

German-Australian  
Conference on  
**Higher Education Financing**

jointly convened by  
the Hochschulrektorenkonferenz (HRK)  
and  
the Australia Centre Berlin

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# Welcome to the Conference by the Joint Convenors

**Professor Peter Gaehtgens**

President, Hochschulrektorenkonferenz

Your Excellency, Madam Ambassador, distinguished guests, in particular colleagues and friends from 'down under', ladies and gentlemen, it is a great privilege and pleasure for me to welcome you on behalf of the Hochschulrektorenkonferenz, the Association of Universities and Other Higher Education Institutions in Germany, to this German-Australian Conference on Higher Education Financing.

It is trivial to repeat that 'money makes the world go round'. We know that it is, of course, also true and therefore not irrelevant. The ongoing discussion about the structural reforms in German higher education institutions is very much linked to the discussion on the financial principles and realities of our institutions.

Universities today are facing major challenges, some seemingly expected and wished for, some rather unwanted. Universities – and I mean universities proper and universities of applied sciences, the *Fachhochschulen*, as we say in Germany – welcome the paradigm shift towards increasing autonomy in governance and more performance-oriented steering mechanisms. We particularly welcome the increase in internationalisation of higher education with an ever growing network between higher education institutions worldwide. Therefore we particularly welcome those of you who have crossed half of the globe in order that we meet.

As welcome as these reforms are, however, sometimes we are increasingly concerned that behind the shining facade of this quality-driven process the financial support of higher education institutions, in this country at least, is jeopardised. It cannot be repeated often enough that change – and a change for the better that is – does not come for free. If the institutions of higher education are to be successful in restructuring themselves in order to become fit for the 21st century it must be clear that they can

only do so on the basis of solid funding. Since public funds in this country at least are not likely to grow in the years to come, this leads to the conclusion that universities must be enabled to acquire additional funds from other resources.

It is within this context that the introduction of tuition fees, for instance, at German institutions of higher education has been intensively and controversially debated in the past years. This discussion gained currency once again with federal legislation, which clearly prohibits the charging of tuition fees. In a situation like this, experience tells us that we should not try to reinvent the wheel. Many countries have gone through similar reform processes. However, as already said by the Chinese philosopher Laotse 'only fools have to make every mistake themselves'. This is why the HRK, the Hochschulrektorenkonferenz, across all fields of activities, attaches great value to the dialogue on higher education policy issues at an international level.

The German-Australian Conference on Higher Education Financing offers a welcome chance to intensify the dialogue with our Australian partners on the issue of higher education financing. We are thankful for this excellent opportunity to get first-hand information about the Australian model and at the same time discuss options of higher education financing in this country in an international setting.

I would like to thank particularly Her Excellency, Madam Ambassador for whole-heartedly supporting this joint conference of these two institutions, the Australia Centre Berlin and the Hochschulrektorenkonferenz, and for hosting this conference in this Australian environment. I would also like to particularly thank and welcome our Australian colleagues who travelled a long way to join us here today. Furthermore I would like to thank all German speakers for providing us with some stimulating input for our discussion. Last but by no means least, I would like to thank all participants of the conference, the representatives of our member institutions and related organisations, our partners in government, business and research. I would like to ask everybody but especially the participating students to take this opportunity to actively join the discussion.

I hope that we will have a fruitful conference, a lively exchange of knowledge, experience and new ideas. Thank you very much and welcome very much.

## **Dr Ditta Bartels**

Managing Director, Australia Centre Berlin

Your Excellency, dear conference participants, I'm delighted that you have all decided to come to this conference and that you have taken time out of your busy schedules to do so. That in itself shows the importance of the policy issues that we will be discussing here. I think it is one of the important issues of the decade, namely how we are to fund our universities. I would particularly like to thank the Australian delegates for coming over. Welcome to Berlin, welcome also to the Australia Centre, welcome to the Australian Embassy Berlin.

Three institutions have joined together to conceive this conference, to plan the conference, and to decide on its format, namely the Hochschulrektorenkonferenz, the Australian Embassy Berlin and the Australia Centre Berlin. I hope that at the end of the two days of discussion our three institutions will continue to work together on this topic and to also work together with all the other organisations which are represented here today. Let us jointly take the debate further in Germany as well as in Australia.

With globalisation the overall costs of university education are becoming quite similar, whether the universities are in Europe, in Australia, in Asia or in America. Also, the proportion of the population engaged in university education is approaching similar levels, at around 30% of an age cohort or even above that. So there is no doubt that all around the globe universities are working in an environment of mass education – and it is expensive education, largely because of new educational technology and rising operating costs. I think it is reasonable to assume that the average cost per student per year would be of the order of about € 10,000. So for 2 million students at university in Germany, this comes to about € 20 billion per year. Similarly in Australia, university education works out at an expenditure of around Aus \$ 12 billion per annum. Furthermore, these figures will increase from year to year. We have experienced these increases already. And therefore there is considerable urgency in moving away from a purely government-funded system to other models, which will have to include contributions by the students themselves, by their parents, and by the private sector more broadly.



I was very pleased to see that on my current visit to Germany there is now a lot of discussion in the German press on moving on to models beyond government funding. I was quite amused to see that a new term seems to have been coined for that, *nachlaufende Studiengebühren*. From an Australian perspective, this notion of the fees running behind the student is rather quaint, and this morning we were playing around with a logo to encapsulate it: perhaps the Euro sign running after the students to catch up with them.

I would also like to touch briefly on international education. At a recent conference in Sydney – namely the bi-annual German-Australian business conference which was held just two weeks ago in Sydney – Professor Max Huber, the Vice-President of the DAAD, provided us with a statistic that I found quite extraordinary: Professor Huber calculated that currently about 2 million university students annually are international students, that is they are studying at universities outside their countries of origin. Here we have another student number which is much the same as the total number of university students in Germany, namely 2 million. Again, if we try to estimate this, we are talking about an enterprise that is worth something like € 20 billion. Now of course this sum of money does not change hands in the international transactions of university student mobility, because a lot of international education is not done on a fee-paying basis. Nevertheless it is that order of magnitude we are looking at for global international university education.

As you know, in Australia fee-paying international education has become a major part of our economy, which is estimated to be a national export earner of around Aus \$ 5 billion. It comes very high in the ranking of our export items and commodities. I am very pleased that we will be discussing the issues of internationalisation at this conference as well.

To conclude I would like to take a moment to acknowledge the two officers who have worked particularly hard at making this conference possible: Ms Marijke Wahlers of the Hochschulrektorenkonferenz and Ms Heidi Plucknett of the Australia Centre Berlin. Thank you very much indeed.

Let me thank you all again for participating, and I hope and expect two very fruitful days of discussion. Excellency, thank you again for all your support, and may I ask you now to come forward to give the next presentation.

# Conference Launch

## HE Ms Pamela Fayle

Australian Ambassador to Germany

Meine Damen und Herren, herzlich willkommen in der Australischen Botschaft. Thank you very much for coming today. I'm very pleased to be here to launch this HECS conference. I would also like to thank Ditta Bartels and Heidi Plucknett from the Australia Centre and Frau Wahlers from the Hochschulrektorenkonferenz. I would also like to thank Professor Gaetgens, very nice to see you again, and to welcome all of our participants who have travelled all the way from Australia. Nice to see the Vice-Chancellor of my Alma Mater, the Australian National University, and an old friend, Bruce Chapman, who I first met when we worked together on a labour markets book, a very long time ago. He's also from ANU by the way, so welcome to you all.

I've now been in Berlin for seven months and it's very clear to me that Germany and Australia face many similar policy challenges that stem from an aging population that puts pressure on the economy both today and into the future. I have been struck by the similarities in the debate on economic and public sector reform here in Germany since I arrived. They remind me very much of a debate that we had in Australia in the 1980s. In fact I have a party trick here: I describe the Australian economy in 1983 and ask German audiences which economy I'm describing and they all say Germany, Germany, Germany, but of course I'm not. There are more similarities than you might think when you think about Germany and Australia.

We both have a federal state system which is relevant when you're discussing issues to do with education. There are huge differences, though. They particularly relate to the size and the affluence of our economies and the additional challenges of reunification that Germany has had to deal with and still deals with.

Nevertheless, there is great similarity in the issues that we are confronting today including education. In Australia in the 1980s and 1990s one of the most contentious debates has been about funding higher education. I should be honest with you and say that this debate is ongoing. Education

and the funding of higher education continue to be contentious political issues in Australia, as they are here in Germany. Nevertheless, the introduction of the higher education administration charge in 1987 and then the HECS system in 1989 certainly marked a fundamental shift in government policy. I think it is of interest to Germans that this shift did not coincide with a change of government in Australia, it was actually introduced by the Australian Labour party, which – those of you who are familiar with the politics of the two countries will know – is very similar to the German SPD.

Before HECS, higher education was funded through a combination of state and commonwealth grants and student fees up until 1974. I know this because when I began university I had to pay my fees. In 1974 the student fees which were then at about 10% were abolished, and between 1974 and 1986 funding higher education was exclusively done by the Federal Government.

HECS, though, is a user-pay system, and the aim is for those who benefit most from their higher education, including by earning a generally higher income, to shoulder some of the costs of that education. But, at the same time, the system ensures that socio-economic status, the wealth of an individual or their family, does not determine access to higher education. The solution is very clever really, it defers the debt and it's only repayable when a person has benefited from the higher education in the sense that they are earning a wage that enables them to afford to repay the debt. The Australian government still contributes to the costs of higher education and that's only right, we all benefit in Australia from people having a higher education. Currently the HECS accounts for about a quarter of the total cost of most individuals' higher education.

Sharing the costs of higher education between individual students and the government is a very fair system. It means that the substantial and rising costs of higher education are not to be paid for entirely by the government through the tax payers, but it also avoids a system where the cost is paid for entirely by the student, which in some cases would be prohibitive. It acknowledges therefore that education is a benefit for individual students but also for the society as a whole.

It does not surprise me, therefore, that the HECS system is being looked at by many countries in the same predicament as Australia. I know that the UK government is looking at introducing a deferred payment scheme like HECS, and the OECD has also studied the scheme.

I would like to wish you a lot of luck with the conference. I hope that the discussion provides some food for thought for participants from Germany as well as those from Australia. I think we have a lot that we can learn from each other.

Unfortunately I can't stay for the whole conference but I will catch up with you later on this evening and I hope that I'll hear that it's been very successful. Thank you once again for coming. I hope you all find the conference interesting and I take great pleasure in opening it. Thank you.

# Session 1

## **Professor Wolfgang Weber**

Vice-President, HRK and President, University of Paderborn (Chair)

I am happy to introduce Mr Michael Gallagher. Mr Gallagher has been the Director of Policy and Planning at the Australian National University since October this year. He's an expert in the field of higher education policy and funding. He has held many positions in his field, mainly in the Federal Department of Education, Science and Technology in Australia. Until recently he was one of the most senior policy experts in the Australian government, advising on higher education policy and – which is important in our context – on funding as well as overseeing the administration of the Australian Government's funding to the higher education institutions. He is an experienced World Bank consultant. He gathered his expertise not only from his governmental work, but also from teaching in schools, technical and university sectors. I am sure that we will hear a very informative presentation and that it will be a pleasure to listen to you.

# The Evolution of Higher Education Financing in Australia<sup>1</sup>

**Mr Michael Gallagher**

Director of Policy and Planning, The Australian National University<sup>2</sup>

## Introduction

A contentious debate over higher education policy and financing is underway in Australia. There are also separate debates to do with the policy framework and financing for research, research infrastructure, research training and research commercialisation. The interactions of the two developments have far reaching implications for higher education and research in Australia.

A Bill introduced into the Parliament by the Australian (central) government<sup>3</sup> in September 2003 with a view to commencing reforms from the start of 2005, proposes a new Higher Education Support Act to replace the current Higher Education Funding Act of 1988. The use of the term 'support' rather than 'funding' in the title of the 2003 Bill represents a deliberate shift in the Australian context<sup>4</sup> from a policy of public responsibility for effective university functioning to one of partial contribution, including contributions to some but not all activities, direct financial assistance for a proportion of the costs of sponsored activities, and indirect assistance via aid to students, through scholarships, tuition subsidies,

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<sup>1</sup> Extended version of the conference presentation.

<sup>2</sup> The views expressed in this paper do not necessarily reflect the views of the Australian National University.

<sup>3</sup> Australia is a federation of States & Territories (*Länder*). The national (central) or Australian government (sometimes referred to as the Commonwealth within Australia) is like the *Bund*. Unlike Germany, the Australian central Government exercises direct responsibilities for higher education financing, even though tertiary institutions (with a couple of exceptions) are established under statutes of the States & Territories. The Australian Government provides benefits to students (in the form of grants and loans), and funds various programmes to support research in universities and other public research organisations. From the beginning of 1974, by agreement with the States, when student tuition fees for tertiary education were abolished, the Australian Government assumed full financial responsibility for higher education in Australia. This responsibility included the provision of general purpose operating grants for public tertiary education institutions, specific-purpose payments to approved institutions (including for research), and scholarships and loans for students.

<sup>4</sup> A similar shift in the USA is humorously described as being from 'state-sustained' to 'state-supported' to 'state-assisted' to 'state-located'.

and/or loans. The Bill is predicated on a relationship of service purchase between universities and the Government with regard to the number of student places the Government is prepared to subsidise, the price the Government is prepared to pay, the conditions it attaches to its purchasing (on behalf of students and general taxpayers), the flexibilities it seeks to encourage in the operation of universities in their educational and commercial relations with students and investors, and the quality assurance and accountability regimen it seeks to apply in a context of progressive deregulation of controls over student numbers and tuition prices.

The overview discussion paper *Higher Education at the Crossroads* (April 2002), that started the debate leading to the new reform proposals, noted several positive features of 'a distinctive Australian system', including institutional autonomy in governance and management, student admissions, teaching and assessment, research, staffing and conditions of employment, flexibility in the use of resources, and predictability of general-purpose funding for forward planning purposes:

'Australia's universities have more autonomy than in most other countries. Their establishing legislation vests responsibility for governance and management of the university in the form of a Council or Senate. The governing body is accountable to the relevant government for the functioning of the university, but it has, and is expected to exercise, a high degree of discretion in directing institutional development.

Unlike the public institutions of many countries, Australian universities can normally invest, divest and borrow in respect of property and commercial ventures as their governing body sees fit... At present, Australian universities receive the majority of their public funds (both recurrent operating and capital funds) as a single block operating grant for a specified number of student places within the context of an educational profile that broadly details the institution's teaching and research activities. Around three quarters of Commonwealth funds are allocated on a rolling triennial basis, giving institutions some predictability for forward planning of their operations... Australian universities are responsible for employing their staff and undertaking enterprise bargaining. Universities are responsible for negotiating appropriate workplace relations to establish an environment that promotes effective learning and scholarship. Unlike many other countries, Australian university staff are not public servants with wages and conditions set by the state... Our universities are 'self-accrediting'



institutions. The state does not control or directly scrutinise courses or course content for Australian universities. There are no external exams to moderate standards between institutions or ensure minimum standards. Universities decide what to teach, how to teach it and how learning is assessed.'

Important features described above are now the subject of redefinition. In broad terms, the debate is about a basic shift in policy orientation from a mainly 'supply-side planning approach' to more of a 'demand-side market approach' to higher education development. Associated with this basic shift are a number of related changes:

- from central pricing and volume controls to greater fee deregulation (including flexibility for institutions to charge up to 30% more than current prices for subsidised undergraduate places and to admit up to 50% of students in subsidised courses on a full fee-paying basis)<sup>5</sup>;
- from unlimited to duration-limited tuition subsidies for undergraduate students (up to 5 years full-time equivalent, with exemptions for Medicine and specific other degree programmes);
- from limited to open access of (undergraduate and postgraduate) students to income-contingent loans to meet tuition costs (including the introduction of a real rate of interest on loans up to \$50,000 for students not enrolled with a tuition subsidy);
- from a predominantly public sector set of institutions to a mix of private and public providers;
- from rolling triennial block funding of institutions to annual purchasing of defined services as the basis for allocating public resources;
- from flexibility for universities to move funded places across fields of study to prohibitions and penalties on actual deviations from agreed enrolments by discipline group;

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<sup>5</sup> This also permits universities to offer courses entirely on a fee-paying basis, where it determines or the Government determines that publicly subsidised places will not be provided.

- from incentives (marginal funding rates per student place) for universities to over-enrol against planning targets to penalties for over-enrolment, partly to safeguard quality and partly to encourage growth of fee-paying places.

In addition, the form of policy implementation involves a shift away from partnership and the use of stronger state regulatory mechanisms:

- more intrusive government procedures for protecting certain national interests as well as student consumers against market failure and for assuring quality;
- more detailed student information collections and monitoring processes (primarily related to duration-limited tuition subsidies and to borrowing limits); and
- unprecedented powers for government intervention into university autonomies potentially encompassing student admissions, progression rules, course offerings, learning standards, employment conditions of staff, university governance structures, and the freedom of students and staff to organise and represent their interests.

A number of questions have arisen in the course of debate about the appropriateness and impact of the proposed changes. Such questions include:

- Why is it necessary to open up the higher education system for growth in the supply of undergraduate places through private resources when the demographic drivers of demand on a national basis are slowing?<sup>6</sup>
- To what extent is it equitable to provide for growth in student opportunities increasingly on a fee-paying basis and disproportionately in those regions experiencing growth in student demand through demographic and participation rate increases and labour market requirements?<sup>7</sup>

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<sup>6</sup> An additional 820 growth places a year would be required over the next decade to maintain current age participation rates to 2011, after which student numbers could fall without reducing age participation rates. (Phillips Curran/KPA, 2003)

<sup>7</sup> The Australian Bureau of Statistics projects that, over the next 20 years, the number of 15-19-year-olds will fall nationally and in New South Wales, Victoria, South Australia,

- Given the concern to safeguard quality, why should students who are not sufficiently competitive on merit to win a publicly-subsidised undergraduate place be admitted to a university on a fee-paying basis?
- How is it possible for Australia's university system to remain internationally credible and competitive without adequate indexation of operating resources for cost increases?
- Why introduce 5-year duration limits to tuition subsidies, with all the attendant complexities of student monitoring, when very few undergraduates study for longer than 4.5 years?
- How is it that the Government spurns a labour market requirements approach to graduate supply and wants increased university responsiveness to student demand yet declares it will not fund courses it considers inappropriate, even though they have been designed to meet student needs and been approved through the transparent procedures of the university?
- Why lock in old cost relativities among discipline clusters and differential rates of subsidy per student place that bear no relation to actual course costs or public benefits?
- Why create new rigidities and impracticalities for universities by penalising annual shifts in actual student places from prior estimates of enrolments by discipline clusters?
- Why does the Government oppose a 'one-size-fits-all' approach to university financing but seeks to impose a 'one-size-fits-all' regime for industrial relations within universities?
- Why does the national Government, which introduced consumption-based taxation (GST), the revenue from which is hypothecated to the States & Territories, and whose federalist philosophy inclines to increasing their rights to promote diversity, competition and innovation, now

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Tasmania and the ACT, but will rise significantly in Queensland and Western Australia and to a lesser extent in the Northern Territory.

seek to override State & Territory jurisdictions in relation to higher education?

Several of these questions relate more to the form than the substance of the proposed changes. The fundamental questions now under discussion in respect of higher education policy and financing in Australia are:

- What is the appropriate balance between public and private funding sources for system sustainability?
- What is the appropriate balance between market mechanisms and government regulation for system steering?
- What methods of resource allocation achieve the most cost-effective results?

These questions beg a prior clarification of purposes and objectives for higher education: Sustainability of what? Steering where? Results for whom? Ultimately they are value questions about desired ends and appropriate means. In the field of higher education these are complex questions involving interactions of the varying interests of students, teachers, researchers, employers, investors, regulators and institutions themselves, especially universities.

This paper presents some conceptual models for characterising different policy approaches and understanding the new policy mix proposed. It outlines the background to the policy shifts in Australian higher education over the period 1987 – 2001. It also raises some questions about the future direction of policy, with reference to the debates of 2002 and 2003.

### **Generalised Models of Higher Education Financing**

Financing policy decisions affect not only the quantum and distribution of funding from different sources but they also affect relationships between providers of education services and those who pay for and use them. Sheehan (1973) noted that governments may meet their funding commitments in various ways with differing effects:

'For instance, secondary or higher education may be provided by subsidizing educational institutions or by subsidizing pupils or students (or their

parents). The cost to the State may be the same either way, but the effects on educational participation, on additional sources of private finance and on the nature of educational institutions may be profoundly different.'

Williams (1990) noted that educational institutions will respond to financial incentives as well as to regulations and that 'finance is a means not an end':

'... a funding mechanism is not merely a device for allocating resources from providers to users. It is also a system of control and an important two-way channel of communication between the providers and users. The terms on which funds are offered show the priorities of those who supply them; the ways in which they are used reveal the preferences of those who receive them.'

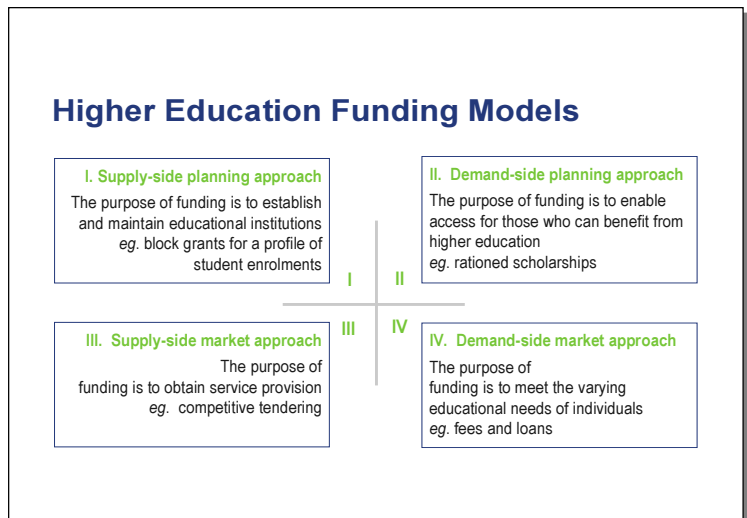


Figure 1

Figure 1 presents generic approaches to higher education financing, depending on educational purpose. Four basic types of financing approach may be identified, adopting either supply-side or demand-side orientations, and within either a planning or market-related framework.

Quadrants 1 and 2 are planning approaches and quadrants 3 and 4 are market approaches.<sup>8</sup> There can be variants to each type as well as different combinations of types within national systems. These variations and combinations can be deliberately structured to achieve a desired pattern, but they are often accidental, reflecting a plethora of decisions made over time under varying circumstances.

In quadrants 1 and 3, financing policy is supply-side oriented; government subsidies are directed to the producers or suppliers of education services<sup>9</sup>. Quadrant 1 (Q1) type funding is designed to enable an educational institution to function, either on a specialised basis or on a comprehensive basis across teaching, research and community service. Key assumptions of this policy approach are that higher education institutions make special contributions to knowledge production and transmission and labour supply, and that there are local benefits to be obtained from institutional presence, such as increased educational participation of the population and cultural enrichment, as well as economic and employment multipliers from institutional spending and, perhaps, the creation of new enterprises and attraction of inwards investment<sup>10</sup>. Planning objectives for institutional establishment may include promotion of increased educational participation and equity of access, labour supply and skills formation (typically on some basis of 'manpower planning'), research excellence, and regional development.

Q1 financing mechanisms may include formulaic allocations, reflecting fixed costs of operations and variable costs arising from changes to input factors such as student numbers and/or composition of the student body.

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<sup>8</sup> A market approach is adopted when the allocative outcomes are the result of competitive processes and involve a degree of unpredictability. A planning approach is adopted when the allocative outcomes are driven by and reflect the designs of central authorities. Planning approaches can be 'hard' or 'soft' depending on the degrees of discretion allowed to participating institutions.

<sup>9</sup> Consideration is given here only to government funding (and non-funding) of providers at the whole of institution level, rather than to internal organisational units or individuals within institutions. The later consideration of funding for research in this paper takes account of internal staff and student producers of knowledge.

<sup>10</sup> Actual benefits appear often to fall short of promise or expectation, with local access not necessarily correlated with higher participation (Stevenson et al, 2000). In some regions, the presence of a higher education institution can contribute to net brain drain, as those with educational passports move elsewhere (Garlick, 2000a). The contributions of universities to their local economies are variable (Garlick, 1998), depending on the nature of the economy and relations between the university and the local community (Garlick, 2000b).

Allocations per student may be paid at a uniform or variable rate. Typically rates per student are varied by field and level of study, reflecting higher costs structures of some courses. Allocations to institutions may be weighted to recognise structural circumstances (e.g. multiple campuses or specialisations) or regional cost disabilities or diseconomies of scale. Q1 mechanisms may also include performance-based funding for the purpose of improving institutional responsiveness and cost-effectiveness. Performance criteria may be included in the formula for allocating base operating grants and/or specific-purpose payments.

Hybrid Q1/Q4 approaches may include normative payments to institutions per student alongside varying student fees and charges set by individual institutions. Such approaches may have the policy purpose of promoting differentiation and specialisation among providers and stimulating innovation, widening student choice, or reducing costs to general taxpayers. Within such a hybrid approach, government funding subsidies may be skewed to reduce direct costs to students in order to encourage increased participation, such as in fields of social need (e.g. teaching and nursing).

Quadrant 3 is a purchasing rather than investing approach, in respect of educational services (distinctive research services are discussed below). It is a 'quasi-market' approach with both planning and market orientations. It is a model in which the central monopsonistic purchasing authority buys a service on behalf of consumers, such that the role accorded to 'direct' consumers is limited to course selection.<sup>11</sup> It is market-related in that it operates through competition among service suppliers. The approach may be applied to the provision of a total service or, more typically, to separate services for which there may be a periodic or once-off need. Selection of tenders to reflect best value for money may be closed to established public providers or open to private providers and new enterprises or consortia. Tenders may be assessed for price competitiveness in delivering to a specification of services to a given standard, or for value adding, innovation and quality within a given price limit. Competitive tendering is typically voluntary for institutions. Whereas a Q1 approach values the local institu-

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<sup>11</sup> Dill (1997) notes that research councils offering competitive grants systems are essentially operating as quasi-markets. He questions whether government purchasers will 'pursue their own priorities, essentially replicating well-known ills of central planning'.

tion, a Q3 approach is indifferent to provider status and seeks to obtain desired services from the best affordable, convenient supplier.

In quadrants 2 and 4, funding is demand-side oriented<sup>12</sup>, with payments made, directly or indirectly, to students or communities of users rather than to providers<sup>13</sup>. The policy purpose is to enable user choice and place competitive pressure on providers to improve their responsiveness to user needs. Q2 reflects a planning approach<sup>14</sup> through rationing to control the size or shape of the system or to provide incentives for participation of able students who may lack financial means. Scholarships may be awarded on academic merit, on a means-tested basis or to students from certain backgrounds or as incentives to study particular topics or in specific places. Vouchers may be provided as a mechanism for not only widening student choice and putting competitive pressure on providers, but also for attracting additional private financing<sup>15</sup>. Vouchers are payment entitlements to a limited value that individual students may use to purchase education services from multiple providers. When vouchers are rationed, by order of academic merit or other constraints (such as limits to study duration), they are primarily Q2 type mechanisms. When vouchers are unlimited, such as through universal learning entitlements, even when capped by financial amount, they are primarily Q4 type mechanisms. Payments to education providers that are conditional on student numbers, where funds move when students move, are voucher-type mechanisms

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<sup>12</sup> Demand-side financing presumes that dispersed decisions arrived at through market interactions produce results that satisfy the most people.

<sup>13</sup> Whether a funding mechanism can be characterised as demand-side or supply-side depends on who receives the resources from public authorities or other funders. In supply-side mechanisms, higher education institutions normally receive the funds (or knowledge producers are directly funded such as through research grants). In demand-side mechanisms, funds are provided to the demanding party, normally students, to buy the educational services they want (Kaiser, Vossensteyn & Koelman, 2002). It is also a demand-side mechanism when students who receive no public subsidy pay their own way – they are exerting direct consumer power on providers and using their own scarce resources in doing so.

<sup>14</sup> The most ardent advocate of vouchers for higher education in Australia, Karmel (2001) proposes a national distributional system with quotas for school leavers and mature-aged entrants, with the quantum of vouchers set periodically on the advice of a central commission having regard to demographics, student demand, entry standards, workforce requirements, the availability of alternative vocational education and training opportunities, and costs.

<sup>15</sup> Friedman, M. (1962), *Capitalism and Freedom*, University of Chicago Press.



because of the incentives they create for institutions to respond to student needs.

Q4 approaches may be expressed in a (fully or partially) deregulated system, where education providers set their fees and charges, and students pay for the services they want and have the (academic and financial) means to access<sup>16</sup>. Under this model, the system is effectively shaped by market forces<sup>17</sup>. A major difference between Q2 and Q4 policy approaches is that the latter is indifferent to system size and student entry standards. Hybrid Q4/Q2 approaches involve government subsidies for tuition or living expenses being available, either through grants or loans or combinations of both, within a deregulated fee environment. Through such mechanisms, public authorities can exert some influence over the system for public good interests without exercising control.

A plurality of financing sources and approaches is appropriate to the balanced development of a diversified system and for safeguarding some degree of freedom for higher education institutions. Williams (1990) notes:

'Many different sources of funding and criteria for the disbursement of funds are the best guarantee of the capacity of higher education institutions to perform their proper long-term functions.'

However, tensions can form between different financing approaches giving rise to ambiguous policy signals and to anomalies that result from

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<sup>16</sup> Johnstone (1998) presents a 'symbolic' as well as actual view of 'a market orientation' (which) 'therefore includes (a) tuition fees, and the sale of research and instruction via grants, contracts, and entrepreneurial training; (b) the private sector, including both non-profit and proprietary providers of tertiary education; (c) regional decentralisation; and (d) institutional autonomy, or the devolution of authority from government at whatever level, to institutions'. However in our view, devolved supply-side planning (c) and (d) does not meet market tests.

<sup>17</sup> According to Johnstone (1998), higher education may be regarded as a private good, amenable to market forces, exhibiting the conditions of rivalness, excludability and rejection identified by Barr, N. (1993). Johnstone adds that higher education consumers are also reasonably well informed. In contrast, Karmel (2001) argues that the optimum properties of competitive markets cannot be expected to hold in the market for educational services: 'Students are not and cannot be well informed consumers in the same way as those who are operating in the market for detergent or automobiles... Ordinary goods and services have characteristics that are more or less well known. But the benefits to be rendered by a university course cannot be known with any precision to the intending student, nor can there be any symmetry in knowledge between student and academic. Also in any given locality there are necessarily relatively few university suppliers and certainly not a perfectly competitive market'.

the behavioural responses of institutions and individuals to the structure of incentives. Public policy then feels incremental pressure to modify the financing mechanisms in order to maintain an appropriate balance of incentives. At times the incremental tinkering exposes fundamental flaws in the policy framework necessitating more radical revision. Sometimes, too, the policy evaluation process leads to the uncomfortable conclusion that there are inherent contradictions among incentives that just have to be lived with as happily as possible. This is evident in systems where market-related mechanisms, which have been necessarily introduced to meet growth of demand in contexts of fiscal capacity limits, undermine the foundations for institutional viability in some regions, contrary to the intent of public policy for their establishment. The typical policy response in such circumstances is provided through supplementary financing measures.

The balancing of Q1 with Q4 approaches is the special challenge of contemporary public authorities. For instance, it may well be rational to seek to accommodate increasing demand for higher education through a planned diversification strategy for the system, whereby established high-cost institutions are contained (and several of their functions protected) and lower-cost institutions are constructed, each with their distinctive missions and functions and modes of service delivery, to absorb the bulk of additional demand. Such is the Q1 history of system formation in many countries experiencing the baby boom of the mid twentieth century. However, several of those countries have subsequently either allowed or encouraged evolutionary homogenisation, with newer institutions emulating older ones. In those countries a policy of differentiation now is not 'formative' but 'reformatory' policy. In such circumstances it may be politically prudent to rely mainly on Q4 processes to influence the shape of system provision through effective demand, perhaps with some Q3 interventions, so that the structural outcomes for institutions reflect the merits of open and fair competition and their responses to a changing environment, rather than central determination that may be construed as partial.

### **Supply-side Financing**

Supply-side financing approaches are the most common methods of higher education funding. They may be categorised along four dimensions (after Fogel & Winkler, 1996):

by basis of funding – that is, by the measures that are resourced, whether inputs, activities/processes or outputs;

by basis of allocation – that is, how available funds are distributed, whether via normative formulae for all institutions or types of institution, or through negotiation according to specific circumstances of institutions, or through competitive processes among institutions;

by funding type – that is, whether funds are stipulated for use for only specified purposes or whether they are untied and available at the discretion of the institution for general operating purposes; and

by allocation type – that is, whether the funds are conditional on institutional undertakings, such as provision of services to a community or performance improvement, and whether the funds require a level of effort on the part of the institution to meet a share of the costs through financial or in-kind contributions.

Figure 2 shows the range of available supply-side financing options. A mapping of Australia’s current higher education financing mechanisms against this classification matrix is at [Attachment A](#).

**Supply-side financing approaches (i)**

Allocation Basis		Normative		Negotiated		Competitive	
		Historically set	Performance-based	Cost-Related	Mission Oriented	Restricted	Open
FUNDING BASIS	<b>Input</b>						
	<b>Activity</b>						
	<b>Output</b>						

Figure 2

This categorisation differs from some of the literature (e.g. Fogel & Winkler, 1996). For our purposes we define inputs to include student enrolments<sup>18</sup>, as well as staff and other operating costs. We define activities as the transforming processes of education, the discovery, invention and application processes of research and development, and the diversity of community service undertakings. And we define outputs as graduates, research publications and other produced higher education services and contributions.

Normative approaches apply objective criteria to all funded institutions, such as through common funding rates per unit of funded input. Historically-set normative allocations reflect relatively fixed arrangements and practices, such as funding for medical schools in designated institutions. Performance-based allocations are paid at normative rates but reflect differences in institutions' capabilities and track record in respect of designated indicators of cost-effectiveness, quality and reliability. Whereas historically-based funding is rarely subject to reallocation, performance-based allocations shift according to changes in the demonstrated delivery capability of institutions through the results they achieve. Negotiated allocations for inputs, activities or outputs vary among institutions. Cost-related allocations may be full (actual) such as reimbursement for expenses incurred or partial (notional), such as recognition of operating cost disabilities in a region. Mission-oriented allocations relate to 'agreed' costs and respective contributions associated with providing a service that fits the role and functions of the institution and meets the needs of the funding agency (they are a form of specific-purpose payment, restricted to certain types of provider). Competitive allocations expose negotiated arrangements to contest and are typically Q3 approaches as described above.

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<sup>18</sup> Others regard student enrolments as outputs in the sense of 'units serviced'. We agree with Canton & Venniker (2002) that the educational process is a 'customer-input technology'; interactions among students as well as between students and staff determine a large part of the quality of learning. Hence, universities can reach a higher quality level by selecting the best students, and they can discount the price of admission for more capable students to reflect the spill-over benefits they generate for the class.

## Supply-side financing approaches (ii)

A L L O C A T I O N T Y P E	Funding Type	General Purpose	Specific Purpose
	Conditional		
	Unconditional		
	Matched		
	Unmatched		

Figure 3

In Australia, general purpose funding is normally available only to public institutions established under statute or to particular, accredited institutions that enjoy bona fides with government. For those eligible institutions there have been, until recently, typically low levels of conditionality attached to their funding<sup>19</sup>.

Universities prefer low conditionality, so they can exercise reasonable degrees of freedom and high transparency, so they can understand the 'rules of the game' for accessing available funds. Governments prefer high conditionality so they can justify and account for their expenses and exercise leverage over institutions to steer their contributions to society. Governments prefer some limits to transparency so they can exercise differentiated leverage. The higher the conditionality, the lower the natural level of transparency, as conditional systems tend to complexity. However, opaque arrangements may be prone to fraud or favouritism. High transparency involves making the criteria for resource allocation explicit, un-

<sup>19</sup> Neave (2002) defines conditionality in terms of stakeholders' protection of their interests by threats or actions to withdraw their 'stake' when a provider does not deliver what they want.

ambiguous and measurable. High transparency tends to strong similarity, even uniformity, of treatment to different providers. A common structure of incentives may induce emulating behaviour among institutions and reduce diversity of the system. Reconciliation of these tensions in trading off the respective costs and benefits of transparency and conditionality for the parties is most prudently progressed through the agreement of the parties to guiding principles, including principles for disclosure of the bases of decision making.

Traditionally, governments have exercised leverage through specific purpose funding arrangements, for which objectives and performance criteria are specified, and constraints are imposed on the usage of funds. Specific-purpose funding involves higher conditionality and lower flexibility for institutions than general-purpose funding. Where specific-purpose funding takes the form of line item budgets for expenditure of inputs, the incentive for the institution is to spend allocated funds by the set date rather than forfeit the funds. Hence, the approach can encourage internal substitution and provides no incentives for cost savings. It is partly for that reason that funding authorities require institutions to make matching input contributions, thus further atomising their resource commitments and reducing their flexibility.

The World Bank (1994) has reported that the most dominant budgeting devices in higher education is a cost-reimbursement model, in which resource allocations are based mainly on last year's costs in conjunction with negotiations between the funding authority and the institution. Fogel & Winkler (1996) have argued, on the basis that efficient resource allocation decisions can best be made by those who have the most information, that specific-purpose grants based on input measures and allocated on a costs reimbursement basis are the least efficient, and that general-purpose grants based on outputs and allocated on a normative basis are the most efficient. The former are also higher on conditionality and lower on transparency, while the latter are higher on transparency and lower on conditionality. Cost-based formula budgets, or mathematical statements linking expenses to work performance costs, are represented by Sheehan (1998) as having the following benefits over negotiated budgeting: They are more transparent and create a more open and competitive funding process; they are more efficient than reimbursement models that lead to

inflated claims and protracted bargaining; and they are more feasible in not requiring a large administrative bureaucracy. Funding authorities have developed sophisticated methods of normative financing and performance-based funding<sup>20</sup>, as well as techniques for smoothing the impact of major shifts in environmental conditions on institutions.<sup>21</sup>

Normative, formulaic funding is seen to be beneficial for budgetary purposes (Brinkman, 1984; Ahumada, 1990; Johnstone, 1998). Formula funding is generally valued for providing transparency, rationality, consistency and fairness in the allocation of funds; applying quantifiable and objective information, so reducing uncertainty and room for political influence; enabling an equitable distribution of funds among institutions; enhancing the uniformity and ease of budget preparation and presentation; routinising decision making processes, thereby minimising conflict between institutions and funding authorities; limiting the size of base budget increments or decrements; and improving institutional innovativeness and reducing costs.

However, the literature is not of one voice on these matters. Ahumada (1990) criticises cost-based formula mechanisms for ignoring economy of scale factors, and fixed and variable costs, and for failing to reflect the qualitative dimensions of educational activities. Bogue (1998) has criticised normative financing attached to student numbers as inimical to the preservation of quality in higher education:

'It emphasises growth as a measure of achievement. To obtain significant additional dollars, an institution has to add students. It encourages a displacement of purpose. Since growth is the principal achievement rewarded, serving students is displaced with the goal of obtaining more students. It provides no incentive for qualitative improvements. A programme with mediocre performance record is funded at the same level as one with a better performance record. It encourages a lowering of educational standards as a means of maintaining student enrolment levels.'

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<sup>20</sup> A particularly sophisticated approach is the Danish 'taximeter' formula that funds institutions on the basis of passed units of study.

<sup>21</sup> Buffering and decoupling techniques can be applied to reduce the volatility of shifts in allocations to institutions as a result of a major change to levels of inputs or outputs. The use of lag factors, biennial means and weighted moving averages serves to diminish the impact of year-on-year changes to inputs or outputs and provides institutions with time to implement structural adjustment responses. A threshold or corridor can also be imposed upon a formula (e.g. plus or minus 2% tolerance) so as to smooth rates of loss or gain.

Australian universities receive government funds for their general 'teaching-related purposes' largely on the basis of the planned profile of their student enrolments. General operating grants payable to individual institutions are determined and announced on a rolling triennial basis<sup>22</sup>, such that each institution knows by end 2003 the amount it will receive in 2004, 2005 and 2006. By end 2004, they will know their allocations for 2007. Adjustments are made to annual payments when actual enrolments deviate from plan. These funds can be used, with reasonable predictability, at the discretion of the university for its 'general operating purposes' (including for improvements to conditions for staff, for research and research infrastructure, for the provision of community services, and for the accumulation of assets), provided it continues at least to enrol the profile of students for which the government pays. Institutions can forward commit their budgets, for example, in entering into medium-term partnerships for the delivery of educational services and/or for research collaboration. Checks on the quality of provision have been introduced as the system has massified, diversified and internationalised.

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<sup>22</sup> Rolling triennial funding works within the Government's overall budget arrangements for forward projections of expenditure commitments. It works too for institutions whose financial planning is tied to medium term strategy formation. Rolling triennial provisions combine the benefits of predictability and flexibility. Previous arrangements in Australia included annual fixed budgeting, five-year plan budgeting, and fixed triennial budgeting.



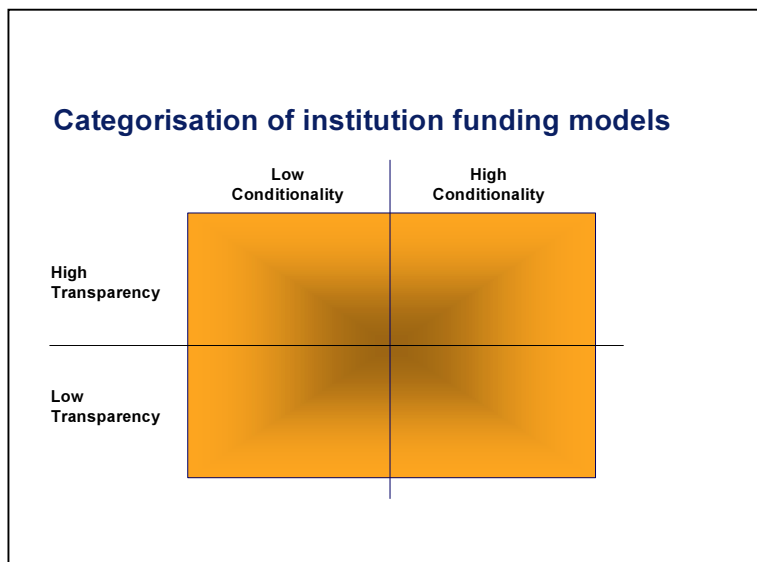


Figure 4

Three recent tendencies can be identified. First, there has been a proliferation of specific-purpose<sup>23</sup> financing mechanisms, such that it is necessary to meet specified requirements in order to access any growth in total available funds. A single institution may have multiple tied funding arrangements with various government agencies or other contributing bodies. This can involve multiple applications for funds periodically, with complicated records systems for line-by-line budget management and duplicated reporting requirements. Such atomisation of funding sources may simultaneously restrict institutional flexibility and expand opportunities for institutional double-dipping.

Second, the boundaries for allowable usage of stipulated funds are narrowing while the requirements on institutions to contribute their own resources to meet stipulated targets are widening. For some institutions that are successful in 'winning' grants for specific purposes, there are net financial costs to be weighed short term against mission achievement or competitive position longer term.

<sup>23</sup> Also called 'categorical' or 'stipulated' or 'marked' or 'tagged' or 'tied'.

Third, there is increasing conditionality attached to general-purpose<sup>24</sup> funding, such as workplace and governance reform. Increasing conditionality attached to general purpose funding reflects government interests in steering the system to higher levels of responsiveness and utility, together with concerns about the efficient management of substantial resources (accumulated assets as well as financial flows).

A fourth, potential, tendency has not yet been evident in Australia, at least – that is, to relate public financing to the capacity of institutions to derive income from non-government sources. However, some may argue that there has been a gradual system-level substitution of institutionally ‘earned income’ for government grant income, as indicated by the reducing share of the latter of total income and the declining value of grant income per student place.

### **Performance-based Funding**

‘As distinct from funding universities according to the number of student enrolments, performance-based funding links part or all of the funds to achievements in the areas of teaching, learning, scholarship, research or other activities with the intention of focussing attention on processes and promoting greater efficiency and effectiveness (Anderson et al, 1996).’

Performance-based funding is a special category of supply-side financing. It is basically a Q1 planning-oriented approach but, depending on the limits to funding availability, the level of contestability for resources, and the mix of performance measures that guide resource allocation, it can exhibit Q3 market-oriented characteristics. Performance-based funding may be applied to core operating resources or to supplementary funds, including specific-purpose funds. As a simple supply-side planning mechanism, performance-based funding creates incentives for improvement in institutional functioning. Performance criteria may be defined in terms of inputs, processes or outputs or some combination. Institutions may be rewarded for their performance against designated criteria, for example, through ‘performance bonus’ payments. Performance-based funding can also be applied for resource re-allocation purposes. Under

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<sup>24</sup> Also called ‘untied, or ‘block’ or ‘lump’.

conditions of limited resources, the payment of rewards to some will be at some cost to others with lesser relative performance.

Performance based funding allocations are lagged payments, typically based on previous year’s performance. The inclusion of output measures of performance increases the period of lag. In these circumstances, payments can be ‘advanced’ on the basis of ‘expected outcomes’ and subsequently adjusted when ‘actual’ data are available. Such payment adjustments can be rough or smooth. Rough adjustments instantly reward relative winners while smooth adjustments ameliorate the impacts on relative losers.

### Demand-side Financing Mechanisms

Financing mechanisms directed to students as consumers of education services can take three general forms: non-repayable grants; subsidised or non-subsidised loans; or taxation concessions<sup>25</sup>. Assistance can also be made available using combinations of these three forms.

**Student financing options**

Form of Aid	Grant	Loan	Tax Concession
<u>Allowable usage:</u> Tuition costs Living expenses Other costs			
<u>Basis of Allocation</u> Universal entitlement Merit-based Means-tested			
<u>Condition of Allocation</u> Unlimited Limited by study length Limited by funds			
<u>Repayment Basis</u> Bonded Unbonded		•Subsidised interest rate •Inflation indexed •‘Mortgage’ style •‘Income contingent’	

Figure 5

<sup>25</sup> Woodhall (1992) identifies ten forms of provision of financial aid from public and private sources (page 1359).

Grants may be payable to individuals undertaking an approved course of study with an accredited provider, to cover tuition costs in whole or in part, and/or to contribute to living expenses while studying. Grants may be automatically available to students admitted to a course of study or rationed on the basis of academic merit and/or financial means. Grants may be unlimited or limited for a period of time or a set number of equivalent full-time years of study necessary to meet the course requirements, or limited by an amount of funds. They may be payable unconditionally or in consideration of subsequent service, in which case (bonding) they are effectively loans repayable in kind rather than cash.

Australia has provided through general taxpayers' funds, grants for tuition costs on academic criteria (e.g. acceptance by a university, test results), and grants for living expenses on financial need criteria (e.g. means-tested, assets-tested). Certain scholarships, including those provided from non-government sources that provide both grants to meet tuition costs and a stipend for living, are normally allocated solely on the basis of academic merit. Australia has also experimented with a variant of the grant for living expenses, by permitting students to convert or 'trade-in' a proportion of their grant for double the amount as a loan, with loan repayments triggered once the recipient's income rises above a set threshold. However, for the most disadvantaged students this has proven to be problematic; the incentive is to take the extra cash flow while studying, regarding it as a 'non-repayable loan', such that some students find themselves trapped with large debts.

Grants and loans for living expenses are paid directly to students, typically as deposits into a bank account. Grants provided for tuition costs can similarly be paid directly to students or they can be paid to institutions for a number of students, with individual students making up any difference between the price charged by the institution and the grant through fee payments (which themselves might be financed through a loan). The mechanisms for allocating grants directly to students are discussed below as demand-side financing measures. Tuition subsidies for students that are paid to institutions and form a part of a predictable stream of payments from public authorities reflect a supply-side financing policy. It may be administratively efficient for actual payments of tuition subsidies for individual students to be batched to institutions, when the subsidies are

portable by students in their exercise of provider choice; in this case the policy approach is demand-side oriented, notwithstanding the administrative arrangements.

Taxation concessions may be payable in respect of education and training either to employees or employers. For instance, an employee can obtain deductibility from taxable income those expenses incurred (tuition fees, library depreciation, power and consumables) while undertaking studies related to their employment<sup>26</sup>. Employers may deduct from their taxable revenues their costs for employee training.

Loans may be provided, as for grants, on rationed or unrationed and limited or unlimited bases<sup>27</sup>. Governments may subsidise student loans or make them available at commercial lending rates, but without the collateral requirements of private lending bodies. Student debt may be indexed for inflation to maintain its real value. Debts may be waived or written off in certain circumstances. Repayments can be mortgage-style (credit-foncier) regular instalments, payable from a given date and within a given period, or income-contingent, repayable during those periods when the student's (or graduate's) income rises above a set threshold.

Australia introduced its Higher Education Contribution Scheme (HECS) in 1989 as a fair and equitable way for students who directly benefit from higher education to contribute to the costs of the services they consume. On average, students would contribute around one quarter of the costs. This would go some way to redressing an inequity whereby general taxpayers, whether they had the advantages of higher education or not, were fully subsidising the private benefits of those who could participate. Providing a mechanism that allowed students to defer the payment of their fees (through an income-contingent, interest-free, inflation-indexed loan) until such time as their earnings rose above average earnings would avoid those without the financial means to pay up-front from being deterred. Over time, as student contributions were paid in, the national higher education system could expand to enable more students to participate.

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<sup>26</sup> In Australia, as elsewhere, education costs incurred for change of employment purposes are not recognised as income tax deductible expenses.

<sup>27</sup> Woodhall (1992) offers a checklist of ten questions for the design of a student loans scheme (page 1366).

HECS functions for students as a grant, a fee and a loan, but payments are made to institutions rather than to students. The grant component of HECS comprises the tuition cost subsidy provided by the government from general taxpayers' funds; the fee is the gap between that subsidy and the tuition price (which is currently set by the Government for different courses); the loan component is the advance to enable students to pay their share of the costs through deferred fees. HECS debts are collected through the taxation system, as a mechanism for reducing default.<sup>28</sup> Details of administrative arrangements for HECS are at [Attachment B](#).

### **Learning Entitlements**

Learning entitlements are a particular form of a Q2 voucher approach. The entitlement may be either a limited public subsidy (duration or dollar limited) in the form of a grant or loan or grant/loan combination, or an account into which individuals and others can contribute so as to build up personal equity that can be drawn upon as required in support of lifelong learning. Learning entitlements can also be constructed so as to guarantee an individual access to an opportunity to study in some form of post-compulsory education and training, according to their abilities and interests. Such universalised learning entitlements cannot logically be confined to a sub sector of the post compulsory system where access is rationed by ability to succeed.

### **The Funding of Research and Research Training**

The general financing mechanisms described above are applicable to several aspects of funding for research and research training. For in-

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<sup>28</sup> In March 2002 there were 518,130 HECS-liable students studying at Commonwealth-funded higher education institutions, representing 80% of all domestic students. The HECS loan liability incurred by students in a year includes a substantial amount of government subsidy. This subsidy comprises a 25% discount for up-front payments, a 15% bonus on voluntary repayments, debt write downs due to death, remission of HECS debts due to special circumstances, and the provision of doubtful debt. Taking the full government subsidy into account, the actual student contribution, on average, represents around 26% of course costs (Karmel (2003) has revised this estimate after the 1996 changes and suggests the student contribution now represents almost 40%). Regular studies of the impact of HECS on student participation have not found a deterrence effect and equity group shares of the student body have been broadly maintained over the period of gross enrolment growth from 1989 to 1999 (Andrews, 1999). More recent research (Aungles et al, 2003) has indicated some deterrence for some groups through lower repayment thresholds and in higher priced fields of study.

stance, when these functions are integrated with those of teaching and community service in a comprehensive university, Q1 financing approaches may include block grants for general operating purposes, including academic staff time for research and generic research infrastructure, such as library and computing and communications capacity. Similarly, funding for research students undertaking research-based degree studies may be incorporated in the general funding formula for the allocation of student places, with appropriate cost weights. Q3 approaches are commonly used for the purchase of research services or the competitive allocation of funds for distinguished researchers and/or research projects through 'peer review'. Hybrid Q1/Q3 mixes are typical in respect of the funding of institutions and Q2 approaches are commonly applied for the allocation of scholarships for research students. However, many countries have special arrangements for the funding of research and research training. Some have specialised institutions for particular fields and/or types of research and agency-specific arrangements. Some are shifting to more comprehensive research active institutions while others are moving away from comprehensiveness.

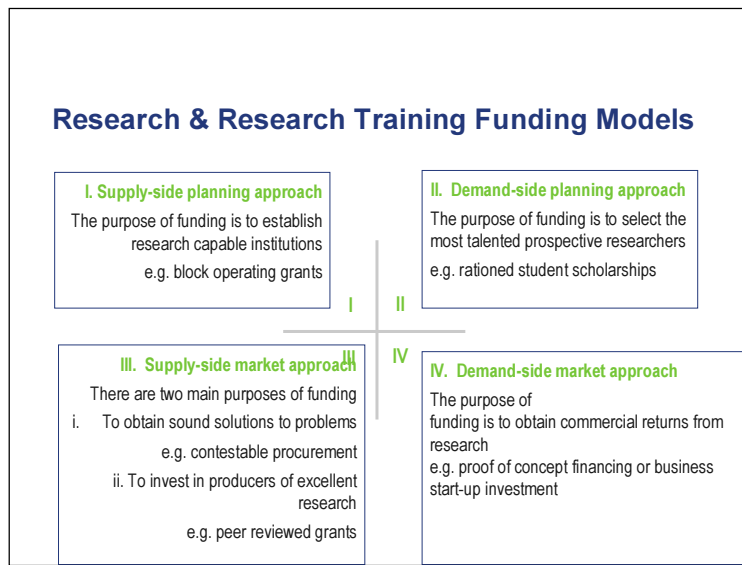


Figure 6

We can reconstruct Figure 1 (see Figure 6) to show more clearly for research-related functions the available funding policy approaches, noting the two purposes for Q3 funding (a procurement purpose and an investment purpose) which may or may not be related. That investment purpose is arguably unique to research funding.

On the supply side, research-related funding may be allocated separately or in combination to institutions where quality research is undertaken (Q1), to researchers wherever they may be employed (Q3), and to research-enabling infrastructure, whether attached to an institution or a research project, or as a shared facility (Q1 or Q3). On the demand side (Q2), funding may be allocated directly to students undertaking research training via scholarships (merit-based vouchers) or, through private or joint public/private investment, in ideas and inventions with commercial potential.

Research students may be funded directly or indirectly, and in full or in part, through scholarships for their tuition expenses or stipends for their living expenses. Australian policy reflects a social rate of return interest in supporting cohorts of research-capable students (acknowledging, too, the opportunity costs to students themselves from longer durations of full-time study). Tuition for the large majority of research students is fee free and fully subsidised by government. Where government subsidies do not cover demand, employers, philanthropic foundations and institutions themselves provide support. Only a small minority of students pay their own fees for higher degrees by research. Some postgraduate research students can also derive income, or defray costs, from tutoring while studying.

An advantage of institutional block funding, and especially 'research institute' block funding, is that it enables long-term research to be conducted and for cross-disciplinary approaches to be undertaken. Research staff can be engaged through long-term appointments and can focus on extended work. However, block funding can also permit once vigorous research units to ossify. In contrast, contestable funding through contracting and competitive tendering, or grant allocations made by research funding councils on the basis of peer review, can stimulate efficiency improvement and innovation, but lead to short term and fragmented



research orientations, and atomisation of resources. However, it is possible to inject performance conditions into block funding arrangements in ways that encourage researcher engagement and promote strong effort. It is also possible to apply conditions to purchasing contracts and peer-reviewed grants to encourage collaboration among researchers and between them and industry.

Australian Government funding for research in recent years has focussed on peer-reviewed grants for individuals and projects without a balancing investment in research infrastructure, especially the deep infrastructure of universities. Yet it is the quality of the total research environment of universities that attracts top researchers and sustains their work.

### **Milestones in Australian Higher Education Financing**

Australia has a discontinuous record in higher education policy and financing. The first universities were small, undergraduate teaching institutions with varying levels of public endowment. Except for the University of Western Australia, they charged fees. Prior to World War II, the Commonwealth provided minor assistance for research. During and after the war the Commonwealth, acquiring income taxation powers from the States, employed the universities to give effect to its manpower and welfare policies. In the 1950s the Commonwealth agreed to provide matching grants to States' funding for universities and extended this to colleges of advanced education in the 1960s. The Murray Committee of 1957 found the universities to be short-staffed, poorly housed and ill-equipped, with high student failure rates and weak honours and postgraduate schools. To address the 'malaise', Murray recommended that the Commonwealth accept greater responsibility for the universities by financing recurrent and capital expenditures for periods of three years, to enable the universities to plan ahead. The Menzies Government accepted the recommendations through the States Grants (Universities) Act of 1958 and subsequently through the Australian Universities Commission Act of 1959.

From 1956 to 1966 the student population in universities trebled and the proportion of gross domestic product allocated to universities in the form of grants from the Commonwealth and the States doubled. During the economic recession of the mid-1960s Menzies expressed concern about the expansion of universities and student enrolments and the associated rising costs. He asked the chairman of the Australian Universities Commis-

sion, Emeritus Professor Sir Leslie Martin, 'to address itself, and find solutions, to the problems of providing the necessary amount of tertiary education within financial limits which are very much more modest than under our present university system'.<sup>29</sup> Martin recommended the establishment of a second tier of colleges, below the universities, to offer courses of vocational education and to serve the community, allowing the universities to concentrate more on research and research training. Prime Minister Gorton, modifying Martin's proposals, announced the creation of a binary divide in Australian higher education with the formation of colleges of advanced education, that were to be primarily teaching institutions, with a vocational emphasis mixed with some general education and offering awards to the level of Diploma. Rapid growth in student demand quickly saw these colleges offering degrees and higher degrees and engaging in applied research, for which they received no additional funding.

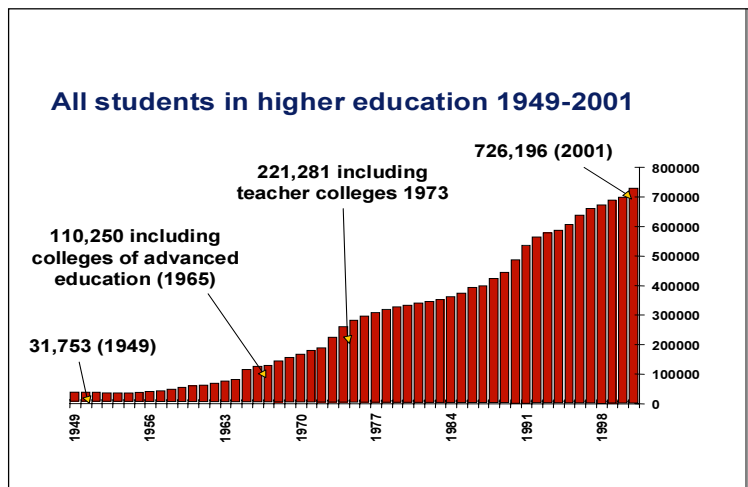


Figure 7

In 1974 the Commonwealth and State governments agreed to abolish tuition fees at universities and colleges of advanced education and that the Commonwealth would assume full financial responsibility for higher education in Australia, although the universities (except for the ANU)

<sup>29</sup> Prime Minister, Sir Robert Menzies, private memorandum to AUC Chairman, Sir Leslie Martin, 15 November 1960.

continued to be established under State statutes. The Australian Government also introduced a means-tested allowance for eligible full-time students (the Tertiary Education Assistance Scheme). A Tertiary Education Commission was established in 1977 (responsible through three councils respectively for universities, colleges of advanced education, and technical and further education institutions). The late 1970s and early 1980s saw many amalgamations within the advanced education sector and between the CAEs and universities in efforts to drive down system costs through scale economies. The rising number of students and their aspirations and those of the CAEs themselves, together with the blurring of the sectoral boundaries through the amalgamations processes, in the eyes of many but by no means all, eroded the basis established by Martin for the binary divide.

Rising enrolments in the context of economic recession in the early 1980s exacerbated tensions in the system. Concerned to accommodate increasing student participation within budget limits, the Government asked the CTEC to investigate the use of new technologies and more intensive utilisation of institutional resources. CTEC's 1986 report, *Review of Efficiency and Effectiveness in Higher Education*, recommended, inter alia, that universities and colleges review student progress and graduation rates, make better use of their teaching facilities, be given greater flexibility in the use of their operating grants, including a capital provision for rehabilitation and replacement of buildings, review the employment conditions of their staff, and development forward planning processes and systematic procedures for evaluation of academic and institutional performance. These themes were to resonate throughout the higher education system for the next fifteen years.

In 1987 a major reform process was set in train by the Australian Government, culminating in Minister John Dawkins' white paper, *Higher Education: A Policy Statement* (July 1988). Dawkins saw the main challenge being that of finding the appropriate balance between maintaining a higher education system able to take a long-term and independent approach in pursuing its teaching, scholarly and research functions, and using higher education more effectively to address national economic and

social problems<sup>30</sup>. The reforms were intended to increase opportunities for participation in higher education, increase graduate labour supply to help boost Australia's economic competitiveness, make the sector more responsive to national needs, and provide a more flexible operating environment for institutions. The main reforms were:

- Major expansion in student places
- Introduction of rolling triennial funding arrangements with operating funds allocated as a single block grant rather than multiple specific-purpose elements
- Introduction of new, specific-purpose programmes to improve equity of access by disadvantaged groups
- Abolition of the binary divide between universities and other higher education institutions and the creation of a 'Unified National System'. Associated with this was a major programme of amalgamations and rationalisations resulting in significantly fewer institutions, most of them eventually to become universities
- Establishment of annual profiles documentation and meetings processes for institutions and the Commonwealth to agree on key resource allocation and performance objectives and targets, and discuss strategic issues
- Targeting of research funds to reward excellence, including a 'clawback' of funds from former universities' operating grants to support research in the new universities
- Incentives (through a *National Priorities (Reserve) Fund*) for improvements in institutional planning, innovation and governance
- Increased flexibility for institutions regarding staff conditions of employment

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<sup>30</sup> DEET (1993) National Report on Australia's Higher Education Sector.

- Establishment of a National Board of Employment, Education and Training, comprising Councils with advisory responsibilities for schooling, skills formation, higher education and research.

Growth in the supply of places to meet increasing student demand and changing labour market requirements, was funded through a combination of additional taxpayer-funded budget outlays and a new programme of student fees<sup>31</sup>. The fees were set by the Government at a flat rate across all institutions and as a proportion of the average tuition costs, varied by broad fields and levels of study. Students could either pay their fees up-front (with a 25% discount)<sup>32</sup> or defer them until their income reached the equivalent of average (male) weekly earnings (annualised). This income-contingent loans arrangement was administered through the personal income tax system. The Higher Education Contribution Scheme (HECS)<sup>33</sup> was seen as a major equity measure in two ways. First, as a tuition fee, it reduced the cost burden on general taxpayers, including those not participating in higher education, for funding the expansion of opportunities, by requiring the direct beneficiaries to contribute a share of the costs. Second, as an income-contingent loan, it removed the barrier of up-front fees for those students having the academic merit but lacking the financial means to pay (either to put up cash or borrow off the lending market) for admission.

In December 1988, the Government announced a change to its policy for the education of international students<sup>34</sup>. Effective from 1 January 1990, all new overseas students were to be full fee paying students. To ensure

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<sup>31</sup> The first move to asking students, as beneficiaries of the public investment in their human capital formation, to make some contribution to the costs of their education was taken in 1987 with the introduction of the Higher Education Administrative Charge, an up-front fee of \$250 for all students, both full-time and part-time.

<sup>32</sup> A fee of \$4000 for a programme of study units in a year would be fully payable (indexed for inflation) for a student choosing to defer their HECS liability. For a student with the same study load who pays up-front the cost would be \$3000. The discount for up-front payment, designed to encourage cash receipts for the Government, equates to an interest rate over the average repayment period approximating the long-term bond rate.

<sup>33</sup> The HECS scheme was based on recommendations of *the Report of the Committee on Higher Education Funding*, chaired by former NSW Premier Neville Wran, which reported in April 1988.

<sup>34</sup> The previous policy provided for an overseas student charge and the incorporation of international students into the funded enrolments of institutions. The policy change involved a reduction of the enrolment targets and associated operating grants for institutions according to their international student numbers.

that these international students did not displace Australian students or obtain cross subsidy from Australian taxpayers, the Government set an indicative minimum course fee (equivalent to the HECS plus subsidy rate for a given course of study).

Figure 8 illustrates the basic shifts in sources of income for the higher education system 1939 – 2000.

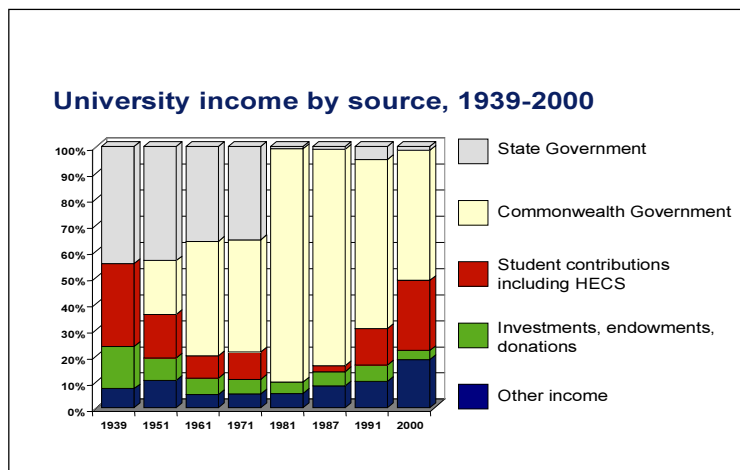


Figure 8

The significance of the late 1980s reforms to higher education financing is evident in Figure 8. Whereas in 1981 there were no student contributions to university income, by 2000 student payments (including the undergraduate student fee component of HECS, postgraduate course fees and fees paid by international students) had been restored to pre-WWII/welfare-state proportions of around 30% (the latest statistics for 2002 show this share at 38%).<sup>35</sup> The national Government had replaced the States as the primary source of public funding. Commercial revenues gained increasing significance. Investments, donations and endowments represented a small and declining share of revenues. Underpinning these changes was a fundamental policy reorientation, to use the Burton Clark

<sup>35</sup> DEST (2003), Finance, 2002, Selected Higher Education Statistics.

(1983) depiction, from 'academic oligarchy' to 'state authority' through the 1980s and early 1990s, and then to the 'market' from the mid 1990s.

The 1989 Policy Statement, *Research for Australia, Higher Education's Contribution*,<sup>36</sup> set an agenda for increasing the national return on science through processes that directed resources for research to the best researchers through a policy of selectivity and concentration. The policy intent was that institutions 'will increasingly be funded according to what they do rather than according to an arbitrary classification based on institutional title':

'Research funds should be allocated competitively, and should go to those institutions, research groups and individuals best able to make the most effective use of them.'<sup>37</sup>

An amount (\$65 million in 1987 prices) was clawed back from university operating grants over a three year period and redistributed to the Australian Research Council and the National Health and Medical Research Council for competitive allocation. The Government encouraged institutions to adopt a flexible approach to salary determination, develop non-salary remuneration packages and offer staff access to consultancy income, to enable institutions to attract and retain high quality staff in disciplines of strong demand. The policy framework also encouraged contributions from other sources such as industry, State governments, other research agencies and institutional resources. A number of research priority areas were identified for five-year, performance-based funding, including: materials science, including aspects of mineral processing; scientific instruments and instrumentation; cognitive science; molecular approaches to the management of Australia's biological resources; and marine science and technologies. Research proposals in the designated priority areas were to be judged on the basis of scientific or technological merit, the commercial potential or utility of the proposal, the extent to which the research would lead to collaboration between institutions (or groups within an institution), and the probable impact of a successful outcome for the research.<sup>38</sup>

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<sup>36</sup> Dawkins, J.D. *Research for Australia: Higher Education's Contribution*, AGPS, Canberra. May 1989.

<sup>37</sup> *ibid*, page 2.

<sup>38</sup> Dawkins, 1989. *Op cit*. Page 25.

The process of establishing the 'national unified system' included the adoption of normative funding of student places for purposes of equity and transparency. In 1986 the relative funding base of institutions varied by up to 35%. In 1990 the Government released a paper, *Assessment of the Relative Funding Position of Australia's Higher Education Institutions*, which contained a matrix of funding rates by discipline groups and levels of study (see Figure 9). The model was a rough approximation of relativities, such that its application allowed for errors through the use of a tolerance band of plus or minus 3% variation. It was intended for once-off application at the system-wide level only. Relatively over-funded institutions were provided adjustment assistance over a few years to carry additional students with or without a phased reduction to their funding. Relatively under-funded institutions could have a reduced enrolment target and a phased increase to their operating grant.

**Relative teaching costs matrix**

Cluster	Undergraduate	Other Postgraduate	Research Degree
1	1.0 Accounting Admin/Economics Law Other Humanities	1.4 Admin/Economics Education Law Maths/Stats Other Humanities Other Postgraduate Other Social Studies	2.0 Accounting Admin/Economics Computing Education Law
2	1.3 Behavioural Science Education Maths/Stats Other Social Studies		2.0 Maths/Stats Nursing Other Built Env. Other Health Other Humanities Other Languages Other Social Studies Visual/Perf. Arts
3	1.6 Computing Nursing Other Built Env. Other Health Other Languages Visual/Perf. Arts	1.8 Computing Nursing Other Built Env. Other Health Other Languages Visual/Perf. Arts	
4	2.2 Engineering Science Surveying	3.0 Agriculture Behavioural Sci. Dentistry Engineering Medicine Science Surveying Vet. Science	4.7 Agriculture Behavioural Sci. Dentistry Engineering Medicine Science Surveying Vet. Science
5	2.7 Agriculture Dentistry Medicine Vet. Science		

Figure 9

In July 1992 the Commonwealth issued new guidelines for postgraduate courses for which fees could be charged. Initially, fee-paying places were capped at 20% of funded postgraduate places across the sector, and research higher degree students and those studying for a first professional qualification were protected. Institutions could use a proportion of their funding for postgraduate places to cross-subsidise fee-paying places 'within load' as well as charge full fees 'outside load'. In 1994 the Gov-



ernment removed restrictions on the number of postgraduate places institutions could offer and the fees they could charge for non HECS-liable students. After 1996, as forward projections for funding and funded student places were revised down by 4.9% cumulatively for the years 1997, 1998 and 1999, the bulk of reductions were made in postgraduate non-research places. Effectively, postgraduate coursework became fully deregulated.

Initially, the Government's requirements relating to target setting, planning documentation and performance reporting by institutions were formidable<sup>39</sup>. In each successive year following the Government's 1988 White Paper, the practice of policy became less prescriptive and more driven by incentives than mandates. National targets for graduate output by fields of study were abandoned, data collections were reduced and requirements for mandatory research management plans were disbanded. Project-specific capital works financing was replaced in 1994 by a 'roll-in' of capital funding into general operating grants for maintenance and new developments, with the quid pro quo that universities would develop capital management plans. This change caused universities to attend to the condition of their stock and focus on issues of capital depreciation, utilisation efficiencies and investment strategies. Detailed approval and accounting processes for course shifts across fields of study were relaxed, giving the universities greater discretion to be responsive to changes in demand, and opening up competition among them domestically both in fields of study and in regions.

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<sup>39</sup> The reaction from academe to the direction of reform was to attack instrumentalism, economic rationalism and managerialism as undermining the traditional, collegial culture of the university, which is predicated on the free flow of ideas and free choice in individual action regarding teaching and research. [Bessant, B. "Managerialism, Economic Rationalism and Higher Education", in Marshall N. & Walsh, C. *The Governance and Funding of Australian Higher Education*, Federalism Research Centre, Australian National University, Canberra. 1992.]

The market-oriented reaction identified five main areas of concern arising from the post-Dawkins developments: over-centralisation and bureaucratic intrusion; a tendency to uniformity in university aspirations and behaviour; inherent instability associated with new institutions merged from conflicting cultural traditions; a declining level of public funding per student without options for universities to raise revenue outside the tight regulatory framework; and the massification of higher education including those who might be more able to benefit from vocational education and training. Deregulation (of student volume and pricing controls) was seen to be the next necessary and inevitable phase of higher education policy development. [Karmel, P. "The Australian university into the Twenty-First Century", in Marshall & Walsh, 1992 op. cit.]

The classic Q1 supply-side planning approach was gradually softened as state-university relationships matured. Growth in university revenues from student fees (overseas students and postgraduate coursework students) counter-balanced the dependency of institutions on Government grants (including the allocation of places for HECS-liable students), with the Q4 market mechanisms encouraging greater responsiveness, more sophisticated planning and innovation on the part of universities.

<b>Brief History of HE funding in Australia</b>	
<b>Prior to 1945</b>	45% revenue from State grants 32% revenue from student fees
<b>1946-1973</b>	43% revenue from Commonwealth grants 36% revenue from State grants 10% revenue from student fees
<b>1974-1986</b>	Student fees abolished; funding taken over by Commonwealth; 90% revenue from Commonwealth
<b>1987-1988</b>	Higher Education Administration Charge introduced; Higher Education Contribution Scheme introduced; Rapid growth of system
<b>1990</b>	Full fees for overseas students introduced (floor price control only)
<b>1993</b>	Enterprise bargaining introduced External quality assurance audits of universities initiated
<b>1994</b>	Fees re-introduced for postgraduate students (alongside HECS)
<b>1995</b>	Funds for capital works rolled-in to university operating grants
<b>1996 – 2002</b>	Reduced level of indexation for salary & other university costs
<b>2002</b>	HECS rates varied by Bands; repayment threshold lowered; fees allowed for undergraduate students (up to 25% of a course); loans available for unregulated postgraduate fees (PELS); funds for research students separated from block grants and allocated on performance criteria
<b>2002</b>	38% revenue from student fees (including HECS & PELS, overseas & domestic fee-paying students)

Figure 10

### The Changes of 1996

Significant policy and funding changes occurred following the change of Government in 1996. The main elements were:

- Reductions in the forward estimates for institutions' operating grants from 1997 to 2000 (6% over four years) and a commensurate reduction in funded enrolment targets, with protection for undergraduate places
- Marginal funding (at the discounted minimum HECS rate) from 1998, for HECS-liable undergraduate places above an institution's undergraduate enrolment target

- Authorisation of institutions to charge fees, from 1998, to domestic undergraduate students, up to 25% of enrolments in a course, for institutions that met their undergraduate enrolment targets
- Reduction of the threshold for HECS repayments from average weekly earnings to the first income taxation threshold (\$20,701 for 1997-98)
- Introduction from 1997 of differential HECS rates for three bands of discipline groups, based on actual course costs, likely future benefits to students and student demand. The differential rates were applied to units of study taken
- Abolition of the independent advisory and monitoring body, the Higher Education Council.

### **Research and Research Training**

In December 1999 the Government issued a policy statement on research and research training, *Knowledge and Innovation*, which provided a new framework to encourage research concentration, stronger research links with industry and better integration of research within the national innovation system. Specific measures included:

- A strengthened Australian Research Council
- Performance-based funding for research infrastructure through the Research Infrastructure Block Grants Scheme (based on institutions' success in competitive research grants) and the Institutional Grants Scheme (weighted 60% for research income from all sources<sup>40</sup>, 30% for research student enrolments, and 10% for research outputs)
- De-coupling of funding for research training (\$504.5 million in 2001) from general operating grants, allocated on a performance basis (50% research degree completions, 40% research income, 10% research outputs)

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<sup>40</sup>To encourage research links with industry and diversification of the research orientations of different universities and researchers, the previous double weighting for competitive grants over industry funding for research was removed.

- Duration limits on the funding (HECS-exempt) for research degree students of 3 years FTE for Masters and 4 years FTE for doctoral students

In January 2001 the Government announced a \$2.9 billion package of initiatives, *Backing Australia's Ability*, with around half of the funds flowing to universities. Funds for competitive research grants administered by the ARC were doubled over five years (\$736.4m). Funding for research infrastructure (RIBG) was restored to a level of 20 cents in the dollar of competitive grants (\$337m) over five years. Funding was provided for a new systemic infrastructure programme (246m over five years) on a collaborative bidding basis. An additional 2000 undergraduate student places for designated fields of study were allocated by tender for the first time. An uncapped and interest-free income-contingent loans scheme was made available for postgraduate students (PELS).

### **Quality Assurance**

In 1991, Minister Peter Baldwin issued a policy statement, *Higher Education: Quality and Diversity in the 1990s*, that gave rise to the establishment of a Committee for Quality Assurance in Higher Education. Additional funding, equivalent to 2% of total operating grants, was available as incentive payments for universities rated highly in three rounds of independent audits of universities' quality assurance processes. The process was designed to enhance quality of teaching and research while maintaining and extending diversity, avoiding pressures towards a culture of compliance to government prescriptions. The process was discontinued in 1996 and the Government required universities to produce annual Quality Assurance and Improvement Plans as part of their profiles reporting. The Government also expanded funding to encourage improvements in teaching and to disseminate good practice, and introduced Australian awards for university teaching.

In March 2000, following a review of Greenwich University then on Norfolk Island, which sought to be listed on the Australian Qualifications Framework register of institutions authorised to accredited their own awards, Ministers of the Commonwealth, States and Territories responsible for education endorsed the *National Protocols for Higher Education Approval Processes* and agreed to the establishment of the Australian Universities Quality Agency. The AUQA conducts whole of institution

audits over a five year cycle of all institutions listed on the AQF register as self-accrediting, together with audits of State & Territory accrediting authorities. The audit reports are made public and 'failure to respond appropriately to negative reports might result in funding sanctions by the Commonwealth or regulatory action by the relevant State or Territory which may affect the accreditation status of the institution'.<sup>41</sup>

### **Industrial Relations**

A national approach to enterprise bargaining was extended to the higher education sector in 1993. Separate national framework agreements were negotiated by the Australian Higher Education Industrial Association and unions for both academic and general staff in 1993. Individual universities subsequently lodged their own 12 month first stage agreements, based on the national framework agreements, with the Australian Industrial Relations Commission. The agreements involved the payment of an economic adjustment of 1.4% and a further 1.5% to be paid twelve months later. The Government agreed to provide ongoing supplementation for these increases, consistent with the arrangements applying to the Australian Public Service. In the second stage, commencing September 1994, universities negotiated a 2% productivity-related increase that was not supplemented by the Government.

Upon the change of Government in 1996, it was made clear 'The Government does not intend to provide any across-the-board supplementation for salary increases in the higher education sector'.<sup>42</sup> New indexation arrangements for Commonwealth grants, announced by the previous Government, were introduced in 1996, with the objective of fully excluding the impact of productivity-based wage rises from salary-related indexation. The new arrangements included indexation of the notional salary component of operating grants (75%) by the Safety Net Adjustment and the non-salary component (25%) by the Treasury Measure of Underlying Inflation. University certified agreements delivered salary increases of 11-12% in the period 1997-99, and a further 12-13% over three years from 2000-01, significantly in excess of the indexation provision.<sup>43</sup>

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<sup>41</sup> Kemp, D. (2001) Higher Education Report for the 2001 to 2003 Triennium.

<sup>42</sup> Vanstone, A. (1996) Higher Education Funding Report for the 1997-99 Triennium.

<sup>43</sup> The SNA may be compared with the Wage Cost Index of community-wide wage movements. For 1998, 1999 and 2000 the SNA increase was 1.5%, 1.4% and 1.3% respectively, whereas for the WCI the comparable rates were 3.1%, 3.0% and 3.4%.

A new Workplace Reform Programme was announced in December 1999, offering additional funding for salary supplementation, conditional upon universities agreeing through certified agreements, to implement a range of management, administrative and industrial reforms. The programme provided a one-off supplement of 2% of the salary component of operating grants payable in two stages. The first stage, providing supplementation for 18 months, required universities to satisfy at least 9 of 14 Government-set criteria. The second stage, involving the permanent incorporation of the supplement into the base operating grant, required universities to demonstrate implementation of the agreed reforms.

### **Fee Deregulation**

The progressive deregulation of tuition fees in Australian higher education started in 1990 with the opening up of access of international students. It was gradually extended to domestic postgraduate coursework students through the mid 1990s. In 1996 the Government permitted partial deregulation of fees for domestic undergraduate students. Proposals for policy change permitting wider deregulation were canvassed in the 1998 report of the (West) Committee, *Learning for Life*, with recommendations for universal post-compulsory education and training learning entitlements. The Government rejected the interim report of that committee. Minister David Kemp attempted to deregulate proposals to the Cabinet in 1999, but his submission was leaked and the Prime Minister ruled out the recommendations.

In April 2002, Minister Brendan Nelson issued an Overview Paper, *Higher Education at the Crossroads*, commencing a process of discussion and giving rise to the introduction in September 2003 of the *Higher Education Support Bill, 2003*. The discussion paper, *Setting Firm Foundations* (July 2002) argued the need for change from a 'unified national system' to a more responsive, differentiated system. The main arguments for change related to anomalies in the current policy framework, either creating incentives for undesirable behaviour on the part of established institutions or thwarting the emergence of alternative providers of education services.

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Another comparison is that between movements in the new index of 10.9% over the period 1995-2001 and growth in average weekly earnings of 25.9% over the same period.

Interestingly, a normative approach to supply-side financing was seen to be more a part of the problem than the solution:

'In an environment where revenue diversification is being encouraged, universities have only limited control over their greatest source of income, undergraduate students. The current base operating grant approach means that funding is distributed according to a 'one-size-fits-all' model. Lack of flexibility in the model means that universities receive the same amount for students in particular disciplines regardless of the number of students studying that discipline, where they are studying and their mode of study. This can be problematic as university cost structures vary considerably because of location, historical advantage, the size and scale of operations and the types of services that are offered.

Universities are not rewarded for high progression and completion rates or particular learning outcomes nor are they rewarded for teaching particular disciplines that may be of local or national significance. The limited flexibility of current funding arrangements does not provide any real incentives for institutions to diversify or specialise their course offerings or engage with their local communities to ensure that they are being responsive to student and community needs.

There are also rigidities in shifting student places between institutions. Anomalies in the financing policy framework create perverse incentives for institutions to behave in ways they would not otherwise choose to do in order to fulfil their missions. The high levels of over-enrolment at marginal rates is one example. Institutions can also 'get around' regulatory constraints in various ways, such as by enrolling students in sub degree programmes through their commercial arms and articulating them later to a degree course.'

Anomalies in student financing arrangements were also seen to be problematic. HECS loan assistance is available only for undergraduate students in public institutions studying with a government tuition subsidy. The tuition subsidy is available only to public institutions. Fee-paying students in private or public institutions cannot access the HECS loan arrangements. Fee-paying postgraduate students can access an income-contingent loan (PELS) only if they are enrolled with a public institution (see Figure 11).

## Current forms of student support

Type of student	Fees	Government Subsidy	Government Living Allowance	Loan Assistance
<b>Australian studying at:</b>				
<b>Public institution</b>				
Undergraduate	Highly regulated	✓	✓	HECS (but not for 'fee')
Postgraduate (course work)	✓	some	X	✓ (PELS)
Higher degree (research)	Some (very minor)	✓	Merit based	X
<b>Private institution</b>				
Undergraduate	✓	X (very limited)	✓	X
Postgraduate (course work)	✓	X (very limited)	X	X
Higher degree (research)	✓	X (very limited)	X (very limited)	X
<b>Foreign Students</b>	✓	X	X	X

Figure 11

Evidence of the need for policy overhaul was also found in the increasing reliance of the funding authorities on bilateral settlements with institutions. Over recent years, the central funding agency has negotiated transitional assistance to several institutions experiencing financial difficulties. Measures have included 'trade-ins' of student places within the previously agreed enrolment profile, advances to operating grants, and debt write-offs. Such 'fixes' are typically opaque and not sustainable.

The broader pressure for fundamental reappraisal came from comparative indicators of the attractiveness of academic work. Public universities essentially compete in a service industry. Staff remuneration represents around 60% of their annual costs. Current salary indexation provisions fall short of rises in going rates for professional occupations. Universities are having difficulty attracting and retaining quality staff.

The allocation of subsidised places reflects the history of establishment of institutions and fiscal capacity at different times to fund growth of supply to meet growth in demand. The historical allocations have remained fixed with the institutions to which they were initially directed. However, the fixed historical allocations do not align well with changes in demand



resulting variously from factors of participation rates, demographic growth (or decline) and labour market conditions. To the extent that some places are 'locked in' to old areas of demand, there are additional costs to the Budget in addressing new areas of demand.

### **A Troubled Path Ahead**

The proposed financing policy framework for the future development of higher education in Australia is deficient in several ways.

First, it contains intrusive regulatory provisions that threaten university autonomy, academic freedom and student choice. Ironically, the most interventionist regulations are non-essential to the Government's preferred policy approach. They arise from discretionary rather than necessary elements of the policy and legislative framework: limiting study subsidies arbitrarily; capping student loans; funding or de-funding universities for their actual annual enrolment profile in 'discipline clusters'; failing to differentiate established universities (Table A institutions) from new and more marginal providers in relation to 'quality and accountability requirements' and 'compliance requirements'; and discouraging and restricting student and staff unionism.

Second, it fails to provide for indexation of university salaries and other operating costs against relevant price movements. It seeks to rely upon universities growing net revenue from a mix of student volume increases, tuition price rises and other commercial activities, and reducing their costs through staffing productivity gains achieved through the outcomes of enterprise-specific bargaining. There is effectively no growth in subsidised student places and revenue increases from the raising of HECS prices to the 30% premium limit for new starters will not compensate for the lack of (CPI or WCI) indexation of operating grants, given moderate improvements in salaries and efforts to improve student:staff ratios.<sup>44</sup> Domestic student demand is predicted to stabilise over the next decade and then decline, such that a surge in fee-paying students is improbable. International student numbers are already reaching the absorptive capacity limits

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<sup>44</sup> Without proper cost escalation arrangements, the universities will need to use all the additional commonwealth course contributions (if they qualify to receive them) or will need to increase HECS charges by about 5% a year to fund their wage and salary increases beyond the safety net adjustment. Their capacity to do that will be exhausted within six years'. Karmel, P. 'Blueprint falls short', *The Australian*, 28 May, 2003.

of some universities and the net returns from many of those activities are not substantial. Even those universities best placed for realising revenue growth understand the inadequacy of the proposed approach, given the backlog of infrastructure needs and substantial overheads they have to carry to sustain their research intensity and educational depth, the true costs of being competitive and their relatively limited capacities to keep pace internationally. Others with fewer capabilities for achieving real net income growth from their teaching, research and community outreach activities, in the absence of adequate indexation, are likely to face rationalisation decisions of a magnitude that will diminish them as universities, erode their contributions to regional communities and reduce choices for students. The policy model is unsustainable without additional public investment.

Third, it is inherently inconsistent. The preferred policy approach is an uncomfortable hybrid mix of Q1, Q3 and Q4 models of financing, combining some of the worst features of each model in ways that are contradictory. The preferred policy mix is unstable.

While the proposed approach discards the predictability and flexibility of rolling triennial funding for universities' medium term planning, and adopts the most controlling aspects of the Q1 model with regard to student enrolment profiles and quality and accountability and compliance reporting, it lacks a corresponding planning framework. There is no vision of the future scale and shape of higher education in Australia. With regard to scale, targets have not been set for rates of higher education participation nor for graduate supply to the labour market. It is simply not clear whether the Government seeks to increase or reduce current levels of participation and graduation, where, in what fields, and at which levels of qualification. With regard to shape, the Government has not declared its intentions for and assessments of the impact of the financing reforms on the structure of institutions and the distribution of opportunities for students. No scenarios nor impact assessment reports have been made publicly available. Yet it is possible that the new structure of incentives in higher education, interacting with those developed for research and research training, could induce a radical differentiation within Australia's supply of higher education services, such as greater concentration of research capabilities, fewer comprehensive teaching institutions, new

institutional specialisations and various forms of amalgamation. Implicit in the Government's approach is a belief that the scale and shape of the system will be determined largely by market forces, yet these are constrained. And the vocational education and training sector, the base of the tertiary pyramid, with potential to absorb an overflow of students from the university sector, has been neglected in the policy framework.

The proposed adoption of Q4 elements represents a stifled approach to market development. On the supply side, tuition fee increases are limited to 30% for courses with HECS students and fee-paying students can only comprise up to 50% of enrolments in a subsidised course. Cartel pricing for HECS students (to the 30% premium) is possible within capital cities, undermining the competition that is intended to give students choice. On the demand side, there are to be limitations on subsidised durations of undergraduate study and caps on the amounts that students can borrow. The behavioural responses of students to these new conditions cannot be predicted.

The proposed approach adopts the Q3 purchaser-provider relationships model, with disinterest as to type of provider, and an implicit devaluing of the social role of universities. The form of the Q3 approach also lacks the essential ingredient of competition for obtaining best value for money and promoting innovation. There is a reliance on provider compliance to conditions of contract reflecting historical resource input allocations, with micro-level monitoring which intrudes on the prerogatives of responsible universities. These interventionary powers of the Government are argued as necessary for purposes of public accountability and for addressing market failure. However, they are likely to create incentives for gaming behaviour and internal substitution.<sup>45</sup> Alternative means are available to the measures proposed, including forward institutional planning and exception reporting for accountability purposes, periodic competitive

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<sup>45</sup> The observations of Dill (1997) are pertinent:

'Rather than increasing efficiency, the principal or regulatory body may in fact contribute to inefficiency, because measuring the quality of academic output is ambiguous, monitoring is costly, and the quality assurance agency itself may not be subject to competition. A quasi-market approach also may divert universities from the creative tasks of educational programme improvement into wasteful activities of bureaucratic reporting, of efforts to mislead or impress regulators through rehearsed quality presentations, or of lobbying and public relations efforts designed to co-opt quality assurance agencies.'

tendering to clear blockages in graduate supply, and use of performance-based funding to achieve particular purposes rather than applying such high conditionality to general-purpose grants that effectively limit their application to specific purposes but at the risk of the general operating viability of institutions.

Fourth, the policy prescription is inequitable. The package offers little increase in access. The number of subsidised places per head of population is to decline. The ratio of publicly-subsidised places to total places will vary increasingly among regions and between institutions, with different chances for students to obtain a subsidy according to their location. Access for some students is likely to be restricted by differential fee levels operating across universities and courses, and by the duration limits for subsidised study.<sup>46</sup>

When all these contradictions and instabilities are considered, the proposed policy framework appears only to have coherence when seen as a transitional shift towards a more radical agenda. Over time, pressure will mount for lifting the 30% cap on HECS fees. The anomalous and inequitable situation wherein some students will be paying fees and a real interest rate on their loans (FEE-HELP), while others have a tuition subsidy and an interest free loan (HECS), will create pressure for the replacement of HECS by FEE-HELP. In that context, new market opportunities will arise for private providers, including those offering convenient and customised programmes to meet specific demands. Arguably, such a development will widen choice and stimulate innovation, but at what cost to the university system?

However, the proposed policy framework is the product of political compromise and is likely to be further constrained through those processes. Unless better balances can be struck between the growth in public investment and private contributions, and between university operating autonomy and Government resource allocation mechanisms and associated accountability processes, then higher education policy in Australia may well continue in drift. A more coherent approach is also the more likely to be achieved when the roles of universities in relation to research

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<sup>46</sup> Phillips Curran/KPA (2003).

and research training are clarified and resourcing needs are addressed, and when the scale, shape and financing of the whole post-compulsory education and training sector is considered in an integrated way, within a context of mature relationships between the Commonwealth and the States and with institutions.

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# Attachment A

In Australia, the following programmes illustrate the different usage of supply-side financing instruments:

## **1. Normative – historically-based allocations**

1a. Input-based: funding per FTE student by field and level of award; superannuation contributions; teaching hospital grants;

1b. Activity-based: support services for Indigenous students

1c. Output-based: places for medical students according to the geographic destination of graduates (bonded scholarships)

## **2. Normative – performance-based allocations**

2a. Input-based: disability support programme, where institutions receive supplementation for the extra costs of students according to number of students they admit by type of disability

2b. Activity-based: workplace reform programme, where indexation for salaries is conditional on an institution changing its workplace practices;

2c. Output-based: the Research Training Scheme, where institutions are funded for research degree student places by a formula reflecting student completions, research publications and research income

## **3. Negotiated – cost-related allocations**

3a. Input-based: grants for increasing bandwidth for regional universities; grants for consortia of regional libraries

3b. Activity-based: grants for new capital projects, conditional on collaboration with neighbouring technical colleges and leading edge use of ICT; grants for service teaching for units of small enrolment;

3c. Output-based: delivery of innovative and collaborative programmes to supply science graduates with new skill sets

## **4. Negotiated – mission-oriented allocations**

4a. Input-based: grants for infrastructure upgrades enabling an institution to service a client group; repayable advances to operating grants to assist with restructuring, including staff downsizing

4b. Activity-based: specific grants for institutions to undertake outreach services; project funding for development of innovation in service delivery

4c. Output-based: grants for delivery of customised services for isolated communities

## **5. Competitive – restricted**

5a. Input-based: competitive bidding by public universities for grants for research infrastructure of use to one (or a few) institution(s)

5b. Activity-based: competitive awards for teaching excellence in publicly-funded universities

5c. Output-based: competitive bidding among accredited higher education providers to supply student places to meet specific demands in innovative ways in designated regions

## **6. Competitive – Open**

6a. Input-based: public tendering for provision of higher education access places in designated communities, where the provision modes are unspecified and the communities have a say in choice of provider

6b. Activity-based: peer-reviewed competitive grants awarded by research funding councils; tenders calling for research into higher education developments; funding for Cooperative Research Centres

6c. Output-based: call for tenders to supply market intelligence reports on international education business opportunities

# Attachment B

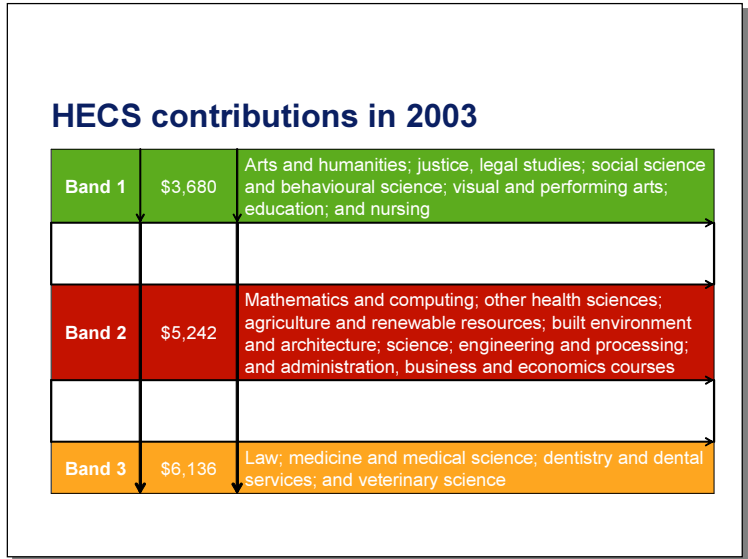


Figure 12

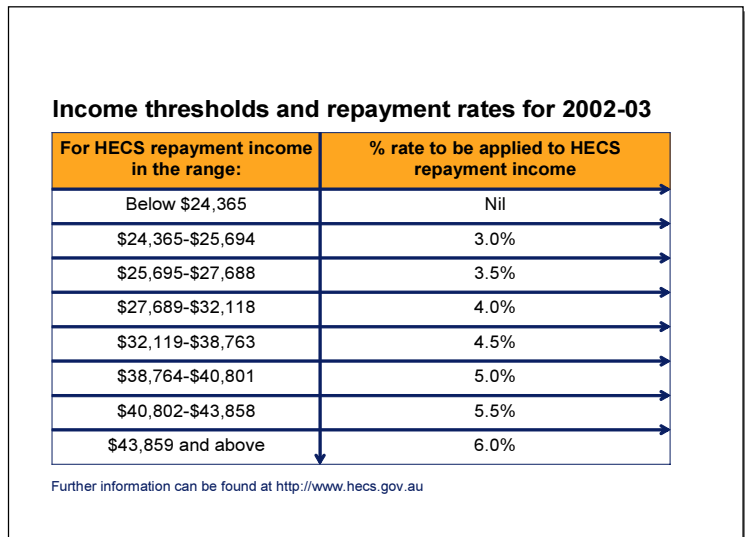


Figure 13

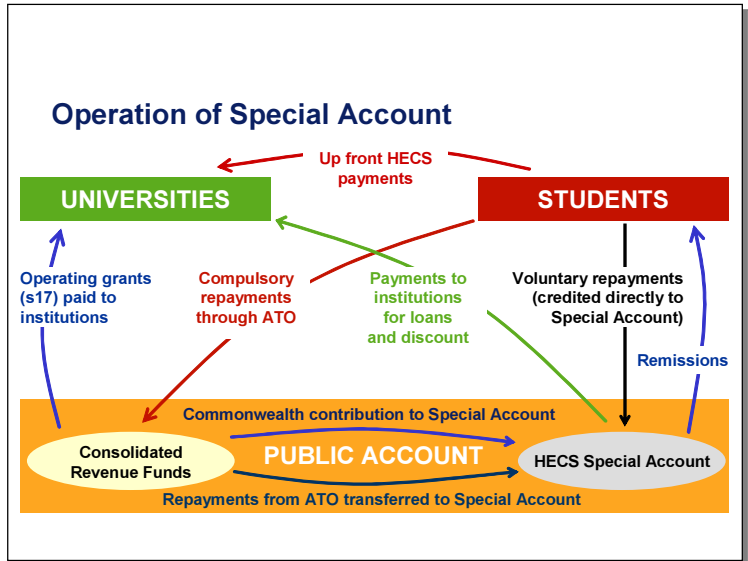


Figure 14

### Student payments

Year	Students' HECS liabilities (\$m)	Up-front payments made to institutions (\$m)	Voluntary repayments by students (\$m)	Repayments through tax system (\$m)
1989-1990	527	82	2	9
1990-1991	604	91	6	28
1991-1992	763	125	12	49
1992-1993	808	135	11	57
1993-1994	825	131	19	73
1994-1995	888	157	17	304
1995-1996	920	176	32	219
1996-1997	1 099	208	58	264
1997-1998	1 302	226	67	472
1998-1999	1 454	248	73	497
1999-2000	1 593	270	80	532
2000-2001	1 696	287	98	588
2001-2002	1 786	294	135	656 <sup>(a)</sup>
2002-2003 <sup>(a)</sup>	1 846	298	158	721
2003-2004 <sup>(a)</sup>	1 901	306	192	806
2004-2005 <sup>(a)</sup>	1 952	314	233	908
2005-2006 <sup>(a)</sup>	1 995	321	284	1 049

Figure 15

## Accumulated HECS debt

Year	Accumulated HECS debt as at 30 June (\$m)
1989-1990	na
1990-1991	na
1991-1992	1 749
1992-1993	2 321
1993-1994	2 932
1994-1995	3 354
1995-1996	3 958
1996-1997	4 504
1997-1998	4 922
1998-1999	5 526
1999-2000	6 229
2000-2001	7 162
2001-2002	8 062
2002-2003 <sup>(a)</sup>	9 057
2003-2004 <sup>(a)</sup>	9 979
2004-2005 <sup>(a)</sup>	10 815
2005-2006 <sup>(a)</sup>	11 519

Figure 16

## Repayments and Commonwealth contribution as a percentage of the HECS special account

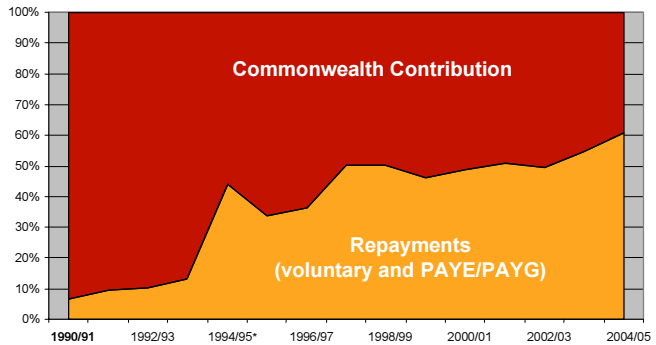


Figure 17

# Question and Answer Session

## **Professor Sibylle Planitz-Penno, University of Applied Sciences Gelsenkirchen**

I would like to get some more information on the contribution foreign students make to the Australian system of higher education on the whole. Australia is very active in marketing their education, especially in the field of economics and in South East Asia. Perhaps you can elaborate a little on that.

## **Mr Michael Gallagher**

The value of international student activity for the Australian economy at the moment is Aus \$ 5.2 billion, with economic multipliers and jobs for Australians, about 42,000 employment multipliers, and an additional Aus \$ 2 billion of indirect consumption expenditure through the economy. For universities, international student fee income represents about 12% of sector income, for some institutions it's getting close to 25%. The policy framework in Australia requires that universities charge a full price, which is the equivalent to the HECS rate for a course. The policy purpose there is that Australian tax payers do not cross-subsidise international students. I think these are the key components.

I should make a comment that I think Australia has been perceived as relatively aggressive in international education – and we are when you look at the figures – but when you ask the institutions, why are they doing it, there is a revenue interest, but the primary interest is to do with the mission of the institution in terms of its international positioning. Very few institutions are moving to do damage to the value that they place on longer term relationships that underpin the development of our international engagement.

The government has recently issued a major statement on international education, where it seeks to put Australian international activity in a broad policy framework, that underpins Australia's trade and diplomatic relations, that's about widening horizons of students in terms of international education experiences, about internationalising the curriculum, developing graduates who are more globally mobile and more capable of taking their place in the world and helping to open Australia's engage-

ment more broadly with the world. So there's a wider philosophy supporting what may be measured as a strong bottom line as well.

**Mr Gerd Köhler, German Trade Union for Education and Research**

You said that the commodity education plays a crucial role for Australian trade. Don't you see something like a dependency on international developments, economic developments, in other words, can you tell us a little bit about the consequences of the South East Asian economic crisis years ago on the educational system in Australia?

**Mr Michael Gallagher**

One of the dilemmas that Australia has is that the international student demand is most strongly out of Asia and is predominately in the fields of business and commerce and information technology. That's where you get the rate of returns, so that you can make the investment to go overseas, then you come back to your own country and get a job. From an Australian point of view, that does create an imbalance and a bit of vulnerability. So discussions are being had about whether we can diversify our student mix and source students from a wider range of countries, from the Americas and Europe as well as Asia, knowing that demand is still going to be strong and increasingly strong from China and South East Asia, just because of the demographics and the rise in the per capita incomes. But we can probably make an effort to get better balances, so that there is a better international experience for all the students; to try also and move across a wider diversity of fields of study, and to go up the ladder and take more students in at the higher degree level are possibilities for Australia. The SARS incident highlighted for Australia just how vulnerable high levels of dependency on a few source countries can be so that there's, I think, a strong understanding now of the need to diversify.



# Introduction

## **Professor Wolfgang Weber**

Vice-President, HRK and President, University of Paderborn (Chair)

The next speaker is Professor Peter Gaehtgens. Most participants, especially the German participants, will know Peter Gaehtgens. He was President of the Freie Universität Berlin. In February this year, he was elected as President of the Hochschulrektorenkonferenz, the Association of Universities and Other Higher Education Institutions in Germany. Please start with your contribution on the current German university funding system – an overview.

# The Current German University Funding System – An Overview

**Professor Peter Gaehtgens**

President, HRK

Thank you very much. I would like to repeat what the Australian Ambassador said at the very beginning: There seem to be many similarities, but there are also fundamental differences between the educational systems in these two countries. I think we must realise that there's nothing as close to the cultural tradition of a country as the educational system. Therefore we do understand and appreciate the differences that have been pointed out *de facto* already in the previous contribution.

Ladies and Gentlemen, the German higher education system has in fact dramatically changed its character. We are indeed still in the middle of a substantial reform process in which not only the mechanisms of higher education, but also the mechanisms of steering higher education institutions are under discussion. Naturally all of this or much of this is driven by the changes in demand and by the changes in our perception of what higher education should do for society. Thus, there are quite a number of similarities to the considerations that have been presented by the previous speaker.

While universities in this country educated only a minor proportion of an age group some decades ago, today higher education is a mass phenomenon. Just to give you the numbers: In the 1960s some 300,000 students altogether, that is approximately 4% of an age group, were enrolled in German institutions of higher education. Today, we have almost 2 million students, which is, depending on how you count it, anywhere between 25 and 30% at most. Each and every new academic year sees about 300,000 freshmen starting their university career.

The Federal Government, and particularly the Federal Ministry of Education and Research, is determined to raise this figure even higher because Germany is not at the forefront of the comparison among OECD states. We are, in fact, in the middle and certainly other countries in Europe approach numbers like 50% and more. Therefore, looking at this from the

national point of interest, there is a trend towards increasing student numbers and in particular the percentage of the age group educated at university.

In the year 2000, on the other hand, the net expenditure on higher education equalled about 1% of the gross national product. Again, compared to the OECD average which is 1.3%, we are relatively underfinanced. One has to keep in mind, however, that tertiary education in this country is almost exclusively publicly funded. While the *Länder* or the states cover about 90% or more of that, the Federal Government contributes approximately 7% and the rest, roughly 3%, is privately born.

To compare these figures to the situation in other countries, in the United States in year 2000 for instance, 2.7% of the gross national product, was spent on tertiary education. But two thirds of this sum originated from private sources. So if you compare only the proportion contributed by the tax payer, it may be roughly the same in the US and in Germany. However, in the United States there are additional sources of funding from the private sector.

It is apparent that the financing of the higher education sector has not kept up with the considerable expansion of the system. Looking into the future, we are facing a similar situation to the one described for Australia, namely demography predicts that towards the end of this decade, we will have a decline in the number of people in the appropriate age group. The concern is that by that time there will be less of those resources available that are the main resources of this country, namely those that are enclosed in our skulls. Therefore, there is a strong national interest to make up for this development by opening up the German higher educational system to foreign students. The international recruiting and marketing activities of German universities and universities of applied science have been increasing with considerable success.

On the whole one might say that since the beginning of the 1980s, the higher education budgets in all *Länder* have not been adequately adjusted to the increase in student figures. And I might add right here that within the budget of a given university, there is no distinction made between money provided for student teaching and money provided for research. The university receives a given sum without due consideration to one or the other. That is also a point that is under consideration at present.

Of course in more recent years the economic recession, unemployment and increasing financial requirements in the health care and pension system have been the main reasons for a stagnating cash inflow on the side of the universities. In actual fact, it is not only stagnation but a reduction of financial support of higher education institutions, not only when you compare nominal and *de facto* cash. In fact in almost all of the sixteen States of the Federal Republic even the nominal figures have been reduced.

Both universities and the government have realised that the system needs to be adapted to a rapidly changing environment at large, not only a financial environment. Thus, German institutions are currently in the midst of a far-reaching process of change.

Let me just give you a description in a few words: It was already addressed that university autonomy is a central issue in this entire business. And while German universities are indeed autonomous in academic matters – and that is, in fact, secured by the constitution of the Federal Republic – they have always been financially dependent on the state and thus on the government. Since World War II, responsibility for the educational system at large, not only higher education, has been determined by the federal structure of the republic. In fact the *Länder*, the German states, are responsible for the higher education systems. And while we are having a discussion at present about the wisdom of this regulation, this is still the current situation.

Since the *Länder* are responsible for the entire domain of education we have, in principle, sixteen different countries within one country. Both the political guidelines as well as the financial strategies for higher education are determined independently. Thus, there is a need for an overall agreement, in particular since we are entering into a phase of increased international competition. In the process of the formation of the European Union, we have lost our individual currencies, we are about to lose our passports, and certainly we argue whether we are also about to lose our cultural identity. Since we certainly do not want that, the question of how to adapt for a future European Union in terms of the higher education system is a significant issue.

For the most part, public institutions of higher learning in this country are controlled by state legislation. In fact, the federal structure that was established when Germany was re-constituted after World War II – after the experience of the Third Reich period, which was characterised by an extremely strong influence of political leadership, to put it in those terms, on higher education – was based on the conviction to individualise and decentralise decision-making within the federal system.

Secondly, the dominant philosophy in the higher education system still is a ramification or a leftover of the concept that the state really shares responsibility for the well-being of its citizens. A concept that is under scrutiny presently, since we have started debating about the relative importance of public versus private good.

Now, as I've said, institutions are financially largely dependent on governments and therefore on decisions that are driven by public opinion. This has brought about a highly regimented higher education system. Let me give you just a few examples to illustrate this:

German institutions of higher education are, as a rule, corporate bodies under public law and, at the same time, state institutions in the sense of sub-ordinate authorities. The state accreditation of institutions extends not only to the academic degrees they confer but also to their curriculum planning, internal organisation and accountability. Even study and examination regulations are subject to ministerial approval. This issue is under vivid discussion at present. It is obvious, I think, that the institutions aim at greater autonomy in this respect, but we have an ongoing discussion about that.

I see that the Minister of Science and Research in the State of Hamburg, who is sitting in the front row, is shaking his head. That's good. He's one of the active proponents of a reform in the system in this respect. Professors, for instance, are nominated by the academic institutions themselves, but heads of administration and rectors or presidents are formally appointed by the responsible ministers.

Student admission is subject to state regulations and judicial scrutiny as well, it does not lie within the authority of the institution, which is something that we need to change. The state decides on the number and kind

of academic and non-academic staff; even their remuneration is subject to rules and regulations of the ministers of education or finance.

The external control of institutions by means of staff budgets is supplemented by detailed stipulations as to the use of earmarked funds. In the majority of the German *Länder*, institutions do not draw up budgets on their own, but submit a proposed plan for their section of the respective fiscal budget of the ministry of education and science, which in turn is part of the state budget.

So there is an intricate involvement of the government in the actual decision-making of universities in this country. Since institutions of higher education have slowly become more autonomous over time and the role of the state governments has changed to that of an administrator, reform is inevitable.

Much has already been achieved in this ongoing reform process. But nevertheless I think we all agree that we still have a long way to go. Initially, the German government has been hesitant to loosen state control on higher education institutions. Laws, rules and regulations were passed in order to secure quality education with scarcer resources. However, this kind of bureaucratic control has, on the whole, not been very successful. Some people might say that only now, when the financial problems are obvious, the governments start moving. The efficiency and the effectiveness of the higher education system is still not satisfactory, neither from the society's or government's point of view, nor from the view of the universities or the students.

I can give you one or two examples: A drop-out rate in some disciplines of more than 30%; an above average duration of study in international comparison, and as a consequence of that, the relatively high age of German university graduates – a difference of 3-4 years compared to, for instance, the American colleagues – show that there is room for improvement. That, I think, is a very mild way of expressing the problem.

The reasons for these problems are manifold: Important influencing factors are the overcrowding at universities, which has existed for 25 years now, as well as a lack of competitive elements and cost-determined steering mechanisms in the higher education system. This is a point I would like to stress: the lack of competitive elements. Deficits in higher educa-

tion management are especially apparent in the allocation of financial resources. This is mainly due to the habitual periodic updating of draft budgets without performance-orientated allocation criteria and a lack of monitoring with regard to system output.

In view of this situation, it became obvious that an optimal allocation of resources could only be achieved by increasing the institutions' autonomy, as I said already, while at the same time introducing competitive elements into the system. In keeping with our conviction that education of students is both, to the benefit of society at large and therefore a pre-dominantly public good, but also to the benefit of the individual and therefore also, in my mind, a private good, we consider the financing of institutions of higher education to be first and foremost, however not exclusively, a public responsibility.

Nevertheless, already in the mid-nineties the HRK demanded the implementation of the following points:

- The state should strengthen the autonomy of the higher education institutions by providing a reliable and stable legal environment for higher education;
- The state should confine its role to a general controlling function. It should set up long-term goals for institutional development in close collaboration with the individual institution. (I can find these requirements in the four components that were described previously by Michael Gallagher.) Target agreements between institutions of higher education and the responsible government should define performance targets and assure the corresponding financial funds;
- Higher education financing should not follow the principle of indiscriminate all-around distribution. Funds should rather be distributed according to transparent, objective and performance-oriented criteria;
- The legal framework for the remuneration of academic and non-academic staff should become more flexible, incorporating competitive elements and should eventually be subject to institutional, not governmental decision. We are, I think, a far cry from that;

- Higher education institutions should be able to build up financial reserves. They should also be able to own property, and to be responsible for the long term management of their property.

Considerable progress has been made in recent years in this respect: The autonomy of universities regarding the management of their financial funds has indeed increased. Individual stipulations – such as the mutual eligibility of individual budget items to serve as cover, the transferability of funds into the following fiscal year and more flexibility in staff planning – were indeed implemented in various *Länder* in the framework of more flexible budget plans. In about half of the German states at least some part of the financial allocations are now distributed according to performance-oriented criteria. While the discussion about the determination of criteria may be different in different states, the overall principle, has been accepted.

On top of the basic provision, such criteria are, for instance, the number of undergraduate students, the number of graduate students, the number of graduates, drop-out rates, student - staff ratio, the number of international students and length of study, etc. Another part of the funding rewards outstanding performance in terms of the acquisition of third-party funding for research, the international dimension of teaching and research, and the support of female students and staff, to name just a few.

Secondly, the salary scheme for university professors has been partly reformed – although not entirely to everybody's satisfaction – to also include performance-dependent elements.

And thirdly, in some *Länder* the detailed controlling of the universities' each and every decision has been replaced by target agreements between these institutions and the respective ministries.

Nevertheless, further-reaching reforms have only been implemented to a limited extent. Here we talk about long-term contracts between institution and state, universities autonomously managing their real estate, for instance, or institutions of higher education acting as employers of their academic and non-academic staff.



A new model is currently being tested, in the State of Lower Saxony: The new Lower Saxony Higher Education Law, adopted in the year 2002, paved the way for transferring higher education institutions into the legal status of foundations under public law. While a large part of the budget of these new institutions will still be provided by the State of Lower Saxony, the reform enables universities to become autonomous. So far, the Universities of Göttingen, Hildesheim and Lüneburg as well as the Tierärztliche Hochschule Hannover and the University of Applied Sciences Osnabrück have opted for this new model.

In line with the implementation of performance-oriented controlling mechanisms, institutions of higher education have been improving transparency in terms of costs and performance output. Clearly competition can only function on the basis of transparency. Universities now disclose information on the number of university entrants and graduates, the average duration of study, the number of PhDs awarded at individual faculties and on the internal usage of resources. They report on cooperation with industrial partners and fundraising activities, on the number of publications, scientific awards and the assignment of tasks by the scientific communities. This may sound as if it was self-understood, but it wasn't a couple of years ago.

As a result of that, institutions, faculties and departments face comparison and competition on the basis of these data. Nation-wide ranking lists have recently appeared and stimulated such developments. In addition, regular external peer reviews have been introduced and evaluation as a principle has quickly developed. For evaluation to have the desired quality-improving effect, however, it has to have consequences. In a system that is not regulated by price, such as the German university system, financial ramifications of evaluation can only be expressed in the performance- and quality-oriented allocation of state funds, possibly even across *Länder* borders. This, in turn, effects changes in the internal allocation of university funds. Universities have to allocate their resources in a way that best serves research teaching and study.

But competition does not only require transparency, it also requires autonomy of decision-making. Institutions have to be able to make their own decisions in order to shape their individual profile in research and

teaching. This has been an object of much struggle between the legislators and the institutions.

The shift from the state-dominated study and examination regulations to an accreditation system within the shared responsibility of state and institutions is a step into the right direction. The recent changes in admission policy, with institutions being able to select a larger quantity, if not all of their future students, also supports this development. This is not an easy task, and – given the overcrowding at universities at present – we are facing a significant challenge. However, we must take up this issue in our own interest.

A third prerequisite for competition is the capacity of institutions of higher education to earn revenue. Also in this respect some reforms have been implemented. Universities have, for instance, been enabled to earn an increasing part of their budgets through commercial activities, such as the sale of services and continuing education programmes.

However, until today it is not possible for universities to acquire revenue in one of their main activities, teaching. Studying in Germany is tuition-free; exceptions to the rule are courses in continuing education geared towards students with professional experience. Naturally, it cannot be the ultimate target to ask students to cover the full costs of a course of study. This would not be in line with the underlying philosophy that education is also a public good that serves the needs and the demands of society. Since society as a whole also benefits from the educational efforts of the individual, state investment into higher education is not only justifiable, but also necessary. Nevertheless, the individual student personally benefits. Universities, therefore, should be able to take in a proportion of the considerable income return of the individual that is generated by the education. (Just today I read in the newspaper that the individual revenue in Germany is about 9%, while it is anywhere between 15 – 19% in countries like the UK or the US.)

While the charging of fees for specific study situations, for instance long term studies, is currently practised in some states, we consider this incompatible with real competition, as is a general prohibition of fees. We therefore want to pave the way for institutions of higher education to be able to set tuition fees for individual courses of study, if they wish to do so.

It has to be ensured, however, that access to educational opportunities is open and that anybody who wants to enter university can do so. By no means do we want to deter young people from choosing a university career due to financial constraints. And that is where public responsibility lies, to ensure that this is guaranteed.

That means that we have to find a way – in cooperation with other partners – to provide grants and loans to prospective students. I think that this is not so much a responsibility of the universities themselves, but rather a responsibility of the public, represented by parliaments and governments, to organise this in a proper way. The German discussion about the possible introduction of tuition fees is very much hampered by the fact that we are discussing the details of a possible mechanism, while forgetting the first step required, namely accepting the fact that there should be a contribution of the individual.

I would personally say yes, we have to say yes to tuition fees being introduced. Installing the mechanisms that ensure that young people are not deterred from entering university due to financial constraints lies within the responsibility of the governments and the legislature. The easiest mechanism, not the most bureaucratic one, is the best. My proposal would be that the universities receive tuition fees – not the government, of course – and that, due to reasons of quality and the willingness to support the best, the top 5% of the students are not charged at all. Furthermore, those who receive State support for studying should be supported by the State in the future, too.

However, we have not yet finished this discussion. We are now entering into a discussion about mechanisms, to which Minister Dräger has substantially contributed. We'll hear about that in the course of this conference. But the political decision to open up this kind of approach has not yet been made by the Federal Government. The Federal Framework Act, that currently prohibits tuition fees, is being challenged by legal procedures. The Constitutional Court in Karlsruhe will have to decide this. We think that it is important to consider the legal aspects of the issue and whether or not the Federal Government is entitled to regulate this aspect of higher education. But the universities cannot wait until the Constitutional Court comes to a final decision. We need to act faster than we have

done in the past. Certainly the issue is hotter, if that is an appropriate term in the English language, hotter than is acceptable, if we want to continue our job.

We therefore very much welcome the advice we can get from our Australian colleagues, although we understand that even in Australia the form and mechanism of controlling and regulating student or private contributions to higher education is currently under discussion. We follow this discussion with great interest. We are very grateful that you are here to help us find our own way. Thank you very much.

# Question and Answer Session

## **Dr Ditta Bartels**

Professor Gaehtgens, you explained that what's led to a campaign of bringing more international students to Germany is related to the demographics of the situation and hence a brain gain. However, it's also, of course, the case that universities do not charge fees of international students either, in Germany and it's a further fact that the universities are also not getting any more money from the government. So is all of this adding to even greater strain in the overcrowding that you've described? How do you see this resolving itself in the short term?

## **Professor Peter Gaehtgens**

I think this is a very important point: Legally German universities are allowed to charge tuition fees from foreign students, however, no institution in this country does that. The percentage of foreign students in the German university system is about 8 – 9% across the nation, while individual institutions do much better than that, up to almost 20%, in particular at the technical universities. I think the fact that universities here so far have not decided to charge tuition fees to foreign students has to do with the fact that, first of all, the debate about charging tuition at all is by no means a debate that has reached each and every institution to the degree where this is seriously considered. However, if the situation that we presently are facing, namely a reduction in state financial support to the entire teaching system, continues to develop in the way it does, I am sure that universities will be forced to do what they are allowed to do in this respect, and will charge foreign students, which in principle could be against our own interests because it might indeed deter students from other countries, in particular from South East Asia. I have frequently heard that some of the students over there say, well, we might come to Germany because you do not charge tuition fees. So here we are between Sylla and Charybdis. And we might find our sailing course between these two.

It does not solve any problem, to be quite frank, because the numbers – as I said, 9% – are so small that indeed universities would have a better possibility of providing better care for the foreign students, which is necessary after all. In this country you have to speak German and even a

language course is something that is costly for a foreign student. But I don't think that we should focus our interest on this point too much. We should rather, I think, foster the general discussion.

# Session 2

## **Professor Ian Chubb**

Vice-Chancellor, The Australian National University (Chair)

We will start this session with a presentation by Bruce Chapman. Bruce Chapman is Professor of Economics and Director of the Centre for Economic Policy Research at the Australian National University. Bruce has received an Order of Australia for his contribution to the development of Australian economic, labour market and social policy. He has also held some important positions outside of the university environment including acting as a consultant to the Department of Education, Science and Training and to the Office of the Prime Minister. Bruce is probably most well-known for his contribution to Australian educational policy, in particular his work on the HECS.

Bruce, it's your turn now.

# The Higher Education Contribution Scheme (HECS): Conceptual Basis and Implications

**Professor Bruce Chapman**

The Australian National University

The issues promoted for discussion at this conference concerning the need for the reform of higher education financing are very familiar, and have been shared in a large number of countries over the last decade or so.

Number one, there is typically unmet demand for places. In this country this may not take the form of queues of people qualified that are unable to gain attendance into a university. It may take instead the existence of queues and allocative mechanisms which are quota-based in terms of students' access to particular courses, which may in part explain the long length of time the higher education experience takes in this country, as I understand it.

The second point – and this is true even in countries with quite different financing arrangements – is the lack of completely equitable access. This was probably the single most important issue that motivated the movement in Australia from a so-called free higher education system to one where there were contributions from students in the late 1980s.

I would just like to make an apparently trivial, but extremely important point in this debate: There is no such thing as free higher education. Free higher education is a term meaning 'paid for entirely by tax payers'. And this question of inequitable access was absolutely critical to the Australian debate and also true and important in other countries, including the United Kingdom and New Zealand. That is, there is probably no more regressive way for a government to use scarce tax payer resources than to have higher education entirely met at cost from the public sector. The reason is that the people who are typically enrolled in these systems in general and on average come from relatively advantaged socio-economic backgrounds. This is true in every country that has been studied in this context. In Australia in the late 1980s, if a student's parents were from a managerial or professional background, the chances of them entering



higher education were four times greater than if their parents were not, and that is generally true of other countries that I am aware of.

Let me put that differently: In Australia in the late 1980s, if a young person's parents were semi-skilled or unskilled, the chances of being enrolled in higher education at that time were about 20%, and yet 50% of the labour force was semi-skilled or unskilled.

So inequitable access was true in Australia then and is true in many countries today. And I'll show you some data to suggest that it is still the case in the Australian context, even after fifteen years of a system which I think was designed reasonably well. It is a system in which it is still much more likely that the advantaged get in.

Further, let me share with you one of the most basic facts of the experience in labour markets in every country that has been looked at: People with higher levels of education, particularly undergraduate degrees, over their lifetimes do extremely well in private terms compared to people who do not have that privilege.

The other shared international challenge is the shortage of finances. Governments since the 1980s – in my view this has been a worldwide trend in OECD countries – have become more fiscally parsimonious, less interested in increasing taxes to finance public expenditure, more interested, at least rhetorically, in the notion of 'small government'.

The final thing which seems to me to be completely familiar relates to inefficiencies in the resource use in higher education systems. In part that can be traced to the nature of the funding mechanisms, and in part it can be directed and understood to be a consequence of the lack of pricing signals. And you can't actually have pricing signals in the system, as I would understand it, without some form of tuition charge. And that's another question for the nature of this debate.

Now I want to talk a little bit about economic theory. Just to help explain why it is that the question of the mechanism of financing is extremely important in understanding what this debate is all about.

The process of private engagement in higher education can be divided into costs and benefits, and economists typically look at this with a

framework known as human capital theory. The nature of a cost in this context is not just tuition – although tuition is part of the cost – but by far the biggest cost associated with attending higher education is forgone income. And what that means is that in the absence of somebody to provide resources so that students can eat, pay rent and use cars and other things that most human beings use, students are going to require some form of financial assistance. If it's not coming from their parents, it's got to come from somewhere else, and I'll explain to you that that left to itself, this is not a market which will deliver that. The benefits typically can be seen to be the additional earnings that graduates have over non-graduates.

Now I want to show you some data here. I haven't labelled this from any particular country. First of all, let me explain what this picture is.

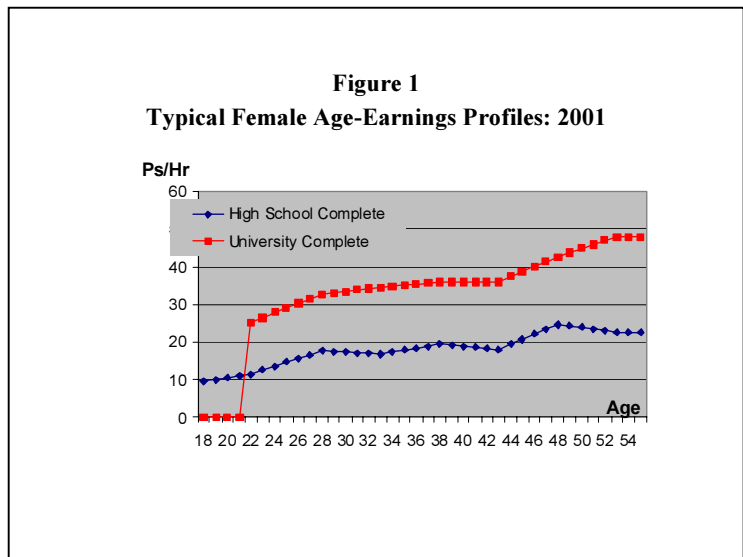


Figure 1

This picture shows two hypothetical women. The first woman begins work at age 18, she does not have any higher education beyond that, and I'll show you her income up until about the age of mid-50s, which is the blue line. The second hypothetical woman here undertakes a four-year degree – in this country it will be longer than that, in other countries it might be shorter than that – she graduates at age 22, and after graduation she

takes a full time job that a typical female graduate would take. We can see in this picture the costs and the benefits. But before I explain them essentially by pointing at them, I want you to know that while these data are very familiar, they are actually collected from Mexico. Mexico would seem to be a long way away from Germany but I have had experiences in many countries whereby these data look very much the same.

I'll share with you a story: I gave a seminar to some Canadian labour economists a few years ago, and presented age earnings profiles which were completely familiar, indeed boring, to them. My overhead suggested that the data were for Canadian graduates. I put the data up – they looked just like that – and they yawned as if to say, don't patronise us, boy, we understand our system, that's so familiar, can't you tell us something interesting? When I got back to my hotel I realised I had mixed up the Canadian data with Chinese data, and it didn't make any difference. I have actually decided since then I don't really care which data are used because in every country I've seen the numbers always look like this.

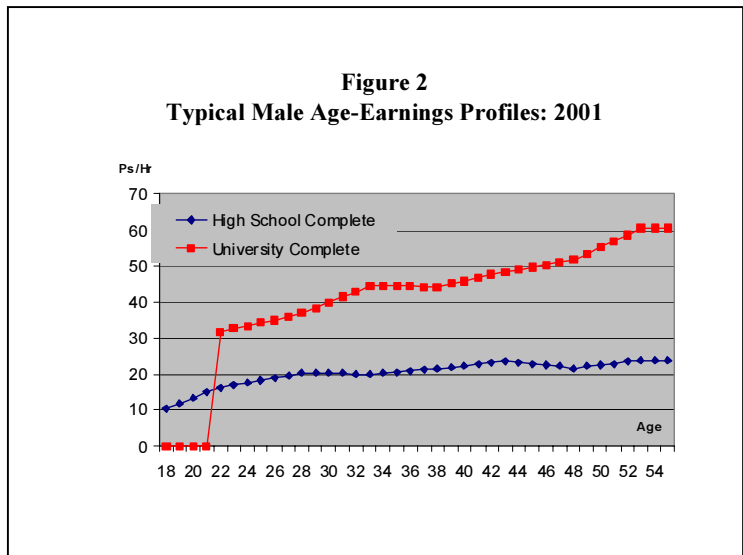


Figure 2

So the figures are for Mexico, but could be Canada, could be the UK, could be the US. We collected some data in Rwanda, and I tell you what

Rwandan male graduates look like compared to Rwandan male non-graduates, they look like the above figures. I collected some information on Germany about 12 years ago and they looked just the same. The important point is that this issue really looks so familiar and so easy to understand from the most basic questions of economic theory that maybe there are solutions that do cross national borders and do cross history.

The first point to make about the data is that there are costs for students. And the big cost was the difference between what students could earn and what they do earn from age 18 - 22 for these hypothetical people. Students need resources to live and, in the absence of financial assistance, they have got a problem, and with tuition on top of living expenses the problem is even more significant. That is point number one.

Point number two is that there are very big net benefits, considering the difference between what a graduate earns over his or her lifetime compared to what a non-graduate earns. With these figures we can do what economists call calculations of a rate of return. Now imagine that you went out into the stock market thinking that you'd make some dough or imagine you had some money and you put it in the bank and paid tax on it. What sort of rates of return would you be happy with after inflation, probably 4 or 5% per annum? The numbers that we have for the graduate data that I've seen are much bigger than this. That is, probably the single most important investment an individual can make in her or his lifetime is with respect to acquiring a university degree. Those numbers are not 4 or 5% real after tax, they're 8 and 10% in most countries.

So what do we have here? We've got an economic arrangement which implies there are important costs and, if left to itself, this is a system which may not work very well. Second, we seem to have an economic case that the individuals who go through this system are particularly advantaged over their lifetimes. So in that context let's then think about the capacity of policy to address both issues.

If this market is left alone, you're going to have the essential problem that in the presence of the charging of tuition some students will not be able to access the system. So I hear you cry: Oh that's not a problem, why

don't they just go out and get a loan? After all, it is such a high rate of return, so why aren't banks particularly happy to say: Well, I really like the fact that you're investing in your human capital because you're going to be really rich and you're going to pay back the money with ease. That's sort of right on average, but sort of not very correct for all individuals. The reason is this whole process is one of great uncertainty.

So point number three here is going to lead you to the understanding that government intervention of some form is required and is necessary.

You will not get banks lending to individuals for the following reasons: Number one, human capital investment is very uncertain for lenders and for borrowers; the lenders being the banks, the borrowers being the students. The first reason is that a minority of students do not complete their degrees. In my country this proportion is 25%, in other countries it's 35%. The uncertainty is that people will not know, at the time of enrolment, whether or not they're going to complete.

Importantly, the economic return for starting a degree and not finishing is approximately zero, so non-completion is clearly an important risk. Here's the second risk: The process is very uncertain for lenders and borrowers because people do not know their inherent capacities in particular areas. For example, many people I know started studying economics and found it so incredibly boring that they dropped out, or they started studying mathematics and found that they really couldn't do this very well either. The higher education investment process is what labour economists call an experience good; in the absence of doing it students cannot know if they are suited.

Point number three: Even for people who are confident that they are going to complete this process and know exactly what their inherent capacities are, there is still something that nobody can control and that is the state of the future labour market. When I was an undergraduate student many of my mates were studying geology because there was a mining boom and they would say: Think of the dough we're going to make because look at that mining boom, the best jobs in this country are jobs for geologists. However, when they finished their degrees – and that's the sad thing, it takes time and when something takes time things will change

– there was a mining slump. Not one of those people had jobs as geologists even though they fully expected to have extremely good ones at the time of first enrolment.

So those three issues of uncertainty all lead to the prospect of default. But there's default in all borrowing markets, so what's the problem? The problem for a bank is that human capital is not a saleable collateral. It's not like a house. If I borrow from a bank to finance a housing investment and I renege on that commitment, it's a minor annoyance to a bank, but it's not a catastrophe because they've got the house to sell to cover the loan. But in the event of default from a human capital loan the bank is not able to sell your head. That is the fundamental problem, that there is no slavery.

Let me put the above point differently: It is called a capital market failure. However, some of my more right wing mates say that's actually government failure because of the legislation against slavery. The basic point is that in the absence of a saleable collateral, what bank would be interested in financing an inherently risky and uncertain investment process without collateral? There is no such bank.

So the problems of the banks is that there is no saleable collateral. Governments all over the world and through the course of time have understood this. If there's no access to loans, what transpires is that students without access to finance cannot get in. And this is not just a problem of social justice – although it is also a problem of social justice – because some people just aren't lucky enough to choose wealthy parents. And if you are not lucky enough to choose wealthy parents and you've got a banking system that does not work for you, you do not get in. And maybe you think, as I do, that isn't an appropriate way for societies to be organised. But there's another issue: The non-enrolment of poor but talented students is a waste of human capital. These people have the capacity and motivation to invest in higher education, but do not have access to the finance to allow them to do that.

So what do we do about that? Well, the most common thing that has been done about that over the last 50 years is the implementation of student loan programmes. In 1952, the very first student loan system was

introduced in South America. It's very common now in the United States, for example, with the Sallie Mae programme, and Canada and other countries.

That is, student loan programmes with government guarantees for the lender are the usual solution. In this approach the government recognises the issue and says to the bank, we realise that you're not going to lend to these people because you're worried about default, so we're going to insure on your behalf. What we are going to do as a government is to say, lend to those students and if they do default we'll cover it. So the government gives the banks a guarantee.

Now this has first the benefit of solving the lender-default problem and has a second benefit, which is that it provides commercial finance fairly simply for governments who may be reluctant to finance the loans through bond issues or by spending tax payer finances on loans.

But the traditional approach has some pretty important costs. And the first one is that the default process actually is expensive for tax payers because the government covers the default costs. And it may very well be that the whole process of offering a government guarantee means that the banks do not chase the loans with particular enthusiasm or rigour, since the government is going to give the banks the money anyway. And because that's expensive, governments limit the availability of these loans by restricting by means-test. So only half the students in Canada, for example, are qualified. This means that if a person's parents are not prepared to share the cost of their education, some prospective students who may not look on paper to be poor will not qualify for assistance. So there's an inter-family sharing issue which is raised with these type of loans.

Cost number three is one of the most important ones, but we hardly ever see it in the discussion, which is that with these type of loans there's no default protection for students. If a person goes into any of Canada's student loan offices, there's a big poster up there which says: Please pay your Canada student loan because if you don't, you will ruin your credit reputation. And that is fundamental. Because if for some reason, like for example, a graduate is unemployed, or has a poor job, or is sick and cannot pay back the loan, they will default. This is important because it

changes one's life, and restricts access to other credit, for example, to finance the purchase of a house.

Cost number four is the potential hardship of repayment. If I've got a loan where I have to provide my Aus \$ 1000 a month, no matter what my circumstances, there are going to be periods where I don't have that money. How do I cope with that? I may not default but I might be in a lot of economic trouble. And finally collection can be administratively expensive.

Income-related loans have been motivated and designed to solve all of those problems and that's their benefit. It is an unusual, but growing solution. I'll talk about its widespread nature in just a minute. The first benefit is that income-related loans solve the lender-default problem. There doesn't have to be a bank involved, and even if there is a bank involved, there's no default risk because if people do not have the resources to pay at any time, because they are unemployed or in a part-time job, they do not have to pay. So this then offers insurance to students, and that's benefit number two, it solves the student-default problem. And that is the critical point about an income-related loan: It gets rid of default from both the students' side and the lender's side. It also solves the inter-family sharing issue, since it doesn't matter if your parents don't want to help you because the loans are made universally available. So we break the nexus between family background and a student's capacity to enrol. It just does not matter. But there are some costs, the most important being that the collection requirements can be complex and I'll talk about that in just a minute.

The Australian system was designed to cope with those problems. Students owe tuition, and can pay on enrolment with a discount, but 80% or more of students choose to pay in the future. If they pay in the future, the government records the debt with the tax office. It's very administratively easy, and it sits there in the computer just waiting. It's waiting for the graduate to reach a particular income in the future. Currently it costs between Aus \$ 3,000 – 6,000 per course, roughly speaking. The Euro-Australian dollar rate is about 2:1, so divide those numbers by two. Approximately the debt for a four-year course is Aus \$ 15,000. There are different collection parameters; Mike's given them in his paper in much



more detail. Approximately, at the moment, if you earn less than Aus \$ 25,000 in a year, you pay nothing. It doesn't matter if that goes on forever. If you lose your job then you pay nothing. It's progressive, the rate goes up after Aus \$ 25,000 and reaches 6% of income at about \$ 36,000 earnings per annum.

Here are some real Australian data, for 2001. I've made these males and females pretty lucky, they've got a full-time job. If you're unemployed, that's when you need HECS, or if you've got a part-time job, or you didn't complete, you've got very poor prospects. But full-time employment is typically what will happen. The bottom line shows what a graduate's after-tax income is, after HECS taken out. In this example the male will take about eight years to repay and females, because they earn less and pay less per year, about twelve years. So roughly if you're into the financing, that's what it looks like.

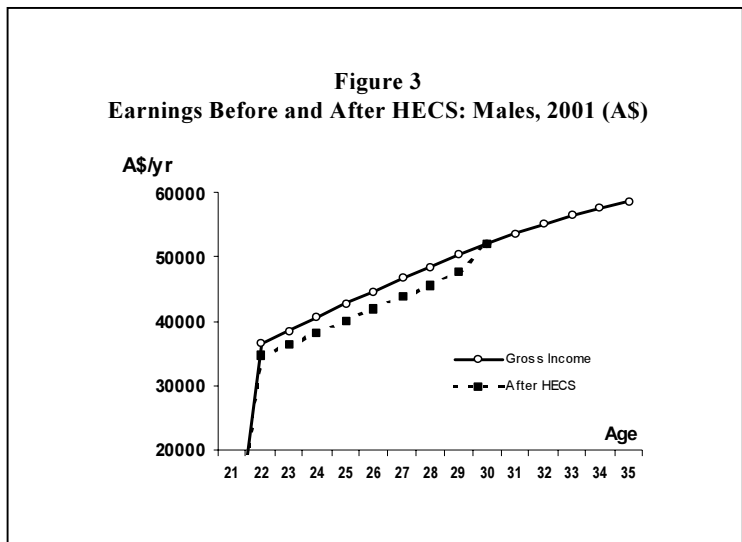


Figure 3

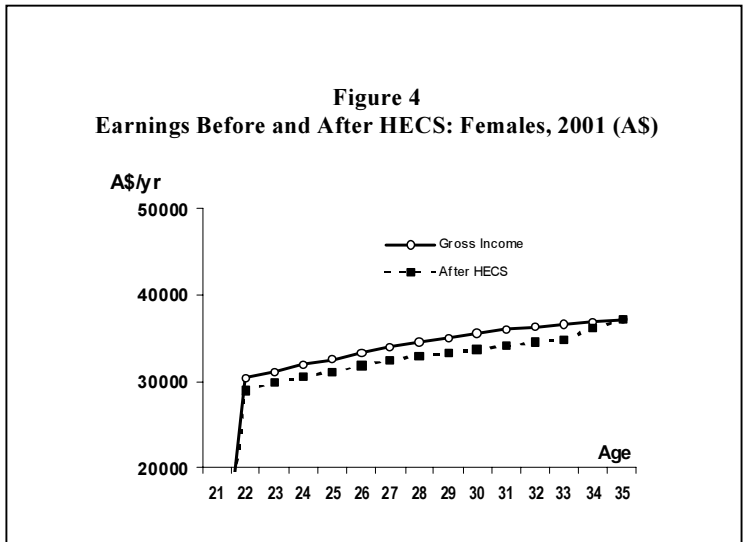


Figure 4

The Australian revenue from HECS has been considerable. Figure 5 shows what has happened since 1989. The numbers have gone from about Aus \$ 100 million per annum (€ 50 million) and will go to about Aus \$ 1.3 billion in 2005. What that has meant is the number of students involved in the system has gone up by about 50%.

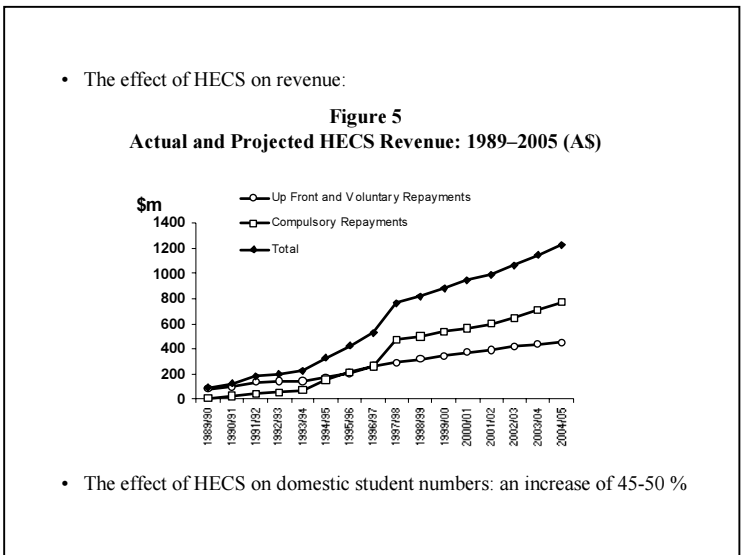


Figure 5

Now I'm going to show you very quickly a picture related to access. I haven't got time to discuss it, so if you'll forgive me for saying this, trust me. The data says unambiguously, the effects of this system on the poor have not been any different from the effects on the wealthy, poor people have had proportionate increases which have been about the same as they have been for rich people. That is true for all studies that I've been involved in, and all studies that a whole lot of other people have been involved in. The government set up an independent agency after the implementation of the system to monitor outcomes with respect to access. If you want a rough conclusion on the effect of HECS on the access for the poor, it is that nothing has happened.

- The effect of HECS on access:

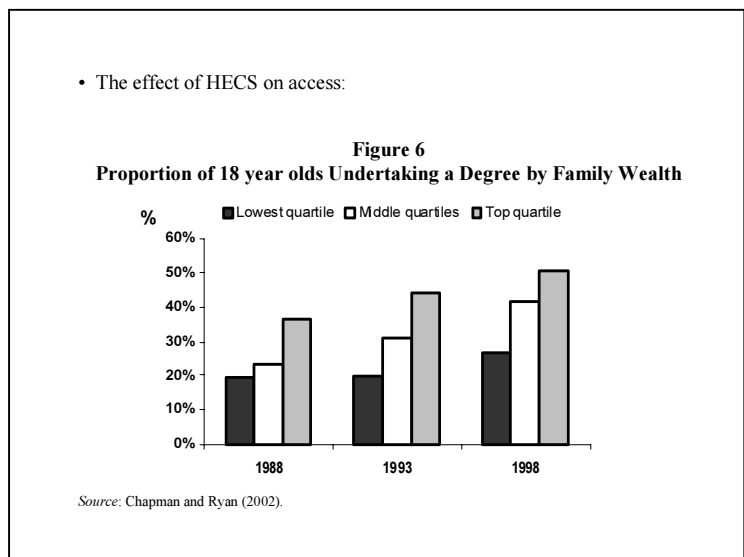


Figure 6

As for the critical role of collection: My understanding of western society tax systems is that they can do this very efficiently. In Australia it costs 3% per year, that is about Aus \$ 25 million, to collect Aus \$ 900 million. It is an extremely efficient system for countries with tax systems that look a bit like yours and a bit like ours.

I want to make one point about this: Income-related loans are not just an Australian thing, they are in a lot of countries now. The places where they are not are often countries with poor tax systems. That's a critical point

for you to take away because it doesn't really affect you, in my view, in this debate.

Here are the conclusions: There are sound economic and social reasons to charge tuition, so long as the poor are protected. That is the critical contingency.

Point number two, you can use the resources to help finance expansions of the higher education system. But the collection mechanism is completely critical. Normal bank loan arrangements are fundamentally flawed and will stop poor people. Income-related loans, as we can see, with respect to the evidence and not just from theory, do provide equitable mechanisms.

I'd like to end with a stunningly wonderful and insightful quote from Kenneth Boulding, the late Harvard economist, who said: 'If it exists, then it is possible'. Thank you.

# Question and Answer Session

## **Professor Gaehtgens**

What is the percentage of cases in which the government guarantee has to be utilised? In other words, it comes in only if the loan cannot be paid back to the bank, and this is why you said you need the government. How often do you actually need the government?

## **Professor Bruce Chapman**

There are two critical roles for government here. This process is an inherently risky process, and what governments do in the form of tax payer pooled resources, they implicitly cover the risk, so for any individual who's risky – and this is the way bank mechanisms work – there's a problem, because the bank says, you're coming to me for a loan, but you might not be able to repay it, so I don't want to do that. A government can pool risks. So all tax payers say, here is a cohort of university students, 10 or 15% will not repay, we are prepared to live with that because we want to guarantee a risk free insurance environment for students investing in the process.

Now in terms of the data, of course, we don't really know because the system is still young, but the micro simulation modelling implies the following: If you forget about the present value issues to do with interest rate subsidies and just talk about the nominal debt, then approximately 85% of all males will pay back in full and about half of the other 15% will pay back half. Of the females approximately 75% will pay back in full and about half of the others will pay back half. Rough rule of thumb, you lose on paper about 15%. I don't call that default. One of the important characteristics about an income-related tuition scheme is that you must, for some people, cover it. The thing that we're not confident about is the number of people who go overseas and don't pay because they are overseas. Now I actually think there are ways of improving our system, and the New Zealand system and the UK system, and that will be to write into the contract an obligation that if you are actually leaving the country, and therefore implicitly defaulting, at least not paying for some period, you should make that a legal obligation to repay like the minimum amount when you are overseas. People don't like breaking the law and you could

use that with respect to your visas. But to answer your question roughly, you'd probably lose 15%.

### **Dr Jürgen Lüthje, University of Hamburg**

As an economist, what would you say: Should fees and repaying student fees, the loan for student fees, be taxed or not? Should there be a tax reduction or would you think it would not be reasonable?

### **Professor Bruce Chapman**

You could organise it, if you wanted. Most capital depreciation of a non human capital form has got depreciation allowances associated with it. To me it's a complication that's not necessary. You could organise a system where you said, alright, we want you to pay a charge 'X', but we're going to allow you depreciation on the investment process, because it's just like a machine in that way of thinking about it. So then we get the 'X' from you and give you back some number which is between '0' and 'X', as a proportion say 'Y', but why bother. Just set that so you're implicitly taking into account the depreciation, so it's 'X' minus some small proportion and then the administrative simplicity should work it through. I'm not that much of a textbook economist anymore. Basically, the simpler the better, so I would say, in theory I know why you would want to organise a system like that, but I think you can do it differently in a more straight forward way.

### **Professor Ian Chubb**

On your red and blue graph, that you showed earlier on, you said you could apply them to any country, I presume that means their gross income given different tax treatments.

### **Professor Bruce Chapman**

Come on, Boss, let me get away with a few approximations. Of course, tax systems will change things a little bit at the margin. The things that I want to say that are approximately true: a) there are big costs associated with investment; and b) the difference between graduate and non-graduate incomes is very high. That's true. After tax, actually what tax does, is have an ambiguous effect because you're foregoing the tax paid in the investment process, but you are paying it more.

In the Australian system, when we've adjusted for taxes, it makes a rough order of magnitude change in rates of return from about 13 to about 11.6 something like that.

### **Professor Ian Chubb**

The reason for my question is basically that, if I were a Minister somewhere and I was thinking about introducing a scheme like this, for it to be reasonable you would not want the fee to be equivalent to the gap between the person who doesn't get the loan and the one who does. You've got to find a level which still provides an incentive but after tax, not before tax.

### **Professor Bruce Chapman**

Certainly, and it's quite correct to note that the right way of thinking about rates of return is post-tax, empirical differences are small. Let me just give you some empirical magnitudes in absolute dollar sums with respect to what the HECS system means in an Australian context. An average debt in Australia for a HECS student is currently between Aus \$ 10,000 – 14,000. If the legislation before the Senate goes through, that debt will go up by quite a lot. But the difference in the after tax incomes of graduates and non-graduates over their life time are roughly Aus \$ 1 million. So we're talking very, very small amounts with a charge here. I'd rather think about setting the charge with respect to the cost. And that was the way the HECS system was designed, that roughly to say, out of the 100% of the direct tuition cost, what is a reasonable contribution from the student. Roughly, they said, maybe 20 – 25%. If you actually made that the charge, the difference between graduate and non-graduate earnings, then you'd probably end up charging something like a 100 times the cost, so you wouldn't, I wouldn't leave it like that.

### **Mr Michael Gallagher**

Bruce, just to put it into a context, so that the decision makers in Germany can understand one of the big issues: Why is a progressive taxation system which obtains more income from graduates anyway not an adequate approach? Why do you need an additional levy?

### **Professor Bruce Chapman**

Let me rephrase your question: Is it a reasonable thing for a graduate to pay for tuition when they are paying so much in tax, because in a progressive tax system they'll be paying more?

Well, let me give you an example: Person A and Person B. Person A earns Aus \$ 50,000 and has a degree. Person B through effort and hard work and ability also earns Aus \$ 50,000. The difference between A and B is that A has had a very considerable gift, and that gift has been financed in a non-tuition world 100% by tax payers. Is it a reasonable thing – I'll put your question differently – that somebody who gets a gift from society repays a little bit extra to cover some part of that? I would think tax equity would say that that is entirely appropriate.



# Introduction

## **Professor Ian Chubb**

Vice-Chancellor, The Australian National University (Chair)

Ladies and Gentlemen, the next speaker is Dr Frank Ziegele from the Center for Higher Education Development, where he's a project manager and has been for approximately the last seven years. The particular projects for which Frank is responsible right now include models for tuition fees, budgets, formula funding, all of those sort of things that go to the financing of universities.

He's an economist, he still teaches, but his primary role is to pursue these particular projects which hopefully will improve our capacity.

# Tuition Fees in Germany: Conditions, Approaches and Models

**Dr Frank Ziegele**

Center for Higher Education Development (CHE)

Ladies and Gentlemen, it's a pleasure for me to talk to you about tuition fees in Germany. If you think about this topic, the first thing that comes to your mind is the fact that in Germany we have a tuition fee ban set by the Federal Framework Law. The *Länder* are not allowed to impose tuition fees. So I could say now, Ladies and Gentlemen, thank you very much for your attention, let's switch over to afternoon tea and that's it. But reality is a little bit more complex than the simple fact that tuition fees are not allowed in Germany.

If you look at the reality, you see five interesting developments. The first is: We have different distinguishable phases of political debate in Germany. I will demonstrate these phases to you. Secondly, as we have already heard, there have been some exceptions from this tuition fee ban. We have several systems quite similar to tuition fees and we can look at those. The third thing is: We have some changes in framework conditions. The fourth: We have some bottom-up development of new ideas on how to impose tuition fees. And the fifth is, as was already mentioned, the tuition fee ban will presumably not be held by the Constitutional Court. We still have to wait and see if this ban will continue to exist or whether it will be overruled by the Constitutional Court's decision next year. These are the five facts which I will now explore further.

The first is the different phases of political debate: In Germany we have so far had four different phases of political debate. The first phase is the one I call the dogmatic discussion. It is a discussion where we have the proponents of tuition fees on the one hand, who think almost all problems in the higher education sector can be solved by introducing tuition fees. On the other hand, we have the opponents, who say if you impose tuition fees, no matter how they are designed, you will always have problems with access and equity and that higher education will only be affordable for the rich. These are the two positions facing one another.

Then we enter the second phase. I call it the 'lazy students discussion'. It's a discussion quite unique to Germany: Some of the public think students are people who hang around in bars in the evenings, have no real objectives, no real goals in life, study different subjects and do not really know what they want. Some people think we have to punish them and we have to impose tuition on long-term students in order to make them study faster and to make them more objective-orientated. That's the second aspect of the discussion.

The third one is the one I call the analytical discussion. It's a discussion with a very simple argument: You can say tuition fees, on the one hand, imply chances – some of them were shown by Bruce Chapman some minutes ago – and, on the other hand, there are risks. Now, what matters is the correlation between the chances and the risks, and this correlation depends on the model. We have to look at the model, at the design of tuition fee systems and at the framework conditions under which tuition fees are implemented. Those two aspects decide whether you have a good or a bad model and whether you get more risks or more benefits out of the system.

The fourth phase, which is a very problematic one, is beginning to take place now. It is the discussion about tuition fees mainly under fiscal rationales. We have, all of you know, a very severe crisis of public budgets in Germany. Therefore, we are currently in a phase where the finance ministers take over the discussion, not the higher education ministers. Thus, we have the danger that we will have models designed for fiscal purposes, not for higher education purposes. That's phase four.

## 4 phases of political debate about tuition fees

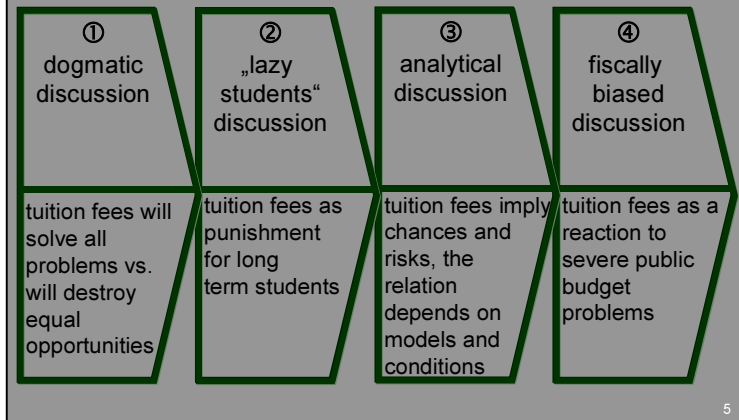


Figure 1

So where do we stand now if we look at these phases? I think the current picture is a mixture of those different phases. Some politicians still stick to phases one and two, this discussion is still very much alive; there is still a 'lazy students' discussion going on in Germany. But we have a very clear movement towards phase three in the scientific as well as in the public discussion. There are more and more analytical elements in our debate at the moment. This development is promoted by my institution, CHE, and it is promoted by the Rectors' Conference by discussing certain models and not discussing the issue of tuition fees in general. But at the moment there is a very real danger that we enter phase four. It's the danger of having tuition fee solutions dictated by fiscal purposes and not by higher education policy.

As you might have noticed, I have a clear preference for the analytical approach. Thus, in my presentation I would like to follow these analytical lines in the discussion about tuition fees.

As I said before, we have certain exceptions from the federal tuition fee ban. Here, I have listed the main models which currently exist in Germany.

# fee models in Germany

<i>model</i>	<i>volume (per semester)</i>	<i>implications</i>	<i>examples</i>
user charges	50 €	relief for public budgets, low revenue, linked to administrative costs	Baden-Württemberg, Berlin, Brandenburg
tuition fees for long term student	500 – 650 €	incentives on demand side, punishment, revenue for HEI or state, some models linked with vouchers (usage oriented instead of time oriented)	Baden-Württemberg, Saarland, Nordrhein-Westfalen, Hamburg, Niedersachsen
tuition fees for second studies	about 500 €	Idea of free access limited to first degree	Bayern, Sachsen, Nordrhein-Westfalen
Tuition fees with vouchers for state residents	500 €	strategy for states with student imports, incentive to have domicile in-state (state benefits from Länder financial equalisation scheme)	Hamburg

Figure 2

The first model is not a real tuition fee model, it's a kind of user charge system. We charge about € 50 per semester to cover administrative costs. This model exists in several *Länder*, in Baden Württemberg, Berlin and Brandenburg, for example. Most of the revenue goes directly into public budgets and not into the institutional budgets of the universities.

The second model is the already mentioned system of tuition fees for long-term students. Fees range between € 500 – 650 per semester. The idea is to set incentives on the demand side and to punish those students who take too much time in higher education. There are differences in the systems: Sometimes the revenue goes to the higher education institutions, for example in Baden Württemberg and in Hamburg. In other cases, for example in Lower Saxony, it goes directly into the state budget. There are further differences: Some models try to link the idea of tuition fees for long-term students with the idea of usage orientation, with a voucher model. The idea was invented in Rhineland-Palatinate, but so far it has not yet been implemented there. Berlin is one example of a state which is trying to implement a real usage orientation. It's not time, but the use of credits that matters. You have a certain amount of credits, and you can take them and if they run out, you have to pay fees.

The third model is tuition fees for second degrees. The idea behind this is that your right of free access to higher education is limited to the first degree and all other degrees have to be paid.

The fourth model has special aspects and is about to be implemented in the state of Hamburg. It's tuition fees with a voucher for state residents. Hamburg, as a small state, is a typical import state of students. Mainly Schleswig-Holstein and Lower Saxony send students to Hamburg and Hamburg wants to give incentives to students to become in-state students. By having more in-state students Hamburg benefits from the *Länder* financial equalisation schemes which are based on the number of inhabitants. This is a strategic model of tuition fees linked with certain aspects of financial equalisation among the *Länder*.

These are the four existing models in Germany.

Now I would like to use the analytical approach and I would like to use a list of criteria: On the one hand, the chances of tuition fees, on the other hand, the risks of tuition fees. I think you are quite familiar with these arguments, some of them have been mentioned before.

On the chances side, you have the possibility to put money into the higher education sector and to achieve more quality, smaller groups, more rooms, better infrastructure. The second chance is to invest the money into the expansion of the system. I have always understood the HECS model as a model which has a clear focus on the expansion of the higher education system. To get more students, and more poor students, into the system that was the reason why a labour or social democratic government started this model.

The third perspective is the institutional one. Tuition fees imply diversification of revenues. We saw that before, you're not only dependent on one large source of revenue; with tuition fees you have a broader range of sources of revenue and broader possibilities to calculate on the basis of that revenue. You can start marketing and profile building activities not only by product policy, but also by means of price policy.

The fourth aspect is the argument explained by Bruce Chapman. It's the redistribution argument: Introduce fees to stop the redistribution from tax payers to academics and from poor to rich. I think I don't need to explain this again as it was quite clear.

And the last aspect is the idea to establish a supplier-customer relation. You do not see students as a burden, but as customers or clients. You take care of their needs and treat them differently from what has traditionally been the attitude towards students in German higher education. These are the possible chances.

On the other hand, there are risks. There are only three risks, but they are as important as the chances. First of all, the absorption of tuition fee revenue by public budgets: You can forget the quality effect, you can forget the expansion effect, if the money does not go into university budgets. If it goes into public budgets, the advantages disappear. The second risk is access barriers, deterrence of students, that's quite clear. The third one is administrative inefficiency. We heard that Australia has a quite an efficient model, but if you use most of your revenue to administrate a model it makes no sense. These are the risks.

Now by using these criteria as a catalogue, I would like to take a closer look at one of the German models, at the system of long-term student fees. We look at the arguments and try to decide: Are the chances realised or do the risks dominate?

On the left-hand side, you see the features of this model; on the right-hand side you see the effects on the chances and risks I mentioned before.

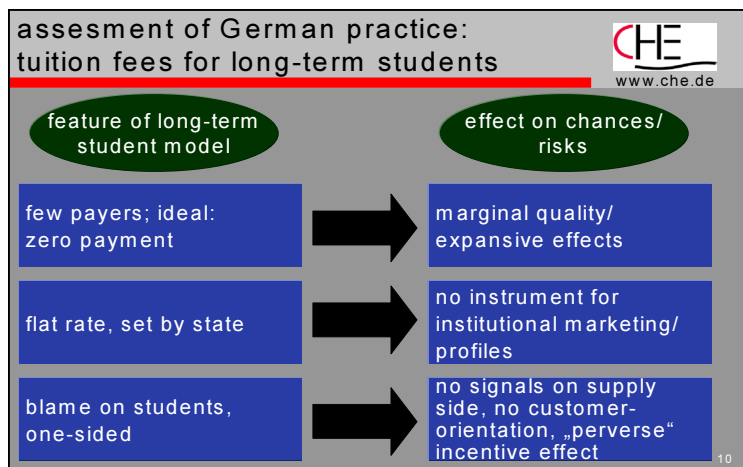


Figure 3

First of all, with long-term students there would be a low number of payers. In an ideal situation we have no payers at all because we don't want to have long-term students. Therefore, revenue would be zero. It's the same as an eco-tax: If there's no pollution, there's no tax. So the effect on chances and risks is only marginal. There are no quality and expansion effects, so we don't have those benefits.

The second thing is that we have a flat rate set by the state, so long-term fees are not an instrument for institutional marketing, that's quite clear. It's a flat fee, so you can't use the price as a signal for quality.

The third aspect: The blame is put on the student, the model is very one-sided. There are no incentives for the supply side to become more customer-orientated. We even get perverse incentive effects because you only get money if you keep your students as long as possible. So why should you do something from the supply side to make students study faster? That's nonsense.

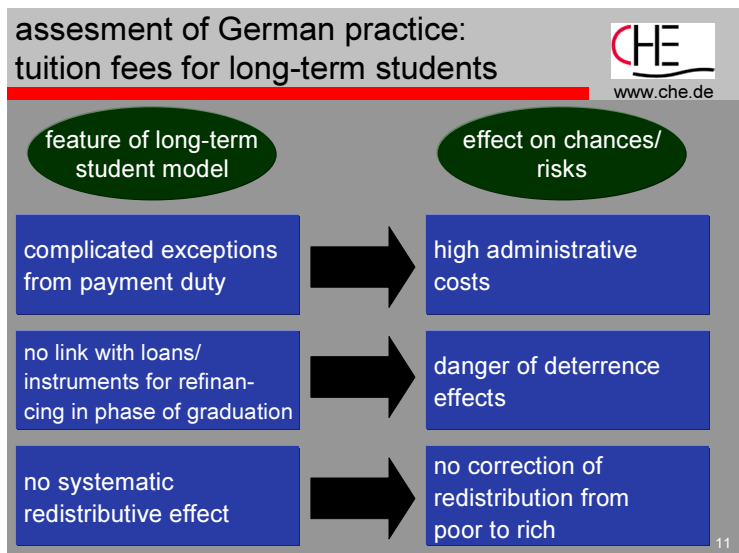


Figure 4



Next aspect: These models have complicated exceptions, certain payers do not have to pay, for example if you have children or if you have been working in student self-administration, and so on – there's a catalogue with a number of different exceptions. This causes administrative costs, you have to check all that. Probably there is not much net revenue left if you take the administrative costs into account.

We have no link with loans or any instruments to re-finance tuition fee duties, especially in the phase of graduation. If you are about to graduate and then you suddenly have to pay the fee, you probably have to work. So it will take you even longer to complete your studies. Thus, there is the danger of deterrence effects in this model.

Another effect, the systematic redistribution, the correction of redistribution from poor to rich, also does not take place in this model.

So what's my conclusion concerning the model? If you look at the chances and risks, this model is completely inadequate. It realises almost none of the chances and almost all of the risks. The only effect you have is that pseudo-students have to leave the higher education institutions. Naturally, the students who are only students because they want to benefit from the social insurance benefits or from public transport tickets will leave the higher education sector with the introduction of long-term fees. We have seen those effects in Baden Württemberg, for example. About 10% of the students left the higher education sector. So your statistics will improve if you implement this model. But it is not clear if the partial goal of reducing the length of study time is realistic because of the lack of supply side orientation.

So looking at this model there are reasons to resign and say, in Germany we can't manage to implement a proper model. But I don't think so. There are ideas, there are chances for better tuition fee models if you look at two aspects. Firstly, there are the changed framework conditions in Germany and secondly, there are ideas for what I call 'intelligent models'. Minister Dräger's model, for example, belongs into this group. Now I want to look at some of these new ideas for implementing tuition fees. But first we have to look at the changes in the framework conditions.

The first aspect has already been mentioned before: In Germany, we have a very low participation rate in higher education. Depending on how you

calculate it, here I used OECD data, we have about 19% of the population of the same age. Australia, USA, UK have between 30 and 40%. All figures say in Germany we are quite low compared with other states. And we also have a low participation of lower income groups, only 7% of children from working class backgrounds start higher education. As almost everyone in Germany realises, a tuition free education can't change these facts. This is still reality, it didn't change when tuition fees were abolished in the 70s.

The second aspect is that we have expansion and quality goals on our political agenda. Politicians want to induce more quality and an expansion of the system. But there's no chance for increased public financing due to the fiscal crisis. So it's clear that additional funding has to come from private contributions.

Another aspect is complementary reforms in state financing of higher education. This morning Mr Gallagher explained the four models. On the state side, we're also on the way to move from what was called the 'supply side planning approach' to the 'supply side market approach'. This is happening in Germany at the moment, and I think this fits better with a market approach on the private side. Tuition fees correspond to the money-follows-student idea on the state budgeting side.

We have yet another development, the three- or five-year budget contracts which allow higher education institutions to plan for longer periods of time. This gives higher education institutions some certainty that there will be no direct reaction by the state to the introduction of tuition fees, such as decreasing public budgets. Naturally the reaction can come after these years, as you can never be too sure about these things, but at least we have the possibility to plan for some years with a stable public budget. It makes it a little bit more difficult for public decision makers to reduce public financing as a direct reaction to an increase in private financing of higher education.

And the last point is that we have quite high acceptance rates for tuition fees in public opinion polls, but again, only for certain models. I can show you the result of an opinion poll we conducted in the year 2000. It was a representative opinion poll, on the one hand, we asked the population in general, on the other hand, the students. We asked three questions:

Would you support tuition fees of € 500 if the money went into the state budget? 21% of the general population, but only 6% of the students said yes. Then we asked, would you support tuition fees of € 500 if they were used to improve study conditions? Then we already got a majority with 57% of the general population and also the acceptance among students was a little higher with 32%. If you add the aspect of loans, if you have a loan system with no repayment under a certain income threshold, then you have 62% of the general population and already almost half of the students in favour of tuition fees.

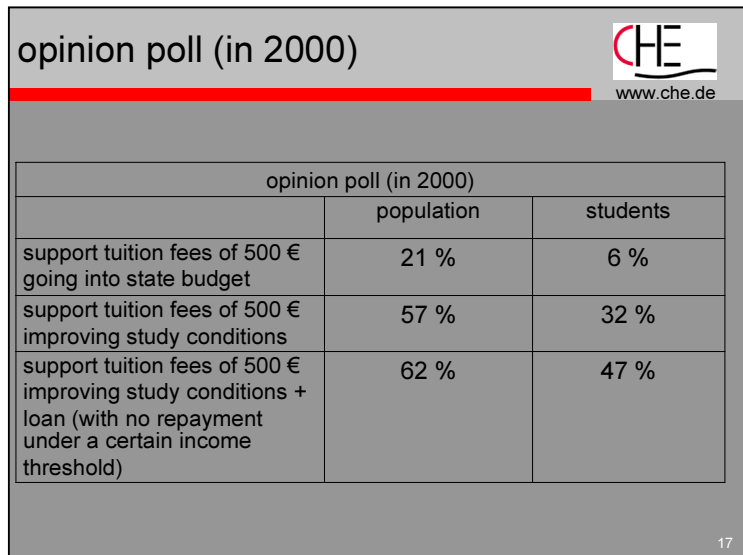



Figure 5

This shows that the general population and students are able to distinguish between certain models. Not all kind of models are accepted by the public, but if the models have certain features, if they are designed in a proper way, you have the chance of high acceptance among the population. You also see that the aspect of loans is much more important to the students than to the population in general. That's clear because the loan is relevant to the risk the student has to take. For the public it's mostly the aspect of investing the money in higher education. That is the reason for the high acceptance rate.

These were the framework conditions. Let me now come to my last point: the bottom-up development of new tuition fee models. I can only present

one model which really exists. It's the model of the University Witten/Herdecke; Mr de Maizière will speak about that a little bit later, so I won't go into too much detail. But there are several ideas on how to treat the issue in a more adequate way.

„intelligent“ models: student contribution model (CHE)   
www.che.de

**strategic orientation**


- demonstrate acceptable conditions for students, HEI, state

**features**

- HECS-type loan with income contingency (minimal repayment risks inevitable for acceptance), but signal for parental responsibility: subsidies for educational savings
- revenue earmarked for teaching expenses
- direct payment to HEI budgets, financial reserve covers risk of non-repayment

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Figure 6

„intelligent“ models: student contribution model (CHE)   
www.che.de

**features**

- additional financial burden for starting the system not covered by state budgets, direct relations bank-student
- framework condition concerning maintenance support: basic support for students instead of subsidies to parents

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Figure 7

The first model is our CHE student contribution model. It's not a coincidence that the term contribution is used there, it's a model which is very similar to the HECS model. We tried, and that was our strategic goal with this model, to show that you can reach a point where tuition fees are acceptable for all groups: for students, for higher education institutions and for the state as well. We wanted to show that a win-win-situation is possible with tuition fees. We tried to achieve this with the features I mentioned. The first feature is the HECS-type loan with income contingency, because of the risk aspect and the investment aspect, as Professor Chapman described before. But there is another aspect in this model. We also wanted to give a clear signal for parental responsibility, and we wanted to show that it would be a good thing to have subsidies for educational savings, just as for other types of investment.

One reason is German legislation: There is a very strong emphasis on parental responsibility in German legislation. The second aspect is we didn't want parents to escape responsibility for their children's education. I think it's necessary to tell the parents, you are responsible for your children and you should invest in your children's future. So that is a question of the message that we are trying to convey with this model.

The second feature is that the revenue has to be earmarked for teaching expenses. It has to be transferred directly into higher education budgets. And a financial reserve has to cover the risk of non-repayment. Let me give you a simple example: If the university has an unemployment rate of graduates of 100%, then you have to put 100% of your tuition fee revenue into this financial reserve, because you have to calculate with a non-repayment rate of 100%. So this is an additional mechanism to give incentives for higher education institutions to become more labour-market oriented and to look after the needs of students.

Another aspect, which is really a problem if you try to implement a HECS-type scheme in Germany these days, all HECS-type models need large amounts of financing in the beginning. The return comes after some years, we saw the graph before. In the first few years you have to invest into this model. The problem is: Where does the money come from? In Germany it's almost impossible right now to get this kind of money out of public budgets. So you need some kind of off-budget solution for that. In Germany this could be loans given by the Kreditanstalt für Wiederaufbau or similar banks at the state level.

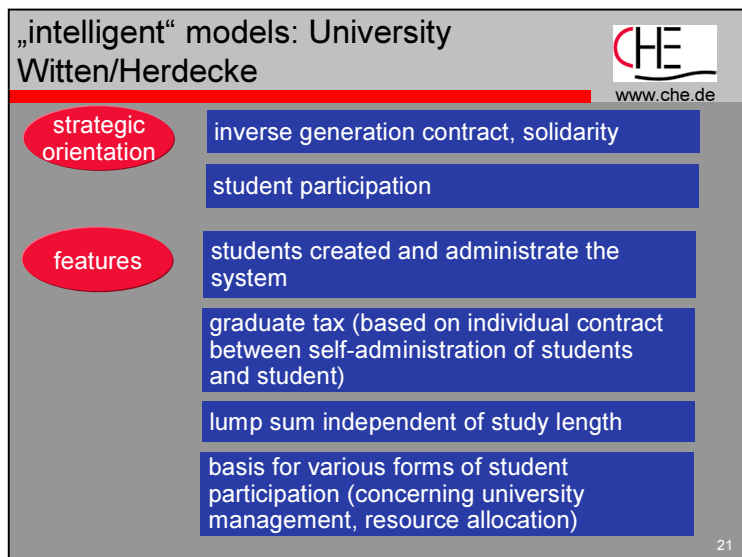


Figure 8

Another intelligent model is the University of Witten/Herdecke's model, but let's not go too much into detail as Mr de Maizière will talk about that. The only point I want to stress is that this model promotes specific strategic goals. It is, on the one hand, an inversed generation contract and a model of solidarity between the alumni of the university and the present students. Secondly, the model is run and administrated by the students themselves. So it's a model of student participation. These are very high-ranked goals in this system, so the strategic goals are quite different from the system I described before.

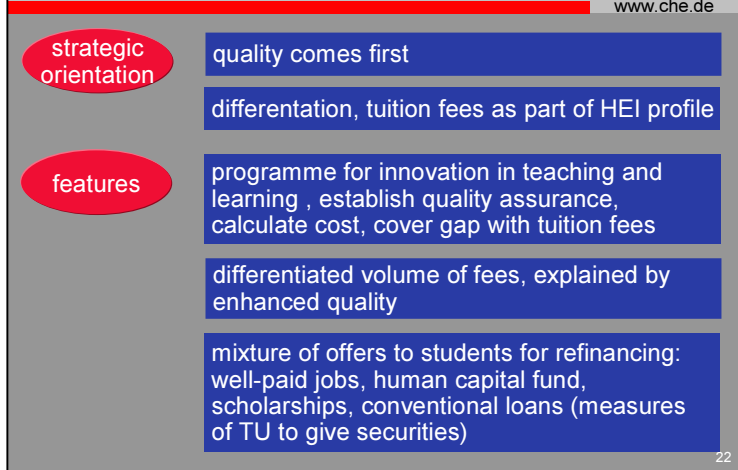



Figure 9

There is a third system, which also has a different strategic goal. This is the model of the Technical University of Munich, which was presented some months ago. Their main argument and intention is 'quality'. They say, first, we will set up a strategy for innovation in teaching and learning, and we will show how the money has to be used. We don't want to impose a € 500 tuition fee and then think about what we can do with the money. No, we first decide what to do with the money, set up a plan in which to use the money and then see if our strategy can be covered by public funds alone or if we need additional private financing to realise our goal of excellent education. That's the idea of the Technical University of Munich, which regards differentiation of tuition fees as part of the higher education institution's profile. In this model, not all institutions can set the same level of fees. You need individual levels, you need individual policies to set up tuition fees.

Another aspect I need to mention in the context of the TU Munich approach – we mentioned human capital funds before – is the idea of a certain form of income-contingent loan. You can set up human capital funds, you can go to the capital markets, you can sell shares of a human capital fund, the investors can make investments into human capital. They

buy shares and will receive returns out of their shares some years later, when the graduates pay back – just like the HECS scheme – a certain percentage of their income. So it's the same effect as HECS, but it's a different way of organising it through private capital markets. The Technical University of Munich has contact with a provider of such human capital funds and is seeking to establish this kind of system. Munich has very high costs of living, it's quite an expensive city, and they use this model as a new form of supporting the costs of living, not just for tuition fees.

## „intelligent“ models: Dräger proposal



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strategic orientation

features

integrated reform of higher education finance, inclusion of maintenance grants

tuition fees (2.500 € p.a.) + reform maintenance grants (BAföG)

HECS-type loan for maintenance + tuition, interest covered by state during study period

states bear risk of non-repayment (financial neutrality if subsidies for parents become part of the system)

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Figure 10

The last model, the Dräger proposal, is also one of the intelligent models. I think Minister Dräger will describe it himself later on.

Finally I would like to stress that in all these models income contingency or income-related loans play an important role. All proposals contain some such element, and also the element of non-means tested loans, that's the second aspect. Public opinion and academic discussion are very much in favour of income contingency. So we have learnt a lot from HECS already. But some things are different in Germany. And that's my last point, the question: Are all elements of HECS applicable to Germany or are there some differences? Where are the problems?



The first point is that we can have no additional burden for state budgets at the moment. So the financing of loans has to start with the involvement of a bank, through human capital funds, with this financial reserve out of fee revenue or other measures, but the money cannot come out of public budgets, that's impossible in times of fiscal crisis.

The second point is the deep mistrust in politics that we have in Germany. So we need to establish a direct financial relation between student, bank and university without the involvement of state budgets.

The third point is the German jurisdiction, there is no complete independence from parents, so we probably need something like subsidies for educational savings, we need to have a clear signal for parental responsibility. I think this is necessary in order to balance the idea of parents independence with the idea of parental responsibility.

Fourthly, we have institution-driven developments in a federal higher education system, so we probably need a decentral solution in Germany. That's another problem: There are a lot of benefits to decentral solutions, but there are also costs. The main cost, in my opinion, is the loss of transparency. If you don't have one nationwide HECS system, if you have a lot of smaller systems based on the same principles, you lose transparency and the possibility to calculate with this model. I think that's the most important problem of decentralisation.

Fifth, there is a lot of diversity in strategic goals. We have no clear expansion strategy, like Australia, we have some people who follow the expansion idea, some the quality idea, some a mixture of it, others the idea of student participation. There is really a mixture at the institutional level. Due to this we need flexible solutions and diversity of models.

Right now there is a break in the public discussion about tuition fees as everybody waits for the Constitutional Court's decision next year. If the court decides against the Federal Government's ban on tuition fees, I think models will start operating within one to three years. We might have the problem of wrong timing due to the financial crisis, and there's the danger of entering into phase four, as I described before. This is really the most important aspect: We have to ensure that higher education policy

prevails over fiscal orientation. It is the responsibility of higher education policy makers, but also of higher education institutions to make proposals now, to show the right direction now and not to wait for the proposals the finance minister might make. I'm sure they will have good ideas on how to implement tuition fees. Thank you.

# Question and Answer Session

## **Dr Hans-Georg Schultz-Gerstein, Universität der Bundeswehr Hamburg**

We all know that the grass is always greener on the other side of the fence. The figures you've presented from the United States and Great Britain, of them having 33% graduates and us having only 19%. Well, in Germany we have a two-track system – the practical track and the university and university of applied science track – we have nursery, cosmetics, welling and whatever you have, but we don't have community colleges. Our system is so different, I doubt that we are really as far behind the United States as the figures seem to show. We have to think about that, if we compare the figures. Nevertheless, I'm quite with you, we need tuition fees in Germany, we need improvement, and improvement is only done with new instruments and so on. But we are not that bad.

## **Dr Frank Ziegele**

You are right in that we are behind, but not as far behind as it seems, if you look at these figures. If you think about physiotherapists or other forms of education, these are not higher education elements in our system. So you're right, but we still lag behind. And the main aspect is: The figures have remained the same, even when we abolished tuition fees in Germany. Giving up tuition fees in the 70s hasn't change this picture. I think this aspect of considering the figures over time is even more important than the comparison between the different countries.

## **Professor Bruce Chapman**

I think your framework for analysing the debate was extremely useful. You did say something which confused me, and it might be about the nature of your system. You said that to introduce a tuition arrangement, even an income-contingent one, you would need extra finances, but I don't understand that. So long as you're going from a 100% public sector funded system and you want to switch the proportions into tuition, you don't need the money. The slowest thing that can happen is that it takes a long time if all you did was wait until the money came in. But there's no extra outlay, as I understand it, in our system certainly there wasn't. That's the first point. The fund would only be needed if you wanted to expand the outlays, for example for student income support, but if it was tuition, even

tuition pay in the future there's no change to the public sector outlay. That's the first point.

The second point is, you can actually raise the revenue quickly by offering a discount. I mean the way our interest rate subsidy operates in the Australian context is that if you pay up-front, you pay 75% of the real amount. And that meant that we got Aus \$ 100 million straight away. I think it was mainly because a lot of parents were used to paying three times as much for private schooling, and they suddenly thought, this system is cheap with the up-front payment. The only point to make about that is that that is a form of real interest rate, and if you get a discount for up-front payment and then you've got the debt following later with no further real adjustment, you can still make the system progressive. Well, the importance of my question is the first bit: As I understand it, you do not need any additional money.

### **Dr Frank Ziegele**

Well, I think it depends on the system. If you establish a system like the one we think about in Germany, all tuition fees, no matter if they're paid up-front or by loan, will go immediately to the higher education institutions. This means that also those who take out a loan have a deferred payment plus the money they would have had to pay, goes directly to the higher education institution. In this case you have to take a loan from the capital market to finance it. You don't have this problem if you have a real deferred payment – which has been called *nachlaufende* tuition fees before – then you don't have such a problem, because some will pay right away. If you have an incentive for up-front payment you have the revenue stream coming in directly, and some will pay later because of the deferred payment. So in this system it works, but some people suggested that all students should have to pay their tuition fees right away in order to have a maximum direct financial impact on the system, and then you need additional finance for a certain time. But it's not necessary to implement this aspect of the model, you don't need that, you can make it just as pure *nachlaufende* tuition fees.

### **Professor Gerhard Leitner, Freie Universität Berlin**

I'm sorry, but I found your talk extremely confusing. When you talk about long term student fees, € 500, you're not really talking about tuition fees

at all, you're talking about a charge and people have to pay right then, so why should they get a loan. You can only talk about tuition fees when students pay fees for a period of time. Those fees are just absurd sums, no rationalisation behind it. It is total stupidity. And you pay up-front, so what do people do, they have to work to pay, so you defeat the purpose, like you said yourself. I think the Australian debate is on a much higher plane because they have calculated what the costs are. I'm personally against tuition fees. But at least one understands the rationale. Now the second point that I want to comment on, you say responsible parents. I have three children. I think I'm fairly responsible. How many exceptions like me are there in the Germany? How many irresponsible parents are there? Why talk about them?

### **Dr Frank Ziegele**

I think you are completely right about the first aspect. I don't mind if you call it tuition fee or don't call it tuition fee, that's not important. We both think it is an absurd system. It's a system which makes no sense. Probably it does not deserve the title 'tuition fee', because it is no real tuition fee system, but the result is the same. In Germany this is mentioned under the headline 'tuition fees for long-term students', so I called it that, but the system, as I said, does not imply any of the chances, but all of the risks. So that's true.

The aspect of parental responsibility: I didn't want to say that parents behave irresponsible. I'm also a father of two children, I also care about their future education. The problem is – and this is discussed in the international discussion about income-contingent loans, especially in America, where there's some criticism concerning these systems – these systems send a clear signal to parents, you are no longer responsible for your children. That's a criticism concerning the income-contingent loan idea. Since it is said that anyone who needs a loan, can go to the State, and the State is responsible for that, and then he will get his money. The critics say parents are let out of their responsibility with this system. We think the system is good, but you need to have some additional signals that this system does not imply that parents have nothing to do with the future education of their children. These signals should not be set by the system. That's the reason why you should have some clear signals towards paren-

tal responsibility. But that does not mean that parents behave irresponsibly. That's clear.

**Professor Klaus Hübner, German Commission for UNESCO**

I would like to make one comment. I didn't understand fully the whole question of enrolment ratios and the intention of Germany to increase the enrolment ratio for higher education. And then you said that the introduction of tuition fees will have no impact. I think it will have a very big impact, it will have a negative impact and will be contrary to the official policy line.

The other point I want to raise is that, if we introduce tuition fees – and you didn't give any figures whatsoever and these € 500 are charges really and have nothing to do with the concept of tuition fees – if we introduce fees, you have to give some figures and develop intelligent models, because there are two major functions of fees, and you mentioned only one of them, namely the question of how to cover the costs for universities, for training and research. But the other function is, of course, with such a mechanism you will also have a completely new policy tool, because you can play with the tuition fees, with the level of it, differentiate them, etc. etc. and then you will also have a completely new role for the State as an actor. How can you reconcile these functions, if you want to introduce such a system in Germany? Thank you.

**Dr Frank Ziegele**

As for the second aspect: Of course, sometimes in Germany it's a real problem when you give a new tool to politicians. And probably there's also a relevant aspect here which can be seen from the Australian development: If you have such a tool, you can change this tool, and can go into several directions. But I would say, regarding this aspect, what is the alternative politically? The alternative is to say no, we still don't think about such models, we have to keep our hands off tuition fees. Then the finance ministers will develop their own models, as I said before. I think that's the most important aspect: We should lead this discussion from the point of view of higher education institutions, not from a fiscal point of view.

On the aspect of expansion: I think this has to be discussed in connection with the Australian development. We saw the figures before, the Australian universities created a lot of new student places with the HECS model. I think their student numbers rose by about 1/3 since HECS has been introduced. At the same time, the social composition of the student body did not change. That means, if you have no change in proportions and an expansion in absolute numbers, you get in absolute numbers more people from lower economic classes into higher education. And I heard that Minister Dawkins, who implemented the model some years ago, said, that was our goal, and we reached that goal with HECS.

### **Professor Ian Chubb**

At the Australian National University we have a trapdoor, and speakers, when they go over, we pull the lever. I think we'd better bring this one to a close, because I can hear the coffee cups rattling and I can see people looking at their watches, even more importantly. So Frank, thank you for that. My colleagues and I were sitting over here when you were describing what some unkind German people think about German students. We were thinking that in Australia unkind people would think that about university staff, and unkind university staff think unkindly about the university presidents in exactly the same way. So you've helped us identify a difference between us, even though there are many similarities, too. So, we thank you for that, and just to prove that university presidents really like their coffee, this is it, it's coffee time. Thank you very much.

# Session 3

## Conference Discussion Panel 1: What Can Germany Learn from the Australian HECS model?

### Panel Members

- Professor Simon Marginson, Monash University, Centre for Research in International Education (Chair)
- Dr Dieter Dohmen, Director, Institute of Education and Socio-Economic Research and Consulting Köln
- Mr Christoph Ehrenberg, General Director for Higher Education and Continuing Education, Federal Ministry of Education and Research (BMBF)
- Dr Josef Lange, State Secretary, Ministry of Science and Culture, Lower Saxony
- Dr Jürgen Lüthje, President, University of Hamburg
- Mr Max de Maizière, StudierendenGesellschaft, University of Witten/Herdecke
- Mr Lars Schewe, National Union of Students in Germany (FZS)

### Professor Simon Marginson

I warmly welcome you to this Panel session on the financing of German higher education in the light of the Australian experience.

In this kind of gathering the underlying assumption of conventional comparative approaches is that we can analyse and compare national systems, that we define as relatively closed in themselves, subject more to national, perhaps local forces than to global forces.

I believe that assumption no longer holds in the way that it once did. Both parts of the comparison need to be situated globally for the comparison to be understood in a contemporary context.

If we do that, I think we will find that Germany and Australia do have a number of things in common, and that in many respects – though not all



respects – these points of commonality are globally determined. First, both nations are increasingly affected by American higher education, by its structures and values. Second, strong universities in all nations aspire to be prominent nodes of a university network that is a global university network. What we might call the research one university network is a global network in many respects. And this network is, for better or worse, at present anyway, dominated by American institutions and their models and their structures and their behaviours and their values and their people.

There are also differences in a global context between Germany and Australia, that are not just a function of different national histories, but also a function of our different geo-strategic positions. Australia sits next to East and South East Asia – I can't over emphasise how important that is in shaping the reality of our institutions now. In most countries of the region, especially in China, the state does not provide university education to more than about 15% of the age group. Private sectors in the Asia-Pacific are generally very large, though there are a couple of national exceptions, including Australia. In most Asia-Pacific countries families invest to the extent of 20 to 50% of the costs of higher education. In other words, unmet demand, a willingness to cross borders for education, and a tolerance of a market approaches and high private investment are features of higher education in the Asia-Pacific, in a way that they are not features of Western Europe. A willingness to cross borders is common to Europe – yes – but not in the same way and for the same purposes.

One consequence of this specific configuration of higher education in the Asia-Pacific is that Australia has been able to build a large market sector in international education, partly quarantined from the domestic system, which has, until recently anyway, been ruled by the HECS. The HECS is not a market fee and does not create a noticeable social bias in entry to higher education, in the manner that a direct up-front payment fee payment is harder for poor people to pay. The HECS is a standardised uniform tuition charge collected by governments, not universities, and one that is readily deferred until after the student begins full-time work.

Germany by contrast is a country – surrounded by other countries – where the state dominates in the responsibility for funding, where citizen welfare

is expressed in common systems, in a way which is no longer clearly the case in the Anglo-American countries, such as Australia. Germany relates educationally to its neighbours extensively, but it does so through exchange programmes of a non-financial, non-commercial kind, a very different relationship to the one which we have with our educational neighbours. But Germany now finds itself in the position that Australian higher education has been in, that it believes that it cannot afford not to expand education but it cannot afford to pay for it under present arrangements.

So the panel has the first bite at the question which underlies this gathering: Can the Australian experience, the Australian mechanisms, particularly the HECS, inform the German debate in a serious way rather than in a perhaps rhetorical way or as a negative example? And the core questions are questions like: Is the current situation here in any way comparable to the Australian situation of the late eighties? Does the Australian experience suggest that, *prima facie*, it is a good idea to introduce student contributions here? Is the HECS system an interesting model for Germany? Would Germany be better off adopting it holus bolus or parts of it, and which parts of it? Which parts would need to be adjusted and changed? What positive and/or negative effects flow from student contributions being introduced into the German higher education system? What negative consequences for students? What positive consequences for students? Negative and positive for the institution, for the nation, for business, for community? Do tuition fees deter students from socially weaker backgrounds or not, and under what circumstances? How do different mechanisms effect the equity problem? Are the different models in Germany that we've already discussed helpful or not?

So this panel will examine these questions in the light of what we've already heard from our previous four speakers, from Mike and Peter about the different national contexts, from Bruce about the HECS experience and HECS model in Australia and Frank's presentation concerning different models and different possibilities in Germany.

Our first speaker is Christoph Ehrenberg, his field is law, he has been since the 1<sup>st</sup> of January 2003 the General Director for Higher Education and Continuing Education at the Federal Ministry of Education and Research.

### **Mr Christoph Ehrenberg**

Thank you very much. It's a great pleasure for me to be here. Just one personal remark at the beginning. I was in Australia two years ago and I'm glad to meet Ian Chubb again here today. The first time we met down under and it's nice to have you here again. Of course, one topic we discussed, during the delegation of the German Academic Exchange Service in Australia, was the HECS.

Germany has made a deliberate decision to guarantee all students a free first course of study. The main reasons for this was the fact that Germany needed more students by way of international comparison and that fees could possibly act as a social deterrent. The decision prompted an intensive and controversial debate. Particularly those in favour of university fees often cited the success of the Australian Higher Education Contribution System.

It is useful to take a look at other countries in order to identify the desired and undesired effects of tuition fees in higher education. In Australia the effect of the introduction of or the increase in tuition fees was not a drop in the number of students but, on the contrary, an increase. However, it must also be said that the introduction of or the increase in tuition fees in Australia took place at a time when there was an excess demand for places in higher education and institutions of higher education were being expanded. Against this background the increase in the number of students is insufficient evidence for or against tuition fees. You must therefore take a more differentiated approach when considering Australia's experience with its Higher Education Contribution System.

Australia's experience with the HECS shows that the social cushioning of the effects of fees can succeed to a certain degree, for example through measures supporting disadvantaged groups with the aim of improving educational opportunities for the disadvantaged and increasing the proportion of disadvantaged groups taking part in education. It has been shown that the educational barrier of tuition fees can be kept to a minimum, for example by granting educational loans with income-related repayment schemes. Nevertheless, even though the HECS separates the financing of tuition fees from the individual socio-economic situation, Australia has not seen a sustainable increase in the number of students

from those population groups which higher education traditionally tends not to reach.

Another question which remains to be answered is: What effect will high student indebtedness have in the long term on motivation to begin a course of study, for example under deteriorating labour market conditions? One can observe a change in the character of Australian research and higher education following the introduction of tuition fees. Increasingly demand determines supply and the institutions of higher education are becoming market universities. From the German point of view, one must ask whether the implementation of economic principles in the higher education sector is not excessively undermining the character of higher education as a public good.

It has required the implementation of a subject-based rating of tuition fees, the result of the 1997 reform of the HECS, toward the displacement of courses of study which were in less demand. The result of this development is that more expensive courses of study are in demand with more affluent applicants and cheaper courses with lower earning opportunities following graduation are in demand with less affluent applicants. Applicants from lower income groups are afforded differential treatment, for example lower entrance requirements for admission to study medicine as a means of offsetting the social selection in courses with higher tuition fees.

The HECS does not provide an answer to the question of how one can increase the efficiency and quality of higher education. Transparency, evaluation and quality assurance are just a few important factors in this respect.

The development in Australia reveals that the introduction of tuition fees does in principle enable a selective influence on the demands for specific courses of study with lasting effects on the higher education sector.

Allow me a few words on the German situation: The Framework Act for Higher Education stipulates that the first course of higher education is free from tuition fees. This ruling is currently being contested before the Federal Constitutional Court in Karlsruhe. A completely new situation would arise, should the Court not consider it to be in line with the consti-

tution. The *Länder*, the States, are urging the introduction of tuition fees in view of their financial problems.

Would this be a solution? Hardly. The financial situation in the *Länder* is so disastrous that it is difficult to imagine that income from tuition fees would grow in its entirety or in part to benefit the institutions of higher education or even the higher education system as a whole. On the contrary, it would merely be used to fill financial gaps. The structural problem of higher education funding in Germany consists due to the fact that the share from private funding, like foundations, sponsors, graduates or students, is much too low by international comparison. This affects Germany's ability to compete internationally. At the moment we have no solution for this problem.

As different as the funding systems for higher education in Australia and Germany may be, we will continue to study Australia's experience with the HECS carefully against the background of future developments in Germany and to discuss this experience critically. Thank you for your attention.

### **Professor Simon Marginson**

Jürgen Lüthje, President of the University of Hamburg, will go next.

### **Dr Jürgen Lüthje**

Thank you very much. The question is, what can Germany learn from the Australian HECS model?

First, this model does not seem to solve all problems. Perhaps it even creates some additional problems that would be interesting for us to know about. The HECS model evidently has not relevantly influenced the proportional differences of various social groups within the total number of students. Some weeks ago I had the opportunity to visit Canada as part of a delegation of the German Academic Exchange Service. Evidently the implementation of student fees has not influenced the proportion of differences between social groups in Canada either. So there is some evidence that it is possible to create systems in which tuition fees are present, which have no bearing on social groups within the student body.

Second, evidently tuition fees can finance the expansion of a system or enhance its quality, provided that the money coming from tuition fees is added to the budget of the institutions. That's important.

The next thing we can learn from HECS is that HECS only solves the problem or gives an answer to the question of how tuition fees are financed. But the costs of studies are not only tuition fees. The much bigger part of the costs are living costs during the time students spend at university. Tuition fees are only 1/6<sup>th</sup> or 1/5<sup>th</sup> of the total costs. So we have to look at the question, how can students, in a way that is socially adequate, finance their whole study costs.

Now I would like to come to a second part: some questions and ideas, which I derived from a comparison with HECS:

First of all, following the last statement: Why shouldn't loans cover the whole living costs? I think that's the most important problem in Germany now. 75% of our students don't get student support. Those who don't get the so-called BAföG student aid, do not – and also their parents do not – have sufficient funds for financing their living costs. That's the reason why 70 – 80% of our students have to work during their studies. And so I think one point of the future discussion has to be, how to finance the total costs of studies. I think loans would be an adequate way, but they have to be guaranteed either by the state or by some system similar to the Australian one.

Second consequence, why shouldn't a system of loans be combined with a system of educational saving accounts? For a society it is not reasonable to finance education only on the basis of credits. It makes sense that a society saves something to educate the next generation.

Next point: Depending on the existing tax system it has to be decided how studying as an investment for the future, an investment into the professionalising of human resources, has to be taxed in comparison to other investments. I agree that if regular investment doesn't get any tax reduction, educational study should not be getting a tax reduction either. But if the tax system regularly gives tax reductions for investments, the same incentive should be given to investment in education.

There is a relevant question concerning equity throughout generations: We all are part of a generation whose education was free from tuition. So we really have to discuss what we should contribute to the costs of the education of the next generation. That can be possible in different forms, but we cannot ignore this question.

And there is another question regarding the equity between people who are parents and people who are not parents. 50% of our population don't have children. And these 50% earn much more or at least they have more than those who have children. This question must be answered as well.

What are possible solutions? I think the HECS system is an intelligent way to finance loans. What HECS does not answer is: How can we guarantee long-term stability of the system? In this respect, Canada has established a very intelligent system: In a phase when the Canadian state budget had surplus money at the end of the year, the state invested this money in establishing a foundation which now finances student fees and loans. I think this idea, establishing a foundation for student financing, could be a necessary impulse for our system.

Last remark, if we look at the quota of what we spend for tertiary education in Germany, we pay 1% of our GNP for tertiary education. In other highly developed countries like the US, Australia, Japan for example it's about 1.3%, so we are paying one third less than other nations. That's not because we pay less public money. The public quota is the same. What we do not pay is a part of our private income within the GNP, and that's this third. We have to find a way to pay one third more for education from our gross private national product than is currently the case. That's the answer to the question whether we should implement tuition fees or not.

There could be other answers like raising taxes or additional financing by surplus public money. We could go this way, but if we raised more public money for education, this money should be spent for early education and not at the end.

### **Professor Simon Marginson**

Thanks Jürgen, our first two speakers both derive originally from the field of law. It's always interesting to reflect on how people's disciplines have

shaped their subsequent careers and leadership rolls. Our third speaker, Max de Maizière from the University of Witten/Herdecke is not from law. He's cut straight to the point and is studying management, so his discussion is about management. Max, I hand over to you.

### **Mr Max de Maizière**

On my way from the state of being confused to the state of being confused at a higher level, I'm at a point right now where I think I have understood that the Australian goal behind establishing HECS was to go on an expansion path to get more students into the system. This is something that Germany obviously has to do as well, but I think the discussion in Germany is also about quality. I studied a year at the public university of Dresden before I decided to change the place where I was studying. I can tell you from my own experience that there is, as you, Professor Gaetgens, said so nicely, room for improvement. I think there definitely is. So the question is how can we expand and improve quality?

One side of the medal is certainly to improve efficiency, to have more competition between universities, to have an independent capital budget. Many things have already been said. I think another way is certainly to have tuition fees, some kind of student contribution, because I feel that education is a public good, of course, but it's also private good and people do get an advantage. It's not a question of releasing the state from its responsibility. On the contrary, I agree with Professor Lüthje that the main problem in Germany is living costs, and the state should go more strongly into that area and support students much stronger than it does now. But tuition fees are needed to improve the quality of the university. For that, I think, it is useful for money to go directly to the university and not to the state.

Let me share with you the experience we had at our university Witten/Herdecke. Well, the organisation which I represent here is not actually the university, but a student organisation, which was founded in 1995 when the state of North Rhine-Westphalia agreed to support the first private university in Germany, which was in a life-threatening crisis, financial crisis, at the time. The state agreed to support the university on the condition that the students contribute as well. So a group of students devel-



oped and implemented the financing model which still exists today and which has three main points, three liberties.

The first one is that the university has to select applicants dependent only on qualification, motivation and personality of the applicant. That is why we opted for income-related repayment of the fees.

Second is that if someone pays a monthly fee, it is a lump sum that is paid for an entire programme. We believe that you cannot encourage students to engage in activities beyond their studies and restrict that at the same time by having them economise their studies. I believe that a very important feature in discussing tuition fees is that the individual student should have a very large amount of liberty to determine how his or her studies are going to be structured. That is why I would criticise the HECS system for making students pay dependent on the amount of courses they take. I think that within the university you should have more freedom to choose.

And thirdly, freedom at the university is also the independent choice of the profession. This is possible because you have to pay income-related, it's 8 years 8% exactly speaking, if you completed a whole degree at Witten/Herdecke. So that means that those who earn a lot, pay more and those who don't reach a certain minimum income level, € 17,000 per year, don't pay at all. So there's a momentum of solidarity in the model because the Alumni pay for those who cannot afford to pay the monthly fee. That is why it is called the reversed generational contract.

The fact that there's this moment of solidarity and the fact that the system was developed and is until now administered by students demonstrates another very important point, namely how you define the word 'contribution'. At Witten we understand 'contribution' as something that you contribute to something, to a thing. Then the thing and the content of the thing are in the centre, and from there we derive a shared responsibility for the institution. That is why it is so important that students know what they are paying for – which does not mean that there should be customer-supplier relationship at universities – but I think that the idea of the institution should stand in the forefront and the student should know for what their money is being used. It is a logical consequence that students should have a chance to participate at the university. Our organisation has a seat or it can nominate a representative to the board of directors of

the university. In that way we have a community of teaching and learning. I think this is a natural consequence if you understand fees as a contribution to something.

To sum up, our experience has been that tuition fees in the way we organise it have not deterred students from studying at Witten. The average of those who receive a grant (BAFöG) is as high as in other institutions around Witten. Our experience has been that it is important how you define the contribution. Where does it go to and what is done with it? There should be a relationship between the financial input and the output without giving the impression that you can buy something with your contribution. Thank you.

### **Professor Simon Marginson**

Thanks very kindly, Max. Our next speaker is Lars Schewe from FZS, the National Union of Students in Germany. Lars's original field was mathematics, which might be useful I suppose, in the sense that, as I remember it, a facility with numbers is very helpful when working in student unions and student politics.

### **Mr Lars Schewe**

The question I shall answer is: What is your view on introducing some sort of student contribution to higher education financing in Germany? Well, that was quite easy actually, I'm against it, that's why you invited me.

But if we look further, we already have student contributions to higher education financing. Students and parents pay the living costs, you can't ignore that. It is quite clear that in the debate we either divide the costs of the university and the teaching costs from the living costs, if it's appropriate for our argumentation, or lump it together, if it helps our argumentation. I will do the latter of course.

I think living costs is a major student contribution, you can't ignore that. We can't simply say, ok, we talk about that later. This is one point we have to take into account, and that makes the zero line that was drawn as the income we have while studying into a minus line. We pay for our living costs while we are studying. So that is the first point.

If I look at the discussion about tuition fees in Germany, I would say the phases Frank Ziegele made were quite slick. I mean, we were always and have always been in phase four, no matter what. The other phases are sub-phases, it has always been a fiscal matter. I think that is what we can learn from the Australian experience: Introducing tuition fees will mean, as a side effect or the other side of the coin, a reduction of government funding and it is quite clear that it will end like in Australia. Universities will have less money per student than before the introduction of tuition fees. I think it is quite clear that we will not see an increase in funding for universities, just by introducing tuition fees. So I think it is quite naive to believe that. I don't understand why we will always say, oh, it's good, funding goes to the universities directly and not to the evil State Government. The evil State Governments will cut their funding anyway, so it doesn't help you if tuition fees go directly into the universities' budgets. That is a red herring for our discussion, that doesn't help us.

On the subject of expanding, we do need expansion of the German higher education system. But if we look at the different States we see that no State is really committed to expanding higher education. The Federal Government says it wants expansion, but that's the Federal Government, it does not directly supervise any university. No State, no *Land*, is really committed to expanding. They are committed to cutting higher education budgets, if you look at the discussion in North Rhine-Westphalia, if you look at the discussion in Lower Saxony. So nobody here is committed to expand higher education.

So I don't think that the discussion whether the HECS has led to an expansion of higher education in Australia is really helpful for our discussion. Nobody is committed to that goal and none of the concepts I have seen here in Germany were discussing expansion really.

What is quite interesting is, if we talk about the living costs, the States are always saying that we need more support for the subsistence of students. But the interesting thing is that this is a federal issue, not a state issue. So it's quite easy to say, yes, we need new concepts and we need more grants, but that's not up to the universities or the States. That's the federal issue. So we see that the discussion about tuition fees will not help us in tackling the subsistence problem, the problem of living costs. That is a

problem we will still have to deal with. Even if we introduce tuition fees, nobody will help the students with that.

So if I look at the situation in Germany, then I really think that the introduction of tuition fees will not help students and it will not help the universities directly. The fear I actually have, when discussing this with rectors or presidents of higher education institutions, is that people believe they might get autonomy if they are allowed to introduce tuition fees and to charge fees for themselves. I think that's a fallacy as well. You won't get more autonomy, you will still more or less depend mostly on the state budget and that will be cut even further. As you see in the states of Lower Saxony and Hamburg, the States will not give you more autonomy. They will still regulate everything, if they think it is appropriate. I don't think you get more autonomy if you are allowed charge tuition fees.

To sum it up, I think that neither the universities or even the rectors nor the students should have any interest in introducing tuition fees. The only ones that have a real interest are the State Governments and the finance ministers especially. But I don't think it helps if we say the finance minister is the devil, I think we have to choose from a lot of them. So I think neither the universities nor the students should push for introducing tuition fees. And that's why I hope we can have a discussion here that leads us into that direction. Thank you.

### **Professor Simon Marginson**

Thanks, Lars. Now the next speaker comes from an area of study which Bruce Chapman will say is the leadership position in relation to developments in higher education; it's the economics of education. Dr Dieter Dohmen, Institute of Education and Socio-Economic Research and Consulting (FIBS), which has a distinguished consultancy record, and I think he's about to show us why. Thanks, Dieter.

### **Dr Dieter Dohmen**

Thank you, Simon. I'll do my very best, but we'll see. I will start from a point that is close to what Lars Schewe just said. He said students pay fees already, in the form of their subsistence. This is correct in so far that studying in Germany is very, very costly. It is not free, it is very costly if you take into consideration that you have to pay for your subsistence. And if you look at the annual expenses, the share in public and private is 50:50,

50% is paid by the government and 50% is paid by students and their parents.

If we take into account the average duration of studying in Germany, which is approximately 7 – 8 years, studying in Germany is roughly as expensive as studying at Harvard. To put it a little provokingly, if we can reduce the average duration of study by 2 years, a fee of € 10,000 would not affect the costs of the student. In international comparison, we have very low rates of return in the German higher education system. Again, if we were able to reduce the duration of study, we would probably increase the rates of return so we would have a positive effect on this, but this is not the only argument we should take into consideration.

Furthermore Germany's higher education system is considered under-financed, ineffective and inefficient, and students from low income families are highly under-represented in the German higher education system. But this is, to a large extent, an effect of the other education sectors, meaning nursery education and school education. The school system is highly segregative.

If we look at the political discussion, there seems to be a consensus more or less, student fees or tuition fees will come, sooner or later, so the only question is: What will they look like? Is it an intelligent model, which one can say about the Australian model. I think the Australian model is a very good one. The question is will we have a comparable model or will we have a model that is far more selective and worse in its effects?

If you look at the political discussion, we can also see that there are two instruments that are discussed more or less among all parties; that is vouchers and that is tuition fees. There is no political party that completely opposes tuition fees except the PDS, Party of Democratic Socialists.

But if I look at the experience we can gain from the Australian model we can also observe some effects that we should try to avoid. And if I'm not mistaken then we have two such effects – and I cite a paper from Gerald Burke, who just wrote, 'At the moment we have a publicly supported Australian student load – and I think these are the HECS students – which has remained fairly constant over the last five years, with expansion occurring in fee-paying postgraduate and undergraduate students'.

This highlights a possible distorting effect you get if you have regular students or undergraduate students, which are worth less than post-graduate or foreign students who pay full fees. So this may be a distorting effect.

The second effect is, if I look at the budget, let's say at the expenditures for universities, federal operating funding, fee paying students, federal research funds and HECS receipts combined, then I can see that the budget has not really increased. Only the share between public and private funding has changed. So the concern that Lars Schewe mentioned, whether the introduction of fees will actually raise the funding level of the universities is a legitimate concern.

What we also can see – and Bruce Chapman has written a very good paper about this, I think – is that all commercial bank loans will be flawed. At the moment there are some agencies here in Germany who are discussing commercial bank loans. However, banks are risk averse and will thus serve only students at some universities or a few subjects, such as law or management. Most other students will more than likely not get a loan. Thus, from my point of view, bank loans are surely not an appropriate approach to introduce the fees.

What is to be learnt furthermore? Most probably, income-contingent loans are the best way to avoid or to minimise the negative effects on students from low income families. Even the HECS seems to have slightly negative effects, although the number of students that are affected by it seem to be rather small. But even if it is a slight negative effect it should be taken into consideration.

Furthermore, any scheme with tuition fees and or vouchers should be flexible regarding different study approaches whether students want to study full time or part time. Most schemes that are discussed in Germany at the moment are not flexible, or not flexible enough.

Finally, if you want to raise funds immediately – and this is a question Bruce Chapman raised during the presentation by Frank Ziegele – if universities are considered under-financed we would have to increase funds for them. Then the only approach to do this is to introduce some kind of

bank loan, to include a third party. If we say the commercial bank system is not appropriate, there is, from my point of view, only one bank which can do this and this is the Kreditanstalt für Wiederaufbau, the bank for reconstruction and development here in Germany, since they do not distinguish between different students. Any bank and any private company will distinguish and therefore will have some kind of adverse selection. And this is, from my point of view, a strong argument for refraining from any private approach, even the idea which has been mentioned by Frank Ziegele, I think it's not going to work. If we have a deferment rate of 10 – 15%, shareholders will immediately react to that, so this has to be avoided.

Another thing is, to put it shortly, if we talk about fees, they should be linked to the newly introduced European Credit Transfer System. The fee rate should be introduced at a low level. We shouldn't talk about € 8,000 – 10,000 per year in the beginning. And it might be an option to differentiate the rate or the fee level according to costs and benefits instead of having a uniform scheme. It might be another approach to introduce the fees at the master's level instead of starting with the undergraduate level. Thank you.

### **Professor Simon Marginson**

Thanks very much, Dieter. There was obviously a lot more you could have said and thanks for confining your remarks. Our final speaker is Dr Josef Lange from Lower Saxony. His original field was theology. So we have had two speakers from law, one from management, one from mathematics and one from economics and education – interesting, when we reflect on the roles of disciplines in shaping leadership in our field. Josef, you've got 5-7 minutes and then we'll go into general discussion.

### **Dr Josef Lange**

Thank you. Learning from the Australian higher education and funding system, we have to look at several key points. Germany is on the way to a knowledge-based society. We are a country without larger natural resources, thus we need highly educated people. Investment into higher education is an investment into the future, the future of society and economy, on the one hand, and to the future of the individual, on the other hand.

'Higher education as a public good in public responsibility', this is a quotation from the Prague and Berlin Communiqués within the framework of the Bologna Process. The German higher education system, as a state-founded, state-organised and state-funded system is indeed a higher education system that is a public good in public responsibility. 97 – 98% of all German students are enrolled in state higher education institutions.

On the other hand, higher education is an individual good and individual responsibility, it's an investment into the individual's future. There are at least two reasons: The university graduate unemployment rate in Germany is only half of the overall unemployment rate and a university graduate's life long income is much higher than the income of non-university graduates.

My third remark is on the current state of public budgets in the economic crisis in this country. (I could tell you something about the financial situation of one of the sixteen federal States in Germany, but you can read it in the newspaper nearly every day.) Whenever we visit higher education institutions there are demonstrations and discussions and so on and so forth. But as for the overall situation in the sixteen federal States in this country, there are cutbacks in all public budgets, and we are in a situation where no increase or less cutbacks already symbolise high political priority. At least in the Federal State of Lower Saxony, there are cutbacks between 4 and 6% in the budgets of the various ministries; the cutback for higher education institutions is around 2%.

Next year and for the year 2005 it's less than 1%. We were successful as a ministry in the last government meeting last Tuesday, to reach a decision with cutbacks in 2004, cutbacks in 2005 and then at a steady rate in 2006 and 2007. We are currently preparing a treaty between the State Government and the universities, which will not only be discussed, but also decided upon by the parliament in December. This treaty will guarantee the stability of higher education institution budgets for the period 2004 inclusive 2007. I do hope that we will be successful in the parliamentary session in December this year.

What does it mean to increase higher education institution budgets? We need third party funds. This is quite normal in the field of research, but we need additional third party funds for the field of teaching. In Germany we



are on the way to generate these third party funds in the field of continuing academic education. In my opinion, we need to generate third party funds for teaching and study as well. This means tuition fees.

I would like to remind you that until the summer term of 1970, we had tuition fees in the Federal Republic of Germany. The Prime-Ministers of the Federal States decided in April 1970 to abolish these tuition fees. If we look at the amount of money that students paid in the summer term of 1970 and compare it with today, considering the inflation rate and all, we are talking about an amount of € 500. So the argument that tuition fees would be the end of academic education for students from families with lower income, is a story, but not reality.

The examples of other European states and of Australia demonstrate that to invest in the individual future is an investment of the individual and that individuals realise this chance.

According to my opinion, we do not only need tuition fees in order to increase the budgets of higher education institutions. If students invest in their individual future, they invest into university budgets and thereby increase the consciousness for efficiency and effectiveness in higher education institutions. The steering effects of third party funds for teaching in higher education, in my opinion, are much larger than the financial effects. Students will request value for money. Universities and members of the university, teachers as well as administrative staff, will have to react and respond to that demand, value for money, and they will gain added value in their universities. Thank you.

### **Professor Simon Marginson**

It's one thing to have a good policy idea, it's another thing to implement a good policy, and it's yet another thing to keep implementing it in a way consistent with the best original intention. A lot of seemingly good policy ideas don't work very well in practice, and the proposers of those ideas fall back on the argument that the idea wasn't implemented in full, or there were unforeseen contingencies which normally won't apply and it has to be done differently next time.

The HECS is an idea that *did* work when it was implemented. At the same time, you have to keep implementing it as originally designed for it to

keep working. And increasingly what Australia did – for some reason, which may lie in a flaw in our national character or be simply reducible to the state of world and Australian politics at the time – is that although we had something that worked, we allowed it to deteriorate. We made a series of policy decisions so that the HECS no longer worked as well as it had done, in terms of its original objectives. Originally the HECS was associated with a very major expansion, the second largest in our history, in the higher education system. But after eight years of the HECS, the price was put up by 65%, the income cut-off point for the repayment of the HECS was brought down dramatically by about Aus \$ 8,000 and a variable rate was introduced with quite sharp differentiation by field of study. And at the same time, as two of the speakers have noted, domestic system expansion virtually stopped. After 1996, you see very little growth in domestic student numbers in Australia while the HECS was climbing, both in price terms and as a percentage of the total income of the institutions.

There's a variety of other matters associated with these trends in Australia, which I won't go into now. All I'm really saying is that the deterioration of the HECS wasn't due to the internal mechanisms of the HECS itself or the economics of HECS as originally designed. It was due to policy changes external to the HECS mechanism, it was due to events in the political sphere. Well, you might argue that these external political developments were just an arbitrary element, and if a nation can avoid the political error of capitulating – as Australia did – to an advanced form of neo-liberalism, then you avoid the problem. But I would make the point that to some extent the problem *is* associated with the original HECS 'settlement' – not the mechanism of the HECS but the policy assumptions that supported it at the point of introduction. In the outcome the HECS was not associated with a stable settlement of the public – private share. That is the underlying issue Michael Gallagher raised very early on in this conference. The public – private balance is still an open question in our system. We don't have a consensus, particularly on the role of public funding and we don't seem to be any closer to achieving one. We seem to be further away. That might be something worth reflecting on in relation to Germany. If you do change the basis of funding, it is important to establish a stable political consensus supporting those changes.

At this point I'm going to pose one question to each of our panellists and ask you to briefly respond before we bring everyone else into the conversation. You may wish to say something about what one of the others has said, especially Christoph here who spoke first and has heard all the others speak subsequently. But I'd ask you not to talk too long at this point and if you could answer my question I'd be grateful. I'm raising it because it hasn't been raised earlier in the conference, and it seems to me it is quite central to universities in general, and to the German university in particular: What effect would the introduction of tuition fees or charges for students as part of the financing mix – and no doubt associated with a move to autonomy and so on, as has been foreshadowed – what effect would it have on the research mission of the universities?

### **Mr Christoph Ehrenberg**

I don't think it would have any effect on research funding because the research funding is based on another system. It's the German Research Foundation which gives money to the universities. Naturally the universities can use part of their budget to pay their staff, their professors, and so on, so I don't think it would have any effect on this. But it's more or less the responsibility of the *Länder* to finance the higher education institutions, especially the universities and the *Fachhochschulen*, so maybe Dr Lange has something to say about that. I don't think, as I said, it would have any major effect.

### **Dr Jürgen Lüthje**

I agree that tuition fees would not affect the research mission of the universities. I doubt that the state would be ready to raise money for research. That would be impossible.

I take Lars Schewe's argument very seriously, that there are severe doubts about whether the state would use the introduction and implementation of tuition fees to cut state financing to universities. I'm trying to think how it would be possible to avoid this or at least make it less probable. I think in our political discussion we should insist on long-term agreements between politics and universities and society.

For example, Lars, if you were the representative of the student organisation at my university, I would make the following proposal: Let the students decide whether they are ready to pay tuition fees and what the

amount will be. These tuition fees would go to a fund to only support the teaching at the university. And I would offer to pay the same sum into this fund from the university budget and we would jointly administrate this teaching support fund, half of the power to the students, half of the power to the university. And we would then agree to cancel our agreement should the state cut its budget. Would you agree?

**Professor Simon Marginson**

Well, I'll follow the order and we'll take Max next. So Lars gets a chance to take his time to think about that.

**Mr Max de Maizière**

Well, probably, as a student I would hope that the President of the university would not, with the left hand, give the tuition fees into the teaching budget and, with the right hand, cut the sum for teaching and give the money into research instead. My hope, as a student, would be that it would have no effect on research.

And I would like to put a question to you, Dr Lüthje. Did you make that proposal also to the student bodies at your university?

**Dr Jürgen Lüthje**

Yes – they hesitated.

**Mr Lars Schewe**

Let me say something else first: We have a mix of different subjects on the panel, but we shouldn't forget that we have a binary system in Germany and we are missing representatives of the *Fachhochschulen* which are quite disadvantaged in doing research. So the question, does it effect your research mission, would be a different discussion for *Fachhochschulen*, we shouldn't forget that. At the moment we have a university discussion and we should not ignore that.

But, to the more or less indecent proposal, the issue is, you should already be spending quite a lot of money on teaching and you should have quite good student influence at your university right now. I think that it works quite well at the University of Hamburg, so why should the students actually have to pay for the amount of influence they have in the governance of the university? It should already be as you described it with you discuss-

ing with the students on an equal basis how the money is going to be distributed. So I don't think there should be any further financial contribution of the students to that, so I would say no.

### **Dr Dieter Dohmen**

Since I'm an economist, the answer to your question, what is the effect of fees on research, is that it's a question of the relative prices. Meaning, it depends on the fee system we are going to introduce. If it were only a small fee, it would probably have no effect. If it is a high fee, it may have an effect since teaching suddenly becomes more interesting to the personnel of the university. It really depends on what the system is going to be like. What I would suggest in any case is that we have to distinguish between a research budget and a budget for teaching. At the moment we are developing a voucher scheme for the university system here in Berlin, and we clearly distinguished between the research part, which is exempted from it, and concentrated with the voucher on the teaching part. So that's at least my idea to have a full cost voucher scheme on that. I would clearly differentiate between the two.

### **Professor Simon Marginson**

The answer you've given I think is very different to the one I've given last in Australia. I'll ask Bruce to explain. I think that the incentive structures are affected by the way you raise money for teaching and not only the amount, but the way you raise it, that the separation between research budgets, teaching budgets and administrative budgets is nominal even in an administered system but much more so when you move toward autonomy and you can in fact pool your money together in a single pool within an institution. So all kinds of things happen when you have to market yourself to compete. You change the internal distribution of monies between administration and marketing, on one hand, and teaching and research, on the other. There are lots of spill overs from fee arrangements to other functions, such as research. I'd ask you really to consider, as you consider the issue of tuition in its own right, also the spill overs into the other domains, not only research but community service and the global activity of your institutions. Because our experience has been all these things are intimately intertwined and inter-active.

### **Dr Josef Lange**

I was asked by Christoph Ehrenberg, what is the position of the Federal States or the *Länder* with respect to the effects of tuition fees on research. I would like to remark that the Federal States in Germany are cutting back their annual contributions to higher education institutions due to their financial situation, but on the other hand they invest with an annual increase of plus 3% since the beginning of the 1990s into the annual budget of the German Research Foundation (Deutsche Forschungsgemeinschaft) in order to become more competitive in the field of research. Since the beginning of the 1990s this is an increase of 42% in the DFG budget. This is a joint investment between the Federal States and the Federal Government, of course. But in difficult times, with serious cut-backs, to add 3% to the research funds at a federal level within the Deutsche Forschungsgemeinschaft implies a political decision to become more competitive in the field of research and to not distribute funds in an equal manner between all professors who could possibly do research, some do, some do more, some do less.

We need – I agree with Jürgen Lüthje – long-term agreements between universities, universities of applied sciences and the state. And we also need an agreement between society and the higher education sector. Perhaps we need these severe cutbacks in order to re-start the public discussion on the importance of higher education and research for the future of this society in a unified Europe.

When introducing tuition fees, in order to avoid negative consequences on the universities' budgets and its distribution between research and teaching, it is necessary to introduce a system of performance-orientated distribution of funds according to formulas within the higher education institutions. I mentioned the example of Lower Saxony, which will introduce around a 10% formula-orientated distribution of funds by the beginning of the year 2006. Naturally there is the question, what are the efforts, what are the results in research and in teaching? We started negotiations with the universities already in May. According to my opinion we'll agree on a formula by the end of November or beginning of December.

**Professor Simon Marginson**

Before you launch into your remarks and your questions, please do introduce yourselves, say who you are and what institution or organisation you represent. I've got one person on my speaking list already, that's Bruce Chapman.

**Professor Bruce Chapman**

This has been a very broad-ranging and interesting discussion. I actually think it has been too broad-ranging because of the lack of definition of what HECS is. I think there have been attributions to policy issues which happened at the time or after, which have nothing to do with what I think HECS means.

So let me define, in my terms, what I think HECS is and from that break this down into two questions. To me what HECS is, is the agreement with the proposition that students should pay some part of tax payer outlays for higher education in the form of tuition. That's point one, that there should be some tuition charge. And point two, if there is going to be a tuition charge it should only be paid by an income-related loan. Now what that means is, if that is what HECS is, then it really has nothing to do with the fact – the important fact, but not related fact – that families and students pay a considerable amount for the investment process. That's all, except that there is a major contribution that has nothing to do with tax payer contributions. If I'm correct, then it can be broken down into those two issues, then it has nothing to do with the fact that the Australian government since about 1996 has decreased total outlays for higher education resources. They could have gone up, they could have gone down, they could have stayed where they are, it's got nothing to do with the introduction of, the existence or the justification for an income-related loan to partly pay tuition. Actually, it also has nothing to do with the efficiency of the distribution of the tuition, where that goes in the system. In the New Zealand arrangements, for example, they have what people would roughly call HECS, the money goes straight to the institution. I would think that you could do that under the Australian system without a problem, and some people who look a bit like me have been suggesting that there has been a case for the money to go there. It's got nothing to do with HECS.

So if I'm allowed to break the question down into a) the justification for tuition and b) the desirability of an income-related loan, I do sense some consensus within the group, that is, if you're going to have tuition, then have a loan arrangement, which is sensitive to capacity to pay in the future. That leaves me with the question – which I think is the big one – if we accept the proposition that an income-related loan is the appropriate mechanism, it leads to this question, is tuition, even a wincey, wincey little bit, a desirable thing compared to 100% tax payer payment?

And what that means is that in a world, in which budgets are defined only by the contributions of tax payers, if you do not accept that tuition is reasonable, a small amount paid by an income-related loan, you are saying implicitly that it is a fair use of scarce resources to have 100% support for a system which typically advantages people from a socio-economic backgrounds that are already well-to-do and would do very well in the labour market. And implicitly you're saying that this is a better use of all those tax payers resources than it would be, for example, on income distribution, welfare, hospitals and the like. Thank you.

### **Professor Simon Marginson**

Can I invite further contributions?

### **Professor Bruce Chapman**

That's not really a comment, it's really a question. If you would like to respond, in other words, to tell us what is the appropriate use of government outlays in the presence of a system which would actually protect the poor, then I'd like an acknowledgement of it.

### **Professor Simon Marginson**

I'd like to bring more people into the discussion because everyone who sat here has heard the panel go around twice. Let's just have some more discussion and the panel can come back in individually at the every end.

### **Dr Ditta Bartels**

It seems to me, listening to the panel and all the speakers, by and large that you do not like the idea of a student contribution to tuition in a system where it's the '*nachlaufend* effect' where you pay back later. Now if that really is the position as I've heard it, does that mean you actually



think that the current situation is okay? As we heard from Professor Gaehtgens, it's certainly not okay and we do know there's crowding effects, we do know that there are problems with the system. Where do you think the solution is going to come from if not from some contribution of the students on a study now, pay later scheme?

### **Professor Peter Gaehtgens**

I'm very much along the same line. If tuition is no solution to the problem that was delineated what is the alternative? And if it is true indeed that the improvement or at least the maintenance of quality, Mr Schewe, is the issue at stake, not expansion – and I agree with you that it's not expansion, although I would not agree with the fact that nobody is committed to expand. I think the financial resources are not available to expand – but if not expansion but quality is the issue how would you propose to make sure that quality is maintained or regained in the face of an increasing number of students, in the face of decreasing public funding, without doing what Dr Lange said, somehow recruiting a third party as he called it, very carefully. Now since he's a theologian, he may have somebody else in mind. I'm not a theologian, I have never been trained in that direction, so I think the third party can only be the private sector.

And then I would go along with Bruce Chapman's question. If we agree that this is really the only solution, the only way to go, then the discussion with our Australian friends must mean that we ask ourselves: Is an income-related loan system not the only way to go? I think these questions are to be answered apart from all of the wonderful and well-founded arguments about living costs and things like that. That's an additional problem that we are not dealing with, I think, in this discussion today.

### **Professor Ian Chubb**

I think one of the issues that we miss in this discussion sometimes, and we do it in Australia too, is what are universities for, what are the values that we ensure we retain while we change?

And one of the easiest things to do is talk about this as if each element in it is completely separated from and different from and unaffected by others. I disagree with Bruce. The reason that the Commonwealth government has cut money is because there's a HECS. It's because they are

able to say that it has no impact on certain groups within the community from accessing higher education. It's because they are able to say that it puts in place ready measures to accommodate that. It's for all those reasons that the impact of HECS has actually been, in my view, to enable governments over time to reduce their contribution to universities. HECS didn't cause it, but it's because of HECS that we got it, so I agree with him that it's separate from that point of view. But in the time that I've been at the pointy end of universities which is going on 18 years, the number of changes that I have seen, participated in, contributed to, tried to ignore, reject, all those sort of things, it's just an immense number.

And we talk about some of them as if our institutions are businesses driven by bottom lines. Third party, I accept that, but the question is what does it do to your university? Has anybody ever got a \$ 1 out of the corporate sector where they haven't wanted a \$ 1.10's worth of value, or \$ 1.20, where they don't tell you what to do? And of course we do it, we take money from the corporate sector for research and so on, for particular projects, but it shifts the priorities of the university. And it takes them outside your control. And it imposes sometimes a discipline that's good, not everything is bad, but sometimes the discipline is good, sometimes it shifts the priorities of the universities in ways that you can easily lose control of.

So whilst personally I support HECS in the original and I think it certainly did lead to an expansion, and I come from a generation where university education was a very small group of people. It went on to relatively privileged existences and was supported by a group of people who didn't have the same advantages. If you were born into disadvantage, you never got out of disadvantage in my country except through education, and so keeping that accessible was important.

So it does seem to me that this issue of what are we for, what are our values, what are the values that are important that we should retain, what are the sort of principles that underlie a university, and from that how do we expand, how do we grow, how do we resource adequately, what we have to do is important. But it's important not to let this bottom line budgeting issue drive this one. It's got to fit in to it and support it, not drive it.

**Professor Simon Marginson**

Thanks, Ian. I'm going to take one more comment, then I'll move to a close, and the panel will do my summing up for me.

**Professor Gerhard Leitner**

I appreciate your contribution because I think there has been a lot of very wishful thinking about fees from students and what the state will do or not do and all of that. I don't think you can ever be serious about this deal that you are suggesting for students, that the fees go into a fund and it is jointly managed, this is just incredible, you can't be serious.

The other thing that is, I think, important is – and I said that before – the Australian system may have its weaknesses, it has its advantages, but at least you know what you are buying, it's got a rationale behind it. And what I don't see from the Hochschulrektorenkonferenz is any consideration of what students buy when they pay. There's no way of saying that you are going to finish in four years. You have no guarantee to say that you are finishing after five years. You are buying something, you're paying, you don't know what you are buying. And nothing is improving and students will go on studying for six years and they pay for six years. The frame of reference is what needs to be considered. If a student or a parent pays something, then they want to know what they are buying and what rights they have. Will they have a right to sue the university or the state because they are not able to finish within a limited period of time? For instance, take some of these universities, take the Technical University in Berlin, architecture, any other subject, maths subject, total disaster, unable to control, to manage the application forms and you have no guarantee that you can participate in the particular course. That's a rule in the German university system. So I think the first priority for the Hochschulrektorenkonferenz is to consider the frame of reference. Think about giving a guarantee that a student can finish a course in four or five years and then ask: Are you willing to pay for that? And yes, the answer will be yes.

**Professor Simon Marginson**

I'm going to save the audience from coming to blows by asking the panel to sum up, beginning with Dr Lange.

### **Dr Josef Lange**

Just some remarks: I think Professor Gaehtgens asked the key question of the future development of the higher education system in Germany and all over Europe, it's a question of quality and quality assurance. It's not a question of expansion. If institutions of higher education are not able to guarantee quality, to guarantee an organisation of courses and studies which enables the students to really finish within four, four and a half or five years, then universities have lost the battle for a larger part of public funds. It's a question of the credibility of higher education institutions and members of higher education institutions.

Second remark, with third party I mean, of course, the students, but on the other hand, foreign students. Are we not able to organise a system where companies who are interested in young academics invest in those young academics in this or that way? We have to think a little bit more about new solutions in order to solve the financial and the organisational crisis of the higher education system in Germany. If students are paying now or studying now and paying later, they more and more turn into the clients in the system, whilst they are members of the university at the same time and should invest at least some of their individual time in order to change this ever changing system of higher education and research. If the university is not a changing institution, in a world that is changing, where research and teaching is influenced by worldwide competition, then the institutions as institutions have lost the battle in worldwide competition and the students will lose as well.

### **Dr Dieter Dohmen**

Bruce, you are highlighting an important point, the initial idea of HECS, I think, was a very good one, but the problem is that it can be misused. And this is what biases the discussion in Germany. If I were sure, we were to increase budgets for education I would much easier talk about the introduction of fees than I do at the moment. What we see is that every opportunity is used to reduce public spending, whether it makes sense or not. This is a serious problem that we have in Germany at the moment. Most of us fear that governmental spending will be reduced, as we have been able to observe, for example, for the last couple of years in Australia as well, despite the initial idea. Furthermore, if I look at the higher educa-

tion system, I think there are also other opportunities for universities to earn additional income.

We have the so-called *Nebentätigkeitsgenehmigung*, that means professors are allowed to work beside their regular job at the university. If I were an employer and I imagine that a new employee came to me and said, well Mr Dohmen, please, I want to have a full time job. But on the 5<sup>th</sup> day I will work on my own with your desk and your secretary, maybe even for your clients, I think this is not the right way. So I would like to raise the question, is it okay that there is the opportunity to work beside the regular job, acquiring income? I think this income should be the income of the university and the people who earn this money should get some additional funding. If I look at the audience, the reaction is quite clear: Most of them don't want this because they would be affected themselves.

Other opportunities, why are universities not getting a share in newly established companies that are spin-offs of the university? Why are the incentives to earn additional money limited by decrees and regulations? The situation is improving, but there are many more opportunities to earn additional monies beside the question of tuition fees.

Another thing is, I'm a friend of vouchers and I think this is an instrument to improve the efficiency within the system. With vouchers we then may also talk about tuition fees. This can be combined, vouchers and fees, to full cost level of income for the universities so that you change the relative prices between teaching and research. And this is at the moment, I think, distorted.

### **Mr Christoph Ehrenberg**

Ditta Bartels asked a very crucial question: Do you think the situation is okay? No, I don't think the situation is okay regarding the university system. There's not enough money going into the university system in Germany, that's quite clear. And I don't think anyone who knows this system would disagree with this. Even the ministers of finance said so several years ago. They would say the same thing today, the situation is worse now.

So we have to try to get public money and private money into the system. We're doing that all the time, but it's a hard job. Josef Lange knows it for one of the *Länder* and my job is to do this for the Federal Government. We all have our difficulties to fulfil this goal, but we're trying and we're trying to make it real that education and research really become priority number one in politics.

Many politicians say so, but there are other major problems like the social system etc. The Federal Government, which I'm speaking for, doesn't think tuition fees are the solution. I said in the beginning, this situation might change, if the Federal Constitutional Court comes to another decision. In this case the current law would be no longer there. But that's speculation. At the moment, we have this law and so we will keep this position and that's it.

If you think about tuition fees, you have to look at Austria. In Austria, when tuition fees were implemented about two years ago, the universities lost 20% of their students. That's an effect we don't want. That's the main reason why we are saying no to tuition fees.

About private money, well, there are other solutions than tuition fees. You can try to get money from foundations, from sponsors, from alumni, etc. so the universities and the other actors in this field have to work as well.

### **Mr Lars Schewe**

First, Bruce, you said taxes are a scarce resource. But if you look at the German discussion of cutting the peak income tax rate, then I don't know why we should discuss, on the one hand, income tax rates, and on the other hand discuss introducing tuition fees. So I don't go into that line of argument at the moment, at least I don't think it's valid for Germany.

What I wanted to say to Mr Gaehtgens: I think it is a fallacy to believe that by introducing tuition fees you will actually help the funding situation of the universities. It will not help. It is a good deflection. The alternative is that we – students and university rectors together – lobby for more public funding. You don't get more money any way, what do you have to lose?

**Mr Max de Maizière**

Well, I agree that we do have a problem and I think it is not only a problem of efficiency, it's a problem of funding. Of course it's a question of where the funds come from.

In my experience firms and corporations are sometimes interested in specific areas of universities. Maybe foundations are ready to finance projects. 40% of our university budget come from donations and foundations, so from the private sector, and only 8% are tuition fees. So, I think, this small contribution from the students is legitimate.

It's hard enough to convince the finance ministers not to touch the earnings from tuition fees, as Lars Schewe said rightly. But then the alternative is not to ask them to give money on top. I mean, if we're being pessimistic about finance ministers, then it's probably easier to convince them not to touch the extra earnings instead of asking them to provide those extra earnings. So if tuition fees are collected intelligently and income-related, I think there is no deterrence effect. I would welcome it if those models, like HECS or the model at Witten/Herdecke, could be extended to even include a grant to the students. As Frank Ziegele said, if the goal is to acquire more funding from the beginning, then someone has to finance the gap in the middle, and that itself would be an enormous task for the government, so it's going to be hard to achieve that goal.

**Dr Jürgen Lüthje**

Well, I am convinced that our society and state as a federation has to invest more money into education. But the priority is paying more for early education and to enhance the equity of chances for all children, and this begins in kindergarten and primary school. Here we have to invest more money and more public money. Taking this as a given fact and given the shortage of public money, I am convinced we need more money in the university sector to enhance the quality of education. Here the only way is to charge tuition fees. I think it's adequate. HECS is one intelligent way to make fees financially viable. Personally, I prefer a combination of a credit system and a saving fund system. With these two instruments tuition fees can be shaped in a socially adequate way.

**Professor Simon Marginson**

Thank you very much. I'd like you to join me in a round of applause to thank our panel members for their contributions. Thank you all for staying to the end of the afternoon. I'd like to say on behalf of the Australians here thank you for speaking to us in English the whole day. As someone who goes to South East Asia from time to time, I'm aware about these questions of language politics. We don't take it for granted that you do so, and we feel an obligation – unfulfilled – that we should join you in your linguistic and cultural space, in the way that you generously joined us in ours, so making it possible to have the conversation.

Thank you also for putting up with the cold. In the last couple of hours it's become more difficult in this room, but if we Australians haven't felt the cold as much as we might have, because of the warmth of your welcome today. Come back tomorrow and come back punctually, Saturday morning 9 am. See you then.



# Session 4

## **Professor Erhard Mielenhausen**

Vice-President, HRK and President, University of Applied Sciences  
Osnabrück (Chair)

The first speech this morning is on the Australian funding model and its consequences for research. It is held by Professor Gavin Brown, Vice-Chancellor of the University of Sydney. Gavin Brown became Vice-Chancellor of the University of Sydney in 1996. Previously Chairman of the Group of Eight, he is on the Executive Board of the Association of Pacific Rim Universities, the Business Higher Education Round Table, the Australian Vice-Chancellor's Committee and the Global Foundation. Professor Brown, it's now over to you.

# The Australian Funding Model and its Consequences for Research

**Professor Gavin Brown**

Vice-Chancellor, University of Sydney

I understand from yesterday that one must croon into this mike like Frank Sinatra, so I will try. Let's try. I'll do it my way.

My task is to describe to you the consequences for research of the Australian funding model and presumably the new funding model. This is a difficult task because so far, in the reform package, the research components of the funding model have not yet been released or disclosed so we will speculate together in some sense. And perhaps the best way to start speculating is to go back maybe five or six years and consider yourself to be a bureaucrat designing funding for the research in Australia.

Now total R&D, research and development, expenditure in a country, usually has three main components: There's business expenditure on R&D, there's government laboratory expenditure on R&D and higher education expenditure on R&D. So these three things are called with acronyms BERD for business expenditure, GOVERD for government research organisation expenditure and HERD for higher education expenditure. Now what you would be told by your advisor if you were this bureaucrat five or so years ago, would be that certainly overall Australian expenditure on R&D is well behind the OECD average. A recent figure for Australia is about 1.4% of GDP, gross domestic product. The OECD average is just over 2%. But you would also be told that the big problem is that in Australia BERD, the business expenditure, is very low. In fact the rough figures are about 0.6% of GDP on BERD and about 0.4% on each of GOVERD and HERD.

Now in many countries business research and development expenditure is more than three or four times the Australian figure. Japan, for example, has a spending of about 2.2% compared with Australia's 0.6%. Therefore, your first impulse would be to say we must improve business spending on research and development. You would also look at GOVERD and HERD and you would be told that GOVERD is even slightly high by OECD com-

parisons and you'd look at HERD and say five years ago it was probably almost reasonable by OECD comparisons but falling. And since then it's fallen even more and so it's quite low. But the main thing you would be concerned with would be the fact that business expenditure is too low.

So your first impulse would be, I think, to find ways of giving money to business for increasing research and development. In fact you would even have been given a report about that time which said that the very best way to improve the economy of the country would be to have the top priority to have more government investment in business research and development, to have that supplemented by government laboratory research and that higher education was really research training expenditure and that pure research and basic research and even applied research was not really the business of universities. And that was the mind set which was prevalent in the country at that time.

Of course what then happens is that one tries to find ways of stimulating business research and development directly and nothing happens. One tries to stimulate government research and development through the various government sites organisations and the type of mind set again, which Mike Gallagher spoke about yesterday where you interfere and show how it should be done is how you try to stimulate that.

So what happened was that the major government organisation CSIRO, Commonwealth Science Industry Research Organisation, was required to find 30% of its income from commercialisation and other commercial activity. Far from stimulating CSIRO, this came close to killing it, because it meant that there was short-term investment in research, it meant that some of the skunk works type of spirit in the organisation was killed and over the last five years GOVERD has fallen. And the outcomes from the government laboratories have become less productive and in fact commercialisation from government laboratories has been less successful than commercialisation from the universities.

So slowly you would come round to the realisation that you had to look more carefully at HERD, higher education research investment. You would also look at America, where the American government has been convinced for many years that direct investment in university research is the key way of priming the economy and producing effective outcomes. And

this, of course, is measured in things like, where patents arise, and there's a figure like 60% or more of patents registered in America actually come from university research. And indeed if you look at Australian patents which are registered in America the figure is even higher, the percentage is something like 70% come from universities.

So slowly you would come to the realisation that it's important to investigate HERD and to do something about stimulating research in universities and not just research training. The problem then is to investigate it. The first thing that you would observe is that 30% of the time of every academic employed in an Australian university is counted towards HERD, that 30% of the salary of every academic is made part of the collection of data which composes the investment and higher education research. Now this is complete nonsense. Because there are 38 universities in Australia and there are probably five or six which are doing serious research. So the figures are grossly distorted.

It means that the situation is even worse than you thought. Not only is business research and development too low, not only is government research and development not working, higher education research and development is really low compared with true OECD figures. In fact eight of the universities do more than 70% of all the research in the country, and in fact the figure is even more startling if one concentrates on the four leading universities in research, Australian National University, Sydney, Melbourne and Queensland.

So that leads to questions of what you should do. Unfortunately the way governments think – and Mike Gallagher explained this very carefully yesterday morning and I urge you to read his paper very carefully, it's a very, very good paper – is to say, well, we must get our hands on this and shape it and do it extremely carefully. So about two years ago, after the government decided it did need to invest more in higher education research, it also decided to do it more carefully and tease out the different components. And so, what had previously been part of the general operating ground of universities, which was applied to research, was removed and earmarked as special schemes for supporting research. So then came in a new research training scheme, then came in different ideas, and increasingly the way that research money is being given to the universities is subject to more and more pre-planning from central bureaucracy. So

although there is a commitment to increase the amount of spending, there's also a commitment to increase the amount of interference, and this is a very serious problem.

Let me just describe briefly the plurality of research scheme sources that exist in Australia because that is one of the things that helps to save us, there are many, many different ways of accessing research. And I really believe that it's important for a country to have many different routes.

Probably the most famous scheme is the Australian Research Council Scheme which has three main components. There's the so-called discovery grant, which are traditional research project grants essentially, in which individuals apply through their institutions. The money is awarded to the individual for their research project, and the role of the institution is to monitor and make sure that the research is delivered properly, etc. but in a certain sense the money never passes through their hands.

There's another one like it which is Linkage Grants, in which projects with industry are encouraged. You must bring in a partner, who will then give, roughly speaking, half of the money. Some of the things that can come from the industry partner would be in kind, contributions like the use of equipment or something like this. And of course by extension, schemes like the linkage scheme actually improved BERD business research and development. So in a way the universities can be used to pool the business research and development.

There's also a thing called LEAF, which is basically large infrastructure where typically there would be cooperative bids amongst universities to establish important equipment.

The other major scheme is the National Health and Medical Council Scheme, which is in some respects similar to the Australian Research Council and which funds projects and programmes in medicine and medical science. There's a programme of so-called Cooperative Research Centres, CRCs, which are long-term projects, maybe seven years. The idea is that industry partners and universities develop something which will lead to commercial outcomes at the end of the seven years or so. So government funding for that could be, let's say seven million dollars over seven

years. And the hope is that at the end what you have is a viable commercial outcome.

There are also centres of excellence, which are somewhat more pure. Introduced were major national research facilities again, where one can bid for important infrastructure. Also, in the very recent past, there have been national centres established, ICT, in other words Information Communications Technology. A very significant feature of these was that it was decided that they should be established outside both the universities and the government research laboratories because the government took the view that the bureaucracies of both of these types of institutions would be hostile to effective developments. And so these national research centres were established free-standing, and this is, in a sense, a problem because it sucks strength right out of the universities in key areas and there are problems.

Now in all of these schemes it is typical that the money frequently bypasses the university administration, the university management, but the university, in order to get the funds, is required to put in some matching funds. And where do we find these matching funds? This imposes very, very significant strains on research management in the universities. But, thank God, there are significant block schemes still competitive in the sense that they are contestable funds, which provide money, which can be then used by the university management applied towards research. And the three schemes are the Research Training Scheme, the Institutional Grant Scheme and the Research Infrastructure Grants. The problem is that there's not a huge amount of money in these schemes. The largest of them, the Research Training Scheme, carries about Aus \$ 500 million for the whole country and the rough proportions of the three schemes are 4:2:1.

The way in which the block grants are allocated to different institutions are different for each scheme. But the Research Infrastructure block grant scheme, the smallest scheme, is the easiest because it's done on performance in national competitive grants. The Institutional Grant Scheme is based 30% on domestic, i.e. Australian students higher degree load, 60% on research income from all sources and 10% on publications. The Re-

search Training Scheme is based 50% on higher degree completions, 40% on all research income and 10% on publications.

Now, of course, some of that money, in particular in the Research Training Scheme, is already earmarked for support of the postgraduate students, that this scheme relates to, but it's also important that there is some of that money available for general use in the universities. What we must do is seed new projects in the university, develop new infrastructure, essentially cultivate a research garden of biodiversity for the future, not just do that which is already happening and already can gain specific funds. But increasingly we're required to match schemes which are very closely defined. And therefore research management in the universities is being made more difficult rather than easier by these schemes and by the way that money comes to us.

There's a very, very serious danger that the Australian Research Council, certainly through its CEO, is lobbying very hard to get these block grants removed from the universities and put in the hands of the Australian Research Council, so there can be more post prioritisation. In fact some people are even arguing that the grants should be attached to the particular projects given by the Australian Research Council.

Now if that meant that it was a bit like American overhead and the money went centrally to the university, then possibly that would be not too bad. If it went directly to the project, it would be a disaster because it would remove almost all our discretion and capacity for a research management. But even if it went centrally, having been gained by these projects, you would have the very artificial situation that one way existing and ongoing research and very specific projects would be in a sense directly bringing in the money which would have to be used in a different way for planning for the future, and there would be obviously serious tensions inside the institutions in trying to cope with this.

So I'm really quite concerned that while we go through a whole series of reviews at this moment about research to determine research funding that we should avoid disturbing this block grant situation. In fact, there's one university in Australia that does guarantee block funding for research and that is the Australian National University. Because historically the Australian National University was created to be a research leader in the country and was given guaranteed block funds. And I've always argued that that's

a good situation which should persist. Some of that money was given up by ANU, so that ANU could then compete in the competitive schemes and the university has been competing very effectively over the last two years in which that has happened. However, still not effectively enough to displace Sydney as the leading research university in competitive grants, but coming very, very close.

I think that it is worth contemplating: choosing maybe four or five universities and having a corresponding situation where there is some guaranteed block grant, even non-contestable, as long as there's a significant amount of contestable funding as well.

Now, let me just draw towards some form of conclusion by picking up something that Mike Gallagher spoke about yesterday morning when he described the income pattern for a typical university, and it does relate the specific topic of research funding to the overall funding of the universities: Let me run through what is, on a system-wide basis, the average situation for how Australian universities are funded. We now have – and this is the system average for the 38 universities – the operating grant, which is the money which comes through the Federal Government now for essentially the teaching operations, that's 29% of funding; HECS, which is the money paid by the students who have government-subsidised places, is 16%; other fees from students, that is overseas students and also domestic students who are paying fees, is 21%. So if you add all of that up, you've got 29% guaranteed by government as a basic teaching and learning money and then another 37% coming from student fees. Of the remainder, this research money I spoke about, which is either the block grant money or the individual project money, etc., that adds up to 12% of the universities budget on a system-wide basis. And then there's a remainder, and you've just done the mental arithmetic because you were challenged, and it's 22%, and that covers a whole lot of other things, but it covers contract research earnings, consulting earnings, commercialisation, donations, bequests, investment income. So that's the kind of thing, which the university as a business, a commercial business, can earn for itself. And it's quite remarkable that on a system-wide basis that is 22% and the guaranteed money from the Federal Government is 29%. So already we have passed into a territory which is just totally different from the situation you find yourselves in in Germany.



Now it may be interesting for me to now run through the same numbers for my university, which is a research-intensive university. So let's look at the operating grant – the system average was 29% – for my university it is 20%. For HECS, system average is 16%, for Sydney it is 13%. Other fees, for the system it is 21%, for Sydney 17%. So despite the fact that I'm a strong advocate of fees, we still are charging less for the students than the system average. Contestable research funding for the system 12%, for my university 18%; and then other, the things like contract research, the general business operations for the system average 22%, for the University of Sydney 32%.

And that is because I am investing very hard in becoming as independent of government as possible because the government is admittedly intending to increase money to the system, but it is doing it at an enormous cost of interference and therefore the only reasonable strategy for an Australian university which has the power to do so is to move further and further to being a private business entity.

In some ways that is sad because I share all the romantic glories of the past and the purity of the universities, and suddenly I spend as much of my time trying to inspire in academic terms as I do in trying to be a hard-nosed business man. But I think that the only way to lay the base for a university to be able to do safely the traditional and romantic things that a university wants to is to have its own power in terms of its commercial operations, to resist the creeping influence of government interference. So the research scheme is still being debated very hard in Australia. Naturally one wants to have every university given the opportunity to have research activity. We have a very strange phenomenon – well, it's not so strange when you think about it for 30 seconds – where the strongest advocates of the indivisibility of research and teaching are now the universities which do no research because they insist that to be real universities they must be given my research money. So we have a strange phenomenon indeed: The very strong universities, which are more traditional and consider research and teaching really to be indivisible and really do very serious research, are in fact concentrating their minds on doing commercial activity, and the universities, which do no research, are concentrating their minds on arguing that they are doing research and that research and teaching must be held together and never separated.

And how will the government respond to this? Interesting question, because politics is politics and even inside the universities and the various people who represent the universities, some things like the Australian Research Council and so on, there are, of course, selfish motivations, which are different from the overall motivations for the sector. So I'm just not sure how this will work, but what I really do very strongly believe is that the more local university management is empowered to do its own serious management, the stronger and more effective the entire system will be. Therefore I very, very strongly believe in something which has got a good deal of *laissez faire* in it from a government point of view. And I think I'll rest my case there. Thank you.

# Question and Answer Session

## **Dr Ditta Bartels**

Gavin, I'd be interested if you could give us an outline of how you spend the 32% of commercial money, on what kind of activities and in particular with an eye to being here in Germany, where one of the interests in col-laborating with Australia is in terms of sharing research students, whether out of the 32% you can deal with that?

## **Professor Gavin Brown**

I did not intend to suggest that I'm sitting with a crop of gold, which I want to share passionately with my German brothers. But every time there is an opportunity for something which enhances the research of the uni-versity and comes at no eventual net cost then I do, as a result of this income, have the capacity to put seed funding into a new project as long as there's a sound business plan, which means that the benefits can be calculated. So I do have capacity in that direction.

One other thing which I do and which I need to have that additional money for is I spend something like Aus \$ 30 million a year internally in supporting research activity prioritising and strengthening areas, which are already strong but show considerable potential, and in developing new areas which I believe should be developed and, of course, that is not just a benign investment in the development of the university's own re-search and research infrastructure. It is also a way of preparing my battal-ions of tanks to attack the competitive research scheme, and that means I can keep fuelling the activity by having more money coming back in.

So, at the same, we have got very costly buildings to maintain, we have to upgrade classroom facilities, and I've just embarked on a Aus \$ 200 mil-lion building programme and I don't have enough money to do that. So what I've done is gone to Standard and Poor's and got a double eight plus rating for the university and will borrow on the commercial market in order to move ahead these building developments.

Again, this is a freedom and an opportunity which is just lacking in Ger-man universities. Many people who've been trained in universities where there are not these possibilities can be a little bit afraid of moving into

this system where there is all of that capacity. Let me say that I believe that it's really, really invigorating and really good to have that. On the other hand, George Bernard Shaw said: Liberty means responsibility, that is why most men dread it.

### **Professor Erhard Mielenhausen**

There's time for one more question, a very short one and a very short answer.

### **Professor Peter Gaehtgens**

You strongly indicated to us that out of the 38 universities in the country there are, you said, five to six that actually do research, whereas most of the others don't. Now I wonder whether this is the result of a historical development and a competition between the 38 or whether it is the result of deliberate government planning of distributing research funding.

The discussion about the future development of higher education institutions in this country is very much dominated by the idea that in fact we shouldn't concentrate our research activities in but a few institutions. On the other hand, the restriction of funds that are available clearly calls for some sort of focussing. I wonder what the situation in Australia is.

### **Professor Gavin Brown**

First of all, I should be precise. I said that there are only five or six universities doing significant research. There are pockets of research in maybe 30 of the 38 universities, there are only about eight that do almost none at all. But almost all government policy has been in the direction of redistribution from the strong universities to the weak universities, and it has been a constant battle to fight in the other direction. And many of the newer universities in particular argue that it is not fair that, for example, my institution has had a 150 years of government subsidy and they've had maybe three years of government subsidy. Therefore my money should be taken and given to them. I argue that strength is what the country needs and so their money should be taken and given to me. Needless to say, this creates sometimes interesting relationships between university presidents.

### **Professor Bruce Chapman**

Two questions, one is: What's your view about the applicability and desirability of models such as the UK's Research Assessment Exercise? This is

an area of debate which has become a little bit popular in Australian research circles, at least the ones that I hang out in. The second one is: You talk about research in an institutional context as if the right measurable model is that of the university rather than the area within the university. Yet we know that within the universities some areas are very strong and some are very weak. Is that a more useful way to think about this concept, discipline rather than your institution?

### **Professor Gavin Brown**

As for the first question, I have a great fear of one aspect of the Research Assessment Exercise British style, which is it's yet another bureaucratic expense. On the other hand, the methodology is, in fact, quite sound. And I certainly believe in peer review. And the practical reason why it would be attractive in some respects to both, Ian Chubb and myself, as long as it did not carry with it huge bureaucratic overlay, is a technical thing, namely that the states, the *Länder*, in Queensland, Victoria, are putting more money, in fact, putting some money into research for their States. The State of New South Wales and the Australian Capital Territory are putting almost no money in. So there's a tendency for the schemes that I described to be biased somewhat in favour of universities in Victoria and Queensland. We would get much more if the block grants were allocated on the basis of a research assessment exercise. But would the entry fee be too costly, that's the question.

Now, just quickly, what was your second question, oh yes, disciplines. Part of that is, ego, I mean. I actually operate at the centre of the university and therefore I think about that as the natural place for everything to happen. But it's not really that, it's that the university is carefully placed in three academic colleges, mine – humanity and social sciences, health sciences, sciences and technology. There are Pro-Vice-Chancellors, one each of these has separate areas and they, in turn, are encouraged to think discipline-wise and strengthen each discipline, etc. So we do have that cascade view. It's just that I happen to be speaking, so I spoke that way. But I can use your question to say one very interesting thing, with the exception of the ANU, my college of science and technology was more successful this year in the National Competitive Research Grants than any other Australian university. So only one of my three colleges alone was more successful than any other Australian university except the ANU, you'll be pleased to know.

# Introduction

## **Professor Erhard Mielenhausen**

Vice-President, HRK and President, University of Applied Sciences  
Osnabrück (Chair)

Our next speaker is Professor Stephen Parker, Deputy Vice-Chancellor and Vice-President of Monash University. He's a lawyer and in addition to his main job at Monash University, he is active in several external appointments and offices. He is, for instance, member of the Professional Ethics Committee, the Law Council of Australia, he's a member of the Australian Research Council, expert at the Advisory Committee, Humanities and Creative Arts, academic auditor in the Australian University Quality Agency and, last but not least, chair for the Association of American Law Schools Conference Planning Committee for 2004.

# The Australian Funding Model and its Consequences for Internationalisation<sup>47</sup>

**Professor Stephen Parker**

Deputy Vice-Chancellor, Monash University

## 1. Introduction

I have been asked to speak about the Australian funding system and its consequences for internationalisation. There are many meanings and forms of internationalisation. My main focus today, however, is on what is, functionally, transnational or cross-border teaching and learning; involving either the students going to Australia from another country, or the Australian university teaching the students off-shore.

The English language terminology in the area can be confusing. The expression often used to describe this mobility, for example by the OECD, is 'international higher education'. I will use this description, although it is not ideal for the purpose and should be seen as only a subset of internationalisation.

I will begin by looking at the world market in international higher education and Australia's performance, which in relative terms might be described as spectacular. I will briefly suggest how this has come about before looking separately at on-shore and off-shore forms of international higher education by Australian universities. I will then speculate on some of the consequences of the last 15 years' developments, and some of the challenges that these create for us. I will conclude with some observations about what Australia needs to do next, now that the system has matured to some degree.

I do not propose to speak for too long and I welcome discussion, particularly to learn about the internationalisation of German universities.

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<sup>47</sup> Written version of the conference presentation.

## 2. Australia in the International Context

### The world market in higher education

International education generally is one of the most dynamic global industries. Taking higher education alone, there were an estimated 1.8 million international students around the world in 2000<sup>48</sup> and the number will certainly be higher in 2003.

One projection by an organisation called IDP-Education Australia is that by 2025 the world market will have grown four-fold to 7.2 million, which represents an annual compound growth of 5.8%.<sup>49</sup> By 2025, about 70% of the global demand will be from Asia; with China and India responsible for the majority of it.

Demand for international higher education is bound up with the growing demand for higher education generally, whether domestic or international. Global demand for higher education is forecast to increase from 97 million places in 2000 to 263 million in 2025.<sup>50</sup> The international component of higher education, however, will be growing faster than the domestic component because developing countries, particularly China and India, will not be able or willing to expand their own higher education sector at the rate they need for economic development. Directly or indirectly, therefore, they will import it.

### Australia's growth

Australia's entry into this market really only began in a significant way in about 1988. In that year there were only about 21,100 international students in Australia. By 2000, when Australian universities had started to provide higher education off-shore as well as on-shore, the total number had grown to over 100,000.

The total Australian international higher education sector seems now to be growing by about 15% per annum, and was doing so even during the Asian financial crisis.<sup>51</sup> It is predicted that by 2025 there will be about 1

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<sup>48</sup> A Bohm et al, *Global Student Mobility 2025: Forecasts of the Global Demand for Higher Education*, IDP Education Australia, 2002 iii

<sup>49</sup> Bohm, above, vi

<sup>50</sup> Bohm, above, v

<sup>51</sup> S Marginson and G McBurnie, *OECD Report on Cross-Border Post-Secondary Education*, (in draft), 38.



million international students enrolled in Australian universities, although nearly half will be off-shore.

When set alongside the projected domestic growth in demand for higher education, in a population which may only really be growing through immigration, international students studying within Australia will become a much larger percentage, in all universities. On some predictions, by 2025 they will outnumber the domestic students at some universities, assuming no intervening forces.

### **Australia's comparative performance**

I need to put these numbers into some kind of comparative context. In absolute numbers, the United States of America receives the most international students, taking about 28% of the total world market. The US is followed by the UK (14%) and Germany (12%). Australia takes 7%. In fact, according to OECD figures for 2000, the five OECD countries of Australia, France, Germany, the UK and the US received 70% of all higher education students travelling to OECD countries to study (and the OECD has about 94% of the world market).<sup>52</sup> Language is clearly a factor, with Asian students being drawn to countries which speak English, French or German.

Proportional to its size, however, Australia's performance is second only to Switzerland (which has a relatively low absolute number), with about 12.5% of its total tertiary students being from overseas in 2000. This compares with Germany, where 9.1% of tertiary students are citizens of other countries.

Furthermore, if one looks at net flows, i.e. international students coming inwards minus Australian students going outwards, the differences are more marked. Relatively few Australian students study overseas, whereas some of the other major receiving countries also send significant numbers of students elsewhere, particularly Germany. Australia's percentage net intake is almost three times that of Germany.<sup>53</sup>

To give you some sense of the importance of international higher education to the Australian economy: It is now the third largest export service,

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<sup>52</sup> OECD, Education at a Glance: OECD Indicators 2002, 237.

<sup>53</sup> OECD, above, 243.

after tourism and transportation. Of all kinds of exports, it is now larger than, say, wool, which is something of an icon in Australia's recent economic history, and represents 12% of total service exports.<sup>54</sup>

### 3. A brief history

How did all this come about?

It has been said that historically there have been three main impulses behind Australian international higher education policy: aid, trade and internationalisation in the broader sense of wanting to connect with people from other countries for social, political and cultural reasons.<sup>55</sup> Historically the aid motive was replaced by the trade motive in the late 1980s, whilst genuine internationalisation has been weaving in and out. People can act from more than one motive, of course, and this is certainly sometimes the case with international higher education policy.

Australia has been taking in international students since 1904, but the real growth began after the Second World War. From 1950 to 1974, most international students went to Australian universities supported by a foreign aid programme of one kind or another, especially the Colombo Plan. Those universities who participated heavily in the Colombo Plan, such as Monash and the University of New South Wales, now have amongst the highest numbers of international students, some 30 years later.

Between 1974 and 1985, international students in Australia were not charged fees for tuition, but a ceiling of 10,000 was placed on the total number admitted into the country.

From 1986, universities were allowed to admit full-fee international students, and an intense period of change began. In that year 'trade' students; i.e. those on full fee, represented only about 9% of the total. By 1988, only two years later, 95% were 'trade'. By 1990, in effect all international students were required to pay full fees<sup>56</sup>, to cover both their tuition and a capital component. The money was retained by universities and an explosion of growth took place.

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<sup>54</sup> OECD, above, 241.

<sup>55</sup> I Dobson and S Holtta, The Internationalisation of Higher Education: Australia and Finland Compared, (2001) 7 Tertiary Education and Management, 243 at 244.

<sup>56</sup> Dobson and Holtta, above, 246.

The recipe for this growth in such a short period of time was not simply the universities being allowed to take international students and keep the money. A more complex environment was being built up in which Australian universities were encouraged by government to become entrepreneurial and more self-reliant, and discouraged from thinking that revenue from domestic students would rise in line with growing numbers. International education may be the most important strand of this entrepreneurial approach, but there are now significant numbers of full-fee paying do-mestic students, especially at postgraduate level, which has encouraged a more market-oriented approach.

#### **4. On-shore international students in Australia**

To understand the situation more clearly one needs to separate on-shore international students; i.e. those studying within Australia, from off-shore students. These markets and their sub-markets may be operating semi-independently of each other, although their fates may ultimately be tightly related, positively and negatively.

Currently about two-thirds of Australian international higher education enrolments are on-shore in Australia. The main source countries are China, Hong Kong China, Singapore, Malaysia and Indonesia. The main disciplines of study are Business Administration/Economics (49.8%), Science/Computing/ICT (15%), Arts (10.3%).

#### **5. Off-shore international students**

Currently about one-third of Australian international higher education enrolments are off-shore, although the proportion is rising and is projected to reach 44% by 2025. The main importing countries are Singapore, Hong Kong, Malaysia and China, in that order.

#### **Description**

Off-shore international higher education takes various forms but there are three simple types:

- through overseas campuses of the Australian university;
- through partnerships with local providers;
- and through distance education.

In reality, these forms can be mixed, and sometimes it is hard to tell one from another.

### **Campuses**

A few Australian universities have established campuses overseas; either on their own or in a joint venture. My own university has one of each kind. Monash has a campus in Malaysia, with about 2,000 students, which is a joint venture with a local company. We have recently built and opened a campus in South Africa, on our own, which currently only has about 400 students, but which is projected to grow rapidly.

This is a controversial subject, but there are those who believe that the international education market will develop in such a way that governments of developing countries will begin to favour inviting foreign universities into their country over giving financial support for their young people to go overseas.

### **Partnerships**

Many Australian universities teach students in other countries in a twinning or franchising arrangement with a local provider. This usually involves the student actually being enrolled in the Australian university, but being taught at a local educational institution, for some or all of the degree programme. The curriculum, assessment and quality assurance may be provided by the Australian university, which awards the degree at the end. Monash, for example, has several thousand students undertaking its programmes offshore in this way, mostly in Singapore and Hong Kong.

### **Distance Education**

In addition, an increasing number of Australian universities engage in distance education. The distance education may be 'pure', in other words without a local institution providing support, or it may be supported. There might be a local support provider, or the Australian university may travel there periodically and offer intensive face-to-face programmes for its distance education students.

### **Motivation**

The motivations for teaching off-shore are various.

## **Financial**

In some instances there is an immediate financial motivation. This is more likely to be the case with partnerships and pure distance education, although it has to be said that Australian universities are not very sophisticated in their ways of costing programmes, and they may be deluding themselves about the true surpluses generated by their activities.

In the case of campuses, it is doubtful that immediate financial gain is the motivation, even amongst the more self-delusional expansionists, although if the capital cost has been borne by a local joint venture partner it may become more viable earlier in operating terms.

Monash, which is probably the most developed in this regard, does think that it makes a reasonable financial return from its Malaysia campus, and it also benefits from a significant number of transfers; in other words students begin in Malaysia but then transfer to a Melbourne campus of Monash and pay full-fees there.

## **Feeder**

This leads into a second motivation, that of having a feeder stream back to the home base. In effect, the aim is to provide a hybrid programme for the student at a reduced overall cost. The student begins in their home country, perhaps at a twinning or partner institution, and then moves to the Australian university in the second or third year. They thus benefit from an international experience, and the value of the degree certificate from a prestigious institution, without the full cost of attending that institution throughout.

## **Hedging**

Another motivation, which starts to have a more strategic flavour, could be called 'hedging'. Rather than rely wholly on students coming to Australia, the university will go closer to those students. This then reduces some risks, for example of Australia falling out of favour as a destination in key markets, although no doubt it opens new ones.

It is also possible that off-shore activities will be a response to imbalances at home. For example, if current trends continue, my own university could fill a reasonable size campus wholly with students from China taking courses in business. There will come a time when it might be more sensible for us to open a campus in China, at least for those Chinese students

who want the course in the medium of English, rather than the international experience and the mixing with other nationalities.

### **Global strategy**

The most complex set of motivations will lie in those universities which have a global strategy. Again, I must talk about my own university because I am most familiar with it, and it is possibly the boldest anyway. The Monash vision is to have a full campus or significant centre on every major continent. The idea is to have a set of global degrees, so that students might enter year 1 in one country and move to a Monash campus in other countries in subsequent years.

At least some of our off-shore activities are justified, at least to ourselves, by the need to put the nodes of that network in place, even if the financial returns are not immediate. Time will tell whether this is the right strategy, or at least whether Monash is the right university to pursue it, but it is an example of off-shore internationalism being part of a broader strategy for the future development of the university.

## **6. Consequences and Challenges**

I am trying not to talk about the benefits and disadvantages from international higher education because there is some debate and controversy about which is which. It is better to talk more neutrally about consequences and challenges.

### **Revenue boost**

There is no doubt that the capacity to take in full-fee paying international students has boosted the revenues off university students. There is a perception that international students bring in more revenue than domestic ones and that they are, in financial terms, more 'worth it'. I mentioned earlier that Australian universities are unsophisticated in their costings of programmes. I think it is safe to say, however, that international students bring in vital marginal discretionary revenue, coming on top of substantial public investment over the years in infrastructure, but when they reach the point that fresh capital investment is required, in buildings and equipment, etc., the picture can look different. In my own university, one of our campuses is essentially full up. If we were to build new multi-storey buildings to accommodate international students and price our courses at a

level which would recoup the full cost, I imagine we would need to charge considerably more.

### **Increased scale, flexibility, facilities**

Whether or not international students really yield substantial surpluses, they have expanded the whole system, leading to greater choice of courses for all student and exposure to more delivery modes.

### **Forcing up quality and innovation**

An OECD report suggests that the international student market has the effect of forcing up quality and innovation in universities.<sup>57</sup> It compels higher education institutions to offer quality programmes that stand out among competitors. I can't say whether it has really had that effect to date across the whole Australian sector, but I can see the tendency. It is certainly doing this indirectly. Australian governments, conscious of the sheer size of the sector as a form of invisible export trade, are moving to create mechanisms which will assure the international markets of the quality of the programmes. From time to time there is a story or possible scandal about standards at an Australian university, and I sense that governments, and perhaps the remainder of the sector, move to rectify the situation because of the possible spill-over damage. It is noticeable how willing government ministers are to move in quickly to handle the situation.

### **Benefits to community**

At least in the Australian context, international higher education has produced some clear benefits, I think. It has led to immigration of skilled and trained people – a brain gain – from a percentage of international students who wish to stay, which outweighs the brain drain that is so much feared. If one thinks about the declining capacity of developed western countries to reproduce themselves through birth rates, this is an important form of population policy. Of course, it is also a reason why developing countries might move against sending students overseas and start to prefer branch campuses at home of overseas universities.

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<sup>57</sup> OECD, above, 241.

There is also a clear benefit to the community in financial terms through the multiplier effect of students spending money on living expenses. I know there is considerable work going on in my own State Government to measure this more accurately, but it is significant that our Minister for Innovation, Research and Development is taking a great interest in the performance of local universities, and not just the Minister for Education.

### **Relationship-building**

Looking ahead Australia will soon reap the benefit of having so many of its graduates reaching positions of influence in their home country. These are the people who make choices about trading partners, about foreign policy and so on. And they are alumni who may remember their alma mater with fondness. I have recently finished as a dean of a faculty. In an annual giving appeal this year, it was an overseas alumnus who gave the single largest gift, in the form of shares now worth \$250,000. If this kind of experience is replicated across the sector it will be a substantial injection of discretionary funds.

### **Risks**

Whilst some of the benefits are clear, there are also risks; mainly ones stemming from being in competitive markets. A university might become too dependent on one source country only to find that international tension, visa restrictions or some other extraneous force abruptly leads to a collapse in that market. In our region, the pronouncements of Dr Mahathir, for example, which may have become more erratic as he approached retirement, have given cause for concern about the Malaysian market. Instability in Indonesia is also another fear.

Universities do not have a culture or tradition of thinking in terms of risk management. It is true that senior managers and governing bodies might now be sensitive to risk, but this is not the case across large universities where, for example, heads of department hold their position on two-year rotations but make quite significant decisions.

The decision to invest heavily in an off-shore venture probably carries higher risks. If it is a joint venture, then one may be at the mercy of the solvency or probity of one's partner. If one invests in a campus on one's own, it will take a long time to recoup the capital outlays, during which period events might well move adversely.



To be clear, I am sure there is plenty of growth left in the international higher education sector, which may be fuelled for 50 years by developing countries around the world, but that does not mean that a particular university at a particular time will judge the situation correctly.

### **Student experience**

We may now be reaching the point where the number of international students in some Australian universities starts to have a negative effect. Those students certainly do want to be with other students from their own country, for mutual support, etc., but they do want to get what they see as an Australian education, mixing with Australians and people from different countries. We are starting to see some resistance in one faculty at one campus from the international students.

### **Other forms of internationalisation**

I said earlier that three possible motives behind international education policy are aid, trade and 'internationalisation' of experience. The trade motive, so dominant in the last 15 years, may be crowding out the other two. It ought to be easier to provide a greater space for aid, in the form of scholarships and bursaries, funded from trade revenues, but it does not seem to be the case. I think this is short-sighted at a number of levels. If one is really investing in the goodwill of people of influence tomorrow, providing assistance to them seems more effective than charging what the market will bear in the short-term.

It ought also to be easier to internationalise the curriculum, provide a more multi-cultural experience on campus, arrange study abroad tours, facilitate exchange schemes and so on, because of revenues brought in from overseas students. To some extent this is happening, but I think Australian universities need to do more, and quickly, before a strongly instrumental association is attached to international higher education.

## **7. Conclusion**

In this paper I have tried to chart the spectacular growth of full-fee international higher education in Australia since the late 1980s, and the associated injection of funds into universities and the wider community. It is attributable not just to the decision to allow universities to admit these students and keep the fee income, but also to an entrepreneurial climate which the government has fostered, which one can also see in relation to

research policy, performance-based funding schemes and an encouragement of commercialisation.

One speaker yesterday used the old expression that the grass is always greener on the other side. To me, on this issue, the grass would be greener in some third field. This would involve having a better understanding of the full cost of university places, being able to command a fee that would cover it, and generating a surplus which can partly be ploughed back into helping developing countries develop more quickly (for example through scholarship schemes) and partly ploughed back into internationalising the experience of all students, whatever their country of origin. To reach that field, Australian universities and governments need to give these non-trade dimensions more urgent and serious attention than has so far been the case.

## Question and Answer Session

### **Professor Wolfgang Weber**

I would like to ask, what is the effect on the old connections, traditional exchange and cooperation programmes, etc. in this context? Traditionally, there have always been cooperative links based on academic contacts; results were exchange programmes bringing students from a country like Germany to Australia and vice versa, with the difficulty that not many Australians came to Europe or to non-English speaking countries. My impression is that these programmes do not exist anymore or are in decline. Could you say a few words about how you see the impact on these traditional exchange agreements.

### **Professor Stephen Parker**

It is an empirical question to which there will be an empirical answer. I'm not sure what it is, but my perception is that some of the aid-based programmes have continued and some new ones designed to promote mobility have come about, for example the UMAP programme in our region, that staff exchange schemes are growing and students are expressing more interest in them. But they are not growing at the same rate as the international higher education sector is growing. And I guess one of my final points was that I wish it was growing at the same rate as the other programmes. Simon Marginson, my colleague here, knows more about international higher education than anyone I know, so he may care to comment or have a different view. But I think it's fair to say that there has been a degree of crowding out of some of those old schemes, which is a concern.

### **Gauri Nandedkar, Australian Trade Commission**

You mentioned a lot of different statistics, particularly about off-shore campuses, and you mentioned that in the coming years, by the year 2025, that you will have approximately 44% of students on off-shore campuses. The German Federal Ministry of Education and Research, along with the German Academic Exchange Service, has actually started a programme called 'Export German Curricula', with which they want to put funding into German off-shore campuses. Most of these campuses are actually in Australia's back yard, they are in Vietnam, they are in Malaysia, they are in China, they are in Singapore and Hong Kong, really these primary

source countries for Australia. How will the Australian institutions have to perhaps re-adjust, reposition themselves in light of this development, because the Germans are going very aggressively, very strongly into this.

### **Professor Stephen Parker**

The 44% figure was the total of all off-shore enrolments, not just students based at branch campuses. I don't think there is a consensus yet in Australian higher education about the prudence of having off-shore campuses. There are Vice-Chancellors here who may have a different view, but I think the jury is still out on this as a form of internationalisation.

To some extent it depends on the policy of the home governments. So in the case of Monash, in Malaysia we were invited in by the Malaysian Government because – and this I think will be typical of many developing countries – it did not want all of its students, who are going into international education, to leave the country to take their currency with them and not return. So the system just has not stabilised at all, as to which is the best mode of operating.

I don't think that Australian campuses are too conscious of competition from other international universities establishing branch campuses in the areas where they've established. But it will come, Nottingham, which is an English university, has established a campus in Kuala Lumpur; they are a few years behind Monash but that will lead to a more competitive situation in due course. So I'm afraid I just can't say what the answer to that is, the whole situation is too new, too volatile and possibly just too dependent upon changing policies of governments in developing countries.

### **Mr Gerd Köhler**

Can you tell us a little bit about the impact of GATS on your business?

### **Professor Stephen Parker**

In a way I can't, because it is such an immediate and recent and live issue. It will depend upon the responses that governments of developing countries take to it. We believe, for example, that the South African government is wholly opposed to notions of free trade in higher education, and that we will have to plan our own future in South Africa in the light of that policy. So as things stand, different governments will take different views of free trade in higher education services and we'll have to navigate

our way through it. I'm not aware of any kind of generalised response to that at the moment.

### **Dr Hans-Georg Schultz-Gerstein**

When we discuss all these topics, language is one of the issues. It seems as if we have to take for granted that English is the international *lingua franca*, as Latin used to be in the middle ages. But I think I don't want to take it for granted. Because language, my language, is part of our culture, and thinking in a foreign language is a different thing from expressing yourself in a foreign language. You can take business administration, and engineering and science, and so on, but history, philosophy, architecture, arts, that's different. So do you have programmes for language in that context?

### **Professor Stephen Parker**

I think many English speaking people are embarrassed to some extent about the prevalence of the English language in some of the areas in which we operate, but it is a fact and certainly in developing Asian countries, half of what they are seeking is immersion in their discipline, but also in daily life through the medium of English, because it's emerging as the common language of business around the world, not the only language, but I think the dominant one. I could well have said that one of the forms of internationalisation, that I would like to see, is an encouragement of Australians to learn more languages. And perhaps we have turned the corner on that, a realisation that in order to navigate the world safely we need to pay more respect to some of the languages of the world. But I can't hide the fact that some of our growth is driven by demand for higher education in the medium of English.

### **Professor Peter Gaehtgens**

In Germany, we have been discussing the problem of brain drain for the last, if I remember correctly, 35 years, and we have not made any progress in preventing the drain of brains. I'm convinced that we have to concentrate more on brain gain. In this context, I'd like to ask you if international students in Australia have the opportunity of a life perspective, a professional prospective for life time, which they certainly do not have in Germany, which I think is the biggest problem. I think the attractiveness of the US, for instance, has very much to do, not only with the quality of

education there, but also with the fact that they can stay in the US and have a profitable professional life there. That is not the case in Germany and I wonder about Australia.

### **Professor Stephen Parker**

Actually, what I'd like to see is brain exchange. Clearly, we'd like to gain from it but gain through exchange. Australians are increasingly encouraged to spend time overseas. But at the moment, it's more in terms of gap periods between schooling and university or after university and before working, rather than necessarily as part of their tertiary education. So I think Australians are searching out international experience, but not particularly through the medium of higher education at the moment.

Immigration rules have changed quite recently, students are allowed to continue on in their studies and establish a period of residence there. I think within the last year to two years the prospects of international students gaining residence in Australia have improved considerably, although I don't have authority for this, I imagine that that's part of the idea.

### **Professor Simon Marginson**

Stephen has kindly invited me into the discussion, so I'll say a couple of things in relation to what has come up. The ratio of inward movement of students coming into Australia compared to outward movement of Australian students studying abroad is very high, Stephen mentioned it, is 19.74, which is the highest on the OECD. So we're very insular in terms of our domestic student body by comparison with the movement in. There are now interest-bearing loans included in the new policy package to encourage students to go abroad and there may be some movement if that comes through as a result of that policy initiative.

The branch campuses, we don't know, in a codified way, all we need to know. We now are auditing off-shore activity, but that audit cycle has just begun off-shore and at the end of the next five years or so, we'll have a much better idea of how much activity there is.

The dominant form of off-shore activity besides from education is in partner organisations rather than Australian owned, Australian erected. These

are much more expensive undertakings. But perhaps it is worth mentioning also – Stephen talked about the number of people coming in on exchange is growing modestly while the number of people coming in on a full fee basis is growing strongly – it's probably worth mentioning that the number of international students coming in to research higher degrees has grown much more slowly than those coming in to course work programmes. That's really a result of the financial incentive structure and it's of concern to the research-based universities that would like to see much more international research student traffic into Australia. Currently it's only 5% of the total national student population, which is pretty low on world standards.

Just on the GATS, two aspects to it. One is, the Australian government strongly supports an opening up of international markets to our exporters, as you might imagine. It is the same position as the US really. And the other dimension is the attitude we take for our own system, and the attitude we've taken is to freely admit cross-border activity in the form of business education; in the case of foreign providers who want to provide set up in Australia, we welcome them, but we don't give them subsidies. We haven't signed a national undertaking which would involve us committing to provide foreign providers with the same kind of funding support that Australian providers receive. So in that sense we've protected our domestic system pretty neatly, while at the same time trying to get into everyone else's markets as much as we can, which is the kind of position an exporting nation usually takes.

### **Professor Sibylle Planitz-Penno**

I've got a question concerning the distribution of goods within a university. Students go mainly into the business sector, into the departments of economics and the like, however much of the expenditure, especially the expensive programmes, they will be in engineering, they will be in science. So what do you do in the form of redistribution of money within programmes and departments?

### **Professor Stephen Parker**

It's true, as I said, that the largest group of international students go into business and related subjects, followed by science subjects leaning towards IT, which is the less expensive of the science subjects. If I under-

stand your question correctly there are redistributive mechanisms in most, if not all, Australian universities. Some of the funds brought in are distributed to other areas in which there are fewer international students. It's a highly controversial situation, especially around this time of year, which is budget time for our next calendar year, the extent to which a business faculty is required to give a subsidy to other parts of the university. But certainly in my own university, they bring in a substantial amount of revenue, which is then redistributed to disciplines in which international students by and large do not enrol. So that, you could argue, is one of the benefits for the non-business, non-IT disciplines, that they do pick up something from these recent developments.



# Introduction

## **Professor Erhard Mielenhausen**

Vice-President, HRK and President, University of Applied Sciences  
Osnabrück (Chair)

Our next speaker is Professor Rory Hume, Vice-Chancellor of the University of New South Wales. He has a PhD in Physiology and Pharmacology and is a Doctor of Dental Science. His current board memberships include the Garvan Institute of Medical Research, the Prince of Wales Medical Research Institution, Universities 21 Limited and the National Institute of Dramatic Art, The Australian and New Zealand School of Government and, last but not least, the Australian Research Council. He speaks about the university funding models, private investment und governance.

# University Funding Models, Private Investment and Governance<sup>58</sup>

**Professor Wyatt R Hume**

Vice-Chancellor, The University of New South Wales

You may have noticed that the title of my presentation is a bit different from that of my colleagues. Theirs all begin, the Australian funding model, comma. Mine begins, university funding models, comma. This is truth in advertising: I have worked for most of the last two decades within the University of California system, and I have only been back in Australia for a bit more than a year.

Ten years ago I got my first exposure to university-wide issues when I became a member of the University of California (UC) system-wide planning and budget committee, part of the UC Academic Senate, which contributes to the governance of the system. Five years ago I became the chief operating officer, and the chief academic officer of the University of California, Los Angeles. I then served on the UC system's administrative budget committee.

I am therefore, in some senses, still a slightly bewildered observer of the Australian higher education system. The University of California, which I know better, exists within a social framework, in a national higher education eco-system, and has a university governance structure all quite different from those in Australia. I will mention those differences where I see that they may be relevant to today's discussion.

Anyway, that's why the title of my presentation is different. Although the focus of the conference is money – financing – I will also comment, now and again, towards the end of my presentation, about structural aspects of higher education.

Professor Gaehtgens began yesterday by welcoming some steps towards increased university autonomy in Germany, and Mike Gallagher explained the origins of the high degree of autonomy in university governance in Australia.

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<sup>58</sup> Written version of the conference presentation.

I may be in a minority, but I believe that Australia has too much institutional autonomy, in most respects, to best serve the needs of Australian society, and not enough national governance of the university sector. We have a lot of government regulation, but this is quite different, in my mind, from good governance for the sector. There is a bit of a language problem here, and it's not a matter of English versus German – we have trouble with that difference just in English.

So although I'll try to talk mostly about funding, I will talk a little towards the end of my presentation about national governance needs: ways to organise our system better. I'll say it now, then I'll say it again then, that I think that getting governance right, and the shape of the sector right, is even more important - more necessary - than getting financing right, if we wish to create good social outcomes. One can have quite sensible funding arrangements, even good funding arrangements in the social sense, and still have a university sector that serves society poorly.

I would like to acknowledge the enormous German contribution to the development of present-day universities. This is not just to flatter our hosts, although there is nothing wrong with that. I want to emphasise the social value of what you created. A major part of the social value of what universities can do was invented here.

The unique development of focused, graduate-level research training and research activity, pioneered in the new discipline seminars of German state universities in the mid-1800s, transformed many of the world's universities, and is still the prime model for part of a well-structured university sector.

As you may know, because of the very obvious effects on the state and national economies that followed, focused, graduate-level research and research training in the new disciplines, and because of the attractiveness to American baccalaureate graduates who flocked here to train towards your invention, the PhD, American universities began to follow the same pattern.

John Hopkins University was established with the absolute intent to mimic the German model, and to help solve the nation's problems through graduate-level research. The land-grant universities began to follow suit, then the great private universities in the US, Harvard and Yale, and then

later the other great European universities, like Oxford and Cambridge and Paris.

The prime focus of this conference is university financing, and in particular the utility of the Australian HECS model as a contributor to that financing. I state at the outset, with no hesitation, that in my view HECS has been and is good social policy. That's a fancy way of saying that I agree with it. Unless the effective majority of citizens are prepared to fully fund the costs of higher education through tax revenues, then some form of fee is necessary, if you want good quality education and research. HECS is a very effective way to enable individuals to provide that fee.

You will be interested to learn that the chief financial officer of the University of California system contacted me recently – through his deputy, he was too frantic to contact me himself, I guess – to inquire about HECS and how it operates.

As you may know, California is facing a crisis in public financing of quite devastating proportions, and they are looking at all options in attempts to maintain quality in the face of substantial cuts in state support. I think that they will decide that HECS won't work for them, unless they can collect through federal taxes. Maybe Governor Schwarzenegger and President Bush can do a deal.

I have been asked to address two things in relation to university funding – private investment and governance.

The individual contribution, in our case HECS, in California's, various student fees, which are not called 'tuition' for political reasons, but are about the same proportion as Australia's HECS, is one form of private investment, and I will address that first.

In re-considering HECS levels and repayment parameters, as we are now doing, Australia is continuing to work to determine the appropriate balance between public investment and individual contribution towards the individual educational component of university activity in the country. Each society that has any commitment to social democracy in higher education has to make that determination.

There is no doubt that benefits accrue to individuals through university education – things such as increased personal satisfaction, increased intellectual capabilities and in the great majority of cases increased personal income throughout life. There are also substantial benefits to society as a whole from investments in education – measured principally through increases in the quality of life for the whole society.

What is the appropriate balance between private and public investment, given the various benefits to the individual and to society? As I see it, the correct answer can only be determined in the context of the overall value system of a particular society – and some of these overall values can be measured, or at least have measurable parameters from time to time.

Prime examples are the differentials in incomes that a particular society allows between various occupations; and the differentials between those supported through social services, such as the unemployed and the elderly, and those employed; and the structures and calibrations of graduated income tax.

It is reasonable that the political process be used to find all of these balances, and this is what is going on relative to university fee levels in Australia at the moment. We all have to accept that the political process is the only way that such value decisions can be made, in any system even vaguely related to social democracy.

As university academics we can contribute in a reasoned way to this debate. Our best chances of success, I think, will be if we do proceed on the basis of rationality, understanding and highlighting the social value that we can provide, relative to other social needs.

The Australian situation has been made a little more complex by a unique series of decisions related to allowing universities to charge full fees to some individuals, in parallel with others who receive state subsidy.

The first decision was to allow full-fee access for foreign students, not in itself unusual – it is very similar to the out-of-state or out-of-country fee arrangement for students in state-supported public universities in the US. In Australia this has allowed us to build capacity, largely removed from government regulation of enrolment profiles, which otherwise could not have happened. I think that we are a stronger sector now than we would

have been without being able to do this, although as was noted earlier, we are vulnerable to fluctuations in the market for such students.

This decision, to allow fee-paying international students, was followed by what I believe was the equity-based decision to also allow full-fee access to Australian students. These are academically qualified for university entry, but do not qualify for acceptance into a limited pool of government-subsidised places, what we call HECS places, in a particular university. This arrangement is unusual. There is a significant conflict between two equity principles inherent in what we call the full local fee option. The debate around this option in Australia has been particularly intense, both nationally and in individual universities. Some universities have not taken up the option, even though they may have been able to attract such students.

The third complexity is the proposal that HECS might be varied, by individual universities and for different courses of study, upwards by a maximum of 30%, or downwards to any level. This has been put forward as a mechanism to help the sector differentiate, as Mike Gallagher mentioned yesterday. It might do that, or all universities might simply increase the HECS by 30%. That is certainly the broad expectation in the Australian community. It will be interesting to see what does happen, if the proposal survives the political process.

I will now address some other forms of private investment in universities. As I see it, there are four other possible types of private investment, in addition to private investment through contribution to the basic costs of tuition:

- (1) the systems of investment and support that lead to the creation of private universities;
- (2) the more general contribution that some individuals make in exchange for the personal benefits to themselves or their families which accrue from university education – what is generally called alumni support;

- (3) the contribution that organisations such as industrial companies make in exchange for direct benefits that accrue to them through research outcomes – private research support; and
- (4) philanthropic support - the contributions that philanthropic individuals, charitable foundations or other entities make to promote broad social benefits that universities can provide to societies.

First, private universities: Australia has very few private universities, and they have only joined us recently. We have a quite different historical tradition to that of Europe and North America. Our first, and therefore our most influential universities were established at the time when state-supported universities in Germany, in particular, and then North America were demonstrating their social value. Each of our six States established one university only, and for about 100 years maintained only that one university.

These universities were state-supported – by the Australian States, not by the Federal Government – from their beginning, and we have no tradition of strong private universities to provide us examples or guidance.

This is a pity. Private universities serve, on one hand, as a simple beacon, an example of personal and social value in a quite pure form. They need not be linked to political decisions. They simply prosper, survive or fail depending on the value that they provide to individuals and to society, and very importantly depending on the perception by citizens of that value. They must continually define and effectively articulate what that value is, and refine and change that value and its public articulation, if they are to continue to survive and to serve.

The US has an impressive spectrum of private universities, as well as a rich spectrum of public, state-supported universities. Among the privates are:

- a few extremely successful research-intensive universities covering a broad range of disciplines, such as Harvard and Stanford;
- many very successful and highly focused smaller universities teaching liberal arts and sciences extremely well, but in the great majority of cases having little or no graduate or research mission;

- and many other, more experimental or entrepreneurial and newer constructs, such as the University of Phoenix network, which operates with very low overheads, little or no permanent physical structure. This last group generally deliver a teaching product only in the most cost-effective way possible, consistent with remaining attractive in the market, and usually have no research mission.

As the degree of commitment to social democracy in many societies has lessened over the last one or two decades – and I see both California and Australia having moved that way – private universities have provided useful guidelines for defining core values in higher education, as public universities have had to find ways to compensate for declining levels of state support. The full-fee options that I have described are good examples. So are the things that I will talk about now.

Alumni support throughout life: Systems that generate life-long commitment of graduates to the support of a particular university can be extremely valuable. Both political support, and therefore effects on public financing, and direct private financial support can flow from such commitment. Private universities in the US do well; public universities do less well. Australia's universities are all working to increase the levels of commitment and support. To develop and maintain enduring alumni support universities must provide evident value, and they must continually and clearly articulate that value, both to individual alumni and to society.

Research-for-hire – relationships with corporations and industry to deliver research outcomes for fees – there can be great benefits, but there are also ethical constraints. I believe firmly that we can manage those constraints. Our research must be seen to be of benefit to society as a whole – that is one of the two core values of research-intensive universities. This imperative should place limits on the degree to which sponsoring businesses can do exclusive deals. There is real social value in the open exchange of knowledge, and we must not let that be bought.

I will step aside from private investments for a few moments to comment on the second major component of public investment in university activities, public investment in research. As my colleagues have mentioned, Australia is working through considerations of the relative benefits of



block grants to individual universities for research, relative to competitive funding for research, based on merit.

Many of the newer universities have successfully advocated for block funding for research, making the argument that in order for them to become research active they should receive research funding on a per capita basis, and on a per publication basis. Not surprisingly, some of the more established universities have argued that the country is better served by the greater part of research funding being available on the basis of competition based upon quality.

Each of us, I am sure, will have an opinion about the relative merits of these two approaches. I think that the former is bad social policy – which is a fancy way of saying that I don't like it. Competition for grant funding may be imperfect, but it's better than the alternative, and we should work to find ways to make it less imperfect.

There is also some debate about what should be paid for in publicly-funded, competitive research. At present our governments do not pay the salary components of investigators, if they are university academic staff, arguing that these costs are already covered through the base operating grants, which are student-enrolment-based. I also see this as bad social policy, for two main reasons. First, it is a disincentive to succeed in competitive funding – it makes the block grant approach more attractive, and therefore supports and promotes mediocrity. Second, it creates a bad example for industrial support of research – why should industry pay the real costs of research if government does not? Similarly, the full indirect costs of research are not provided, using the same logic. This creates the same problems.

One of the Australian Federal funding agencies, the Australian Research Council, has recently been asked to find ways to begin funding some investigator salaries, but within its existing budget. It's a beginning. As other people have mentioned here, Australia has a long way to go to get the research funding part of university financing right in Australia. In addition to the structural problems, the absolute levels of social investment in research are much lower than they should be.

Philanthropic support – from individuals, foundations, corporations: The development of an endowment base in support of the university's work is an extremely valuable adjunct to university funding.

Most of the great private universities in the US are great because they have substantial endowments, on which they can draw to support and strengthen their programmes. They all work vigorously to maintain and to add to those endowments.

Private philanthropy in support of universities in Australia is not well developed. Mike Gallagher's data yesterday showed, in fact, that the proportion of philanthropic support has declined substantially since the Federal Government took over responsibility for funding from the States.

Like us, public funded universities in the US were also not strongly involved in seeking philanthropic support, until about 20 years ago – when it was recognised that public investment was unlikely to meet the full future needs of the sector, particularly if it was to remain competitive with private universities in the US. The University of California system undertook a very substantial effort designed to increase the level of philanthropic and industrial support to universities, believing (quite correctly as it turned out) that the level of state support would decline over time. The political philosophies of Margaret Thatcher and Ronald Reagan did, in fact, bring about such a reduction in public support. The efforts of the University of California system to increase industrial and philanthropic support were extremely beneficial in maintaining the quality of the university as that decline occurred.

Australia's universities have been less successful in increasing the level of support from non-government sources, but we are each in different ways engaging with this area much more vigorously than we have in the past. My own university is investing substantially in both academic planning – to clarify what it is that we do and will do that is of unique value to society – and in systems support, particularly building expertise and building relevant relationships, to increase philanthropic support in the future.

### **Governance**

The second major area that I have been asked to address is governance. I will try to be brief. First, some brief comments on governance of individual universities: Each of Australia's universities has its own governing board, with function and structure defined by an act of State Governments in

almost all cases, or of Federal Parliament for two, one of which is the Australian National University.

In most cases, our governing boards have a strong presence of representatives elected from various constituency groups, for example alumni, academic staff, general staff and students. They also include parliamentary representatives. These things are consistent with some deeply-held Australian social values – fair play, helping each in times of difficulty, representative government, one vote, one value.

However, some people believe that in a time of decreasing commitment to social democracy, and increasing emphasis on financial self-reliance and government inducements towards competition, the governance arrangements for individual universities should be changed, to reflect the increasingly competitive and commercial nature of university operations.

With the strong encouragement of the Federal Government, Australian universities and State Governments are, at present, critically examining the suitability of the governing boards' structures for the present and predicted future needs of our universities. The debate is quite lively, and the outcomes are likely to differ among the various Australian States.

I think that there is some general agreement that decreasing the proportion of elected representatives and increasing the proportion of individuals who are chosen on the basis of expertise to act as trustees, rather than representatives, will be beneficial. Certainly the present Federal Government is encouraging change in this direction.

It appears to be a general principle that when a large proportion of the governing board of a public interest body, such as a university consists of elected representatives, the predominant behavioural pattern and focus of the governing board tends to be the control of the operations of the university through legislation. When a functional majority is comprised of trustees, appointed on the basis of expertise, the predominant behavioural pattern tends to be one of monitoring of, and advice to, the appointed executive.

Decisions related to both operations and financing in Australian universities are therefore strongly influenced by the representative nature of our governing boards, in those areas where Commonwealth legislation allows us options. In most cases there is firm legislative control, however the

Federal Government, in general, pays the piper, at least enough to call most of the tune.

These concerns about single university governance are relatively minor, however. Our greatest defect in governance, in my view, is that we do not have informed academic governance at the centre. We do have public servants and politicians who are prepared to make regulatory decisions on behalf of the sector, but we have no academically-informed governance structure for the public system, either nationally or at the state level. Either would help, in my view.

I see a major need for central planning to guide our state-assisted universities. Consistent with the overall shift in political philosophy, we have moved dramatically towards the 'free market' in higher education, and the 'free market' is a poor mechanism for developing a diverse sector, which is what Australia needs, in my view, to serve society well. Some flexibility at the institution level is desirable, but so is master planning.

I draw a comparison with California, where there is a quite rigid demarcation into three tertiary sectors, with quite different goals, and different levels of funding. The system there is far from perfect, but it has some very valuable features.

The California Master Plan for higher education divides publicly-financed higher education into three distinct sectors.

The University of California system has a mission of graduate-level training and research, in addition to masters and baccalaureate education. It is expected to serve society through research outcomes, and through doctoral level research training. There are now ten University of California campuses, and six are among the top 50 research universities in the US. This is a higher proportion than California's population would suggest, relative to the population of the country, I believe because of guided diversity and academic focus.

The California State University system teaches at the bachelor and graduate course-work degree levels only. Its academics are expected to be active scholars, but need not conduct research. The system cannot grant research doctoral degrees. There are twenty-one universities in the State University system, and they teach very well at the bachelor and course-work masters' level.

The California community colleges teach at the sub-bachelor's level, are open to all high school graduates of any age, at a low cost. It has no research mission at all. It has strongly articulated programmes for transfer to the other two sectors. One-third of the UC system's graduates are community college transfer students, who enter into the third of the four-year bachelor's programme. This has enormous social equity benefits.

The first two of these sectors are in some ways equivalent, as I understand it, to the two sectors in Germany, the universities and the universities of applied science, but the distinction in California is more rigid – there is no research mission, because of the prohibition on research doctoral degrees, and very limited capacity to undertake strong research, in the second level in California.

Unfortunately Australia has lost the distinctions between the equivalents of the first two of these sectors, and does not have broad and planned links between its community college equivalent, the technical and further education sector, and the universities. So Australia now lacks both structure and governance to promote sectoral diversity. Instead, we have a strong tendency among our universities, because of uniform regulation and uniform funding arrangements, towards equal mediocrity.

Through historical good fortune the University of California system has only one governing board – the Board of Regents – for all ten universities of the UC system. Good governance in the UC system is helped by several factors:

- the overwhelming majority of the Regents are appointed, on the basis of expertise;
- the Academic Senate plays a very strong role, by conscious delegation by the Regents, in student selection, curriculum, and academic appointment and advancement; and
- the combination of strong Regents and Academic Senate tend to counterbalance the natural tendency of government to regulate.

I now need to create a rousing finish. But before I get there, despite all of my enthusiasm for central planning, I do admit that time, and private sector incentives, can create a diverse and valuable tertiary sector over time. The US privates do compete and have differentiated. I think that their long history helps. It has taken several hundred years to create that diversity.

There are some benefits, in seeking to create a diverse and valuable higher education sector, in a reasonable degree of individual university autonomy. But for the public sector, there are also benefits also in some degree of informed central governance, particularly to moderate the tendency of government to regulate, if you want to improve a sector in decades, rather than centuries. So I will conclude by stating that:

- Government loans that are repayable on an income-contingent basis are good public policy – they work well.
- In the public sector, we have a lot to learn from private universities about defining and articulating our social value; about creating enduring and supportive relationships with our alumni, and about building systems in support of substantial philanthropic support.
- It is both reasonable and logical that if there is significant public funding of higher education, there should be significant central governance. The governing structure should be informed by a rigorous planning process, should involve very substantial academic expertise. Policy should not be determined solely on the basis of either political ideology or the political process.
- We should not confuse strong regulation by government with good governance.
- In my view rational structure of the public university sector should be determined ahead of, even independently from, systems of financing; the financial arrangements should be tailored to meet the structural goals.

I look forward to discussing these matters with you. Thank you.

# Question and Answer Session

## **Professor Bruce Chapman**

It wasn't a major part of your very informative discussion, but for this audience I think it is very important to make the point that you can actually run an income-contingent loan basis, with the state being by itself. All you need, and this is the hard thing, for example in the United States, is for the internal service to play the role of collector. In a country where federalism is so strong such as this one, we don't want our friends to have the impression that technically it is not possible. It's very possible, but politically really difficult.

## **Professor Wyatt R Hume**

If Schwarzenegger and Bush communicate, then it will work.

## **Professor Erhard Mielenhausen**

One more question? Morning tea is waiting.

## **Professor Peter Gaehtgens**

I think this was a very enlightening contribution, thank you very much indeed. And the fact that you advised us not to forget about the history of development of institutions within the cultural context of a country, I think, is very important indeed. We may have to go back 200 years to do so, not only a few decades.

The relationship between good governance and strong regulations is what stimulates my comment. Our immediate history is an experience with governance that is not biased to the positive side. I'm trying to be very careful in expressing myself, but the constitutional structure of this country with the sixteen *Länder* and the one Federal Government, that doesn't have any say in higher education affairs, is, I think, a rather strong impediment for any kind of good national governance, because the constitutional power of the Federal Government is almost zero. All attempts to arrive at a national strategy will end up at the Constitutional Court and will be challenged by one or several of the *Länder*. The objects of that controversy are the academic institutions, which try to survive between these two poles.

So, I think, the discussion that you triggered is very important. I think we should continue this discussion on a long-term basis since you have two

types of experience, California and Australia, which is different, and Germany is again different. I would like to not really ask a question, but rather try to tap your experience. Whether academic institutions should go for more autonomy or accept good governance I think is not the question at the moment. Given the situation that we do not, I think, receive good governance, we cannot accept over-regulation, and therefore the way out for us is to strive for more autonomy, in the hope that we will make the better decisions because we are closer to the real task, and that is public responsibility or social democracy, as you call it.

### **Professor Wyatt R Hume**

I think that, faced with your situation, probably more autonomy is better than strong regulation. Well, I don't understand your most pressing needs, Australia's most pressing need, I think, is to develop a diverse range of universities. If your need is the same, then clustering and management of at least a cluster is desirable. The US achieved that at the state level: California controls in one way, Georgia controls in another way and gives a slightly different product, Texas controls in another way and is actually not as successful because it's not such a good government structure. So I think it becomes a competition between the quality of the government structure for the collective. To me, Australia is small enough in terms of population that it could do that nationally. If it can't do it nationally, then it should do it on a state basis, and some states, as Gavin Brown mentioned, are in some ways beginning to do that, by selectively investing in different universities and research. That is one way that the states can contribute. The solution is different in different places.



# Session 5

## **Professor Wyatt R Hume**

Vice-Chancellor, The University of New South Wales (Chair)

We will start our session with a presentation by Professor Ian Chubb on the future of higher education financing in Australia. Ian Chubb has been the Vice-Chancellor of the Australian National University since 2001. Ian began his university career as a neuroscientist and since then has served on various Higher Education Boards for the government and in 1999 was made an Officer of the Order of Australia for his services to higher education. Thank you, Ian.

# The Future of Higher Education Financing in Australia

**Professor Ian Chubb**

Vice-Chancellor, The Australian National University

This talk will not include much about future higher education financing. My colleagues have already speculated about that. It will be a more like a (rambling) walk through some of the issues that confront us as we ourselves confront the changed context within which we work.

To start: My only comment to you about HECS is, if you introduce it, keep it simple, keep it low, let people understand it and don't change it as often as we have ours. This would be my most basic advice. I suspect that if our HECS arrangements were introduced today in the form that they are now in, HECS would not be accepted, while at the time that it was first brought in, more than a decade ago, it was, with some complaints, accepted.

Now, ladies and gentlemen, you will, I am sure, be relieved to have heard that I don't intend to try to predict the future financing of Australian higher education. You've already heard a lot about it, and in any case, I think it's too unpredictable for speculation to be useful.

The present situation for us is that there are Bills in the Australian parliament that are now up for debate, and the main Bill in its present draft reflects the view, as you've heard from my colleagues, that there is a need for extensive regulation and scrutiny of our universities. Some of the provisions in that Bill are remarkable. It is said, for example, that the Secretary of the Department of Education, Science and Training can send anybody into the university at any time to get access to any part of our premises and any of our records and that our administrative arrangements have to provide for that.

That has never happened in Australia to an Australian university before, and it's a reflection of the fact, as Michael Gallagher said yesterday, we've shifted from the notion of 'universities' to 'higher education providers'.

There is no definition of what makes higher education higher and there is no definition in the Bill of what makes a university different.

So my university, famous as it is and operating nationally and internationally for more than 50 years, the University of Sydney, equally famous and operating in the same way for 150 years, the University of New South Wales and others could all get treated as if we were little shops on the corner, flogging off degrees to the first person who goes through the door with enough money in their pocket to buy one. I think that's a ridiculous position for us to have arrived at.

We now have our *tsunami*, in the form of a Bill, after 14 years or so of smaller, annual, incremental change.

The only bit of real deregulation that is in the present Bill is about fees. Everything else is about regulation – extensive, intrusive regulation – so the Bill as of today needs an extensive re-write and the Minister, to his credit, has agreed to discuss our concerns.

I should tell you that the Minister and I have an intriguing relationship. I taught him when he was a medical student and we discuss the old days from time to time. But he does express a view frequently, some would also say obsessively, that he wishes to see the quality of teaching in Australian universities improved. I do ask him, every now and then, whether there is any relationship between my contribution to his education and his interest in improving quality of the educational experience of our students. He assures me that there is no link. But ...

Anyway, the Minister has agreed to discuss our concerns with the draft Bill and I think he is a person with whom one can discuss these issues. He has, of course, constraints on him as well: his cabinet colleagues, the Prime Minister, etc. and so it is not easy for him either.

But one of our problems with the Bill as Vice-Chancellors is its actual operation. Making it work will require extensive, and at the last count probably ten sets, of guidelines. These are disallowable instruments – disallowable by the parliament, but only one has been released so far. The guidelines that have been released – as judged by a number of us – are some of the most grossly intrusive that we've ever seen in our experience as Vice-Chancellors.

They seek to regulate, indeed control, how we employ and how we interact with our staff. It's a political agenda of a particular political party – little to do with improving our universities. The opposition has a completely different political agenda and if they ever got elected – which they might do one day – our acquiescence could encourage them to change the present set of guidelines to ones in line with their ideological position – they would be equally silly and equally unacceptable. The guidelines will have to be withdrawn or modified.

A number of my colleagues – Professor Brown for example, is one who has supported the fee deregulation, but has opposed vigorously these industrial relations guidelines. Another colleague who also supports the fees, has said that if these guidelines are part of the price we have to pay to get fee deregulation, then it is too high.

So the Bill is going to be extensively modified or it will be rejected by the Upper House where the government does not have control in the Australian Parliament. What that means is that it may not be passed this year, although that is an objective of the government.

In Australia, education is an issue where the opposition is seen by the public to perform better, so the government doesn't want this to be on the public's agenda come election time.

The opposition, of course, would like it to be on the agenda come election time, so passage of this important legislation will get straight out party political.

I think that Vice-Chancellors are likely to be split on this issue. Some will get out the good old abacus and decided that they will get a big win, so therefore it should pass, but some others may say, 'I'd rather not have it all than have a bad Act.

Because that Act will be with us for a long, long time and whilst we might trust the present Minister, which instinctively I do along with some of the bureaucrats in his department, we have to concede that sometimes 'unusual' people get elected to parliaments around the world, quite unusual people, and some of them even get appointed to ministries.

Then if you've got a blunt instrument masquerading as an Act that allows a Minister to send in anybody into any part of the premises, get access to any records in order to identify something that is wrong, who knows

where it could end. But I do know that it's not something that I'd like to have just hanging there over me, or something that I would pass on to my peers and successors because I did not stand up and fight a piece of bad legislation.

Next year is an election year in Australia. In Australia the Prime Minister can call an election virtually at any time, so we don't know when it will be. There are already signs that the decks are being cleared; that the Prime Minister is preparing the ground – though not yet calling an election. If this Bill has not been passed by the time when he does make the call, then it will stall obviously.

The opposition is presently running better in public opinion polls than in the past. They could be elected, that would surprise a lot of people. But there has been a shift in their direction in public opinion polls recently. Since we have compulsory voting in Australia, public opinion polls are a reasonably accurate representation of how people might vote later; reasonably accurate, they are never, of course, exact because you don't know how people will react when they are in the booth with the pencil in their hand.

The parliamentary opposition's policy is different: They oppose fees and increases in HECS. They propose more public dollars, and there is an argument about whether or not they are proposing enough and whether the continued regulation that is implicit is to the benefit of Australia and Australia's universities.

We are in an election year with different policies between the two main parties, one of which is likely to form a government. They have different policies and the differences are quite fundamental: another reason why I don't think it's useful to speculate any more than has been done about the future of financing in Australian higher education.

I don't claim any special insights either because I think my colleagues and I all study the same material, and of course we interpret it a bit differently. We look at it through the prism of our experience, our own philosophical position and so on, and some of my opinions overlap with those of my colleagues – and some do not. Consequently, I do agree with a number of things that Rory Hume said and Gavin said earlier today, though not all,

and I might repeat some of them as I go through this ramble, and put it in my words.

The first thing I'd like to do is to put my view of the way in which modern universities operate. I was going to give a little longer talk about the role and purpose of universities but if I do, I'll run out of time and some of what I would have said has been said already. But it does seem to me to be important for us not to lose sight of the fact that some of the implications for our universities of what the future might hold always have to be put into the context, always measured up against our values and measured up against what we think is important. Since we're all different, that will be a little different for each of us, and there's nothing wrong in those differences or in there being those differences.

The Australian National University is the only university that operates under an Act of the Federal Parliament. One of the interesting things about us is that our Act requires the Council of the university to ensure that the university operates as a university. Do we each know what that means? Is there one view?

I keep saying to the Council, this is what a university is in my view, because to reassure a Council of essentially two thirds lay people that my colleagues and I operate the university as a university is either one of the biggest blank cheques we've ever had in our entire lives, or it's meaningless.

So we're trying to define it; but I'm not going to go through that with you now because it overlaps extensively with what some of my colleagues have said.

But I do want to say – because it contextualises some of the comments that I'll make later – that the great universities have some distinctive features in common. Not all things called universities – and we do have to be specific these days because I don't think the one word 'university' adequately describes all the institutions carrying that name – share these features. Just because they are not 'school' they are not by definition universities.

The great universities recognise that their two key functions are teaching and research, and of course, community service is increasingly important

as a specified and specific activity. Importantly, these great universities encourage a climate of intellectual curiosity, where it can flourish, and that the staff in those universities understand their responsibility of creating and disseminating knowledge and of determining its limits. And that they do so through their own research and scholarship and they transmit that interest and spirit of enquiry to their students. Their students aren't clients, they are partners in an educational process: and the partners learn from each other.

There isn't a good academic in a good university anywhere in the world who is not a learner every day of the week. And their students learn from them as they learn from their students.

But it seems to me to be important that we acknowledge what does distinguish some universities from others.

It is in my country; I'm sure it is here; I'm sure it is in every country in the world. Really good universities are the ones I've just described, educate for the future and for its uncertainties. They aren't limited by the standards and certainties that are set exclusively by present practice – often very comfortable for today's practitioners, but education for the future and its uncertainties is a critical part of what we do. It is why we do research, it is why we create an intellectually stimulating climate, it's why learning is a partnership.

It's because we prepare people to go out there and not be fazed when they discover that in five years time all they learnt is old hat. Our graduates will not be frightened or put off by that, they know what to do about it, how to learn and how to flourish in that uncertain and unpredictable environment.

Universities are accountable, of course. I would be one of the last to say that universities that are spending public monies should not be accountable for what they do and how well they do it. It's a privilege we have. It is a real privilege to have the job that I have. But I've got to let people know that I think it is, and that I will work to make sure that the institution that I represent does extremely well all that it chooses to do.

Universities should be accessible. I and my colleagues in their different ways probably would express the view that a really good university is accessible to anybody, that the capacity to pay is not the limit to entry, and that no financial barrier would be put in the way of any able student.

The circumstances of a person's birth should not limit or predict the rest of their life as they once did. They did for many of my generation of Australians, they could have for me – I was lucky, some others were lucky, there are a whole lot of people who weren't so lucky. And luck should not have anything to do with it anyway. Frankly, I don't think that I could sleep at night if I let it continue in my country when I have the opportunity to do something about it.

Importantly, I don't think that great universities are inflexible nor are they reluctant to change. They will change, but every change should be tested against the yardstick that measures improvement. Are we doing something differently in order to improve, or, sad as it would be, just to do it differently?

In July 2003, that is this year, the Economist magazine contained an article that claimed that 'universities' – that is: you, me, all of our colleagues – have seldom been more miserable. They are short of money, government micro management is intrusive and contradictory, and competition forces them to do things they dislike. It went on to say there will be no return to the halcyon days when universities were given tax payers money and left to get on with whatever they wanted to do. The author – and I don't have the article with me – may have been right. But if it is, what are we going to do about it? Why is it like that?

Some – not every – reasons: There is increased competition that is not all constructive: We see good courses in one institution being copied by another institution because they are popular. That surely cannot be an objective of government creating what they think is a competitive environment. Mimicking wouldn't seem to me to be a desired outcome. We are on a constant bidding process for even a basic wherewithal to do the job that we're required to do: a university operating as a university. My senior staff spend probably a third to 40% of their time bidding to get the money that comes back to them and to the university in tied-up packages – called grants by some – where the restrictions on them are much greater than anything we ever had before. It is done this way for many reasons – one is accountability – an accountant's form.



We have increased reliance on fees, but as we discussed earlier, if there is an international downturn it could be a serious problem for a number of our institutions. For instance there would be a problem if SARS comes back this winter, as it's highly likely to do, because it wasn't eradicated, it just went underground when the weather got warm. The Australian dollar is now at 70 cents, a year ago it was at 60 cents. Issues like these make us less competitive – and more vulnerable.

Therefore a fundamental part of Australia's public infrastructure, the part that educates our youth, and a few older people too, will actually be seriously damaged because of changes in the external international environment over which we have absolutely no control.

Now I support the presence of international students, but the fact that governments over the years, starting well before this government, have actually used some of that 'extra' income to substitute for their own financial outlays, is potentially of great cost to our universities and our nation.

There are a lot of benefits that come from enrolling international students, and they were mentioned earlier, and I support them all, and I support the whole approach that we've taken, but you can't have your universities, a fundamental part of your public infrastructure, so reliant on that income that some would fail financially if there were a downturn in numbers.

There is an assumption these days that 'the market' will operate effectively, indeed that there is a market and indeed that the market is well informed. Yet the distortion of the market by differential subsidies and by protection in politically sensitive regions is pretty common in Australia. There is a lot of intrusion, second-guessing and control – and as of today, we have to expect that to increase. We will have to do bizarre things: predict, for instance, in September in one year what our enrolments by subject will be in September the following year, when a third of the students in those subjects will not have completed their schooling.

Let me then pick up a few points that have been raised over the last couple of days.

The important one, I think, is autonomy. I think autonomy is now used as a pejorative in Australia. It's used against us by people who don't like

what we say and do. Gavin, Rory, others have talked about the advantages of being able to respond autonomously in a well-managed way. In Australia the new package potentially but greatly erodes that: the audits that I mentioned, the contracts, the predictive enrolments and penalties for getting it wrong, and the impact on diversity of our system, and our capacity to manage ourselves for diversity rather than compliance will, I think, be diminished.

Another point that has come up is the growth in tied funding, and its relationship to autonomy.

Of course, we have a choice to say no to some of the tied funding. But sometimes it's a choice between principles and dollars. We need dollars to run our institutions but we ought to be ensuring that they comply with the set of principles that we are adhering to. And of course my colleagues mostly do that. But the incremental even subtle shift in direction is the concern. Not the seismic one, because you can feel it coming and hold your hand up and it will stop, because Vice-Chancellors are very powerful people. It's the little ones that happen each and every year that change us in ways that we are not always alert enough to spot – or too busy.

Third party funding is an issue, and I'm not talking about students. I'm talking about those who give us a contract to do something: Of course, they have a right to expect and they do expect a return on that investment and indeed in my experience they want 10% more return than could be expected from the funds they provide.

I don't agree with Rory about the Australian Research Council funding chief investigators in teaching and research institutions. All that does really is pull out some of your best teachers and make them researchers. If that balance becomes unbalanced, we'll just find a growing separation even in the best research universities of the teacher and the researcher – and I do not believe that is in the interests of universities as educational institutions.

In Australia there is a cost in being successful. At Gavin Brown's university, and mine, we probably spend Aus \$ 60 odd million dollars a year of our own money in order to match grants that come to us, in a tied way. So we're actually being made poor – or more rigid, or less able to invest in the really innovative work – by being successful, and that is ridiculous,

totally ridiculous. It must lower national capacity because, as our ceilings are lowered, the smaller universities don't substitute for the reduction in our capacity.

In Australia we have actually seen an increase in the output of scientific papers over the last decade. We were once represented well in the first two quartiles of quality papers, quality work, now we are over-represented in the lowest two quartiles. So we are producing more work but of lower quality. And in the meantime the successful universities are being charged for being successful.

Rory talked about governance and a particular form of governance. What we once had in Australia, which I think we should be going back to – though not all my colleagues would agree – is to a form of buffer body between us and government. We once had one in Australia. Sure, it had its own idiosyncrasies and could be pretty intrusive, but it was us being intrusive to ourselves. It's quite different from a direct relationship with a government department or a minister or the Minister's bureaucrats. To have a body in there that can work that interface and is comprised mainly of people like us, who understand the system, understand its values, understand what it's trying to do, understand that things have to be done would be an important addition. Our last buffer body was abolished in 1996 – we've had several – and some of what we are now seeing, say in the Bill before the parliament, reflects less understanding of universities and leaves nothing between us and a Minister whomever that person might be in the next ten or so years. I think that's bad.

Diversity: we all say it's a good thing. Intrusive over-regulation leads to compliance-driven conformity. If the industrial relations package guidelines got through to parliament, for example, all our staff would have very similar terms and conditions of employment as a minimum. But we recruit staff differently: some in a highly competitive international environment. We can't all be the same, we don't want to all be the same.

Structure: I think, we might agree that we have too many universities, at least too many who purport to be the same. Gavin and, in a different way, Rory summarised that particularly well and I don't want to go into that, other than to say that I agree with the positions that they put.

So there are a number of issues there that, as we shift from one environment to another, we must always have somewhere close to the forefront of thought. We think about these things, we think about impact, we measure them against the values and principles, because that is what universities are about. I don't have the answers to any of the questions, but I do have one last question. After all my time at the pointy end of universities, going on 18 years, I still don't understand why it is that rich countries are unwilling to give high priority to the education of their youth. And it embarrasses me that I, we, have been so ineffective in getting the priority lifted.

So let me illustrate: In Australia earlier this year, at exactly the time it was proposed to increase the cost to students of their education, we Australians were given an Aus \$ 2 billion tax break. We were told that it was tax payers' money – your money – coming back to us.

The expression 'tax payers' money' is now being used as a form of psychological tool: your money that we shouldn't really have or don't really need. So aren't we good giving it back to you – back where it belongs. An alternative way is to think of it as the price we pay to be a citizen of a society that is underpinned by high quality, highly accessible services: ones that don't require personal wealth in order to access those quality services.

And I believe that education should be a very high priority. Not everybody else does – clearly: That Aus \$ 2 billion tax break was in the same budget as the fee hike; it would have more than covered all the extra revenue from increased fees and charges for higher education that were proposed in that budget; indeed it would have done so even if the tax break had stopped at Australian average weekly earnings. That is, it has been calculated that if we gave a break only to the poorer end of the wage and salary earners, we would have still had enough left over to cover all these fees and charges introduced into higher education.

And for the average Australian the tax break meant something like Aus \$ 4 a week in the pocket, just enough to buy 1 ½ McDonalds. For a person, like me, it meant around Aus \$ 8.

We could have used the money in many ways: to support equity arrangements and ensure access for able students; to index our basic grants in order to enable us to pay salaries without having to reduce staff numbers;

to support research; to stop requiring matching funds for many grants. But we didn't.

So I say again, why is it such a low priority to educate our youth? Now in the next ten years, it's worth noting that in Australia – it's probably similar here – we will have a 1.25 million person increase in the 55 – 70 year old age group, and a 200,000 increase in the 15 – 30 year old age group. So I am of the generation which is saying to the youth of my country, I'm going to get old, I'm going to retire, I want a standard of living and quality of life when I retire that I can appreciate, you've got to provide it for me. Then at the same time, I participate in a process that says you can pay for the privilege of acquiring the wherewithal to provide for me in my retirement. Of course, I will have a couple of extra hamburgers a week to maintain my energy levels as I sit and watch. And I think that's sad.

So, ladies and gentlemen, I end on a probably slightly pessimistic note, and I'm sorry about that, but I still don't know what we have to do to get education as a priority in your country and mine.

It is about priorities. I understand that it's about priorities. But what do we have to do to get education as a priority that's high enough, in your country and mine, so that when the alternative is better funding for education or a small tax break for the average citizen, there will be no question in anybody's mind which path should be followed.

If we can achieve that it will be a big and positive change. And it could show that we will invest in the youth of our country as, for certain, they will have to invest in us, the older generation of the future. Thank you.

# Introduction

## **Professor Wyatt R Hume**

Vice-Chancellor, The University of New South Wales (Chair)

Professor Rainer Künzel is an economist, a political scientist and a sociologist. He was Vice-President at the University of Osnabrück before becoming its President, a position he still holds. He's been Chairman of the Lower Saxon State Conference of Institutes of Higher Education and Vice-President of the Association of University Presidents HRK. Since 2000 he has been Head of the Central Agency for the Evaluation and Accreditation of Academic Programmes in Hannover. Professor Künzel will now predict the future.

# The Future of Higher Education Financing in Germany

**Professor Rainer Künzel**

President, University of Osnabrück

Dear Colleagues, Ladies and Gentlemen,

For me this is the third meeting with university leaders from Australia. Facing a knowledgeable group like this, it is a pleasure, but also a challenge for me to talk about the future of higher education financing in Germany.

Even if I wished to do so, I could not attempt to summarise the discussion of the past two days or to propose solutions to some of the issues discussed so far, because, unfortunately, I was not able to attend the conference yesterday. But a number of critical points on the way towards a sound financial basis of German institutions of higher education seem to be quite clear.

## **Transformation to a knowledge-based society**

The German higher education system has gone through a paradigm shift from a rather elitist system, providing higher education to a select few, to a system of mass education. This development reflects drastic changes in society: Scientific findings and methodology have become the basis of all decisions to an extent previously unknown. This is similarly true for the public as for the private sector. Even in the political sphere, most decisions are based on scientific methodology and reasoning. Universities are the only institutions which are devised to enhance and also convey the indispensable scientific knowledge for this modern society.

## **Higher education as public responsibility**

Higher education clearly is a public responsibility. In today's knowledge-based society a well-qualified and highly specialised workforce is needed. University graduates generate societal benefits that justify the investment of public funds in higher education. Economic growth and practically all other advancements in society rest on the growth of knowledge and on the qualification of the work force.

In order to provide quality in teaching and research, universities must be provided with a solid funding basis that is not contingent upon the political struggle about the distribution of taxpayers' money between competing ends. This implies contracts between the institutions and the state spanning a period of several years in order to allow for a mid- to longterm development strategy.

At the 2000 Lisbon European Council the importance of public investment in higher education was emphasised. The European Union formulated as a goal for the next decade to become the most competitive and dynamic knowledge-based economy in the world. In the Summit Meeting held in Barcelona in March 2002, it was stipulated that in order to achieve this objective the European Union would have to invest 3% of its GNP in research and development by 2010.

Nowadays, the economic welfare of a nation and its international competitiveness are largely determined by the quality of its people's education. This is especially true for a country with practically no exploitable natural resources like Germany.

Therefore, the current debate on further diminishing the role of the Federal Government in funding higher education can only be looked upon with great concern. The shared responsibility of the Federal government and the *Länder* governments for funding universities and other research institutions ensures comparable educational opportunities and internationally competitive universities throughout the sixteen states of the Federal Republic.

### **Autonomous financial management as a prerequisite for success**

As was said yesterday, many reforms paving the way toward more flexible and competitive higher education budgeting have already been implemented. Single block operating grants, for instance, are certainly a step in the right direction. But fully self-determined and self-responsible institutions of higher education ought to be able to act like private enterprises. They cannot be efficiently operated by external bureaucratic regulations. The political, strategic and operational responsibility for the institutional development has to lie with the university leadership. State governments, preferably independent buffer organisations like f.e. the planning and budgeting committee in Israel, should confine their role to the formulation



of long-term targets for the development of the state wide system of higher education on the basis of careful strategic planning.

For a successful, output-oriented financial management, institutions of higher education must be able

- (1) to build up financial reserves without having to fear that savings might be confiscated by the state authorities;
- (2) to own property and manage their buildings and real estate with the necessary financial funds being part of the university budget;
- (3) to employ their academic and non-academic staff at terms compatible with the operational requirements of teaching and research;
- (4) to recruit their academic and non-academic staff without any outside interference;
- (5) to select their students; and
- (6) to offer educational programmes on the basis of contractual funding regulations with the state.

As we heard before, a new model of university governance which meets some of these demands, has been implemented in the State of Lower Saxony, the home state of the university I represent. Some of the state institutions of higher education have changed their legal status to that of a foundation under public law.

My university has not yet joined the group of pilot universities, because until fall of last year the majority of the members of our Academic Senate feared that they would lose too much power to the external Board of Governors. Many of the important innovations of the new state law for higher education apply to every university, however, so that we are not in a hurry to change our legal status.

Despite a general pledge for more competition between higher education institutions, most state governments have, until now, shied away from a real task- and performance- (or output-) based funding formula for the universities. Naturally, a more competitive allocation of financial funds

will increase the budget of some institutions and decrease the budget of others. Universities have to focus on their strengths and accept possible cutbacks in weaker areas. It is the individual states' and the federal government's task to provide a framework that ensures a balance in educational opportunities for the system as a whole.

### **Diversification of financial funds**

In view of the across-the-board cuts of public funds we have witnessed in the recent past universities must diversify their sources of income. It is apparent that state funding will be decreasing rather than increasing in the years to come while the demand for highly qualified university graduates will grow continuously. The ongoing economic recession and new societal challenges, however, are bound to force even the most well-meaning governments to reduce expenditure and investment in higher education.

This leads to the conclusion that universities need access to revenue independent of the state. Of course, universities already supplement their allocated budgets with third-party funds for research, mainly through national or EU research funding programmes, and industry.

Alternative ways of income generation for institutions of higher education must be further explored. This includes the licensing of patents, revenue through services and continuing education, fundraising and sponsoring contracts, networking with alumni, and - last but not least - engaging in business operations akin to the universities' capabilities in R & D.

Another possible source of revenue that has been in the focus of our attention during the conference are tuition fees. Before I take up the question of fees, however, I would like to allude to the specific responsibilities connected with a changed funding scheme.

### **Responsibilities of the universities**

For our institutions of higher education a diversification of sources of income does not only lead to new opportunities, but also to new responsibilities. Increased university autonomy in financial matters in combination with more decentralised financial management does not mean that universities are entirely free to spend their lump-sum budgets without being held accountable for their decisions. Increased autonomy goes hand in hand with increased accountability. Transparency and accountability

towards the general public must be part of a comprehensive internal and external system of quality assurance. The university's profile and the institution's mission in teaching and research should guide the institution's financial decisions so that the allocation of funds is optimised.

### **Responsibilities of the state governments**

Reforms in higher education management do not only pose challenges to the universities, but also to the governmental authorities in charge of higher education. Just as the universities are restructuring to become fit for the 21<sup>st</sup> century, the higher education ministries have to modernise their administrative system. As long as the institutions of higher education are forced to adhere to often outdated and much too detailed bureaucratic requirements of state administration, they will not be able to function in an efficient and effective way.

### **Tuition fees as a source of revenue**

As discussed yesterday, even though the German institutions of higher education are dramatically under-financed, they are so far not allowed to earn revenue in one of their major fields of activity, i.e. in teaching. We have heard many arguments in favor of as well as against the introduction of tuition fees. The danger of blocking off potential students from socially disadvantaged families has been one of the main arguments against tuition fees. Another one has stressed the point of inter-generation equity. In fact, however, the alleged social injustice holds true for a higher education system in which the tax payer has to cover the cost for an individual's university education in full. Financial studies show that, on average, university graduates manage to realise a substantial income advantage over non-university graduates during their working life. In view of this advantage, it seems justified to ask the individual graduate to share part of the financial burden for his or her education.

Furthermore, a 2001 study by the Organisation for Economic Co-operation and Development (OECD) has shown that the individual's rate of return on investment with regard to post-secondary education is particularly low in Germany. This can be attributed to the long average duration of study in combination with relatively high costs of living. Here, tuition fees would certainly have a positive steering effect, provided the revenue from fees were at the free disposal of the higher education institution.

With regard to the social balance that needs to be preserved, and in view of its greater demand-orientation compared to Australia's HECS, I am in favor of the New Zealand variant of student contribution to higher education. In addition, I would like to suggest an education savings scheme analogous to the German real properties savings scheme that was based on the former § 7 b Income Tax Law.

I must admit that Australia's HECS might be easier to combine with the German supply-oriented steering mechanism in higher education. Contracts between the individual institutions and the ministry about the kind and number of study places to be offered would imply a lump sum funding obligation on the part of the state, which would not depend on the kind and number of study opportunities actually utilised. But, as in practically all centrally planned systems, reactions on a mismatch between supply and demand would be slow or even non-existent. Also, since the cost structure is not the same in all institutions, prices fixed by the state do not reflect supply conditions, either.

The New Zealand solution to the problem – although it is not a pure market solution – simulates market forces much better, because enrolled students, not study places, are subsidised, and the universities can fix tuition fees according to costs and market position. The state is still able to influence the strategic orientation of the universities indirectly by varying the amount of subsidy paid per student or graduate in a given educational programme. It is, of course, important, that the state subsidies are not combined with prescriptions as to what the money ought to be spent for.

It can be shown by standard economic reasoning, that such a flexible system will lead to a better cost-benefit relation than a system relying on non-price rationing of study opportunities like the one we have been living in to date.

In New Zealand the conditions for repaying the loans seem to be skillfully devised as well. Instead of a limit to the taxable income beyond which repayment is due at progressive rates from 3% to 6%, as in Australia, the New Zealand scheme allows for a certain sum to be deducted from taxable income before repayment at a fixed percentage rate begins. The New Zealand regulations thus avoid discontinuous variations of repayments

with growing taxable income. Less convincing, however, is the addition of a nominal interest rate to the rate of inflation when the current value of loans is determined, since nominal interest rates are themselves influenced by – among other factors – the rate of inflation. In addition to this argument it would only be fair to block off the influence of monetary policy on the cost of long-term loans for education. Therefore, if an interest rate must be calculated at all, it should be low and constant over time. The same argument pertains to the conditions for an additional subsistence loan which in New Zealand has the advantage of not depending on need – and thus on the students' parents' financial situation – and of not increasing the yearly volume of repayment but rather the duration of repayment obligations.

The often heard argument that tuition fees on the basis of loans will shift too much of a financial burden on future generations and thus violate the principle of inter-generation equity cannot be denied relevance. Therefore, long-term financial provisions for the education of children should also be subsidised. A suitable savings scheme could be that of the former German real properties savings scheme that allowed to choose between tax benefits or a state subsidy when the savings were used to buy real estate or build a home. Such a savings scheme would motivate parents to invest in the education of their children and it would – through the state subsidy – shift some of the burden on the shoulders of those citizens who have no children of their own to care for while they, too, will depend on the qualification and productivity of future generations.

In closing I would like to pass on to you an idea of a colleague of mine, Ludwig Schätzl, the President of the University of Hannover, who has suggested that universities should divide their income from tuition fees into three parts:

- one part to support the needy students
- one part to improve the present conditions of teaching and learning and
- the third part to build up a university foundation, an endowment, which will help to improve and modernise the universities' offerings of educational opportunities and – in the long run – help to ease the burden on future generations of students.

## Question and Answer Session

### **Mr Volker Bley, University of Applied Sciences Potsdam**

I've got one question: How big do you think the portion of scholarships we need to help needy students should be in the system that you propose? And a second remark, for my small daughter, 3 years old now, I will have to pay € 5,000 next year for her kindergarten. So is that an amount that you think students should pay per year for the tuition at university in exchange for the state funding of kindergartens?

### **Professor Rainer Künzel**

As I said, I think we should not charge the same fee for all students and all study programmes, we should differentiate fees across all the fields of education. But as for the average fee, of course, it would develop over time. To begin with, we've been discussing something around € 500 per semester. I think it should range from € 300 to maybe € 1,000 in the beginning, and it should not be the same for all fields of study.

### **Dr Wedigo de Vivanco, Freie Universität Berlin**

This is a question to Professor Chubb and Professor Künzel. Looking at the two systems, we come back to the discussion that expenses in higher education are very much regarded as consumptive expenses in the state budget. Do you think it would change the discussion if it were possible, in budgetary discussions, to shift expenses for higher education into the investment sector of the state budget? Because they would then be regarded as a necessary expense rather than a cost. Would that change the discussion?

### **Professor Rainer Künzel**

Well, that's actually a question concerning the legal definition of parts of the budget. I don't think it's possible to shift it to the investment budget. Calculating the return on investment would not be that easy because, even though we are talking about expenditure on higher education in terms of investment, we don't think of it in the same way as profitable investment in industry.

### **Professor Ian Chubb**

Basically I agree with the point. How you achieve it is another matter, I suppose. I continue to be stunned by the fact that we still see all this as a cost and not as an investment. There are studies indeed which show the development of the prosperity of the social, cultural, intellectual life of a country, that gets increasing benefit from the grade or proportion of its people who get a decent education. I see that as a process by which we should be presenting our case more openly than we have been. I guess people like me and my predecessors and them before them have been saying this for a long time and its still appears on the cost side of the ledger with no real tangible balancing item on the other side of the ledger.

It seems to me that we're in a loop that is difficult to break out from, but if the community at large were advising the politicians that they thought this was high enough, as they do from time to time. For example, in Australia, at the moment security is high on the agenda, and I guess the government is running with that particular issue quite strongly at the moment and putting it higher on the agenda and therefore higher on the expenditure agenda.

But we haven't been as successful in getting the community to support the education sector and probably with decreasing force the higher up the tree one goes. I think kindergartens are well supported; primary schools are better supported, not quite as well, but well; secondary schools, not as well, but better; and universities less well again. I suppose that reflects the fact that, as you go up that tree, fewer people participate in that particular level of education. So the pressure is not coming into the political sphere to say that this is critically important for us. We see it as an investment and therefore this is what we want you to give a high priority to. So the government will respond to what it believes the people are seeing as a high priority, and education hasn't got that. So it's still seen as a cost. I guess that people have been trying for a long time to say, it's an investment, and they haven't got anywhere, but that doesn't mean to say that we should stop trying.

I don't see too many trains go down a drain, but I do see a lot of brain drain. The Wednesday before I left to come here, there was an article in the newspaper reflecting on how an entire group of stem cell researchers

has been bought up to go to Singapore. We all have examples of that happening from our universities with particular figures in particular areas. I suppose that it's a reflection of the fact that we still don't see it as investing, we still don't give it the esteem and the regard, which it might be given in some other countries, and as a consequence, people are less settled by that, and it's a cost. Yes, I think it would make a difference. How you deal with it, I don't know because there have been lots of attempts and it hasn't been successful.

### **Professor Rainer Künzel**

The term investment, in the sense of a monetary expenditure to make a profit on, is not the kind of terminology that we need in the public sphere, despite the fact we are used to talking about public investments. Public expenditure is not done because the state is trying to make a profit on it, it is done rather in order to supply a constant stream of services through providing public infrastructure and so on. In legal terms, public or private expenditure on education could be conceived of as an investment, but economically it doesn't really make sense because investment is linked to profit.

### **Professor Simon Marginson**

I just want to pick up on a point which has been made in a number of ways by several speakers and ask the two speakers in this session to comment. There's been allusions to the problem, that we've already faced in Australia and which Germany may face with the introduction of private charges, the problem of public – private substitution, namely as the private dollar increases, then governments withdraw money correspondingly and you are no better off in net terms or can in fact sometimes be worse off. Obviously we would all like to devise mechanisms to avoid this problem. But it may not simply be a matter of mechanisms. My suggestion here would be that where we in Australia have faulted has been to lose the sense of the rationale for public funding in the political debate. When we were largely publicly funded, 90% as we were in the early 1980s, the assumption that it created collective benefits, common benefits underpinned that. And if you look at the rhetoric of government since we introduced tuition charges, as the public shares eroded, that has continued to be the rhetoric, to support public funding, but it has become more and more diffuse and abstract. On the other hand, the argument that tertiary



education creates private benefits, which it obviously does, sticks very well in the public mind and here we go to Rory's point, that with the shift to Thatcher and Reagan and neo-liberalism, with a more individualistic culture, those things have grown and grown and sown their seed in the public mind.

It seems to me that the two arguments, that we've tried to make work for us to re-ground public funding, have been the knowledge economy argument – investment in the knowledge economy that creates collective benefits – and the other argument, which a number of attempts have been made to use, is the relation to the social capital – the concept of social capital which emerged in the 1990s through the work of Putnam and others, and which has been mobilised to support the public investment argument. But there it's a bit rubbery because social capital, which is pretty hard to pin down economically anyway, can be constructed in individual terms pretty readily, as well you can talk about social capital as a benefit that individuals receive and pay for, just as you can talk about it as a collective benefit. So it seems to me that we don't have an argument which is really sticking for public funding. It is one of the reasons why we in Australia at least have seen it erode. The public may well be convincible on the argument of collective benefit, but we don't have a demonstrable collective benefit that's working for us at the moment.

### **Professor Rainer Künzel**

Well, I know of an Australian study, I can't recall who did it, that tries to spell out in economic terms the collective benefit of public expenditure on higher education. I think even though economists differ in their opinion on this matter, it is probably possible to show that the rate of return is very, very large compared to, if you talk in terms of investment, private investment in any other sphere. But maybe that is something that we at universities should do, we should use the tools of economic research to try to convince the general public of the economic value of investment in higher education more than we did before.

### **Professor Gavin Brown**

While I would love to believe the argument which says there is a huge advantage automatically in providing university education, I think the argument has to be brought back to some of the questions about what is

a university, which is what Ian was prepared to talk about. There's a strong argument coming from people like Alison Wolf in the United Kingdom which says that massification has produced, instead of perfectly good plumbers and train drivers, very weak sociologists who have been trained in minor institutions which are not really universities and so there is a dis-benefit to society by having a huge investment in our education. How do you respond?

### **Professor Rainer Künzel**

Well, I think there is some truth in this argument. But apart from being a place where the intellectual elite is trained, universities as institutions of mass education also have the task of educating a large number of people in more sophisticated reasoning that is necessary to run a modern democratic society. And therefore, I think, it has to be the university or some other form of institution of higher learning that has to do this job of educating more people on a higher level. This is surely debatable, but that's why we are discussing the development of institutions with different tasks, different levels of educational programmes. In Germany, of course, the institutions that call themselves universities are not all the same, just as everywhere in the world. I think that the large numbers are necessary, too, it's not only a small elite that we need.

### **Professor Ian Chubb**

I would support those last comments because I think, and then go back to what Gavin and indeed Rory said earlier, one of the problems that I think we have is that nobody's prepared to look at structural issues. It seems to me that one of the important questions in this reform process ought to be the structure of our systems and it ought to be up-front and discussed and debated and resolved. If we keep what we've got, we do it as a conscious decision not because we've got it and we're too frightened to debate the issue, discuss it and even change if that is the best solution.

It seems to me that one of the issues that we have in Australia is that per undergraduate student the Commonwealth contribution is the same regardless of the institution. And maybe the variation will be the amount that the individual student is charged by the particular institution, but the Commonwealth contribution does not distinguish between the institutions that these students go to. And a proportion of that activity, whatever

labels we use, is designed to support research in that university. So you have a university like Sydney who will get per science student from the government approximately Aus \$ 12,000 and support a major research effort, whereas Gavin said earlier that particular parts of his university got more research grant money than the rest of the sector, if you leave the ANU out, which many people try to do from time to time. So you've got a major investment in research in an institution which in part is subsidised by or the cost of which is covered by a proportion of the Commonwealth grant to the institution. We're trying to disguise that now by changing what we call it, but that's the fact.

We were once in Australia looking at how we should form a cartel to reduce the cost of scientific periodicals because the limited number of publishing houses can charge what they like and you've got to subscribe. As I remember it, the University of Sydney spends close to Aus \$ 2 million a year from a particular publisher, that publishes scientific periodicals, and other universities spend something to the order of Aus \$ 40,000 a year from the same publisher on scientific periodicals. Yet the Commonwealth contribution to those two universities per science student was identical. It's a structural issue which needs an evaluation, a re-evaluation, and if improvement can be made, change, because to assume that everyone is the same and therefore gets the same amount might have been useful politically in Australia 14 years ago, but it's not useful now to continue that simply because it's what we've got.

### **Professor Peter Gaehtgens**

To take up the issue that Ian Chubb stressed, namely that it would be part of the public responsibility to support education to a greater extent than it does. This, of course, requires a political process in which we have to provide arguments in favour. I think at least in this country, we are in a situation in which for a period of four decades education was free of charge and we have developed in the direction that was indicated by Vice-Chancellor Hume by saying, yes, we have lost – as probably all societies have – a sense of social democracy, we have lost the sense of value for items that do not cost anything. Therefore we are facing a vicious circle here: Because of the fact that education is free of charge it is not valued and therefore the re-introduction of private contributions to education is particularly difficult. We are fighting an uphill fight here. I think it is

absolutely necessary not only to use arguments that are economic in nature, but also arguments that point to the fact that this is the case. Indeed, I think in our society most people think that items that do not cost anything are not worth anything, and therefore they would argue against you in saying, well, why should we pay for something that isn't worth anything. Indeed, public criticism of university education in this country is very harsh, and therefore the public willingness to invest in order to improve quality is very low. To me the improvement of quality is still the most important argument, not so much the expansion of the system, but the improvement or the maintenance of quality, because I don't think we are as bad as we are told.

I'd like to point out that, for instance, in the USA, which is often given as a positive example – you know, they are so good that we should simply imitate what they have, well, I don't think we should – more than 60% of the research scientific productivity depends on imported brains, non-American researchers, because the educational system in the USA obviously is not sufficiently capable of providing the workforce or the think-force, I should rather say, to support the scientific output that they have. That cannot be our model. If we don't do something in order to avoid that model, then we should at least imitate that model, that is to say import brains and not so much complain about the loss of brains that we'll probably at the moment not be able to avoid.

### **Professor Ian Chubb**

I think it's a great pity that the public, probably in Germany and also in Australia, believes that education is free of charge. I don't imagine that there is any student in Australia who thinks it is free of charge, and it's not just the income foregone that Bruce Chapman talked about yesterday, but it's the additional costs that are involved in being a student. And somehow we've let it be understood that the only cost to education is the tuition cost that a student might or might not pay, and if they pay none, it's free and if they pay something, it's expensive to a very varying degree. In a way, I think, we've let down our institutions and certainly our students by letting the myth perpetuate that it's somehow free of charge, if they don't pay a tuition fee.

I actually, having said that, do support the idea that some contribution through the original HECS scheme and some of its variations – some of it

has been changed every year, well, over the 14 years it's been in place, there's probably been ten changes during that time, little bits and pieces along the way, with varying degrees of utility and effect, I suppose – but it does seem to me that we ought not to start from the premise that tuition is free if the students are not paying a tuition fee. We ought to start from the premise that education is not free, regardless of whether or not you are paying a tuition fee, and then there are additional costs. That would be one thing. And we do it in Australia, too: There is an assumption that because 70% of the students at the ANU – and we're a small undergraduate institution, we're not like Sydney or UNSW, we have 6,000 full time equivalent undergraduates and a huge research umbrella – but 70% of our undergraduate students work and there's a sort of implicit assumption in the community that they work because they are greedy not because they have to, to live. I find that abhorrent, but I can't get the message out in a way that is accepted. It's sort of passed off as, he would say that, wouldn't he. And somehow we've got to crack that egg to make a big omelette out of it.

One of the striking things for me is that, when we think American, we think Ivy League and expensive, when we last looked at it – it's probably changed now and Rory will have more up-to-date information than me – but when we last looked at it, the actual fees in big American public universities were about the same as they pay in Australia for in-state students in the US, not out-of-state. In the same ballpark, I mean, there'd be a Aus \$ 1,000 difference or something like that.

### **Professor Wyatt R Hume**

I'll confirm that. I know the budget of UC very well and now I know the budget of UNSW as well. They're almost identical except in the matter of competitive research funding, where UC gets a much larger pool, but in terms of tuition public versus private, it is just the same.

### **Professor Ian Chubb**

And so when we think of the American system and the bits that we might like to learn from, replicate, mimic, copy, reject, whatever, we have to divide it up into its full component parts, as Rory did to an extent earlier today. And there are some features of that which, I think, a country like Australia could usefully employ. I don't think we will ever go to the situa-

tion where we have massive private institutions like Harvard and Princeton and Yale, partly because we'll never get the many tens of billion US dollars endowment that allows them to operate a blind admission scheme – so that it's not a question of how much money you've got, it's a question of are you good enough to come here, and if you are poor they pay for you. 70% of Harvard students get university support because they are really good, have not enough money and the university has the capacity to support them and there is no university in Australia that would get remotely like that.

If we look at the big state universities, that's a different cup of tea, in there, there are some activities from which we could learn and issues which we could also reject as not being something that we would seek to introduce into our own system. But the big state universities are not as far away from us as we think, when we think of the American system and have in the mind's eye Harvard, Princeton, Yale and the like, with massive endowments and a capacity from their alumni to support them in ways that we can only dream about.

I have a friend at UC Berkeley, indeed part of the state system. About ten years ago they thought that their bio-medical science was losing ground in relation to other areas and they went out and, over about a period of a week, got Aus \$ 400 million to build new buildings and fully equip it. If I could do that in a 150 years in Australia I would think it was Christmas every day of the week.

### **Professor Wyatt R Hume**

The two speakers have worked extremely hard, especially during question time, and I ask you to join me in thanking them.

# Session 6

## Conference Discussion Panel 2: What is the Future of Higher Education Financing in Australia and Germany?

### Panel Members

- Professor Stefan Hormuth, Vice-President, HRK and President, University of Giessen (Chair)
- Professor Bruce Chapman, The Australian National University
- Dr Jörg Dräger, Senator for Science and Research, Hamburg
- Professor Peter Gaehtgens, President, HRK
- Mr Michael Gallagher, Director, Policy & Planning, The Australian National University
- Ms Anna York, NSW State Branch President, Australian National Union of Students

### Professor Stefan Hormuth

This is the concluding discussion round of this conference. I'm very pleased that we have a very distinguished panel. Before, we heard two presentations on the future of higher education in Australia and Germany. Now we'll ask the question of what the future of higher education financing in Australia and Germany is; we'll probably have some answers, but certainly not the final answers.

I would like to ask Professor Chapman to go first with his statement. I don't think I have to introduce Professor Chapman anymore; you have contributed a lot to the conference. Professor Chapman received his PhD from Yale University. He's currently Professor of economics at the Research School of Social Sciences at the Australian National University and has held many positions, advising the government, as well as academic positions. Professor Chapman, if I may ask you for your statement.

## **Professor Bruce Chapman**

Thank you very much. It's very dangerous to ask people to predict the future. It's particularly risky to ask an economist. After all, it is said that economists only got into forecasting to make the weather bureau look good, and it's also very well known that economists have a lot of trouble even predicting the past.

I want to draw on some lessons from the past, from a hypothetical country, which I'll call A, in the 1980s and maybe presumptuously draw some lessons for a hypothetical country beginning with the letter G, just to take one at random, in the year 2003.

This hypothetical country A's higher education system in the late 1980s had the following characteristics: It was completely reliant on tax payer resources for funding, in other words there was zero tuition asked from students. That is – and this was part of the rhetoric used at the time – 85% of tax payers, who had never seen the inside of a university, who had no access to the privilege of a university education, were contributing to cover the entire tuition costs of a very advantaged 15% in lifetime income terms.

Further, there was considerable excess demand for places, not the same sort of excess demand that exists in hypothetical country G, where, it seems to me, the excess demand is from students already in the system who cannot access courses as rapidly as they want to, because of a lack of resources. The excess demand in the Australian context was of a type that students who were considered to be qualified for entry could not get into the system because of a lack of places. And finally and most clearly, country A's government was not prepared to do anything about that excess demand by increasing further the contributions from tax payers. An important part of the debate in the Australian context was about the very large subsidies involved and the social injustice of that. And I think it's extremely important to keep that in mind when you think about tuition because there was probably no more regressive expenditure in the Australian context, sorry the A context, than to have tuition covered by people who in general and on average earned much less than graduates.

Now part of a solution at that time was found, I think, in the Higher Education Contribution Scheme. It has been suggested over the last day that this scheme is not the way it was – it is certainly far less generous to



this scheme is not the way it was – it is certainly far less generous to students in particular in terms of repayment for debtors and the charges are higher – but its essence remains in that it is considered that if a tuition charge is fair it should be enacted only in a way that protects the access of poor students. This is the most critical part of this debate. Once we accept the proposition that charging tuition is fair, then the important point is how it is to be paid. And we know from considerable investigation in the Australian context that this system has not been associated with any diminished access from the poor. HECS actually hasn't solved that problem that it is overwhelmingly the children of the rich who enrol, but it has not made it any worse.

The three advantages therefore from the changes introduced in Australia at the time, I think, are the following: It did allow, particularly initially, a considerable increase in expenditure with the government understanding and knowing that down the track it would have the resources coming from students; indeed even initially there was a Aus \$ 100 million which came because of a discount for an up-front payment.

Second, as I've suggested, HECS achieved this without, as far as we can tell, harming the access of the disadvantaged, and in this context I'd like to say something about poverty and income distribution and the role of education. The debate about tuition in terms of lifetime advantages and privileges of individuals accessing higher education should not start at age 18. These things begin much earlier than that. That is, we should not be having a discussion about tuition in terms of access and disadvantage without considering the life cycle. What things are happening at ages 1, 2, 3, 4, 5, what's in a young person's line of vision, what's in their neighbourhood, and what's their perception of what is possible. These things are absolutely critical to this issue.

And finally HECS made, in my view, the system a fairer one. We'll always have differences in our judgements of what the appropriate contribution is. For example, I would think a contribution of 100% of costs is incorrect, because it implies that there is no benefit to society from higher education. A contribution of zero is equally hard to justify because this would imply that there's no private benefits to graduates. Put a number in there somewhere and I would think roughly 30% - 35% sounds okay, maybe not much more than that.

I want to just distinguish two particular issues in this debate which I think really matter for our consideration of reform in a country like this one. The first one, which I've sort of hammered quite a lot, is the broader issue of social justice and the appropriateness of the funding base. It does seem to me, as I've suggested, that a system funded 100% by tax payers cannot be seen to be a fair system.

Second, and perhaps of more interest to people generally here, is the naked self-interest involved in the higher education financing debate. I think that this debate can be progressed in a way that would be satisfying for government and also satisfying for the higher education system by considering the nature of the potential for some student contribution but in a context in which overall outlays increase.

At the moment, let me just make up a number – I'll call it a 100. Assume that 100 of all the resources going into this system come from tax payers. Perhaps a deal should be offered or perhaps arrangements might be made with whoever is in charge of this in political terms to suggest that there should be some substitution for social justice terms, away from tax payers and towards students. However, the reduction from tax payers does not have to be as great as the increased contributions from students. In other words, the 100 from tax payers, being the 100 total, could be turned into 90 from tax payers and 20 from students, and that means 110 in total. Who's winning here? The government wins in terms of tax payer reduction in subsidies, and I think that would be socially just, and the higher education system will win. The students will lose in the sense that they will be paying, but if this can be done – and I believe it can – in a way that protects the access of the poor to the system (through an income-related loan mechanism), then I think that these are things of utmost importance to consider. Note that you certainly have a tax system sophisticated enough to handle such an approach.

Now economists are a pretty miserable lot, it is said. In fact, one comment sometimes made is that the only real advantage in being an economist is that we don't have to spend any money on contraceptives. And the reason is that our personalities are so miserable that the opportunity never really arises. My prediction is very much in the *genre* of the miserable economists, which is, that if the reform process does not go essentially along the lines of the introduction of tuition, of a small proportion being

paid back through an income-contingent loan, the prediction is pretty straight forward: The world here will be miserable. Thank you.

### **Professor Stefan Hormuth**

Thank you very much Professor Chapman. I would now like to introduce Dr Jörg Dräger. He is Senator for Science and Research in the City State of Hamburg. Hamburg is a 'free city' and therefore has the status of one of the States of Germany. Professor Dräger received his doctorate in theoretical physics at Cornell University, he was General Manager of the Northern Institute of Technology in Hamburg, and since 2001 he is the Senator for Science and Research of the City of Hamburg.

### **Jörg Dräger, Ph.D.**

In one respect, I was somewhat disappointed with the statements I heard during the last day and a half. Before coming to this conference my impression was that in Germany we had more or less stopped debating whether or not we are going to have any kind of student contribution. I thought we were debating about how we are going to do it. I thought everybody knew student contributions would be coming eventually. But during the last day and a half, despite the fact that the vast majority of the people in the room agree that some kind of student contribution is going to come, we are still spending so much time debating whether we actually need it.

At least in this final panel we should try to come back to the point of how we are going to do it, by learning from the Australian model, from the New Zealand model, from Scotland and the US, and from others. I got the impression that up until now we've mostly had bottom-up discussions about different models: Mr Ziegele yesterday showed us the model Witten/Herdecke is trying, another model suggested by Hamburg and a third one suggested by CHE. Today, for the first time, I saw a more analytical and a more research-based approach to student contributions and financing schemes.

Having now learned how our bottom-up models fit into this more analytical approach, I just want to thank our Australian colleagues for looking at them in a very scientific manner, thus giving me a substantial amount of new insight here.

Let me now come to two things that I think we have to consider when talking and thinking about the financing of higher education in Germany. There are two things we have to accept at the moment:

First, we cannot deny that we have a serious crisis of governmental spending ability – we simply have no money. At the same time, we cannot deny that we have a serious university funding problem. Comparing the total budgets of universities within the OECD, our universities are poorly funded. Thus, we do not seem to be able to invest in our future.

Secondly, we do have a quality and reform problem in the German university system. We know we definitely need more graduates. We need to give incentives to either the students or the universities in order to increase the likelihood for people to actually finish their studies. And we also need to give incentives for studying more quickly: It takes seven years on average for a student to finish his/her studies. Within the OECD, Germany spends the least amount of money per student per year and the most per graduate, due to the length our 'production cycle' and the huge drop-out rate. This cannot be our goal for the future.

Given this framework, we need new financial incentives or steering mechanisms for the universities and for the individuals. Given also the fact that we have no money, we therefore have two good arguments to conclude that we will actually need student contributions. I will not repeat all of the arguments on why it is socially acceptable.

In conclusion, I'll now try to give five statements which argue in favour of a particular student contribution model; this model was mentioned yesterday by CHE as the 'Hamburg model'.

First, I think we all have to accept – and I'm convinced we will within the next few years if we haven't done so already – that education is an investment, not a cost. Education pays off for both, the student and the state, and our current system is neither fair for society nor attractive for universities. This leads me to the reasoning that student contributions are sensible and necessary, and it also leads to the fact that we will have more market-driven governmental financing schemes for the universities. I

don't know if they will be driven by supply and demand, but definitely we will increasingly finance our universities based on competition.

Statement number two: The state must allow student contributions at least up to a certain level. But it must be the universities that decide whether they charge student contributions and at which level. Only the universities can take on the responsibility for charging contributions from their students because of the teaching quality and the services they offer. What I am proposing is that there will be a competitive system in Germany with universities charging variable student contributions. The maximum fee level should be set by the government: Before the universities introduce student contributions, the state must be responsible for developing a loan system and a scholarship system, providing it to some maximum level. The universities can decide to reach this level of student contributions, but again – they don't have to. Universities must then commit themselves to a need-blind admission scheme.

On the other hand, the loan system should include the HECS element of income-dependent repayments, thus making the perspective of the future financial status instead of the current financial status the crucial factor for a student's decision to attend university. That's statement number three.

Statement number four: By means of some calculations we showed that – given the Hamburg Model – Germany could manage and also should manage a loan system, which would even include costs of living and up to € 2,500 per year in tuition fees, almost within the financial framework of today's BAföG.

How can that work? You would have to change the BAföG system from a half scholarship – half loan system to a 100% loan scheme. This shift would free enough financial resources to cover tuition as well. In this system the loan sum after seventeen years would reach € 30 billion, with associated costs for the government of about € 900 million. We don't actually have to have the € 30 billion, we can get it anywhere on the financial market through all kinds of private means. The Hamburg Model is viable.

My final statement on the future financing scheme in Germany is that I am convinced that individual state systems are of no use; we need a sys-

tem across all sixteen States. In addition, we need some kind of national contract between the States, guaranteeing universities that their government subsidies will roughly stay the same.

Why should we not say that relative to the GNP the current financial status will be guaranteed to the university system? That would be a very easy contract given for ten or twenty years. There would still be dependence on economic developments: If the States were doing poorly, investments into the education system would go down as well, but at least there would not be cross-subsidisation on other fields of governmental spending. With such a national contract and the introduction of the loan system I am convinced it is fair and sensible to introduce student contributions. Thank you.

### **Professor Stefan Hormuth**

Thank you very much. I think that was a very clear and constructive statement, something that can be discussed later both on the panel and with the audience. I would now like to ask Professor Peter Gaehtgens, whom I don't really have to introduce, for his response. Professor Gaehtgens is President of the HRK, he has been elected to this position this summer and assumed office in August. Before that he was President of the Freie Universität in Berlin.

### **Professor Peter Gaehtgens**

Thank you. I have little to add to the precise proposals made by my neighbour on the left hand, except trying to do what the heading of this session asks us to do, namely predicting the future. Let me try.

I predict that within five years we will have tuition fees in this country, and I'd be willing to take a bet on that. This is because of two very simple reasons. My main argument is: quality, not quantity. In terms of quality we are deteriorating every day, if we don't act. This is a simple fact which has a tremendous influence on our international competitiveness. I think within five years everybody will be convinced that, unless we do something, we will disappear from the market, so to speak.

My second argument is that obviously public spending will not suffice. I do not see any indicators that the situation will improve within a period of five years. We are speculating about economic recovery in this country, this is still only speculation unfortunately, but that's the situation. But I

also have a further argument, which for me is equally important as all of the economic arguments: I think, we have to understand again what we understood years ago, namely that receiving higher education is a privilege to the individual. It is not something that everybody can automatically expect. That means that the person receiving higher education accepts a responsibility to pay back at some later stage and to also make sure that this privilege is not unduly extended.

When I went to the United States for the first time in 1967 I was amazed to see and did not understand at that time that the colleague and friend who worked next to me at the laboratory bench received what was called educational deferment from military service. I didn't understand that because I had been subjected to the draft in Germany without this kind of privilege. However, the US society at that time apparently considered higher education of equal importance, and therefore considered the production, so to speak, of an engineer in his case of equal importance, as a year or two spent in the army. There is a learning process required in our society, balancing different kinds of services to society, and I think education is a very relevant part of that balance. Therefore, economic considerations, on the one hand, but also a change in our mental attitude is required to understand that indeed private contribution to higher education is necessary.

And my last argument is the European one. European governments have in Lisbon agreed that they should increase funding for R&D to 3% of the GNP. The time span that they decided upon was 2010. If that were to actually happen, we would need in Europe alone about 700,000 young scientists in addition to the ones we are educating at the moment. The current educational systems in all of the EU countries would by no means be able to accomplish this goal, unless the systems were expanding. And that would require, of course, public money on the one hand, which we are therefore advocating to use, but it would not be possible to fulfil this goal without also asking for private support, for a contribution from the private sector.

I think these arguments are strong enough to justify my optimism in predicting that the implementation of a tuition system that does not ignore the social needs of students but also contributes to the quality of teaching is something that we can expect to occur within the near future.

### **Professor Stefan Hormuth**

Now I turn to Mr Michael Gallagher. In October 2003 Mr Gallagher joined the Australian National University as Director of Policy and Planning. Previously he worked for the Federal Department of Education, Science and Training. I think you have a very wide range of experience in international education, international strategies and in the whole education sector. Therefore I look forward to your statement.

### **Mr Michael Gallagher**

Ditta Bartels reminded me at lunchtime that six years ago there was a meeting between Australian and German leaders in higher education, and the Australian view at the time was probably a little complacent about the policy framework that we put in place, and maybe a little arrogant. I understand there were present some people seeking changes to the structure of incentives in that framework, to encourage diversification within the Australian system, and that was before the change of government in 1996.

In that last six year period, a couple of lessons have been learnt on our side, which may be instructive for you. The first is: Keep an eye on the incremental reforms. You don't have to get conspiratorial and you don't have to demonise bureaucrats. But we've let it drift in rather uncomfortable ways. The impost now on students is becoming too high and the imposition on the universities too intrusive. That's because we allowed incremental policy changes without a buffer body on the one hand, or coordinated advocacy to the government on the other hand, as to what the sector wanted to see happen. Governments do keep a close eye on electoral responses to their actions and university leadership can be influential. But I think one of the Australian experiences is that short-term episodic attempts to influence the public debate don't work, that you are in this for the long haul and there are several years to turn around public perceptions in ways that will clout with government.

It struck me listening to the last two days that there were three things to take out: First, what we have in common between Australia and Germany in the current environment, second some differences, and third some shared sort of messages; so let me have a go.



In terms of what we have in common that I've heard, we both see the need for our respective higher education systems to be networked globally and integrated through intellectual activity, for international understanding and well being as well as for national economic competitiveness. We both seem to be victims of a 'small government' ideology on the part of incumbent administrations. That means two things ironically: limited expenditure from public resources on higher education, which is popular in terms of lower taxation, but greater regulation and conditionality and atomistic funding relations between the state and the university. The third thing, I think, that we have in common is that the policy and financing framework for both our countries is unsustainable for a quality higher education system. The fourth thing is that there is apparently insufficient social support to sustain universities. And the fifth thing is that we both have changing demographics that will require intensification of investment in the young, not reduced investment, even while the costs of servicing the needs of the ageing are rising.

The key difference, I think, is the nature of our federation. But probably Australia needs to reduce the power of central government and use the federation to get more diversity in higher education, whereas in Germany, as Senator Dräger has said, you probably need to strengthen the role of the *Bund*, if you are going to get national solutions in education services. Another important difference is that Australian universities have much more income earning discretion than institutions in Germany, including for student fees and for commercial activities. If you seek student fees in the absence of seeking discretion over commercial activities, you may well put a disproportionate burden on the students. So I would think you would be wise to try to seek the discretions on both sides simultaneously. We both have binary divides between academic and vocational sectors. We have differences in the structure of our higher education frameworks. We've blurred the structural boundaries too far in Australia and we need to move backwards, I think. But rather than have market mechanisms determine that in an *ad hoc* way, there's a lack of leadership, as Ian Chubb and others have indicated, that's prepared to declare an appropriate structure for Australia.

Another key difference is our language base, for us that's fortunately an international competitive advantage, for you it's a cultural challenge of some proportions. And that, I think, is the final point, that the scale and

history and the location of our societies are very different and it's important that we appreciate those differences.

In terms of shared messages, what I heard anyway, there's a need to be clear about what we value. This is not a time to sell the soul. This is a time not to compromise on quality or substitute quality for quantity, and that's a big moral challenge in the sense that desperation for resources does make it enticing to seek quantitated solutions at the expense of quality. The second message I think is: Be prepared to stand up for and defend those values. And to do that, autonomy is the key. In Australia I think the message for us very strongly now is to protect institutional autonomy from inappropriate regulation, but also to protect block funding as a means of discretion.

The third message, it seems to me, is to push the discretions to the limit, this was Gavin Brown's message, I think, in terms of the University of Sydney being able to maximise its own income as being able then to stand a little bit more independently of government than it otherwise would be able to.

Diversify the sources of income, and possibly in Germany test the system boundaries. You seem to have ambiguity in respect of the constitutional issues here, and maybe there are opportunities to take the plunge in overseas activities and commercial activities and other things. Just test the boundaries and create new presence, and don't be on the back foot, be on the front foot in terms of creating new domains for action. That certainly has been the experience with the overseas fee-paying arrangements in Australia, that led to a whole culture of innovation and new relationships between universities and the market. But be careful that you do that with probity and with good risk management because the regulators are waiting for the mistakes to happen, so that they can come back in with greater regulation.

The fourth point, I think, is that we both have a need to make the public case for public investment in higher education. And part of that is making more visible to our communities what it is that universities contribute to the society. We are not very good at that.

The fifth point, I think, is common to us both, the visibility issue: to integrate with the communities and not stand aloof from them and build social coalitions around higher education and its contribution, which is

part of the law of society, law of economy. So that is what I heard over the last two days.

### **Professor Stefan Hormuth**

Thank you very much. I would now like to ask Anna York. Anna York is here to represent the students' view from Australia. She received her Bachelor of Arts at the University of New South Wales with a major in Theory of Women's Studies. She is State Branch President of the National Union of Students of Australia.

### **Ms Anna York**

To begin with, I think it's good to have a woman up here, having a say. Secondly, I think it's excellent that both German and Australian students have been invited to participate in this dialogue. In Australia, students have been disappointed with the level of consultation that's been afforded to them, in particular from the government, and so I hope that here in Germany a place for students is especially reserved in these continuing discussions.

And my final preface is to say that neither I nor the National Union of Students, which is the organisation I represent, support the HECS scheme. Our position is to advocate for fee free education, while at the same time campaigning for changes in the short-term to enable a more equitable HECS scheme. And I think that this position will be clear in my remarks today.

I can't possibly pretend to predict the future anywhere near as well as Professor Chubb has done, but I would like to put forward three possibilities that I can see for the future of higher education financing in Australia.

The first option is that we continue on a path to a fully deregulated user-paid system. I'll begin by saying that while it may be inaccurate to characterise the HECS scheme as the first step to an all US-type privatised system, there is no denying that HECS represents the thin edge of the wedge. There are, of course, significant differences between the HECS scheme that differentiate it from a fully privatised system, namely that HECS charges are regulated by the Federal Government and that the HECS scheme is theoretically based on the maintenance of significant levels of public funding. However, the experience in Australia has shown that the

introduction of a HECS charge and with it the idea that students are obligated to take on the financial burden of education has made it easier to substitute student fees for public funding. And I don't think enough emphasis has been put on this link at this conference over the past couple of days.

The main story behind university funding in Australia since the 1994 deregulation of postgraduate course work fees has been, on one hand, about static or declining real levels of public funding and, on the other hand, about increasing levels of student contribution, through the 1997 changes to HECS, the increased enrolment of full fee paying postgraduates and international students, and the introduction of full fee paying domestic undergraduates as well. So for example the share of total university revenue contributed by the Federal Government fell from 57.2% in 1995 to 43.8% in 2001. The Australian Vice-Chancellors Committee has calculated that if HECS revenue is removed the base operating grants per student have fallen by 8.2% between 1995 and 2001.

The Federal Government has indicated in no uncertain terms that it is committed to continuing this shifting of the financial burden from the public purse to the individual student. It intends to achieve this through the deregulation of HECS charges as well as a draft of other so-called reforms that will herd students away from the HECS options and into up-front fee paying options. The effect of this 'reform' package on students cannot be underestimated. It will plunge a generation of young Australians into debt and it will adversely affect many equity groups that are simply not willing or not able to take on these levels of debt. It is important to note that the overall HECS debt is now in Australia Aus \$ 9 billion. The total HECS bill that students will owe in 2005/2006 is forecast at Aus \$ 11.5 billion. This amount will balloon if these proposed reforms are passed by the Senate at the end of this year.

The New Zealand government deregulated fees and introduced interest rates – as our government is proposing – on student loans in 1992, and since then fees have spiralled and students' debts are causing serious consequences for the community. The New Zealand government has already had to implement changes to write off interest rates and payments for low-income students after repayment times had stretched by 1999 to 17 years for men and 51 years for women. Despite these interest

rate write-offs, payments are still estimated at 15 years for men and 29 years for women.

I paint this bleak picture in answer to the question of what is my view of the future of higher education financing in Australia because at this moment the scenario seems quite likely. This legislation has passed to the Lower House of Parliament and is currently being debated in the Senate. It is not my argument that deregulated fees and interest rates on student loans are a feature of the HECS model, of course they are not. It is my contention, however, that the gradual shift from government funding to student funding education and the introduction of these measures have been made easier by the introduction of HECS as the thin edge of the wedge.

Option two that I see for the future of higher education financing in Australia is making HECS more equitable. The consequences of the deregulated new pay system for students and the community are numerous and I don't have enough time to speculate on them here, but suffice to borrow from Bruce Chapman and plead with you to trust me. They're bad.

There are other options for the future of higher education financing in Australia, especially if by some miracle the students win this battle and the reforms are voted down in the Senate. The possible second option I see is the maintenance of the HECS system, and the reversal of some of the distortions and changes, that have been made since its introduction in order to make the scheme more equitable. Such measures would have to include the raising of the HECS repayment threshold, the abolition of differential HECS as well as the introduction of a comprehensive and adequate income support scheme.

I might just skip to the next point because I know that I'm going to run out of time. It's been argued at this conference that student income support is a separate question from university funding models. I disagree entirely. Without adequate income support the existing structures of higher education including fees and charges become an obstacle to the participation of many groups of students. Any discussion of the future of higher education financing must be held within a context of government's previous student income support policy and the impact fees have had on the student population.

It is of serious concern that the current levels of income support in Australia are a long way below the poverty line. The Australian Council of Social Services last year concluded that the income support level of students was between 20% and 39% below the poverty line. For example, our Federal Government has already made changes to the income support system that have severely disadvantaged indigenous students. In 1998 the government changed the Abstudy system of income support, which meant that fewer students received payments and many received reduced payments. These changes were implemented despite warnings from the indigenous community, the academics and the student unions. Indigenous enrolments correspondingly fell from 8,367 in 1999 to 7,342 in 2002, which represents a fall of 18% and a reverse of a decade of steadily increasing enrolments.

So if we are to maintain that a fee system, such as HECS, has a neutral effect on equity groups we must ensure that other obstacles to access in education are removed and that adequate income support is available to all students.

And the final option, which I have called 'escaping the public – private dichotomy and thinking outside the square', the third option I see for the future of higher education funding in Australia is a complete revision of the framework that shapes our current models. The discourse that has dominated the debate in Australia and indeed the discussion at this conference has been one that demands education be identified as either a public or a private good. Following from this debate is a polarisation of the students versus the government or the tax payer as the bearer of the financial cost of this education. This conventional public cost versus private cost debate can be a misleading framework. For one thing, education expenditures are qualitatively different from most other government expenditures because they increase the pool of Federal revenue rather than act as a drain on it. There is a substantial economic benefit to having an open and accessible higher education system because education is an investment and not a cost.

Secondly, the dichotomy implies that there are only two possible beneficiaries of higher education, the individual student or the public as a whole. In reality students do not capture all the private benefits of higher education. The other major beneficiaries are major employers, like large corporations and government departments. Most large enterprises have a sig-

nificant graduate labour force. They benefit from not having to pay the cost of training their staff, so the cost of this education and training is socialised. At the moment the students end up paying much of the cost of this education through fees and increased taxation. Many large businesses generally make no direct contribution to this socialised education and training while raking in a substantial part of the benefits.

I might just skip to my concluding remarks. It seems to me that in Germany you are at your own crossroads. A case has been put to you about the benefits of the HECS scheme. In my opinion the concerns that you have raised about the cost of this scheme are more than justified by the Australian experience. Professor Chubb spoke eloquently about the frightening incremental creeping changes that we have seen since the introduction of HECS as student fees have slowly been substituted for government funding.

Additional concerns about the possibility of the HECS scheme being used as a tool of control in combination with these creeping incremental changes are also justified. We are currently facing a situation in Australia where the increase of the HECS threshold to previous more equitable levels is being offered by the government in return for further fee student increases and fee deregulations.

I fully concur with Professor Chubb's evaluation that the financing of higher education is a question of priorities. And I offer these concluding remarks in response to his pertinent question of how we can make education a priority for our country. Professor Hume said the question of financing must be left to the political process. This is true, but in defining universities as institutions that serve the community we must recognise ourselves as part of this political process. In struggling against these proposed fee increases, the student movement in Australia has tried to engage the community in a dialogue about the societal benefits of higher education. But we do this in the face of our Vice-Chancellors stating that student fees are justified and fair. Professor Chubb stated that Vice-Chancellors are powerful people. Again I concur, they are powerful in determining the future of higher education financing and they are powerful in the political process that is being played out right now.

The most powerful statement that could possibly be made to the Australian community about the need for our community to prioritise and fund

higher education is the one that the entire university sector, administration, staff and students, make together against the implementation of these fees.

### **Professor Stefan Hormuth**

Thank you very much. Now after this first round of statements by the panellists I would like to put a question to each one of them. We've been together for a day and a half, and I think we Germans have learned a lot about the Australian university system and its funding. I hope that we were also able to provide some information about the German university system, its state and the questions that are most important right now in Germany to our Australian friends.

In this first round of statements, each of the panellists looked at the future and at the state or the system in his or her own country, with the exception of Mr Gallagher who especially tried to put those two together. I would like to ask each panellist, based on the experience of the last day and a half, about their view of the other country's system. Have you learned anything from hearing about the situation in the other country? Do you have some advice? Which conclusions have you come to based on the experience of this past day and a half, that relate to your own situation? I'll ask this question to the panellists starting with Peter Gaehtgens.

### **Professor Peter Gaehtgens**

Yes, I think we have received advice, which is very welcome because it also pointed out to us that there are not only benefits, but also dangers to be considered, when fostering the political discussion or public discussion about student contributions. I am particularly grateful for the warning which indicated that a system of considerable value can be entirely ruined, if political manipulation occurs in such a system and is not excluded. Therefore, I think, also the relatively pessimistic outlook that Ian Chubb presented to us is very valuable to us. In this country there is substantial scepticism in the population with respect to the wisdom of politicians. Although we all elect them, we don't seem to trust them, and therefore control is important here.

I would also very much agree with what Anna York said at the end, that if we do not avoid the deficiencies of the current political planning for the



HECS system in Australia, then we are ill advised in this country as well. Therefore we should take great care in looking at those deficiencies. For me it is absolutely mandatory that a system that does not prevent or exclude social discrimination on the basis of the financial status of a student is unacceptable. That is quite clear. But if you look at the US tuition system, fees are much higher than those under discussion here. However, most of the students in the best universities do not pay tuition. Obviously that has to do with the financial resources that are available to these universities, which certainly are not comparable to what is available to German universities.

But certainly the introduction of a tuition fee system as such does not rule out social justice. We have to be very careful in doing the proper calculations and considering the warnings that were put forward at this conference.

On the other hand, these pitfalls certainly do not indicate to me that introduction of private student contributions should be prohibited. In fact, I think the system needs it. I agree with the students here who say, yes we must be rallying for public funding of the universities, but we all see that reality will put a limit to that. Therefore there is no alternative, I think, to private contribution. This is why I also point out that there is not only the economic aspect. The value of education, I think, needs to be re-instituted also in another sense, not only in the economic sense.

One of the criticisms German universities face at present is that the institution as well as the teachers are not sufficiently interested in providing good education. This will disappear as soon as there is a financial reward for the institution providing good education. I think students should be interested in achieving exactly that. Both partners in this process of higher education, the students and the university, would, I think, take a different view on the relevance of higher education. I think that would be a good development for the quality of our higher education institutions.

### **Professor Stefan Hormuth**

Thank you very much, Peter. Now Professor Chapman, how has the past day and a half influenced your views on higher education financing?

## **Professor Bruce Chapman**

It would be presumptuous of me to say, this is what I think should happen in this country, because I certainly don't want to be presumptuous. All right, here it goes: I will just repeat what I've said before and emphasise some issues that I raised yesterday.

This contemporary situation here looks very much to me like the Australian system in the late 1980s: a government that was not prepared to increase outlays, a sense, when you look at the data, of some social injustice about the nature of the contributions and critically, very important levels of unmet demand. They just take a very different form here in the terms of the queuing and with respect to students waiting to enrol in courses, but they're exactly the same sorts of issues and challenges. The other point is to put it in an international context. I've been involved with a lot of countries over the last six or seven years, and many things in the German context, as I said yesterday, look very, very familiar.

When you put that together with the apparent lifetime income advantage for German graduates, you then have to ask the fundamental question, which is true of all policy: You can either leave things as they are and ask what will happen in the absence of change down the track or you can do something different. It would seem to me from my last visit, which was about ten years ago, that the leaving things as they are has led to what you would expect, that things have become more difficult. Without addressing the obvious point, which is that the status quo is a policy choice and you can choose the status quo or something different. I do acknowledge that while it is true that the introduction of a scheme can mean changes in its nature over time, the obvious alternative is not doing anything about this issue. And I actually think that there are ways of dealing with concerns of systems changing which are sensible and productive. It is not an unreasonable thing for a government to offset some of its outlays in the presence of higher tuition, that was a goal of HECS indeed. The critical point, though, is that you don't want governments to reduce their outlays above and beyond the contribution from students, since this will obviously damage the sector. So you basically want to make sure that the government's position on this is one that promotes the overall expansion of higher education resources.

A final point that I would make is that the last day and a half has been about tuition, but, as has been emphasised by many of us, the major cost is the foregone earnings and the major problem for students is not going to be tuition, so long as there is an income-related loan, to protect them. Instead, the major problem is how governments deal with income support. In that context – I don't know enough about Germany to make confident predictions about this environment – but I would say that in most of the countries that I have looked at, including Australia, there is a capacity and perhaps a need to increase government support in the form of an income-related loan, designed similarly to HECS, to cover an important aspect of income support issues. That is, a government can do something about the distribution of higher education advantage if it addresses income support at the same time. In this context, I would not be doing it in a way that offered a lot of people grants. I think you can do it with equity and in a way that helps current students through the use of income-contingent loans, which are about covering food and rent and other things unrelated to tuition. Thank you.

### **Professor Stefan Hormuth**

Thank you very much. May I ask Senator Dräger for his comments.

### **Jörg Dräger, Ph.D.**

Let me try to give about five answers to your questions. First, do we need student contributions? After our discussions and the arguments of our Australian colleagues I come to the conclusion that it is sensible to introduce student contributions.

The second point is that I heard from several statements and received confirmation that we should try to have some kind of long-term contract between government and universities about a stable amount of governmental subsidies. Thus, we will be able to avoid the slow erosion of governmental funding for higher education, which is to be seen in Australia as Mr Gallagher reported before.

The third point I learned was the close correlation between a student contribution scheme, a demand-side market-driven financing scheme and the way the government is giving larger contributions to the universities. Instead of regarding the different contributions to higher education sepa-

rately, it seems to be absolutely necessary to get the whole financing scheme into a logical order.

Fourth, I would like to advocate more competitive elements in a new German higher education financing system than HECS offers. The universities, as I described in the Hamburg Model, should be able to decide themselves whether they want to raise tuition and up to which level they want to raise it. That establishes a more competitive system than the current HECS provides.

And to the very last question: Is there an alternative? I have not heard an alternative. That again gives some confirmation that we've got to move towards a competitive, unbureaucratic system of higher education financing, including students contributions.

### **Professor Stefan Hormuth**

Thank you very much. Now Anna York, you heard a lot about what's going on in this country, and you heard about the view of the German students. Would you like to comment?

### **Ms Anna York**

What I found surprising at the conference was the level of debate about whether fees were the right thing to do, whether that was the right option to go with and what fees mean for universities. That discussion has been completely dropped in Australia, and we're now in the context of not discussing what fees mean and why we should have fees, but how much are we going to pay, how much, how much, how much. And that is the context in which you get the incremental creeping in. So I disagree with the people who say that that argument has been had in Germany and it should be over and then we should just move on to discuss how much, how much, how much. Even if you feel that argument has been exhausted and that argument is over, it is important to keep it there always in the context of discussing student fees and it should never be left at the way-side because there are always important arguments about why fees at any level are an obstacle to some students participating.

Having said that, I would skip to giving advice about if you do bring in a HECS system. One thing that hasn't been emphasised very much is the

importance of keeping it simple. I think one of the reasons why the public debate about the importance of higher education in Australia and the public benefit of it has fallen down in Australia is because people simply don't understand the HECS scheme. The general public don't have interaction with it and don't understand even what it stands for or learn how it operates. And that is a big obstacle in trying to communicate with the public about the future of higher education and the financing models and the possibilities for the future.

### **Professor Stefan Hormuth**

Thank you. Mr Gallagher, in your first statement you already drew the connections between Germany and Australia, but maybe you would like to add to that.

### **Mr Michael Gallagher**

Let me just comment on what I have not heard. I have not heard any discussion about the need for German universities to get out of the civil service. I can tell you it is good, having done it myself. But you seem to be encumbered a lot by being part of the civil service, in terms of your employment conditions and all that comes with that, and it would seem to me to be another part of the debate you have to have about autonomy. Nor have I heard discussed anything to do with the Bologna process and the fact that there are European agreements in relation to mobility of students and what are the implications for Germany of moving to a fee regime in terms of your relations with other European countries. There's a third corollary of that, which is what does that mean for the quality assurance and consumer protection mechanisms as well. They seem to me to be two important areas that weren't raised on the German side.

### **Professor Stefan Hormuth**

Thank you very much for pointing this out, those things haven't been discussed. I think especially the development of the Bologna process is very important because the German university system, of course, wants to be part of the process of Europeanisation, but we also have to see that by introducing the Bologna process we have to strive towards quality assurance and we also have to achieve a better teacher – student ratio than we have right now.

I would now like to open the discussion for the audience. And I would like to mention a few things that we should probably talk about. Firstly, the implications for competition: German universities are competing much more than they used to, but this may introduce a completely different quality of competition. Secondly, I think we should talk about quality, the implications of different university funding schemes for the quality of teaching, the quality of everything that a university has to do, and of course the implications for research. And one issue that was raised during this morning's session was the implications of the different university funding schemes on internationalisation, which I consider to be a very important issue. Also, we should not only talk about student fees, but the topic of this conference is university funding, and that could mean very different ways of funding, not only student tuition.

So I'd like to open the discussion now. Later on we will come back to the panel. Thank you very much.

### **Dr Dieter Dohmen**

Mr Gaehtgens, one comment to you: In 1998 I made a bet with a person working at the North Rhine-Westphalian Ministry of Education that within five years we will have tuition fees in North Rhine-Westphalia. At the end of 2002, I was happy because I heard they were going to introduce fees for long-term students in North Rhine-Westphalia. But now I realise they have tricked me by postponing it to 2004. But the comment is directed more to Mr Dräger.

Mr Dräger, I agree to a large extent with your targets, but most of what you want to achieve you can achieve also by the introduction of credit-based, more or less full-cost vouchers and competition. So this is another instrument for higher education funding that would be able to attain many of these goals. That leaves the question to the introduction of fees, to raising the funds for the universities, as well as leaving room for changing the share of public and private funding.

If we come to such a contract, as you are suggesting, between universities and governments, we may introduce fees. But then we come to the differences, and if I look at the experience in other countries, we should be careful with introducing fees at such a rapid speed. If we come up with a fee rate of € 8,000, including subsistence, I fear that will have a strong

impact on students from low income families. So I would rather propose to start with a lower fee level, let's say about € 2,000 per year or for two years, then we wouldn't have the effect that I fear, that your model would have, for example, if you look at the experience the UK has had. They introduced an income-related fee level, so that students from low income families didn't have to pay. But at the same time they changed the maintenance grant to a loan. This led to the effect that students from low-income families dropped out of the system. The same effect can be seen, interestingly, in Austria, so I think we should learn from that and start with a far lower tuition fee.

### **Jörg Dräger, Ph.D.**

Let me just clarify one thing about the Hamburg Model. The Hamburg Model assumes a maximum of € 2,500 a year for tuition fees, this seems to be a reasonable sum in international comparison. But a sensible political compromise presumably could be € 1,000 a year or so. But I felt it's better to prove that we actually could even afford a loan scheme if we need to cover € 2,500 per year. Another reason was that in the US you have an average of \$ 2,480 a year of tuition fees throughout the country, throughout the 3,000 institutions, so I was just looking for some benchmark and I found it there.

What I really wanted to answer is your first question about vouchers. Vouchers or in German *Bildungsgutscheine* are a wonderful idea. They have all the elements of competition, money follows students and all that. For three States – Hamburg being one of them – it's a brilliant idea because they are the three States offering more study places than they have students. On the other hand, there are thirteen States profiting from that, since they don't offer enough places. If you propose a voucher scheme, either to the sixteen States or to the Standing Conference of the Cultural Ministers, surprisingly enough, three States completely independent of political party power consider it a wonderful scheme. Hamburg alone would get more than € 50 million a year out of that scheme, because the school ministers of Lower Saxony and Schleswig Holstein would have to give vouchers to their high school graduates, and many of them would carry their vouchers to Hamburg. So three States will vote for the voucher scheme: Bremen, Berlin and Hamburg. Two or three States will be rather indecisive because it doesn't really matter to them. But at least nine

States will be strongly opposed to that scheme. So we'll never ever get a majority for such a scheme, if it is not imposed at a federal level. But since universities are the responsibility of the States, we would need to completely change the system, as the Australians did, and have universities financed at the federal level. But at the moment we see the opposite movement: The small contribution of the Federal Government to the financing of universities is just being cut to zero. So as long as we have sixteen States being responsible for the higher education system we will not be able to introduce vouchers.

### **Professor Bruce Chapman**

I wanted to comment on so-called debt aversion and stress a major point about the advantages of income contingency – such schemes offer default protection. So I don't think it's useful to talk about debt aversion in a context of normal mortgage loans when the whole rationale or reason for income-related loans is to avoid that problem. Of course, the policy has to be designed properly.

My second point is to do with the modelling of repayment parameters: 8% seems to me to be too high. The reason why I think 8% is too high is that you're going to find people in particular circumstances for whom 8% is a problem, for example, with three or four dependents, for example with some calamity to do with health or housing expenditure, or perhaps some loss of an expensive consumer durable. So an 8% repayment rule, I think, doesn't offer enough insurance.

One of the reasons for having relatively low repayment percentages is that the government doesn't have to worry about all the contingencies of life. You don't have to say, well, it's 3% if you're in this particular circumstance, you've got seven children under the age of eight and an unemployed spouse. Instead, you can get away with that by designing the system to be fairly generous, so that you don't actually have to make exceptions for the exigencies, and these will be the typical outcomes of what is likely to be a very heterogeneous graduate experience.

### **Jörg Dräger, Ph.D.**

I wanted to add a comment to Mr Chapman. Germans always tend to look at extreme cases and that's what you just did as well. You said 8% is a lot if you have poor parents, who can't pay for your education, and then you



have four children and an unemployed spouse. I agree, then 8% is indeed too much – but then let's adjust it to a maximum payment later, if people can't cope with the terms of repayment.

But you are describing a 1 or 2% case. If we find a model which works just fine for 95 or 98% of the people, we shouldn't get stuck on the 2%. But afterwards, if the 2% become a problem, let's make adjustments, but let's not adjust the whole model to the 2% of the most difficult cases. We have to adjust to those individual problems, but not on a general level.

### **Mr Volker Bley**

You mentioned that you've got a lot of students in Australia who work during their studies to earn money to support themselves. I would be interested in the quota and I would be interested what the universities themselves do to help students earn their living inside the university system. Are jobs for students in the university system part of the whole scheme and do they work somehow in the repayment?

### **Ms Anna York**

I don't think universities do very much to give students jobs. There are some schemes, but it's an informal thing and on a university by university basis, if some university or sections of the university or programmes within the university or departments prioritise employing students. But there's no scheme across-the-board that I know of. In terms of the amount of hours, it's about 20 hours a week on average that full time students undertake for work. There are many cases of students that have to take on more than that to get through, but 20 hours a week is about the average and that's more than enough to impact on studies and the quality of your education.

Mike would like to add that half the students are part time and that would indicate that a lot of students take on part time study because they have to work as well. Many of those students are paying back their HECS loans while they are working and while they are studying at the same time because of the low threshold.

### **Professor Stefan Hormuth**

Thank you. Are there any more comments or questions?

### **Professor Peter Gaehtgens**

I would like to take up the issue of the Hamburg model being put to the decision of the university. That might cause an effect where, let me say, 50% of the universities would say yes to the model, and 50% would say no. Then there is a differentiation within the system on the basis of tuition being paid or not paid; a loan system being introduced or not being introduced. Would this represent a significant impediment for student mobility between universities? Would it also introduce a differentiation among universities on the basis of teaching quality and would it possibly introduce a differentiation among universities on the basis of social or financial situation of the students? Those who are uncertain as to whether they will cope with a personal loan, or whether they won't, might play the safe game, so to speak, and choose the university where that system does not exist and vice versa.

I do not know of any other country where this decision is made by the university. In Sweden, Austria, Great Britain, that's not up to the university to decide. Would you care to comment on that? And let me add the question why you do propose that. Would you rather have the decision made at the university level rather than at the political level, because you are sceptical that this decision might be taken at all?

### **Jörg Dräger, Ph.D.**

Let us take an international perspective, by looking at England for example: England says, we have excellent universities which can charge high tuition like Oxford and Cambridge, and we have universities that are not quite as good and can charge only lower tuition fees. In the US, you find a complete differentiation of all kinds of tuition schemes between a few hundred dollars and US \$ 28,000.

We talk about teaching quality and about students wanting to get extra quality, students willing to pay a certain amount of tuition for extra teaching quality. CHE presented figures yesterday, with 50-something-% of the students saying, yes, I'm willing to pay € 500 if the university solely benefits from this and if there is some kind of a loan system in case I can't pay. Neither politics, nor the government, but only the universities can provide better teaching quality. If we have autonomous universities, then universities themselves have to decide within this autonomy whether they im-

prove their teaching quality and whether they dare to charge tuition or not.

The government or the State must set a framework to ensure that things are socially acceptable, that everybody can benefit in the same way, and that nobody is disadvantaged. Otherwise, the danger is imminent that the government charges fees, then reduces government subsidies for the universities at the same time, so the financial benefit for the universities is nil. If we truly believe in autonomous universities, universities have to make their own decisions and they alone are responsible for improving teaching quality

### **Professor Christine Keitel, Freie Universität Berlin**

Maybe it's just a side remark, but we haven't touched one point so far. We spoke about students who have to work, who have to take on a job during their studies, and this is the case for the majority of students, for instance in Berlin. Most recently I experienced a very schizophrenic situation: We called in all of our students who exceeded a certain number of semesters, and we said, if you do not come to be counselled, you will be expelled from the university. And the experience was a very strange one, many of them had spent a long time at university, had taken up a job, had got a good position somewhere in the economic system and they were even well paid. However, they would lose their positions immediately, if they gave up their student status, because as a student they don't have to pay social insurance, etc. and taxes are lower and so on. This is really schizophrenic. It actually happened to some that when they passed their final exam and they lost their student status, that they lost their jobs. This is a strange situation, and in my view, it is really schizophrenic. On the one hand, as long as the students are counted as students at certain universities, the universities are accused of not allowing final exams in a short time, etc. On the other hand, of course, on the market these students do not count as jobless, because they are just students. In contrast to Spain or France, where they have very, very high numbers of jobless youngsters, aged between 23 and 30. We don't have these high figures, maybe just because of this schizophrenic situation that many of the students keep their student status because it doesn't cost very much to be enrolled at university and because you have the advantage of these kind of jobs.

It changed a little bit, a funny side remark again, when our students had to pay for their public transport ticket together with matriculation. This is a less modest sum, and now they really think about whether to continue being a student or not.

**Professor Stefan Hormuth**

Thank you for pointing this out. I wonder whether this explains something that I just found out at my own university. We have a student in his 87th semester, I wonder if that's maybe his motivation.

**Ms Anna York**

Can I just say briefly that I really would argue strongly against the proposition that there are economic benefits to being a student, there just aren't. You are poor as a student, you live below the poverty line as a student, you get some benefits as a student but you get those in recognition of the fact that you have no money because you are studying, and you work to pay your living so that you can study.

**Dr Dieter Dohmen**

The thing is, in Germany we have stupid incentives really, to be enrolled in a university just to get some advantages on the labour market. This is really not a question of higher education policy, this is a question of the social insurance policy we have in Germany. We have a differentiated social insurance contribution depending on whether you are a student or not. If I'm an employer and if I'm in the situation to decide between a mother with a child and no spouse and a student, I have to say to the mother, you are too expensive for me because I don't have to pay any social insurance contribution for students. This is a real distortional fact on the labour market. Together with the advantage of getting a public transport ticket for a reduced rate, this is a strong incentive for many students in Germany to be enrolled in a university, even if they are working for 20 hrs a week or something. But this has to be solved by politics. Politicians have to ensure that there are no incentives from the labour market to enrol in university.

**Professor Stefan Hormuth**

Are there any more questions or comments from the audience? I don't see any, so would like the panellists to make a final statement. I will not give

you any specific question but ask you to summarise your experience and what you take from Berlin home with you.

**Ms Anna York**

I've given most of my summary remarks. I just would make one point that I didn't get to make on any other occasion. That is the question that's come up about competition and how it's linked to quality. For me, they are inherently linked and I can't see a system where you place universities in competition with one another, and you use the mechanism for the expression of that competition as student fees, that can possibly work out equitably. Because the inherent outcome of that system has to be that some institutions and universities will win and are able to charge high fees and are able to trade off their brand name and their reputation, and some institutions will lose and simply as a result of that competition not keep up with the leading universities. For me that means a stratification of the university system and I just don't think that you can argue, on one hand, that the university and education system should be massified and available to everyone, and then say, on the other hand, we'll only properly fund a small number of institutions that will be available to those who can pay because the expression of that competition is high fees. So yes, that's the only point that I wanted to add to the debate so far.

**Professor Peter Gaehtgens**

I think we've learned at this conference that there are many aspects to be considered, including the social and labour market aspects, which may not have been looked at in sufficient detail, while the models as such, I think, are sufficiently detailed to allow a decision at the political level, which is what we need. I still think that the conference on the whole has served to – I'm sorry to say that – to confirm my preconceived notion which was, even at the beginning, that we really have no alternative. And that is to me the most important argument after all. The question is, if we don't enter into a scheme of this kind, what else? I have not heard a satisfying answer to that relevant question. And for that reason we have to be very grateful to our Australian guests and friends in not pointing out only the apparent virtues. They also pointed out the pitfalls, which we need to observe very carefully under the very different conditions that obviously exist in the two countries. Thank you very much.

**Mr Michael Gallagher**

To quote the Welsh poet Dylan Thomas, I suppose Anna is saying to you, do not go gentle into that good night. And I'm saying to you, take a torch.

When HECS was introduced in Australia there were two important pre-conditions that don't exist in Germany. One was that we had autonomy of our universities in respect of staffing and governance, and we had diversification of revenue sources, for instance, in terms of overseas students fees.

It seems to me that what you have now in Germany is a desperate search for a way through a conundrum where you have inadequate public investment in higher education, but you have structural costs of your civil service staffing arrangement – for instance, life time tenure – that you don't have the authority to reduce. And you lack alternative means of financing your university, such as through commercial revenues.

I would like to caution, should you move to put the fee imposts on students as the only way out of that conundrum, that such a cost shift can be very unfair. Students could be loaded with a disproportionate burden, given that they have to compensate for the lack of public investment, inflexibilities in your staffing structure, and no flexibility in your other revenue resources. This could lead to a very inequitable outcome. That's not to say that you should not pursue some form of revenue from students with an income-contingent loan and with pricing flexibility within the subsidised places, but I think that you really need to look at the other preconditions within the German framework to get that into perspective.

**Jörg Dräger, Ph.D.**

Thank you, I think most things have been said. We've seen and the panel discussion has shown again how complex the whole system is. We started talking about tuition fees and their implications, then went on realising that there is a correlation to the different schemes of university financing, then compared different models of tuition fees, and then ended up with the question of wrong tax incentives on the labour market and so on. So I guess we could continue that discussion for quite a while. But we just need to start at one point and develop a system from there. I would still be happy if we were to agree nationwide on a system which is reasonable both, for the universities and for the individuals.

Because the question of competition came up in the last couple of statements, I would like to end with a citation of my former colleague Thomas Oppermann from Lower Saxony. I cannot translate this very short citation into English, so I'll just say it in German and leave it to the others to get it straight in English. The question is whether you accept that, if you allow for competition, there will be better universities and there will be worse universities. And Thomas Oppermann said he never understood, '*warum deutsche Universitäten, die unterschiedlich gut sind, alle gleich schlecht sein wollen*', the point being that, if you have competition, as in sports, you all start at the same time, that's only fair, but not everybody makes it to the finish line in exactly the same time. Some will be faster and better, some will be more popular with students and there will be some that not all students will get access to, since they aren't good enough. I don't see anything wrong with a scheme like that. I don't know why we take education at that level – at that very, very high and privileged level – as something where everybody starts at the same time, the fastest have to wait for the slowest, so that everybody can slowly and comfortably walk across the finish line just at the speed of the slowest of the 38 Australian universities or 300 German ones. So yes, competition is good, and to have a differentiated system is good as well. Thank you.

### **Professor Bruce Chapman**

Thank you, I wanted just to say something completely different, from my perspective, and that's related to labour economics and data. One of the things that is really very useful in these discussions and might be done more, when and if there is a next time, is the availability of important information to do with labour market experience of graduates: the completion rates, the drop-out rates, and the unemployment rates of people who have some higher education or who are graduates. The focus should not just be on unemployment probabilities and earnings, but the expected unemployment duration, and the true rates of return, how these rates of return change. If a government is thinking about an income-related loan; this sort of modelling that is really fundamental to setting the parameters. You can't generalise about the effect of an income-related loan, since outcomes will depend critically on the first threshold, the rate of interest, the rates of repayment, and thus what are the consequences on disposable income. Such matters are really fundamental and you'll find a huge range of outcomes depending on policy design.

I would also suggest that, if you are thinking about changes along the lines that we've discussed, that it is right now you need to set up data sets to see what the consequences of policy change might be, because things will happen that you cannot anticipate. And what you need to know is before and after – and the only data that do those properly are not cross-sectional, they are longitudinal. In other words, you will need to survey young people now, before they get into the system, and then, to see the effects of the system, on completion rates, on participation, and on graduates' future economic experiences. So I would encourage you to think importantly about data, since in the end the politics is influenced a lot by the statistics and, at least in my country, we have had very poor data. And some of our disagreements over the last day and a half are to do with things which can be sorted out empirically, which because of data limitations we could not do at the time in Australia. We are now doing them, but it would have been lovely to have had the right numbers available in 1987.

The other thing I'd like to say is that economists are people, and as a person I would like to express my gratitude with the nature of this interaction over the last two days. It's been always thoughtful, respectful, curiosity-driven and I appreciate that very much. Thank you.

### **Professor Stefan Hormuth**

I would like to thank all panellists for your contribution, thank you for your words. As we come to the end of the conference, I myself, and I think I can speak for the German side, think we have profited tremendously from this discussion and from the experiences you brought to us from Australia. I hope when you return to Australia that you will think the long trip was worth it and that you take something of value back with you. I would like to thank all those who contributed to making this a success, to all the people who worked hard to prepare the conference. Maybe Dr Bartels would like to say a final word.

### **Dr Ditta Bartels**

We've made it to the end, and I think I can speak on behalf of all of us that it's been a remarkably good conference. It's been a very friendly conference and very productive, I believe. Some of us have a kind of *déjà vu* in being here, that is that in the very early days of the Australia



Centre, when it was in Potsdam, we had a conference at the end of 1997, trying something like what we've done much better this time. Those of us who were at both conferences have come to the conclusion that the two sides have interacted much more productively this time around, they've come together in a much more meaningful way.

And that is because back in 1995/1996 we were fairly sure in Australia that we had it right, that HECS was a good thing, that the international student-driven income to the universities was a good thing, and we had a gung-ho attitude to how the future looked. Now we've had that future for the last seven years and what I've been very impressed with at this conference is the thoughtfulness of the experience that we've gained. It has not been an easy ride as we thought seven years ago. And consequently, I think, what we can bring to our German colleagues is that hindsight experience as much as the valuable goals that we have achieved in those seven years. So I would like to thank all of the participants to the conference, the ones who gave the formal papers, the one who did the commentaries and the ones who asked the questions, and indeed those who sat, took it all in and didn't go to the microphone, for participating on the two days, in a very productive and friendly way.

I look forward very much to working in the coming years again with the HRK and with the Australian Embassy and with other institutions as well to develop further aspects of the dialogue of how we can work most productively together. Thank you very much.

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