



Feedback on priority issues for the *Review of Australia's Higher Education System*

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Introduction

Meeting Australia's knowledge and skills needs now and into the future is indeed a tall order. While we know with some degree of certainty the forces that Australia's workforce will need to respond to – the aging of the population with its consequences for the health and care sectors, the challenge of transitioning the economy from a reliance on fossil fuels, an uncertain and unstable geo-political environment, a focus on diversity in the workforce and addressing the disadvantage in our society - it is no means clear what this implies for our education sectors. We know that the link between education and work is very loose in many parts of the labour market, and we know that the labour market can respond to issues of supply and demand in many different ways. In looking to the future, I would argue that it is critical to get an institutional architecture that will provide a suitable foundation for whatever the future brings, and I would argue that our current architecture is not serving us well.

We need to review the way we think about tertiary education, and how we structure, fund and regulate post-secondary education.

Sectoral boundaries

While the review refers specifically to the higher education system, it would be very timely to examine the structure of the whole post-school education sector.

We talk about higher education (superior to lower education?), as being distinct from vocational education. Higher education according to the AQF covers AQF levels 5 and higher, while vocational education and training covers AQF levels 1-5. This is fine as it goes but is not helpful in delineating higher education from vocational education, given that much of what is taught in universities is vocational in nature – for example medicine, nursing, engineering, business to name a few of the vocational disciplines. Thus, it is not particularly sensible to make a distinction between higher education and vocational education, because much of higher education is vocational.

Our current institutional structure also is not that helpful in defining the higher education sector as separate from the vocational education and training sector. There are a number of dual sector institutions (although there seems to be little integration of the vocational education and higher education components) and most universities are registered training organisations which can deliver vocational education and training certificates. Nevertheless, the different funding and regulatory arrangements have given Australia an incoherent tertiary education system.

The first term of reference is about *meeting Australia's knowledge and skills needs, now and in the future*. This is an opportunity to examine the role of tertiary qualifications more broadly, rather than restrict the review to AQF levels 5 and above. It should also be remembered that the increasing proportion of jobs 'requiring a degree' is as much an outcome of supply as well as demand. There is no doubt that increasing numbers of persons with a degree have resulted in degree holders ending up in jobs that previously did not require a degree (see Karmel 2013, 2015).

Another important consideration is the role of immigration in meeting Australia's skill needs. Recent skills shortages have led to employers in particular calling for higher levels of immigration. A question which needs to be addressed in this context is whether there is a structural imbalance in our tertiary education sector which has led to the need for importing skills. It certainly is the case that there has been a huge expansion in bachelor degrees over recent decades, and a decline in diploma numbers (see Karmel 2022). There has been some policy interest in the idea of higher level apprenticeships but little action in this area. Is it the case that our push to expand higher education has led to a hollowing out of middle skill levels which has had to be filled by immigration? Or can we expect degree graduates to increasingly fill these lower level positions? This is a topic worth examining.

One of the key differences currently between higher education and vocational education and training is the 'industry leadership' that occurs in VET. This has resulted in diminishing the role of educators in VET, with the pedagogy dominated by training packages and their narrow focus on tasks in a job. The importance of general education within VET has been downplayed, despite the fact that many VET graduates do not end up in jobs related to their training and despite the argument that general education provides a good foundation for responding to an uncertain and unknowable future.

How should post-school education be funded?

Currently, we have an incoherent approach to funding education. At the school level there is an expectation that education will be fully government funded (at least if you attend a government school). Post-school we have a mix of fee based courses and fully funded courses in Vocational Education and Training (VET), and Commonwealth Supported Places with a student contribution in higher education. Free TAFE places have been a feature of State systems for some years as well as being featured by the Albanese government. Concessions for equity groups are widespread in VET. In higher education the student contribution is covered by an income contingent loan but not so in VET apart from some diploma courses.

Over time, increasing levels of education have changed community expectations about the support for post-school education. It would be a great help if a set of principles could be developed to guide which parts of education should be fully government funded. For the remainder, it would be helpful to have some principles which would guide the extent of government subsidy. It would also be helpful to have some discussion about the role of industry and its responsibility for training its employees. In this regard the last training expenditure survey was conducted by the ABS in 2001-02. It is difficult to have a sensible discussion in the absence of any data.

One suggestion I would make is to provide an entitlement to a level of general education equivalent to the successful completion of school at a level which would make it possible to enter a degree program. Under such a principle, completion of year 12 in itself would not exhaust the entitlement – we know that many students who have attended school to year 12 have not achieved a satisfactory level of education. For these students, I suggest that the VET or the higher education sector offer a fully funded 'diploma in general education' the successful completion of which would enable the individual to enter a degree level program. The VET sector's coverage of disadvantaged groups suggests that it would be well placed to offer such courses.

A more radical suggestion acknowledging that tertiary education is becoming close to universal (and therefore sensibly funded through general taxation- an education levy akin to the Medicare levy?)

would be to fully fund an element of post-secondary education (we take diploma level qualifications as the first level of qualifications that is clearly higher than the senior secondary certificate). A modest step in this direction would be to fund the first year of the post-secondary qualification (noting that diplomas and undergraduate degrees range in length from one to 4-5 years). Funding for the remaining years would then revert to the current mix of subsidy and student contribution, accompanied by income contingent loans to assist those who are financially constrained. The mix acknowledges that there may be some externalities that justify government funding, but that it is the private return that justifies most individuals undertaking further education.

It would be prudent to draw boundaries around courses to be publicly subsidised in order to prevent 'rorting' or unsustainable budgetary pressures: the rise of demand led government funding in 2008 and its subsequent decline explains the bulge in government funded diplomas between 2008 and 2014, while the VET FEE-HELP scheme - replaced in 2017 by VET Student Loans - spiralled out of control from 5,000 students in 2009 to 270,000 students in 2015 (Australian Government 2016, 2020). We should also acknowledge that there are parts of the training system which have worked perfectly well in the absence of government intervention. We should also acknowledge that industry has a responsibility to its employees and should not expect the government always to pick up the bill for educating and training its employees or potential employees.

My overall point, though, is that we should establish some principles to underpin the way that the government subsidises courses.

The actual level of subsidy is inherently a political judgment. It may be attractive to have subsidy levels inversely related to the private return. However, this would mean that we more highly subsidise those courses which the labour market values less - so we would subsidise creative arts more heavily than, say, teaching. It does not seem sensible, though to encourage students into courses with low returns.

It should also be noted that the absence of a real interest rate on income contingent loans automatically implies that those individuals who obtain a high private return receive a lower subsidy because they pay the loan back relatively quickly.

Should subsidy levels be related to the cost of delivery? – this is problematic because there is no objective cost of a course (how big should classes be? Does there have to be a practicum component? Is the course being delivered in a regional area?) and there are myriad ways of delivery (reading courses are cheap, small class teaching is expensive). That said, there is little doubt that law is cheaper to teach than veterinary science. Mathematics is relatively cheap to teach but should it be subsidised less than science? Or should it be subsidised at the same rate as other courses which are cheap to teach such as arts or law?

I would also argue that it is futile to try to establish an objective cost of a course. If the cost of delivery is to be a factor in the funding model then it would be more sensible to obtain a general consensus on what would be a reasonable cost of delivery. That is, leave it as a matter of judgment rather than seek some elusive 'objective truth'.

Choice between VET and higher education

There seems to be a general presumption that VET loses out to higher education because of its lower status and because VET does not have income contingent loans (apart from some diplomas).

There appears to be a view that VET could be made attractive in comparison to higher education if we could change public perceptions.

However, the reality is that the only area where there is real competition between the sectors is at the diploma level (AQF 5), and only in certain fields. Overall, it is clear the degrees are supplanting VET diplomas, especially in the natural and physical sciences, information technology, engineering and related technologies, agriculture, environmental and related studies, health, society and culture and the creative arts. These are fields where the higher education sector over a period of time has expanded at the same time VET has contracted, and fields where governments have contracted VET diploma provision (see Karmel 2022). Two areas worth particular discussion are education and health. In the former VET diplomas have grown very substantially since 2013 and this is associated with changes to childcare and early education. Essentially it is the regulations that have been the force behind the growth. In the future it is not hard to envisage a degree becoming the desired qualification, and this would impact immediately on the demand for VET diplomas. In respect of health there has been modest growth in VET diplomas, associated with enrolled nursing and some non-mainstream health therapies, including massage. However, VET provision in health is very much at the margin with government undergraduate provision six times government funded VET diplomas (see Karmel 2022, Figure 3.6). We also note that the ATAR scores needed to enter higher education have been declining over the last 20 years suggesting that policy settings have been favouring higher education over VET. The provision of diplomas and advanced diplomas is one area where governments should ensure that policy settings do not favour one sector over the other - we are talking here about level of subsidy, the distribution of government supported places and the provision of income contingent loans.

The idea that students choose between undertaking a Certificate III/IV and an undergraduate degree is very questionable. They are not substitutes and lead to very different career paths. The main issue with the low status of VET is not that the community thinks it is inferior but more that VET, especially at the certificate level, leads to lower status occupations. Income contingent loans for Certificates III/IV, or an advertising campaign extolling the virtues of VET, will not address the disadvantage that VET has in competing with higher education.

In an uncertain world, with a pressing need for an adaptable workforce, we have a VET system that prepares people for narrowly based specific jobs with an emphasis on immediate job tasks. Surely it would be preferable to have a broad based curriculum underpinned by core skills that would prepare individuals for the vagaries of the future? Perhaps it is timely to question the concept of training packages with their narrow occupational specificity and weak assessment strategies.

We should be wary, though, of flirting with the idea that government support for tertiary education should be universal. There are parts of the education market that work very effectively without government support. A good example is the provision of management and commerce diplomas in VET where the numbers of diploma commencements with no government funding are double the number with government funding (2020 data, see Karmel 2022 page 31).

The connection between the vocational education and training and higher education systems.

The terms of reference canvass 'possible opportunities to support greater engagement and alignment between the VET and higher education systems'. This is a very static view of the two systems and appears to take as given the role of the current universities. One 'stylised fact' that has

emerged over recent decades is that the universities are largely driven by research success with its impact on university rankings (and consequent positive influence on the number of international students). The teaching aspect of universities has been overshadowed by the research endeavour, and the so called unified national system has resulted in large comprehensive universities all trying to be larger, more comprehensive and research driven.

This raises the question as to whether this is a good outcome in terms of meeting the needs of students and the labour market. The Productivity Commission (2022, page 79)- notes that ‘recent regulatory changes allowing teaching-only ‘university colleges’ have opened the door to higher education providers that distinguish themselves on the basis of teaching excellence’. This regulatory change provides an opportunity for some radical thinking on regulatory frameworks and funding structures. In particular, it could allow VET to reinvent itself, and offer a genuine alternative to the current set of universities.

Bruce Mackenzie and I have argued for a high level vocational approach as a genuine alternative to the more academic approach (with its emphasis on research) of universities (Karmel and Mackenzie 2022). If current trends continue, VET will be left as a provider of lower level training to meet short term industry needs. University education, with its emphasis on research and theory, will be the only game in town in the delivery of training for professional occupations.

This is in contrast with international practice where there is diversity in terms of the delivery of higher-level education, with many examples of specialised, professional or practice orientated institutions which complement the research based universities.

If we wish to emulate these models, and to address the decline in Australia of practice based education, we need a new type of tertiary education institution which straddles the VET and higher education worlds. We are envisaging a tertiary institution- which we provisionally label as a ‘professional university’, focused on teaching and practice, delivering VET certificates, diplomas and bachelor degrees. Ideally, there would be pathways from certificates to diplomas to degrees.

However, current structures are very unhelpful. The main problem is that Australia’s tertiary education space is a dog’s breakfast. It’s as if VET comes from Mars and higher education from Venus. We have a fundamental confusion between qualifications and the institutions which deliver them. We have a qualification classification that separates VET and higher education. We have two regulatory bodies, with quite different ways of operating. We have funding arrangements which reflect history rather than logic. We have fee and loan arrangements which are all over the place.

So when we argue a new type of tertiary institution, we are really arguing for a system to provide foundations for a variety of tertiary institutions. Reforms needed include:

- changes to the AQF so that it is agnostic in respect to whether a bachelors degree is VET or higher education;
- an amalgamation of TEQSA and ASQA so that accreditation and regulatory oversight of a tertiary provider is the responsibility of one body, or alternatively a merger of TEQSA and ASQA for programs at level 5 and above, and another body responsible for the lower level programs;
- a rebalancing of government funding such that the Commonwealth is responsible for supporting tertiary education at levels five and above (that is, diplomas and above) with

States being responsible for Certificates I-IV. We would need increased funding for VET so that it can properly support student services and mentoring its more disadvantaged students. In current parlance, we would need the professional universities to have access to Commonwealth Supported Places;

- an emphasis within VET on general education so that a student had multiple options to both acquire technical skills and leave open the possibility of higher level study;
- a consolidation of statistical data such that we would have a complete picture of the activity of each provider.

Thus, it would need a fundamental shift in philosophy and serious institutional reform to create an environment in which there is a genuine alternative to current university education.

There are a number of reasons why this is worth arguing for.

The first is an educational one; there are numerous fields where a practice based training philosophy (as distinct from a theory based approach) is a good one and, arguably, will meet the needs of the labour market more effectively.

The second is a diversity argument. The so-called unified system in which colleges of advanced education morphed into universities, has led to a system where all universities aspire to become comprehensive research universities. Surely, some diversity with strong institutions with a different focus would be of benefit to the nation – and it would bring Australia in line with the practice in many countries.

The third is an efficiency argument. Teaching only institutions do not have the option of cross subsidising research with funds notionally allocated to teaching.

The fourth is an equity argument. While there is much rhetoric from the universities concerning equity, it is unarguable that VET has a broader reach than universities in terms of students' age, educational background, social and cultural backgrounds. And it would be VET, with its emphasis on training for the labour market, which would underpin the new type of tertiary institution. In this regard we should note that the VET student body is different from that of higher education. VET students are typically part-time, employed and older. We would need to ensure the 'professional university' does not lose its VET roots and become a pale imitation of current universities.

Thus, there are very good reasons for VET to embrace bachelor degrees as a key element of vocational education, so that we can create a genuine competitor for the current universities. We need to rejuvenate vocational education so that there is a direct pathway into higher education. We need professional universities that offer qualifications from lower level VET qualifications to bachelors and applied masters degrees. VET, by going up market, would be part of an expanding education sector, in contrast to being residualised as is likely under current arrangements.

The long term implications of such a development would be profound. In effect, we would be creating a genuine binary higher education system. One branch would be the research universities, with the roles of teaching, research training and research. The other would be the professional universities with a practically inspired teaching orientation, an emphasis on meeting the needs of a diverse student body and providing pathways from the lowest qualification to the bachelor and

professional master degrees. The professional university would be a dual sector institution with feet in both VET and higher education.

While we have described this as a binary system, in reality it would be a ternary system. The research universities and the professional universities would be complemented by a raft of smaller providers with limited offerings at both the certificate and degree level as is the case now – we are not pushing for the demise of the current thousands of small providers. That said, the assurance of quality for these providers is a challenge, particularly for VET with its emphasis on training packages which are both delivered and assessed by the same provider.

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