shows only 10. The Australian Veterinary Association should be added to that list; they recently joined to make 11. There are two more associations whose applications were recently accepted, and we are waiting for their cheques, and there are a number of other associations whose applications are in the pipeline. By the end of the calendar year, we expect to have around 20 members representing close to 300,000 Australian professionals.

I will now turn to our submission. Professions Australia believe Australia's current approach to higher education policy—as seen through Crossroads and Backing Australia's Future—is missing an important point. Professions Australia believe the basic objective of professional education should be to ensure a supply of qualified professionals to serve the community across Australia and, because professional education is to a large extent done through universities, we see that as an important objective for universities as well. This objective, as I said, focuses sharply on outcomes, on how the education system impacts upon the community. It should lead us to ask questions like the following. Do our universities produce sufficient professionals to meet community demand? Do they help produce an equitable spread of professionals across the nation—that is, in regional, rural and metropolitan areas? Do our universities have an appropriate spread of students and graduates across the professions within their courses? Do they produce professionals who are adequately qualified? That goes to issues about quality of teaching and so on. Finally, do they support the inculcation of appropriate ethical standards in their professional graduates?

Professions Australia believe these questions have not been addressed sufficiently in the current debate. We have tried to address them in our submission, particularly by focusing on some examples of where shortages of professionals exist already or are expected to arise in the near future. The professionals affected include physiotherapists, veterinarians, engineers, audiologists, dentists, podiatrists and computer professionals.

We note also—and this is not an issue that we dealt with directly in our submission—that many professionals are ageing. More and more communities, particularly in rural and regional areas, will find that practitioners have retired, moved away and not been replaced. The submission you have from the Australian Dental Association, which is a member of Professions Australia, says that about one-third of Australian dentists are aged 50 and above. Another member of ours, the Australian Veterinary Association, tells us that the typical vet is mid-career and middle aged. Among pharmacists—and the Pharmaceutical Society of Australia are also members—there is a disproportionate number of practitioners over 60 years of age.

We look in vain for something specifically in this submission about addressing those shortages—apart from nursing and teaching, which is admirable. We have not seen much evidence in the progress through Crossroads to Backing Australia's Future to now that information about shortages is being fed into the current higher education policy making process. We therefore propose in our submission three ways in which information about community needs for professionals can be taken into account in policy making. We propose that these mechanisms be built into the Commonwealth Grants Scheme.

Firstly, university community consultative councils should be set up at the national level and at the level of individual universities so that both the Commonwealth and the individual universities have access to research data and to information from representative community interests—including professional associations—about where supply and demand problems are. Secondly, requirements that universities consult the communities they serve should be written into the national governance protocols for universities. Thirdly, effective community consultation should be made a condition for increases in funding under the Commonwealth Grants Scheme. In other words, we would make a link between funding and the effectiveness of community consultation, rather than between funding and compliance with workplace relations requirements. We have written a proposed amendment to the Higher Education Support Bill which makes that change, and I can leave a copy of that with the committee. There are other components in our submission, but perhaps we could deal with those in questions.

Senator CROSSIN—Good afternoon to both organisations. Firstly, Professions Australia makes the point in your submission that there is a real risk that greed will push aside need. What do you mean by that? Can you elaborate on that for us?

Dr Stephens—It was driven particularly by the fairly early decision of the University of Sydney to go for the full 30 per cent.

Senator CROSSIN—I see.

Dr Stephens—Frankly, although we recognise that the process by which HECS money ultimately goes into university coffers is a bit complicated, it seemed to us that that was an encouragement to universities to go for the money to try and attract students paying HECS with

a large premium and to look at that aspect of things rather than whether the course mix they were putting together served the needs that they had. We went on from that to talk about some predatory pricing prospects and we suggested that this approach to pricing courses would lead to what you referred to before as costs as a proxy for quality and students being encouraged to go for high cost courses thinking that they necessarily were getting quality. Going back to your original point, we felt that the HECS flexibility arrangements were an invitation to universities to go for the money rather than to look for courses that dealt with identified needs in the community.

Senator CROSSIN—We have had plenty of evidence and certainly we have asked witnesses about the impact of this legislation and the fact that it gives the minister the power to actually interfere in the course offerings at universities to the point where we believe that political interference could be such that the minister dictates what courses and possibly even what subject areas are offered. Is there some concern from your professions that this legislation would give this government, or in fact any minister, the power to determine whether or not particular courses are offered at certain universities?

Dr Allen—There is always a need to ensure that there is an appropriate balance. I think that your question can be glibly answered by a response that universities should be independent of government interference and, if I may speak personally, that is certainly my private view. On the other hand, there are a number of issues that arise here. I think universities have to be very responsive to the communities that they serve. The point raised by Dr Stephens in general was a good one. I can speak very firmly for the engineering profession and the engineering schools. As part of their accreditation requirements to Engineers Australia, they are required to provide liaison committees in different areas of communication. It seems to me that we have to very carefully balance the principles of academic freedom and the abilities of universities to respond to the needs of the community, the needs of employers—who, after all, are the customers—and the needs of government. We have to bear in mind that sometimes the benefits of individual universities have to be balanced with the needs of the wider community and the nation. For example, I believe it is possible to make a case that there are too many schools of civil engineering throughout Australia, but I am sure that if you spoke to any individual university it would be difficult to persuade them that their department of civil engineering should be changed.

Dr Stephens—I think we start from the assumption—and it is spelt out in paragraph 40 of our submission—that universities are trustees of the community. That includes both the community in which they find themselves—and that is possibly of even more relevance to regional universities than it is to suburban universities—and the nation itself. The government therefore has a responsibility to operationalise that relationship. Where universities perhaps do not initially see themselves as trustees of the community, it is up to governments to help remind them of that. I am also aware of the position that was just put, which is that there needs to be a balance. What we are suggesting is that, if there is an assumption in the Backing Australia's Future package that higher education is too important to be left to the universities on their own—and that seems to be the minister's assumption—we will also say that it is too important to be left to the minister or to the department and the universities. We would like to introduce a third leg to this, and that is accentuating the link to the community and building in more than has been foreshadowed in the package—building more about community needs and national needs into educational decision making.

Senator CROSSIN—Do you think the proposed changes will affect the number of people who will take up engineering courses, and do you think the quality of those courses will possibly be affected by this package?

Dr Allen—That is a difficult question. The research is not clear on the relationship between costs and student uptake in particular areas, and it is even less clear in the vocational areas: engineering and law, for example. The reasons for students entering into particular areas of study are very complex, and price is just one of them. Pride is also an issue. If it is extremely difficult to get into a particular school of engineering, many students will take up that challenge, even if those students are not well skilled to be engineers, and endeavour to get into that school of engineering because it has an absurdly high cut-off level. I think that is the best answer that I can give. The situation will vary from university to university. I am sure the situation for the great eight universities will be very different to that for some of the smaller, more regional universities. I am sure the situation will be complicated as you go from one discipline to another in engineering. It is a very difficult question.

Dr Stephens—We made a point of getting some information from another member of ours, the Institute of Mining and Metallurgy, who have engineers and other people as well. They make the point—and we put it in paragraph 69 of the submission—that there are influences perhaps even going back to primary school that help to turn people away from mining and engineering. There are also a number of influences in the nature of the job. But we are saying that a great influence on the number of people who go into that career and that calling after university is what happens at university and what is done to encourage them into particular courses at university. It is not the only influence, but it is an important one.

Senator TIERNEY—I was interested in your concept of community consultative councils and the university responding to local need and demand. But often these things are more macro and national in terms of the number of lawyers and the number of engineers needed. I have not quite picked up how those councils advising universities are fed through on a national basis.

Dr Allen—There are two levels. Typically the university will have a senate—and the number of people on the senate is of course an issue—but my view is that that senate should be used in a variety of global ways to bring people from the community into the university to look at its overall, global governance. But there is another level as well which is faculty based. Let me take the engineering example; it is the only one I am particularly familiar with. The opportunity there is to establish a liaison committee between the academic staff, the profession, the community and the employers in order to properly establish certain directions—for example, the balance between vocation and employment. Is it important to include the level of report writing and communication that an engineer would now be exposed to? Many of those much more particular questions—very often professional and very often technical questions—can be contributed to by such a liaison group. I guess the point that I would like to make is that there are at least two levels here.

Dr Stephens—Maurice has obviously done some interpreting on what we had in our submission, and for the most part it is what we intended. At the moment there are university councils which have large numbers of members. One of the thrusts of the package is to reduce the size of university councils to a maximum of 18 and focus more on corporate governance, financial expertise and so on. We were partly concerned that that would reduce the community

representation that has traditionally been on university councils. It has been estimated that about a third of university councils overall are community representatives.

But even apart from that we felt that there was a need for, say, James Cook University in North Queensland, when it came to a Commonwealth Grants Scheme negotiation, to be able to say, 'This is not just us responding to the expectations of students. This is not just us looking for a course mix that will be the best financially for us. This is supported by work that we have done in our community, advice that has come to us and research we have commissioned'—if they can afford it—'about what is needed in our community in North Queensland.' That will not be an entire picture because the university in North Queensland obviously takes students from places other than the immediate area, but we think it would give a better base to the information that that university takes to its negotiations with DEST than perhaps it takes at the moment.

At the other end, we tried to look at analogies with the former National Board of Employment, Education and Training, which existed until, I think, mid-1997, and we looked at the government's suggestion for a business higher education consultative council. Neither of those are quite what we thought but at the national level we felt that there needed to be a more conscious link to labour market planning and to skills shortage analysis than there is at the moment. It intrigued us a bit that there are people in DEST who specialise in that and they contributed to Senator George Campbell's skills inquiry, some quite complex stuff about skills shortages and projections of where employment was needed, which affects a lot of professional streams. But there is hardly any of that in the Backing Australia's Future package or in Crossroads. So we felt there was a disjunction there.

We also noted that the package as it is includes initiatives on nurses and teachers. We applaud those but we think it should not be done by exception. There should be a mechanism that exists that can continually feed in and, if necessary, balance initiatives about particular professions so that it is not just done as a one-off thing, as the nursing and the teaching things were done.

Senator TIERNEY—I am surprised that you put the point that a new governance structure might be less responsive to the community than the current one, given the way the current one is appointed. You have got politicians there, a range of student reps and someone from the convocation. You have obviously got the hierarchy of the university there and you have got ministerial appointments—that could be anyone. I am surprised you think that would be a better structure than one that has more of a business focus. Surely, if we are talking about a range of professions and the balance in which they are trained, you would end up with better advice from a council restructured in the way that is suggested in the legislation.

Dr Stephens—I think there are two issues there—

Senator TIERNEY—I am sorry, could you just respond to that briefly, because we are trying to move through.

Dr Stephens—We took particular notice of the flavour of those governance principles. They seem to be particularly driven by a feeling that universities need to get a better grip on their commercial activities, and that seemed to us to suggest that this would be the flavour of councils generally, and that that emphasis on being able to run commercial activities well—

Senator TIERNEY—Or run big enterprises, which universities are. I think that is more the focus.

Dr Stephens—would drive out some of the more traditional community representation angles. I think there was also a feeling that university councils, to an extent, are captured by university administration. That applies even to community representatives. We felt there was a need for a group somewhat at arm's length from the university. You would make sure that the views of that group were taken into account by the university when it was putting its case to Commonwealth Grants Scheme negotiations, by requiring it to report—

Senator TIERNEY—I am just curious how you would do that, because I assume that what you are talking about is an advisory group.

Dr Stephens—Yes. Essentially it would be advisory, but it would be necessary for the university to provide evidence, when it came to negotiations, that it had consulted that group and it had led to the elements of the case that it was putting in the negotiations.

Senator TIERNEY—I am still curious how this feeds to national supply and demand for professions. For example, given what has happened over the last 30 years, of the graduates in law next year, 18 per cent will get articles, which means that 82 per cent will not. It just seems that universities have decided that they will put more people into courses that are cheaper to run—law courses are cheaper to run than medical courses, for example, or engineering courses. Can we really leave universities totally to their own devices in this? Surely the minister, where he sees universities oversupplying or undersupplying a market—there might be some form of engineering that might be undersupplied—has a right to give some guidance in this structure on the numbers that are going into these courses.

Dr Stephens—We would certainly see that as necessary. We see the individual university advisory councils, consultative councils, feeding into a national one and the national body in the way that NBEET or even CTEC, going back to 30 years ago, had the capacity to commission research at the national level. We would see some of the labour market research that has gone into the DEST submission to Senator George Campbell's committee, for example, feeding into this kind of body at the national level. So there would be an adjustment in that Commonwealth Grants Scheme negotiating process between the national level picture that was being put by the national advisory body to DEST and the positions that were being put at the local level to each university as it came to negotiate with DEST.

Senator TIERNEY—What we had previously, under NBEET, was a universities council. How does your national advice structure differ from the universities council?

Dr Stephens—The research we did was on CTEC in the late seventies and early eighties. The difference then, as I understand it, was that the policy-making function was within CTEC, whereas it is now within the department. I think the closer analogy, although we have not done much background work on this, is with the NBEET—National Board of Employment, Education and Training—structure which existed between CTEC and the current structure.

Senator TIERNEY—But it had a number of constituent councils. The one that would be relevant to what we are talking about here would be the higher education council.

Dr Stephens—Yes.

Senator TIERNEY—So how does what you are suggesting differ from that one?

Dr Stephens—I would be hard put to say in detail where it differs, except that we certainly had not envisaged there being the three subsidiary ones—for schools, for TAFE and for higher education. So perhaps we are talking about it having some similarities with the higher education council that was beneath NBEET, but I am not qualified to go through and tick off where it is different and where it is the same.

Senator TIERNEY—Dr Allen, I will declare an interest here as I have a son doing engineering. How are we going with supply and demand for engineering places across the country?

Dr Allen—Again, it is very variable. You will find in some branches of engineering—for example, in the one that is closest to my heart, chemical engineering, and in instrumentation and control engineering—that the demand for students is very high. There are other areas where the demand is not so high. I would mention mechanical engineers here. So you find graduates will be quite flexible in their discipline as the jobs become available. As the shortage in a particular branch of engineering is understood, students will move into that area. For example, 10 years ago there was a surplus of civil engineers, and five years ago there was a deficit. I think that particular branch is probably in a reasonable equilibrium. Engineers are trained to be flexible. There is in Australia a huge variety of interesting work for engineers and, overall, I would say that the demand is not quite being met. There are areas where there are serious problems. You mentioned mining—that is one area. There are problems in heavy current engineering, power systems engineers. This area has been cut back in recent years by public bodies not hiring engineers. This has become known to the marketplace and the number of students going into that branch of electrical engineering has significantly reduced. It is a very dynamic question that you are asking.

Senator TIERNEY—How is environmental engineering going?

Dr Allen—You embarrass me here, sir. Many students, out of idealism, choose to go into environmental engineering. The market for environmental engineers is not enough to meet the available number. You see idealism in students. They see themselves as saving the planet. They enter into environmental engineering and find it difficult to get employment after graduating. They will do the obvious thing—they will move off into other areas. They will go into conventional engineering—very often software engineering, chemical engineering or process engineering—where their skills give them an ability to start a professional career.

Dr Stephens—They also have difficulty getting professional indemnity coverage. That is particularly bad for environmental engineers.

Senator TIERNEY—Why is that different from something like chemical or civil engineering?

Dr Stephens—It seems to be that the research that we have done in another context is that insurers are wary about anything with environmental in it. They do not know much about it and therefore premiums go up.

Senator TIERNEY—They do not have proper actuarial models?

Dr Allen—Leanne can give very good advice on the professional indemnity area.

Ms Hardwicke—I can. It is about the perception of insurers about what is risky and what is not. Generally, they think of engineering as quite risky, so it is very difficult for engineers in a whole range of areas. There are about 14 or 15 different areas where engineers cannot get insurance at the moment, and environmental engineering is right up the top there.

Senator TIERNEY—With regard to that flexibility you mentioned earlier on, I was looking at a campus quite a number of years ago—I think it was one of the northern campuses of Edith Cowan—where they were developing a generic engineering course. From memory, the first few years were core and general, and I think it was only in the last year that they were doing specialisation.

Dr Allen—Are you sure it was Edith Cowan?

Senator TIERNEY—It may not have been. I thought it was Edith Cowan. It was about five or six years ago—Joondalup or somewhere like that.

Dr Allen—At the Joondalup campus?

Senator TIERNEY—Yes.

Dr Allen—Indeed. You have me on an area of enthusiasm—beware. You put your finger on the way in which engineering education is going to develop. I think you will see that there will be a much more generic approach to teaching engineering. There will be an emphasis on a much greater understanding of science, mathematics, law, economics and communication. The graduate bachelor of engineering will have a skill set that is very general, a very good understanding of problem solving and an ability to see the various branches of engineering as applications of the skills that he or she has.

Senator TIERNEY—This will be much better for their lifelong work practices, wouldn't it? After about eight years most engineers are not in the traditional type of engineering job. They are either in management or they have moved to—

Dr Allen—Certainly less than eight years.

Senator TIERNEY—It is less than eight years? That sort of generic approach would equip them a lot better for the long haul in the field.

Dr Allen—Indeed.

CHAIR—Your submission points to the shortage of engineering graduates in the country. You point to the amounts of money spent in comparison with international competitors Singapore and the United Kingdom. Is there a loss in capacity that we could point to over the last few years?

Dr Allen—I think the loss has been most evident in a loss of vigour and a loss of confidence. That particular detriment in the profession is only slowly being met. I am concerned that, although we as a nation have enthusiasm for and strength, confidence and pride in our medical profession, there is not the same understanding of, or respect for, the engineering profession. A number of decisions we have made in the last 20 years have impacted on that understanding of the profession.

Dr Stephens—That would apply to almost all professions. We would love to have the community status that doctors have, but we do our best.

Ms Hardwicke—The underlying cause for the shortage of engineers in Australia is getting children at a young age interested in engineering and what it is. It is very difficult to get children in primary and secondary schools interested in maths and science, for instance. If they are not interested in maths and science, they are not going to turn towards subjects like engineering.

CHAIR—We have had advice today from FASTS that this package may well exacerbate that problem because maths and science are not as commercially attractive. Your submission says that there is a fear:

... HECS deregulation may lead to competition between universities on the basis of 'brand imaging', predatory pricing to drive smaller universities out of some professional streams, and course mixes that do not reflect community needs. PA doubts that price signals alone, such as holding down HECS premiums on nursing and teaching, will channel students into 'national priority' streams.

Dr Stephens—That is essentially what we think. With the nursing and teaching issue, price is nice, but you would hope that nursing and teaching—perhaps even more than some other professions—have a vocational aspect, and price is not going to be enough. Similarly, price works in a perverse way. With this brand imaging theory that the University of Sydney has, price will drive people in the wrong direction. So I just think relying on price and the market working is not the way to produce a mix of graduates that serves national and community needs.

CHAIR—Your submission is a bit stronger than that. You say:

There is a ... risk that greed will push aside need.

Dr Stephens—Yes. As we were saying to Senator Crossin before, if universities, which have been suffering from a declining amount of funding from the Commonwealth over a number of years, seize on this HECS possibility as a means of improving their funding then they will look for that option. We will have universities going for people going into high-paying courses and there will be less emphasis on courses that are less costly and therefore seen to be of lesser quality, but they may be the ones that are needed.

CHAIR—Thank you very much for coming today. We really do appreciate the advice you have given us. The committee stands adjourned until next Friday.

Committee adjourned at 4.01 p.m.