

At the Crossroads:

*What is the post-COVID future of
Australia's Public Universities?*

By Eliza Littleton

The Centre for Future Work at the Australia Institute

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Level 1, Endeavour House
1 Franklin St, Manuka, ACT 2603
Tel: (02) 61300530
Email: mail@australiainstitute.org.au
Website: www.australiainstitute.org.au

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About the Author

Eliza Littleton is a research economist at the Australia Institute. She has published research in is higher education policy, youth employment and fossil fuel subsidies.

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Contents

Introduction and Summary	4
Higher education and the pandemic	8
University finances	8
Pandemic job losses	15
More casualisation	17
Differential gender impacts.....	19
Higher education policy and finances	21
Current policy	22
Job-Ready Graduates reforms	22
Federal Budget 2021-22	22
Reforms to research	24
Federal Budget 2022-23	26
Trajectory of revenue	27
International students	28
Government funding	30
The future of higher education	39
Short-term implications.....	39
Cost saving measures	39
Casualisation and wage theft	40
Quality of education	41
Quality and variety of research	42
Long-term implications.....	43
At what cost?.....	45
Rethinking higher education	47
Policy recommendations	48
Funding the recommendations	56
Conclusion	58

Introduction and Summary

Public higher education fulfils a vital role in society. Universities educate workers of the future, equipping them with the skills, knowledge and critical thinking required for democratic participation and inclusion in a constantly changing labour market. Functioning at the intersection of abstract learning and practical pursuits, higher education creates the foundations for major social advancements that improve the quality of economies, and the incomes and wellbeing of households and individuals. Higher education has intrinsic value too, connecting students and scholars to a view of humanity that examines values, ethical purpose, the wisdom of different cultures, and the full diversity and richness of human thought. Accessible, well-funded public higher education systems support citizens to approach collective challenges with an open, inquisitive and rigorous mind. But decades of neoliberal higher education policy have eroded public funding and put the sector on the path of corporatisation, undermining the capacity of universities to deliver the public service of higher education. The pandemic and international border closures threw the sector into a financial and operational crisis, exposing existing fault-lines and strengthening corporate influence over an essential public good. The future of Australia's public universities hangs in the balance.

The closure of the international border in 2020 reduced international student fee revenue - which represented 27 per cent of universities' total revenue at 2019. As a result, total university revenue fell by \$1.9 billion or 5 per cent in nominal terms in the year to 2020 – the first decline in over a decade of consistent uninterrupted growth. The federal government made matters worse by arbitrarily excluding universities from the JobKeeper wage subsidy program. To protect against losses, universities responded with dramatic cuts to expenses, primarily through job cuts. Shockingly, in the 12 months to May 2021, 40,000 jobs in public tertiary education were lost, with 88% of these losses estimated within public universities. The majority of jobs lost were secure permanent roles which has accelerated casualisation and problems of chronic job insecurity in the sector.

The structural crises in university funding and workforce arrangements are not a product of the COVID crisis, but the accumulated impact of higher education policies focused on restructuring sector funding via deregulation, and privatisation. More recently, the federal government legislated a decrease in public funding per student under the Job-Ready Graduates reforms. Through this new funding model, students will pay an estimated additional \$414 million per year (in aggregate), while the federal

government will reduce its contribution to student learning by \$1 billion: a 15 per cent reduction in total Commonwealth Grant Scheme funding. On a net basis, universities lose a total of \$742 million per year in total funding. To make matters worse, the government forecast a cut to real university funding by 3.4 per cent over the forward estimates in Budget 2022-23. Meanwhile, existing diminishing funding is being made increasingly contingent on prioritising enrolments and research that align with commercial interests. This includes the introduction and use of ministerial vetoes on the allocation of grants through the Australian Research Council. This realignment of higher education operations for sectional and individual private interests undermines the autonomy and independence of universities, and the 'public good' nature of the service they deliver.

Higher education is at a crossroads. Although it seems the worst of the pandemic is behind us, the implications of the crisis are still unfolding, and underlying problems associated with the sector's corporatisation remain. International student enrolments in 2021 were down 17 per cent compared with 2019, and although overseas students can now return (and many have continued to study through remote learning systems), rebuilding international enrolment will be slow. Universities may never regain pre-COVID international enrolment levels. International student fee revenue is 33 per cent lower than it would have been had the pandemic not occurred. Skilled staff who lost work during the pandemic may never return, and the workloads of remaining staff are increasingly untenable. To survive universities will continue to expect more from, and give less to, their students and workforce.

But an alternative path for higher education is possible. Australia must proclaim an ambitious national vision for higher education that re-aligns the sector with its public service mission, and with the needs of students, staff, and wider society. Achieving this expansive vision of a stronger, more accessible, and more democratic university system will require a long-run commitment to better funding, better jobs, and better governance.

This report analyses the current worrying state of Australia's higher education sector based on the macroeconomic environment and federal government policy settings. Importantly, it tells two stories about the future of higher education: one based on the current trajectory of corporatisation, declining education standards and chronic job insecurity for workers in the sector; and an alternative future in which universities are supported to pursue knowledge for the economic and social benefit of the wider public.

Our report identifies seven key policy initiatives that, if implemented, would put Australia's public universities on a path toward full revitalisation.

- 1. Adequate public funding for universities.** Direct public funding of Australian universities has been declining relative to size of the economy since the mid-1980s, representing just 0.65 per cent of GDP in 2018/19 (well below the OECD average of 0.9 per cent). Higher education requires significant structural reform and more fiscal support. While longer-term changes are being planned in conjunction with all higher education stakeholders, including governments (both federal and state), staff, students, industry bodies and the wider public, federal public funding should increase immediately to relieve current fiscal pressures to 1 per cent of GDP (around \$20 billion per year in total).
- 2. Fully funded research.** Australian research and development funding has been declining as a proportion of GDP since 2008, when it peaked at 2.25 per cent. It has since declined to only 1.8 per cent of GDP, well below the OECD average of 2.5 per cent. Publicly funded research plays a critical role in addressing multi-faceted, complex emerging problems like climate change, global pandemics, and demographic change. To ensure Australia meets its pressing national challenges, the federal government must expand public investment in quality independent university research, and relinquish its growing control and political micromanagement over funding allocated.
- 3. Free undergraduate education for Australian students.** Higher education has become essential to obtaining gainful employment and incomes in Australia. In the five years to 2025, 52 per cent of all new jobs generated will require a bachelor's degree or higher qualification. However, increasingly delayed entry into full-time gainful employment means course fees are increasingly burdensome. Students now take an average of 9.4 years to pay off their degree, compared to 7.7 years in 2009. The government should introduce free undergraduate education to Australian citizens and permanent residents, restoring affordability and accessibility to the higher education system. Free undergraduate education would cost an estimated \$3 billion a year.
- 4. Secure employment.** Systematic underfunding of universities has exacerbated the insecure employment crisis in the sector, with widespread implications for the well-being of university workers, the quality of education and research, and the sustainability of the university system. Strengthening and repairing higher education employment will require multiple interventions, including:
 - Conversion of part-time casual positions to permanent jobs with more adequate hours, and limiting the use of casual employment to legitimate cases of short-term or seasonal work. These changes would reduce casual staff to around 10 per cent of total employment.
 - Expansion of the university workforce to reduce unsustainable workloads and improve the quality of academic jobs. We estimate reductions in the average weekly working hours of academic staff from

50 hours to 40 hours would generate around 11,750 full-time-equivalent academic jobs at a cost of an additional \$1.2 billion in labour costs.

- 5. Improve higher education governance.** Many issues in the higher education sector stem from declining funding, political intervention and uncertainty around future political decisions that affect universities. The federal government should establish an independent higher education agency with funding and regulatory powers, and restore the proportion of elected university council members to a majority. The current structure of university councils mimics corporate boards with tokenistic staff and student representation. This model of governance has failed to safeguard academic and ethical standards – as demonstrated, for example, by systematic wage theft scandals across almost half of Australia’s public universities. The majority of university councils should be elected by staff and students, drawn from candidates with expertise in education and the public sector.
- 6. Cap Vice-Chancellor salaries.** In 2020, the average vice-chancellor’s pay at 37 public universities was nearly \$1 million a year – around double the salary of the Prime Minister of Australia. Growth in vice-chancellor salaries has outstripped growth in incomes of other staff for decades and should be capped at \$500,000 per year.
- 7. Data collection and transparency.** Making data publicly available helps non-government organisations provide useful insights into issues and informs policy decisions that benefit all Australians. Analysis of the university sector could be strengthened by providing more complete data on headcount employment, course availability, and other timely, high-quality labour market information.

Higher education and the pandemic

The COVID-19 pandemic hit Australia weeks after the start of the 2020 academic year. The closure of Australia's borders prevented many international students from studying in the country, causing significant financial pressure on universities which had come to rely on fees as a major source of revenue. Universities have responded to dramatic COVID-era developments and subsequent government policy decisions by cutting expenses, primarily through job cuts. Other challenges, such as adapting to online learning, have imposed a heavy financial toll on universities and their staff.

UNIVERSITY FINANCES

The decision by the federal government to close national borders reflected public health considerations and was made to protect the well-being of all Australians. However, the costs of that policy decision were not shared equally throughout the economy. As government funding for higher education has declined over the years, universities have come to rely on private sources of revenue to fund core operations, staffing, and facilities. In particular, universities have become precariously dependent on the premium fees paid by international students. The policy decision by the government to close borders (however appropriate from the perspective of Australia's broader public health goals) thus fundamentally and immediately disrupted the financial foundation of higher education, exposing this and other weaknesses in the system.

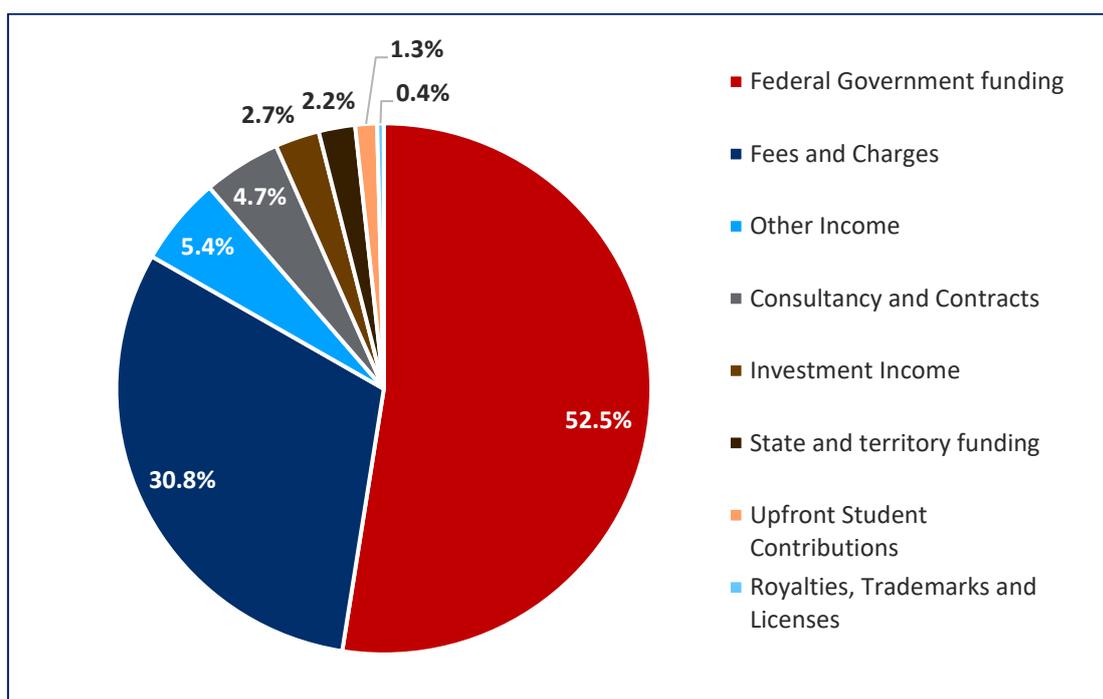
The combined revenue for universities fell by \$1.9 billion (5%) in the 2020 calendar year to \$34 billion, and expenditure declined by \$255 million (also equaling \$34 billion). The revenue decline can be largely attributed to a drop in student fees, particularly international students; reduced expenditure is due mostly to reduced salaries due to cutting staff. Over the year, 23 universities still reported a surplus, but 16 were in deficit. The following section analyses the revenue, expenditure, and surplus of 39 Australian public universities in 2020, to describe the current financial

context for universities and establish the impact of the pandemic. The data is based on university finance data from the Department of Education, Skills and Employment.¹

Revenue

University revenue can be broken into various components, as shown in Figure 1. In 2020, federal government funding made up the majority (52%) of university revenue. The largest portion of government funding is through the Commonwealth Grant Scheme (CGS), which subsidises the cost of teaching and research. It is worth around \$7.5 billion per year and comprises 56% of total federal government funding to the sector. The Higher Education Loan Program (HELP) makes up another 10% of government funding to universities, assisting with the up-front cost of study for domestic students. HELP funds constitute debts that are eventually (at least partially) repaid to the government by graduated students, and hence they are not always considered as ‘government’ funding. For the purposes of this report, calculations of government funding for sector will state whether HELP is or is not included.

Figure 1: Sources of revenue for public universities, 2020



Source: Author’s calculations based on DESE (2021) *Higher Education Providers Finance Tables*

Research funding makes up the bulk of remaining ongoing funding to the sector. For the most part, funding for research takes the form of block grants delivered through

¹ DESE (2021) *Higher Education Publications: Finance Publication*, <https://www.dese.gov.au/higher-education-publications/finance-publication>

programs, including the Research Support Program and Research Training Program worth around \$2 billion, the National Collaborative Research Infrastructure Strategy, and grants distributed by the Australian Research Council via the Linkages and Discovery program (worth a combined \$800 million per year). In total, university research funding is worth around \$3 billion per year and makes up 24% of government funding.

Student fees and charges made up a further 31% of total university revenue, most of which were international student fees (worth 27% of total university revenue). “Other income” refers to donations, non-government grants, prizes and sales revenue, and represent 5.4% of revenue. The remaining revenue (11%) is derived from contracts, investments, state/territory governments, royalties, and upfront student contributions. It should be noted that the composition of university revenue has been changing over time, in line with policy changes and the broader government-led agenda of university privatisation and commercialisation (discussed below).

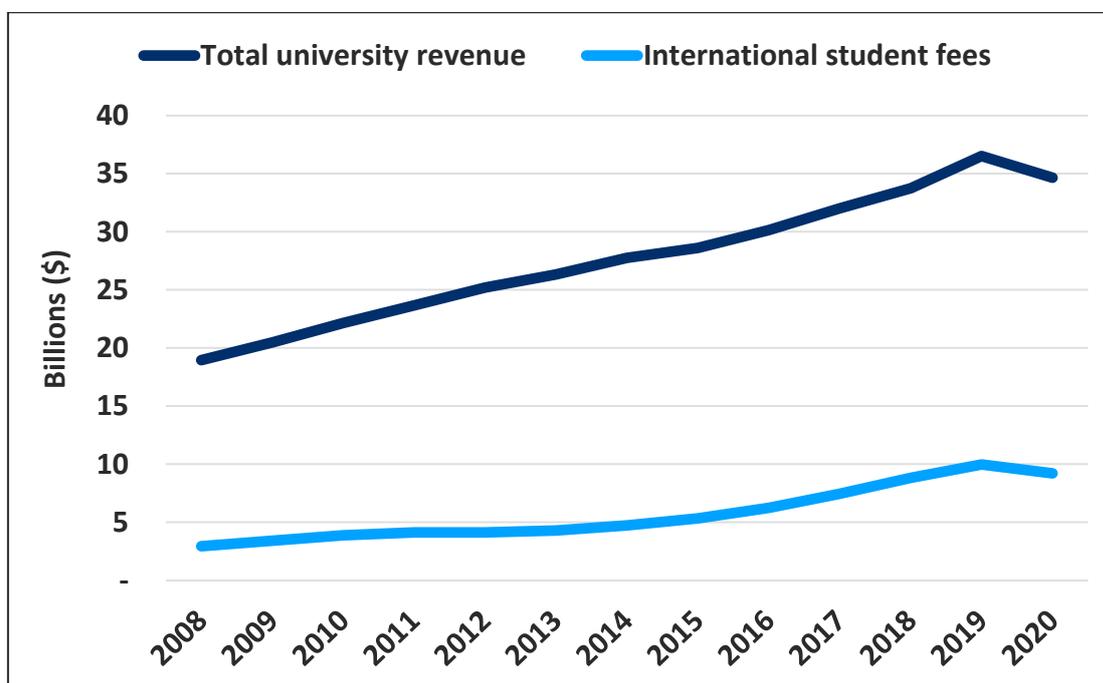
Revenue composition varies considerably between different universities. The level of dependency on total government funding ranges widely between universities: from as low as 36%, to as high as 83%. Reliance on government funding is lower for the larger, older universities – including the University of Sydney (36%), the University of Melbourne (39%), Monash University (42%), Queensland University (45%), the University of New South Wales (49%) and the University of Western Australia (51%). Conversely, those bigger institutions are more reliant on international student fees, which make up as much as 42% of revenue for them, compared to as little as 3% for some smaller institutions.

Figure 2 shows that Australian universities experienced steady revenue growth up until 2020, which marked the first decline in this series since this dataset began in 2008 (and likely much longer). In 2020, revenue declined by 5% or \$1.9 billion, mainly due to a 7.6% (\$756 million) drop-in international student fees and \$1.2 billion less investment income.

The pre-pandemic growth in revenue can be explained by two key trends. First was the introduction of demand-driven funding in 2012, which uncapped the number of government-funded places for domestic students. This led to an increase in enrolments between 2012 and 2018. Second, the number of international student enrolments has more than tripled since 2001, contributing significantly to higher fee revenue.²

² DESE (2021) *uCube*, <http://highereducationstatistics.education.gov.au/>

Figure 2: Total university revenue and international student fees, 2008-2020



Source: Author's calculations based on DESE (2021) *Higher Education Providers Finance Tables*

As shown in Figure 2, between 2008 and 2020 income from international student enrolments in Australia more than tripled: from \$2.9 billion to \$9.2 billion, and increasing from 15.5% to 27% of total university revenue. The decision to close borders thus significantly disrupted the financial foundation of higher education in Australia. International student fees revenue fell by over \$750 million in 2020, and probably further in 2021 (as the full effects of closed borders were absorbed in enrolments).

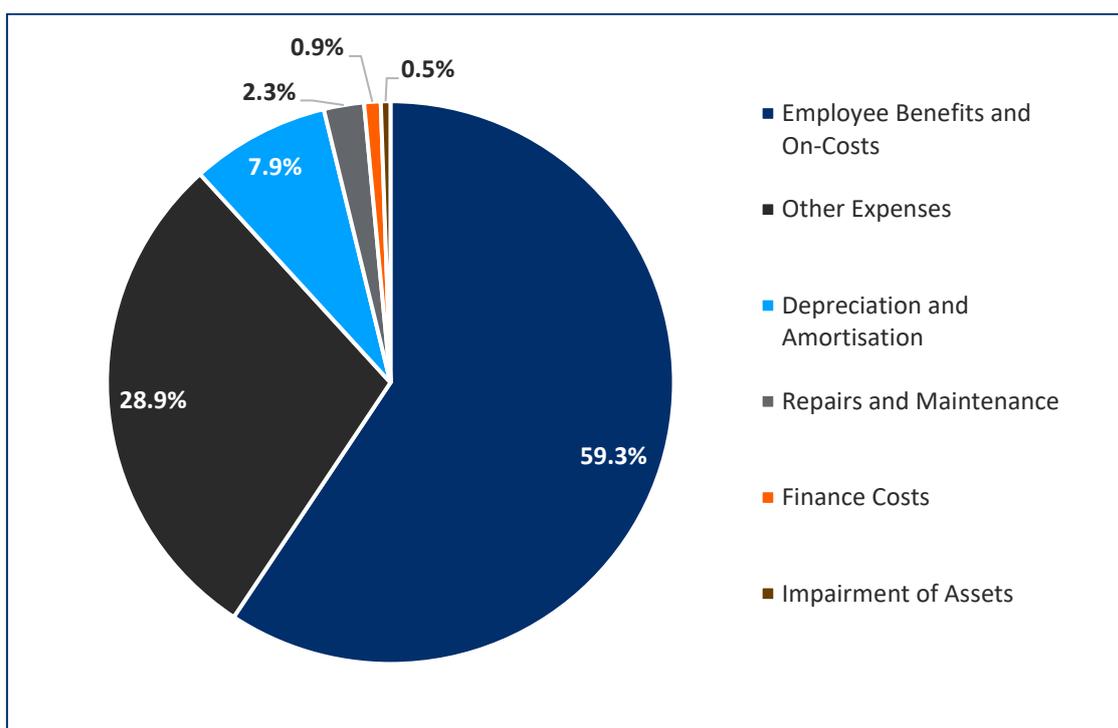
Universities occupy a hybrid status, funded in part by public money via the government, but with an increasing share stemming from private sources (in particular investment income and international student fees). The volatility of these private revenue streams has introduced significant instability to the business model of higher education. During the pandemic, it has been the private revenue which has been most volatile, and hence least able to protect the important, valuable services provided by universities through this crisis.

Expenditure

Australian universities spent a total of \$34 billion in 2020, \$255 million less than in 2019. The decline can largely be explained by the actions of universities to shed workers in response to the pandemic. Figure 3 shows that employee costs represent

the largest proportion (59%) of university expenses. This includes salaries, superannuation and pension contributions, payroll tax, leave entitlements and workers compensation for academic and non-academic staff. Employee costs thus became the first target of cost cutting efforts during the pandemic, dropping \$989 million between 2019 and 2020. That decline in compensation was almost 4 times the drop in total expenses; perversely, universities expanded non-compensation costs even as they were slashing payrolls and staffing levels.

Figure 3: Expenses by type for public universities, 2020



Source: Author's calculations based on DESE (2021) *Higher Education Providers Finance Tables*

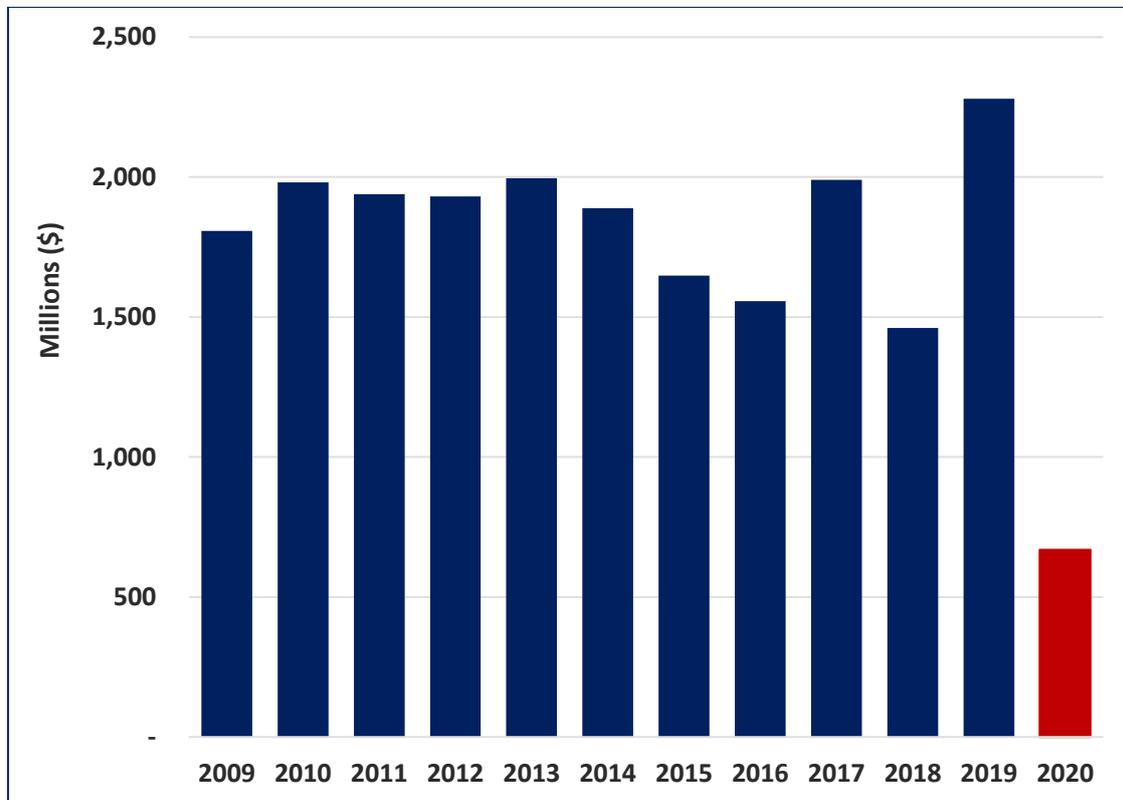
The share of expenses represented by employee costs varies between 52 per cent and 71 per cent depending on the university. Labour costs make up a bigger proportion of expenses for some universities including Notre Dame, Southern Queensland, Australian Catholic University and Flinders. On the other end of the spectrum, employee costs make up the smallest proportion of expenses for Swinburne, Federation University, Western Sydney and Monash. The Group of Eight universities sit squarely in the middle.

Surpluses and deficits

The combined annual surpluses of universities (the net revenue left over after expenditure) was \$669 million in 2020, down from \$2.3 billion in 2019. This represents a surplus margin of 1.9 per cent – the lowest since 2008. From 2009 through to 2020,

the average surplus margin was 6.9 per cent. The steep drop in the combined surplus is mostly due to the decline in private sources of revenue resulting from border closures and reduced investment income, partially offset by reductions in expenditures.

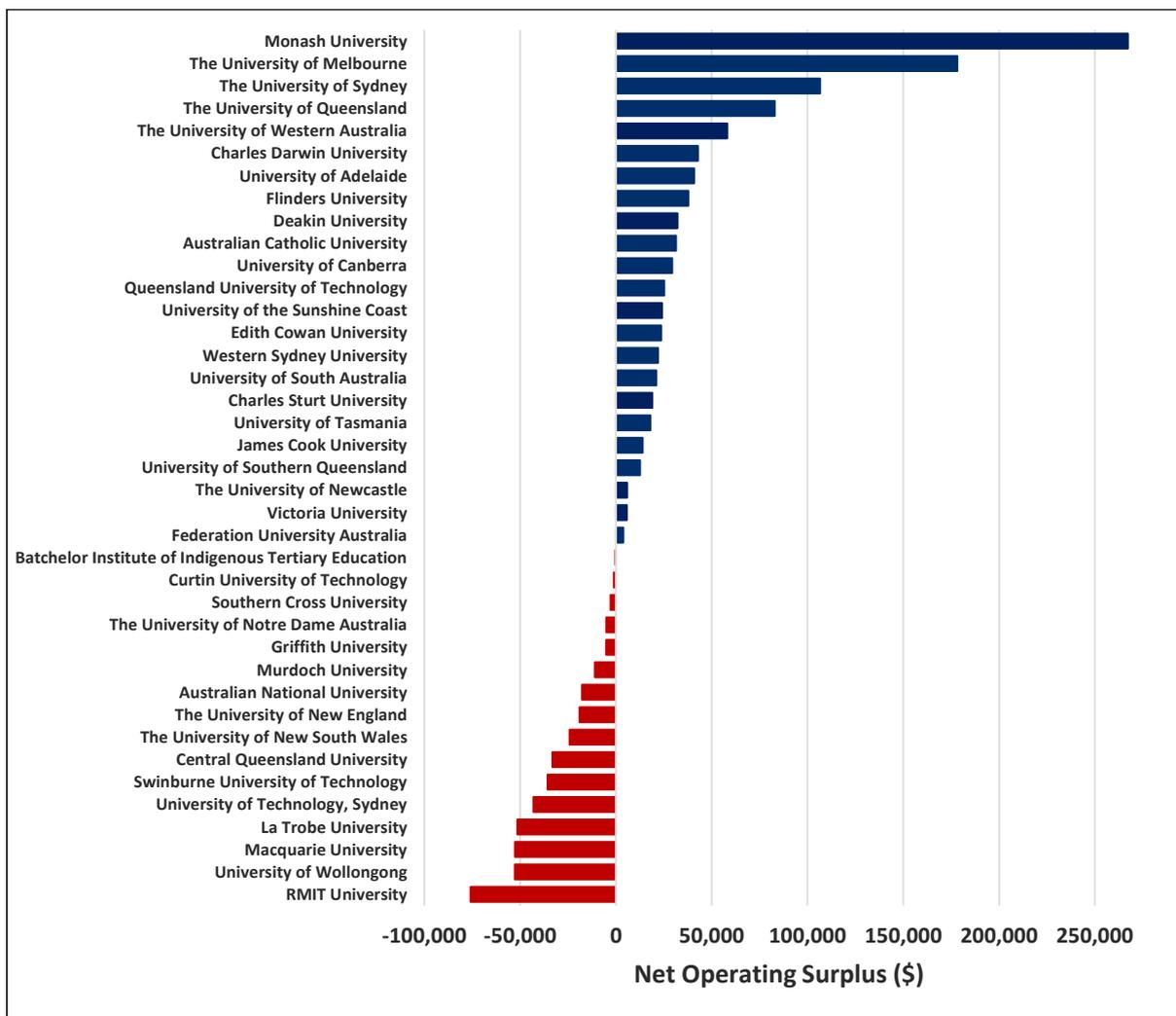
Figure 4: Net operating surplus, public universities, 2009-2020



Source: Author's calculations based on DESE (2021) *Higher Education Providers Finance Tables*

Whilst this net budget balance for the combined university sector is still positive, negative net margins (or deficits) were recorded by many individual universities. Out of the 39 universities included in this analysis, 16 reported a deficit in 2020, as shown in Figure 5. This is compared to only four institutions reporting a deficit pre-pandemic in 2019. This speaks to pre-existing issues in the hybrid funding model for public universities, but also highlights the significant vulnerability introduced by over-reliance on private sources of revenue. The slim surplus margin in the broader sector (alongside significant deficits incurred in many institutions) will provide very little buffer for universities over the subsequent years of the pandemic and its continued fall-out.

Figure 5: Net operating balance by university, 2020



Source: DESE (2021) Higher Education Providers Finance Tables

There is significant disparity between the revenue, expenses, and surpluses of public universities in Australia. Three universities make up 83 per cent of the total combined surplus for the whole the sector: Monash University (\$267 million), the University of Melbourne (\$178 million) and the University of Sydney (\$106 million). Surpluses at the other institutions are much smaller, and largely offset by the deficits booked at the 16 institutions facing red ink.

Growing imbalance in financial performance between universities is indicative of rising instability in the higher education system. Rising competition generates perverse incentives as universities invest in greater marketing to attract students, compromising the overall health of the sector. For example, Monash University has a large enough surplus to cover the revenue shortfall for all 16 of the universities in deficit. In a state government public education system, such swings and roundabouts are routinely

managed through cross-subsidisation, with surpluses in some schools absorbed within an integrated funding envelope across the whole system.

Universities responded to the financial pressures of the pandemic by cutting expenses, primarily by reducing in labour costs through mass job cuts.

PANDEMIC JOB LOSSES

Before COVID-19, employment in tertiary education had been growing strongly: by about 10 per cent per year on average from 2015 through 2020. Universities did not substantially reduce employment during the initial lockdowns – due to contractual commitments for the academic year, uncertainty about how long the crisis would last, and hope that government aid would be forthcoming. Soon, however, thousands of casual employees began to lose their jobs.

By the time the 2021 academic year began, however, job cuts were being experienced in full force. Academic employment shows strong seasonal patterns, so it is best to measure job changes on a year-over-year basis. During the 12 months to May 2021 (the first year after initial COVID lockdowns), total tertiary education employment fell by almost 40,000 positions (see Table 1). Over 90 per cent of those positions were full-time. That toll was worse during that year than any other non-agricultural sector in Australia’s entire economy. These heavy job losses occurred even as Australia’s economy was rebuilding strongly after the initial lockdowns: in the same period, the national labour market created almost 1 million jobs (over 400,000 of them full-time).

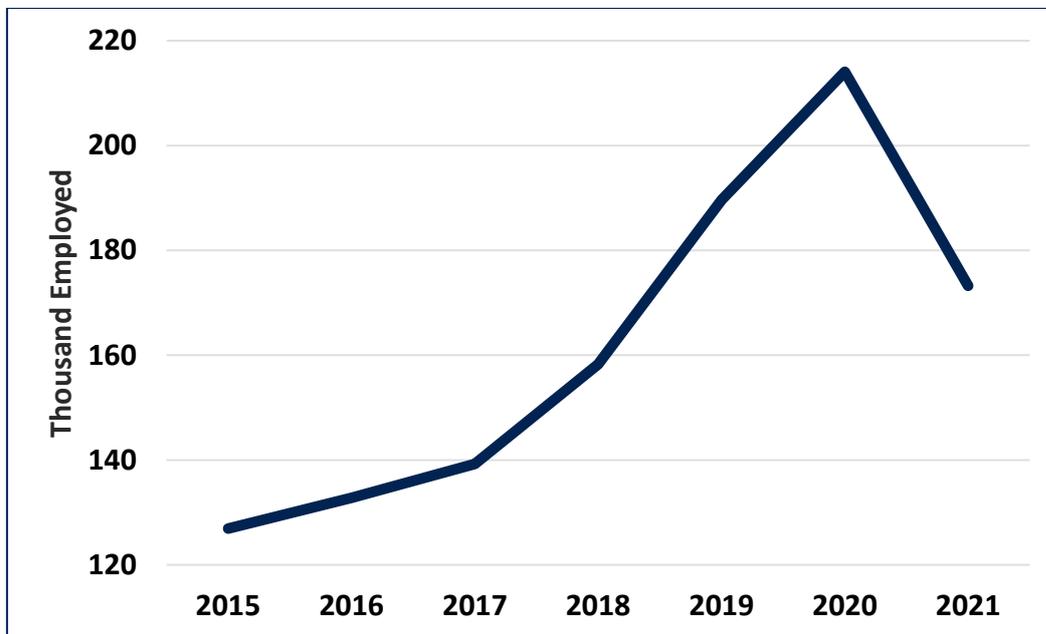
Sector	Total Jobs Lost (000)	Full-Time Jobs Lost (000)
Tertiary education	-39.2	-36.6
Building construction	-30.9	-24.2
Residential care	-25.7	-6.7
Electricity supply	-19.9	-18.3
Broadcasting	-18.3	-15.3

Source: Centre for Future Work calculations from ABS Labour Force, Detailed.

Like other sectors, tertiary education reflects a mixture of public and private (for-profit) operation. Public tertiary institutions account for about three quarters of total employment. Private vocational colleges, and a handful of private universities, make up the rest of tertiary education. Unfortunately, more than 100 per cent of total tertiary job losses in the first half of 2021 occurred in public institutions. Employment

in public tertiary institutions during the first half of 2021 fell 41,000 positions below year-earlier levels (Figure 6). That was offset partly by small job gains in private institutions.

Figure 6: Public Tertiary Education Employment



Source: Centre for Future Work calculations from unpublished ABS data; first-half-year averages.

Within the public tertiary sector, universities account for about 80 per cent of total employment (with TAFEs and other public vocational institutes accounting for the remainder; data from 2016 census). No current data is available regarding the split of job losses between universities and TAFEs. But based on that pre-pandemic distribution of employment, it is safe to assume that around 35,000 jobs (and possibly more) were lost in universities in that year.³ The extent and speed of recovery from those pandemic job losses depends on many as-yet unknown factors, including recovery in international student arrivals and enrolments, hiring strategies by the universities, and fiscal support from the federal government. By November 2021, job losses in tertiary education had narrowed – but employment was still below pre-pandemic levels (and even lower than tertiary employment five years earlier).

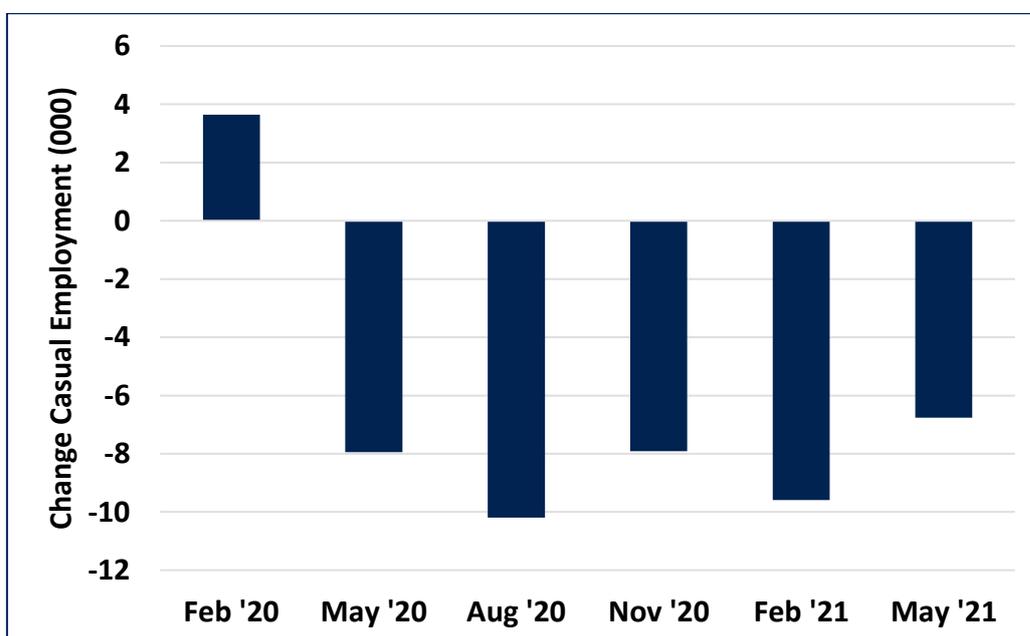
³ Calculation based on 2016 census data.

MORE CASUALISATION

It is not just the reduced quantity of work in universities that is the problem; the deteriorating quality of work is also a major concern for both workers in the sector, and the quality of education they can deliver. Australian universities have been experiencing an epidemic of casual employment for years, including overuse of sessional instructors and other casual positions. Casual employment denies basic job security and entitlements to workers and allows employers to shed staff quickly and costlessly when they desire. To invoke the language of former Finance Minister Mathias Cormann,⁴ this is a ‘design function’ of casual employment, and it was activated when the pandemic hit: large numbers of casual staff were discarded by universities within months of the onset of the pandemic.

By the May quarter of 2020, nearly 8000 casual jobs had already been shed from tertiary education. The loss of casual jobs accelerated, reaching 10,000 positions (relative to year-earlier levels) by late 2020. This trend abated somewhat towards the end of the 2021 academic year. Universities are now re-hiring some casual staff, even as permanent jobs are cut.

Figure 7: Casual job losses relative to 2019

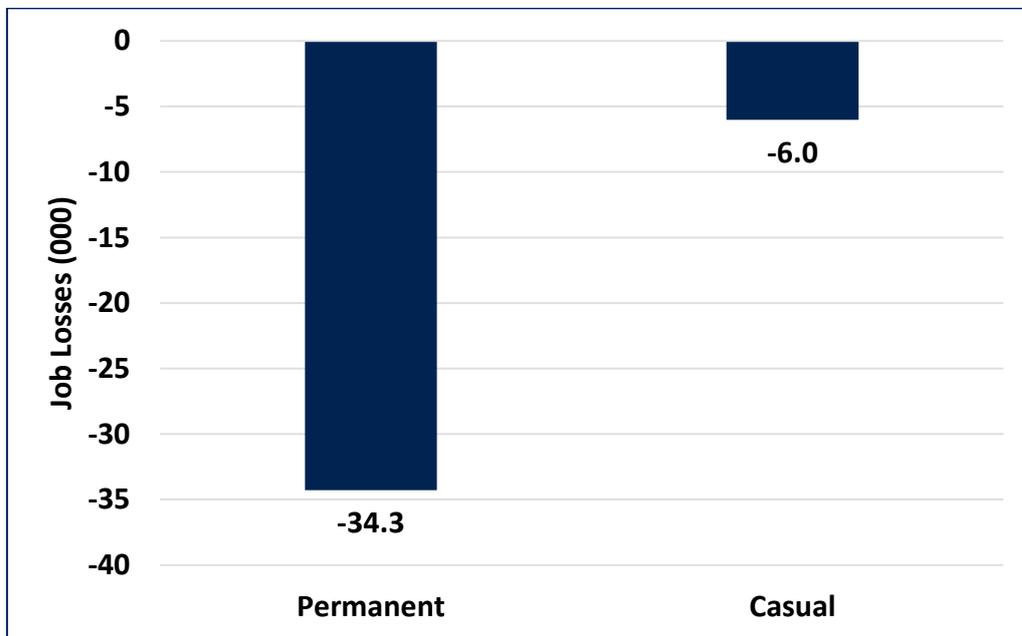


⁴ John Quiggin (2019) “Ultra low wage growth isn’t accidental. It is the intended outcome of government policies,” The Conversation, 17 March, <https://theconversation.com/ultra-low-wage-growth-isnt-accidental-it-is-the-intended-outcome-of-government-policies-113357>.

Source: Centre for Future Work from ABS unpublished data. Compares quarterly data to corresponding 2019 quarter; public tertiary education.

In 2021, however, permanent staff faced the main job losses. Having had time to adjust staff plans in light of the pandemic and the loss of international students, university administrations began to attack permanent positions with a vengeance. Year-over-year permanent employment (defined as positions with normal paid leave entitlements) in public tertiary education declined by over 34,000 jobs in the first half of 2021 (relative to year-earlier levels; Figure 8). That represents 84 per cent of job losses experienced by the whole sector that year. And by the May quarter, as universities increased their casual hiring, permanent jobs represented all of the net job loss compared to year-earlier levels.

Figure 8: Casual and permanent job losses, first half of 2021



Source: Centre for Future Work from ABS unpublished data; first-half 2021 relative to year-earlier levels, public tertiary education.

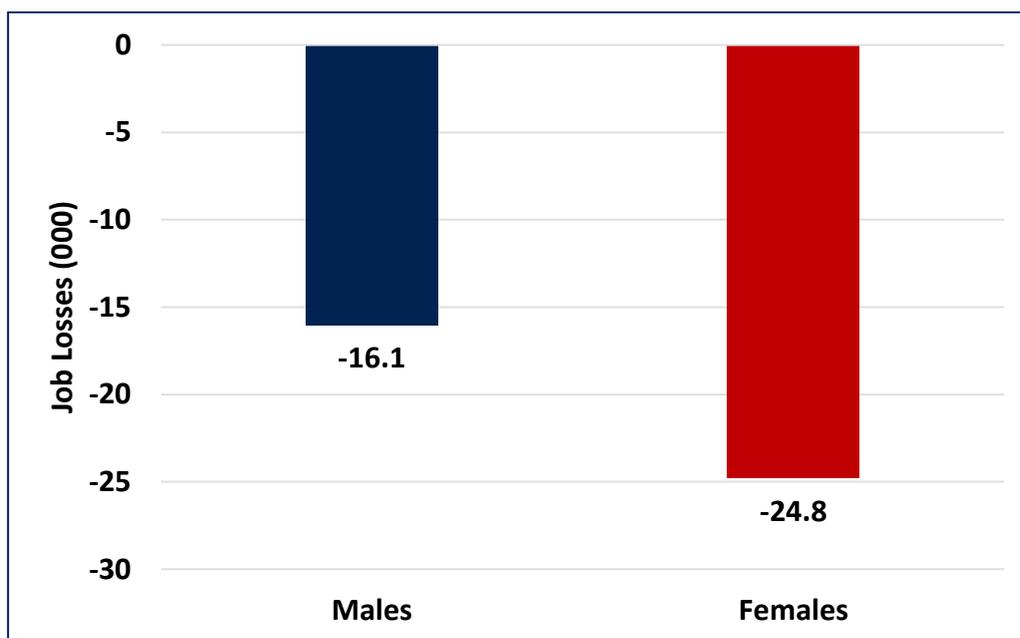
The continuing loss of permanent positions, combined with some gradual recovery in casual hiring, is thus causing a resurgence in the overall incidence of casualisation in Australian universities. Across the whole sector, casual staff accounted for 22.4 per cent of total employment by the May quarter of 2021. That was up by half from temporarily reduced casual employment rates recorded earlier in the pandemic (when thousands of casual staff were displaced, but before permanent job losses began to accumulate).

Without urgent measures to limit casual hiring (including sessional instructors and other casual teaching staff), and protect permanent employment, the scourge of casualisation in Australian universities will clearly get worse in coming years.

DIFFERENTIAL GENDER IMPACTS

Employment in public tertiary education is relatively feminised. Over the 5 years before the pandemic, women held 58 per cent of all jobs in the sector. Employment in tertiary education (like other public services) is an important source of good, relatively well-paid jobs for women that helps to offset overall gender inequality in Australia’s labour market. The loss of employment in universities, therefore, is especially painful for women’s economic situation: both because women make up most of the higher education workforce, and because those jobs are especially important to women’s overall economic well-being.

Figure 9: Job losses by gender, first half of 2021



Source: Centre for Future Work from unpublished ABS data; first-half 2021 compared to year-earlier levels; public tertiary education.

Of the 41,000 jobs lost from public tertiary education in the first half of 2021 (compared to year-earlier levels), some 25,000 were incurred by women employees (Figure 9). That represents 61 per cent of job losses in the year – slightly higher than women’s proportion of total employment in the pre-pandemic period. Thus, in both absolute and relative terms, women bore a disproportionate share of total job losses during the initial year of the pandemic.

However, this is not the whole story. During early 2020, when the sector was still growing (relative to year earlier levels), job growth was weaker for women (10%) than for men (12%). This reflects women's greater concentration in casual positions (which then began to decline sooner in the pandemic than permanent roles), and the intense challenges faced by women to combine paid work with family and caring responsibilities (especially given disruptions in schools and early child education services during the lockdowns). Therefore, during both 2020 and 2021 women experienced a larger share of the impacts of university job cuts. And women's greater precarity of employment in the first place (disproportionately concentrated in casual positions), and generally heightened economic insecurity, make these gender dimensions of higher education job cuts especially painful.

Higher education policy and finances

The pandemic has caused severe financial challenges for higher education. But this crisis is not the product of the pandemic. It reflects years of bipartisan support for neoliberal higher education policy. Since the re-introduction of university fees in the mid-1980s, higher education policy and reform in Australia has been influenced by the economic and political agenda of commercialisation, deregulation, privatisation, and funding cuts. Withdrawing public financing and subjecting universities to market pressures has forced universities to seek additional sources of revenue within the private sector.

Australia's level of public investment in higher education has been on a sobering decline since the 1980s, when it constituted 90 per cent of university revenue.⁵ Today, public spending represents just 52 per cent of university revenue, including HELP funding. This decline in public support has been overseen by successive Australian governments which deregulated international student and postgraduate coursework fees, subsidised the private higher education market, and implemented study loan schemes in order to reintroduce domestic student fees – all measures that concealed the government's defunding of core university activities.

More recently, the federal government cut the level of public funding per student under the Job-Ready Graduates (JRG) reforms, and has made diminishing public funding contingent on enrolments within degrees that align with commercial interests. Examples of other recent policy changes restricting university research and learning independence include the introduction of ministerial grant vetoes, the National Priorities and Industry Linkage Program, University Commercialisation Scheme, and the Trailblazer Universities Initiative. Framing university education and research in purely commercial value terms, focused on industry needs, is part and parcel of a wider program to align universities economically and culturally with the private sector, and the production of commodities for sale (including education) – rather than seeing universities as providers of an essential public service.

The neoliberal higher education policy agenda shows no signs of slowing, with the recent Budget 2022-23 locking in future cuts to public university funding. This section

⁵ Raewyn Connell (2015) *The knowledge economy and university workers*, Australian Universities' Review, 57:2:91-95

will examine the impact of recent higher education policy changes and low international student enrolments on the future of university revenue.

CURRENT POLICY

To understand the future of higher education, we must first review current policy settings and the ways in which they are reshaping the activities of universities.

Job-Ready Graduates reforms

In June 2020, federal Education Minister Dan Tehan announced changes to the funding arrangements for higher education, aimed at producing more ‘job-ready’ graduates.⁶ According to the Minister, the JRG reforms have three main objectives: to improve accessibility for regional students, strengthen relationships with business, and increase the number of graduates in areas of expected employment growth (including teaching, nursing, agriculture, STEM and IT).

In pursuit of the latter, the government introduced legislation that changes both the level of government funding and student fees to incentivise enrolment in professions considered most important for economic recovery, and in areas of future employment growth. At the same time, students now face higher fees for degrees deemed of lower value. Using these reforms, the government concurrently assessed most degrees (including in growth areas) as over-funded, resulting in a decline in total government funding to universities per student. The reforms came into effect in January 2021. The government claims they will create up to 39,000 new university places by 2023 and 100,000 places by 2030.⁷ Further analysis of the conflicting incentives resulting from the fee and funding changes is provided below.

Federal Budget 2021-22

The 2021-22 federal budget largely ignored the devastating impact of the pandemic on university finances. The budget papers show that nominal funding for higher education fell by 6.5 per cent (\$741 million) in 2021-22, and will decline by 9 per cent in real terms⁸ over the forward estimates. The decline in ongoing funding over the forward

⁶ The Hon Dan Tehan MP (2029) *Minister for Education Dan Tehan National Press Club address*, <https://ministers.dese.gov.au/tehan/minister-education-dan-tehan-national-press-club-address>

⁷ The Hon Dan Tehan MP (2029) *Minister for Education Dan Tehan National Press Club address*, <https://ministers.dese.gov.au/tehan/minister-education-dan-tehan-national-press-club-address>

⁸ Between 2021-22 and 2024-25 based on the 2021-22 budget forward estimates of CPI.

estimates can largely be attributed to the impact of the JRG reforms on Commonwealth Grant Scheme (CGS) funding. The government's decision to cut funding to universities despite the chasm in university finances left by reduced international student enrolments, is shocking.

The 2021-22 budget was deemed an expansionary "recovery budget," however there was little new funding for university programs to offset those reductions in core funding channels.⁹ A special \$1 billion grant for research universities received in the 2020-21 budget to assist with pandemic-related revenue losses was not renewed, despite the ongoing pressure on universities resulting from the closed international boarder. Moreover, this special one-off research funding disproportionately favoured the Group of 8 Universities, exacerbating inequality between institutions across the sector. New funding took the form of waiving regulatory fees and incentivising the commercialisation of research:

- \$1.1 million over two years to incentivise universities to enrol students in 'Industry PhDs': research projects with an industry-focus that assist with translating university research into commercial outcomes.
- \$30.3 million over four years to waive eligible Australian Skills Quality Authority (ASQA), Tertiary Education Quality and Standards Agency (TEQSA) and Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) fees and charges, \$11.4 million over four years to simplify charging for CRICOS activities, and \$7.7 million over four years to lower TEQSA fees and charges for smaller higher education providers.

Of the new expenditure allocated to higher education, the government prioritised private providers. It announced \$53 million to support private higher education providers to attract more Australian students and grow offshore and online delivery of education.¹⁰

- \$26.1 million over four years to attract more domestic students through offering more short course places.
- \$9.4 million offered through grants of up to \$150,000 to support online and offshore education delivery models.

⁹ Worthington (2021) *Decade of budget deficits ahead as government spends billions to recover pandemic-hit economy*, <https://www.abc.net.au/news/2021-05-11/federal-budget-2021-frydenberg-decades-deficits/13337336>

¹⁰ The Hon Alan Tudge MP (2021) *More support for international education providers*, <https://ministers.dese.gov.au/tudge/more-support-international-education-providers>

- \$0.3 million over four years to extend the existing FEE-HELP loan fee exemption by six months to 31 December 2021.

Reforms to research

Between the budget in May 2021 and March 2022, the federal government announced other policies that will impact research funding for universities:

Reforms to the Australian Research Council (ARC) were announced in December 2021. The changes to the Council’s governance model seek to align the ARC with the government’s “research commercialisation agenda”.¹¹ The acting Minister announced four reforms with the main goal of redirecting ARC money into applied research and thus away from supposedly more ‘esoteric’ or theoretical research pursuits:

- The Linkage Program, which supports non-university partnerships, will receive 40 per cent of ARC funding. Of this funding, 70 per cent will be allocated in line with the government’s National Manufacturing Priorities, to areas including defence, space, resources, technology, food and beverages, clean energy, and medical products.
- The ARC will increase the use of the National Interest Test (NIT) in determining funding recommendations, including the involvement of industry representatives and other end-users in the assessment of NIT statements.
- Implementation of the recommendations from the review of Excellence in Research for Australia and Engagement and Impact will be fast-tracked. This was an evaluation of all research produced in Australian universities against national benchmarks. The expectation is that adopting the recommendations will increase industry engagement and the assessment of research based on its commercial impact.
- A commitment will be developed to help “align the ARC strategic agenda with government priorities, improve governance and drive innovation” in research funding and impact assessment.¹²

Moreover, on the 24th of December, acting Education Minister Stuart Robert vetoed six humanities research applications approved by the ARC. He did so on the grounds that they “do not demonstrate value for taxpayers’ money nor contribute to the national

¹¹ The Hon Stuart Robert MP (2021) *New direction for the Australian Research Council to help secure Australia’s recovery*, <https://ministers.dese.gov.au/robert/new-direction-australian-research-council-help-secure-australias-recovery>

¹² The Hon Stuart Robert MP (2021) *Letter of Expectations from Minister to ARC*, <https://www.arc.gov.au/letter-expectations-minister-arc>

interest.”¹³ This ministerial power to veto ARC research funding approvals signals that the government is willing to openly interfere in university research funding, seriously damaging the integrity and independence of the ARC.

In February 2022, the government announced the *University Research Commercialisation Action Plan*, a \$2.2 billion investment to encourage research with commercial value and collaboration between university researchers and industry. This funding is dedicated to four initiatives to push within that broader agenda.

A *Trailblazer Universities initiative* will provide funding to four universities (to be determined) to build their commercialisation capacity, particularly in the fields of defence, space, food and beverage, media products, recycling and clean energy, and resources and critical minerals.¹⁴ The intention is to signal to other universities that a focus on commercialisation and industry engagement will be financially rewarded. The initiative was announced in November 2021 and is worth \$243.5 million over four years.¹⁵

In his announcement speech, Prime Minister Scott Morrison said, “This publish or perish mindset is useful for getting tenure but does little to spur innovation or create start-ups. Universities need to shift incentives towards high value commercial opportunities, to industry needs and national priorities.”¹⁶

Australia’s Economic Accelerator (AEA) is a research funding program designed to speed up the translation and commercialisation of research. The program is worth \$1.6 billion, which will be distributed in the form of grants to projects that align with the six National Manufacturing Priorities with high commercial opportunity. Not all this funding will be dedicated to university research, private sector applications are also eligible to receive grants.¹⁷

The CSIRO’s *Main Sequence Ventures* will be expanded under the Action Plan, with an additional \$150 million investment. Projects which received funding via the AEA will

¹³ Australian Financial Review (2021) *Politicisation of research grants ‘beggars belief’*, <https://www.afr.com/policy/health-and-education/politicisation-of-research-grants-beggars-belief-20211226-p59k6j>

¹⁴ Morrison et al (2021) *Trailblazer Universities to build jobs of the future*, <https://ministers.dese.gov.au/morrison/trailblazer-universities-build-jobs-future>

¹⁵ DESE (2022) *University Research Commercialisation Action Plan*, <https://www.dese.gov.au/university-research-commercialisation-package/resources/university-research-commercialisation-action-plan>

¹⁶ Morrison (2021) *Virtual address, business council of Australia annual general meeting, speech*, <https://www.pm.gov.au/media/virtual-address-business-council-australia-annual-general-meeting>

¹⁷ DESE (2022) *Australia’s Economic Accelerator*, <https://www.dese.gov.au/university-research-commercialisation-package/australias-economic-accelerator>

then be able to compete for additional funding through the Main Sequence Ventures program, by proving project viability and commercial potential. The combination of these two programs is aimed at supplying investment during the early stages of research when projects are most vulnerable to failure.

The last initiative under the Action Plan increases funding for *Industry-focused PhDs and fellowships*. The government will establish 1,800 industry PhD and over 800 research fellowship schemes over 10 years. These are designed to increase research collaboration with the private sector and to incorporate industry knowledge of how to commercialise research output in the workforce of universities.¹⁸

These measures will severely compromise research outcomes. Arts and humanities research is significantly reduced, as well as scientific pure research that does not meet arbitrarily narrow, sector-specific business priorities. This long-term, pure research delivers enormous economic and social benefits. For example, until 2020 mRNA vaccines were entirely “blue sky” and esoteric, globally funded primarily through public pure research efforts. In Australia, in contrast, coronavirus research was systemically ignored by research agencies (including ARC and NHMRC) in the decade before 2020. Now mRNA vaccines have been proven and applied to great benefit in the fight against COVID – providing just one example of the payoff from long-term public investments in pure research.

In sum, the Action Plan will clearly further increase the government’s involvement in choosing what kind of research can and cannot take place at public universities. While this new funding is significant, its strong ties to commercial interests raise further concerns about the integrity and breadth of Australia’s overall research policy.

Federal Budget 2022-23

Higher education missed out on much needed funding and reform again in the 2022-23 federal budget. Nominal ongoing funding dedicated to higher education will drop by \$115 million over the three years between 2021-22 and 2024-25, before increasing in the last year of forward estimates.¹⁹ Real funding for the sector (after adjusting for inflation) will decline by \$536 million or 5 per cent in 2022-23, and by \$354 million or 3.4 per cent over the forward estimates.²⁰ Similar to the last budget, the government

¹⁸ DESE (2022) *University Research Commercialisation Action Plan*, <https://www.dese.gov.au/university-research-commercialisation-package/resources/university-research-commercialisation-action-plan>

¹⁹ Australian Government (2022) *Budget paper No. 1: Budget Strategy and Outlook*, page 150, <https://budget.gov.au/2022-23/content/documents.htm>

²⁰ These real funding estimates are calculated according to CPI forecasts also contained in the budget.

attributes the decline in expenditure to “lower costs under the Commonwealth Grant Scheme as a result of the Job-ready Graduates higher education reform package”.²¹

Research was the main beneficiary of new funding for the sector in the budget. But much of the new funding for research had already been announced, including the \$2.2 billion package dedicated to initiatives in the *University Research Commercialisation Action Plan*. In the budget, the government announced funding for the AEA grants program, the new Industry PhDs and fellowships, and the Main Sequence Ventures program – but none of this was new funding. The only new funding was \$37.4 million over 4 years to establish CSIRO’s Research Translation Start program to help take research from the lab into the market.²² This new funding won’t exclusively be dedicated to university research.

Australia needs a higher education system that is ready and able to meet our future research and workforce needs. Instead, the government has used the budget as another opportunity to remove real resources from public higher education, and tighten corporate influence over the activities of our universities.

TRAJECTORY OF REVENUE

The recent history of higher education policy bakes in public funding cuts for Australian universities over the next four to five years. Simultaneously, while the worst of the pandemic seems to be behind us, the financial implications of the crisis are still unfolding. International students can now return to study in Australia; however, the process will be slow, and universities may never regain lost enrolments. The interaction between the government’s policy agenda and the global environment will shape what comes next for Australian universities. For some universities’ revenue is likely to continue declining in the short-term, particularly those that rely heavily on international student fees, those that do not have high investment income and those that cannot easily compete for new commercial research grant funding.²³ This section will extrapolate historical trends to estimate the scale and shape of impacts on university revenue in the next couple of years.

²¹ Australian Government (2022) *Budget paper No. 1: Budget Strategy and Outlook*, page 150, <https://budget.gov.au/2022-23/content/documents.htm>

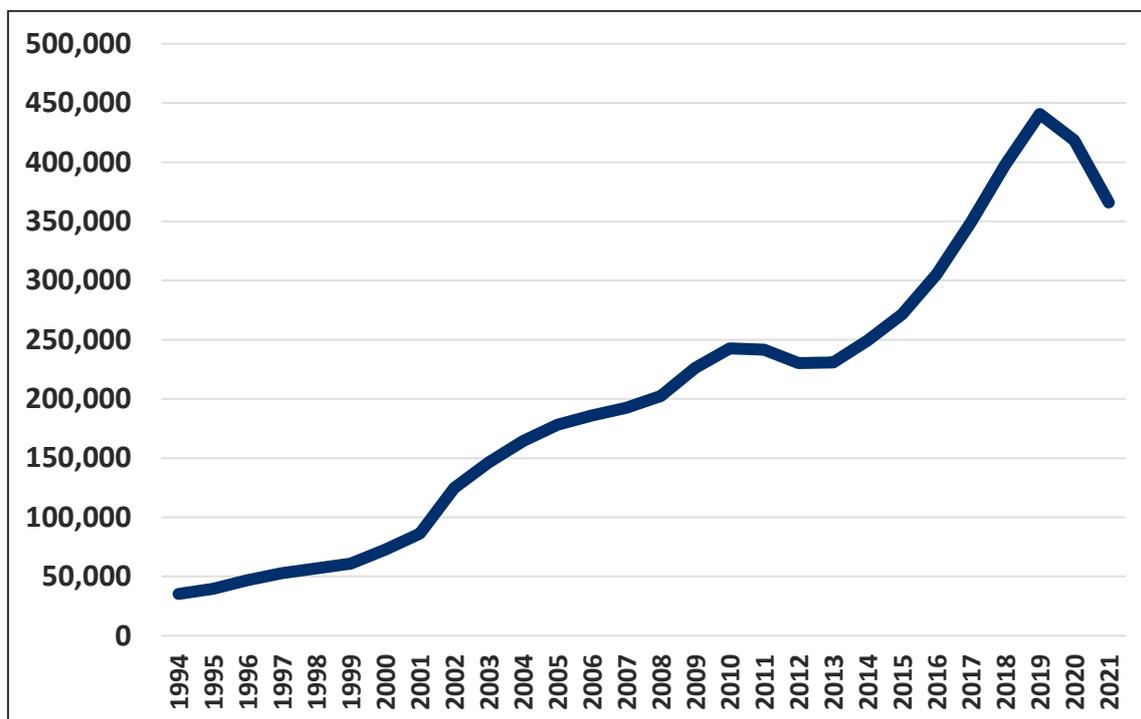
²² Australian Government (2022) *Budget paper No. 2: Budget Measures*, page 74, <https://budget.gov.au/2022-23/content/documents.htm>

²³ CEDA (2021) *International student numbers won’t recover until 2028*, <https://www.ceda.com.au/NewsAndResources/News/Education/International-student-numbers-won%E2%80%99t-recover-until>

International students

In 2019 – prior to the pandemic – revenue from international students accounted for 27 per cent of university revenue and public universities enrolled around 441,000 international students, making up 30 per cent of the student population.²⁴ It should be noted that students can be enrolled in more than one course, so enrolments are generally slightly higher than actual student numbers.²⁵ For example, if a student is enrolled in an English-Language course and a bachelor's degree, they will be counted twice.²⁶

Figure 10: International student enrolments 1994-2021



Source: DESE (2020) International student data 2020; DESE (2021) International student data – January 2022

Up until 2020, international student enrolments had been steadily increasing, as shown in Figure 10. In 2020, international student enrolments dropped 32,714 (6%),

²⁴ DESE (2021) *Higher Education Statistics: 2020 Student summary tables*,

<https://www.dese.gov.au/higher-education-statistics/resources/2020-student-summary-tables>

²⁵ Students are counted as enrolled if they have left Australia temporarily, but not if they are moving between

²⁶ DESE (n.d.) *Explanatory notes for international student enrolment data*,

<https://internationaleducation.gov.au/research/international-student-data/Pages/ExplanatoryNotesforAEIStudentEnrolmentData.aspx>

resulting in a drop in international student fees of \$756 million (7.6%).²⁷ This is a significant amount, however the impact of the pandemic on international student revenue was dampened in 2020, as the majority of international students starting study in 2020 had already arrived by the time the border closed in March.

The international border remained closed to international students throughout 2021. Accordingly, enrolments fell by 52,579 or 13 per cent in 2021 compared to 2020, and by 17 per cent compared to 2019.²⁸ This is estimated to result in a decline of between 13-15 per cent in international student revenue for 2021 compared to 2020. Not only are enrolments and revenue below pre-pandemic levels, but universities have also missed out on the growth that would have otherwise occurred.

As of December 2021, vaccinated international students were allowed to enter Australia again, but the timing and pace of returns, and quarantine requirements upon arrival, differ from state to state.²⁹ The pandemic continues globally, and uncertainty remains as to whether the virus will cause significant disruptions to travel and policy again. This could act as a deterrent to international students considering taking up study in 2022 and 2023. In January 2022, 201,052 international students enrolled at Australian universities, however this is down 23 per cent compared to January 2021 enrolment, and down 30 per cent compared to January 2020.³⁰

Looking further to the future, international students who would have enrolled had the pandemic not occurred, may have either delayed study or taken up offers in other countries with less restrictive border policies. Those foregone fees will impact university revenue for the full 3-4 years those students would have otherwise been in Australia completing their degrees. For all these reasons, the return to pre-pandemic levels of international student enrolments and revenues is expected to take years.

Until the onset of the pandemic, international student revenue had been growing on average by 11.8 per cent per year since 2008. Based on the assumption that this trend would have continued, over the next two years international student revenue is likely to be around 50 per cent lower than if the pandemic had not impacted enrolments. International students have become vital to the financial health of universities as

²⁷ DESE (2021) *Higher Education Trends – Chart Pack*,
<https://app.powerbi.com/view?r=eyJrIjoiazmY1MjQ3MjktYzUzNC00ZGRILWJiZDctY2U2NDA2Y2MzZjZiIlwidCI6ImRkMGNmZDE1LTQ1NTgtNGlxMi04YmFkLWVhMjY5ODRmYzQxNyJ9>

²⁸ DESE (2022) *International student monthly summary and data tables*,
<https://www.dese.gov.au/international-data/international-student-monthly-summary-and-data-tables>

²⁹ Department of Home Affairs (2021) *COVID-19 and the border: International student arrival plans*,
<https://covid19.homeaffairs.gov.au/international-student-arrival-plans>

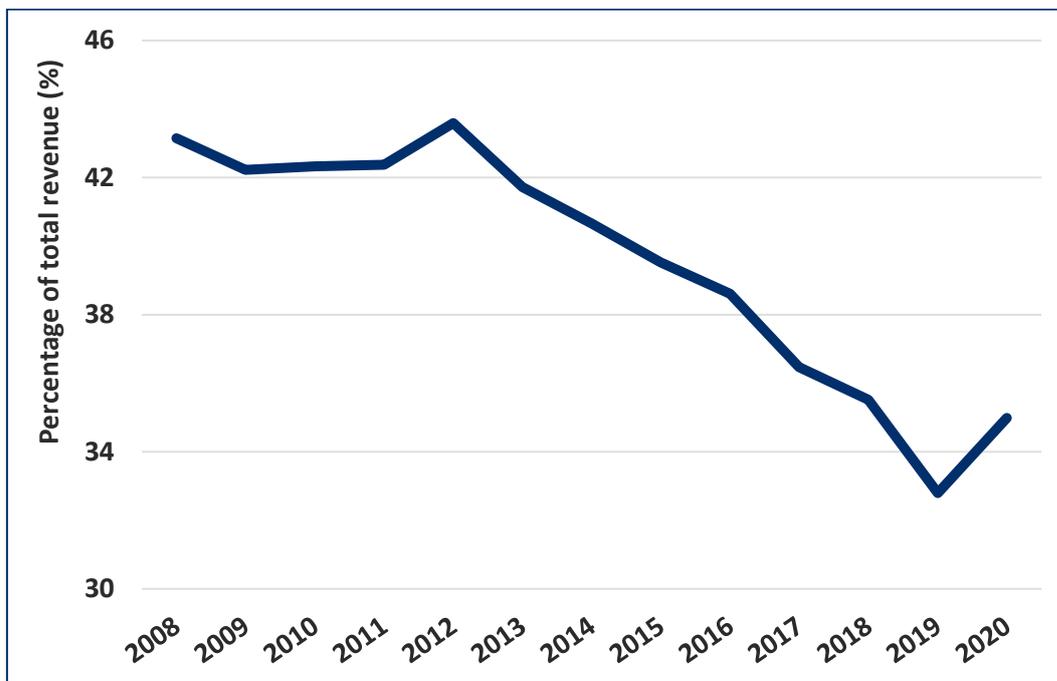
³⁰ DESE (2022) *International student monthly summary and data tables*,
<https://www.dese.gov.au/international-data/international-student-monthly-summary-and-data-tables>

public funding has been eroded. This has left the sector vulnerable to global exogenous shocks.

Government funding

The COVID-19 pandemic is not the only force contributing to declining university revenue. Funding cuts and deregulation since the 1980s have eroded government higher education expenditure. Government funding as a proportion of total university revenue has fallen from 80 per cent in 1989 to 33 per cent in 2019 (Figure 11).³¹ This measure of funding excludes HELP (since this program creates debt that is mostly repaid to the government by students).

Figure 11: Federal government funding as a proportion of university revenue (excluding HELP)



Source: Author's calculations based on DESE (2021) *Higher Education Providers Finance Tables*

The modest increase in the government funding share in 2020, to 35 per cent of total revenue, reflects the one-off \$1 billion special support for research, combined with the drop in private revenue during the pandemic. Without this additional research support, federal government funding would have represented only 32 per cent of

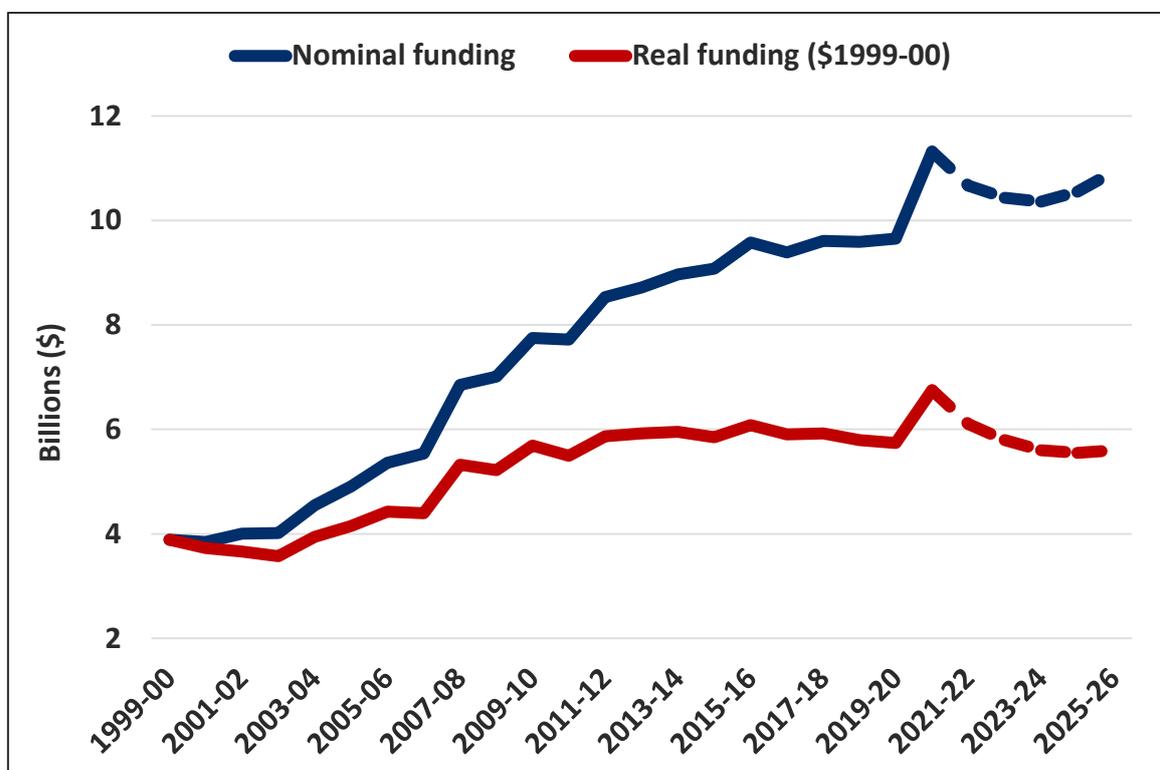
³¹ The University of Sydney (2020) *How universities came to rely on international students*, <https://www.sydney.edu.au/news-opinion/news/2020/05/25/how-universities-came-to-rely-on-international-students.html>

university revenue in 2020 (even lower than in 2019). The growth of nominal government funding has slowed almost to a halt: falling from 10.5 per cent growth in 2011-12 to just 0.7 per cent in 2019-20.³²

Federal government funding for higher education has not just fallen as a proportion of total university revenue, but also in real terms. Figure 12 shows that since the Coalition was elected in 2013, funding for higher education has declined by 2.6 per cent in real terms to 2022-23. This is despite growth in student enrolments of 23 per cent between 2013 and 2019, and the expectation of continued enrolment growth into the future.³³

It should be noted that the short-lived increase in real funding in 2020 reflects the \$1 billion in temporary funding for research, coinciding with very low inflation that year.

Figure 12: Federal funding for higher education nominal and real



Source: Authors calculations based on PBO's historical fiscal data, 2022-23 Budget Paper 1 and ABS CPI figures. Dotted lines are budget projections of future funding.

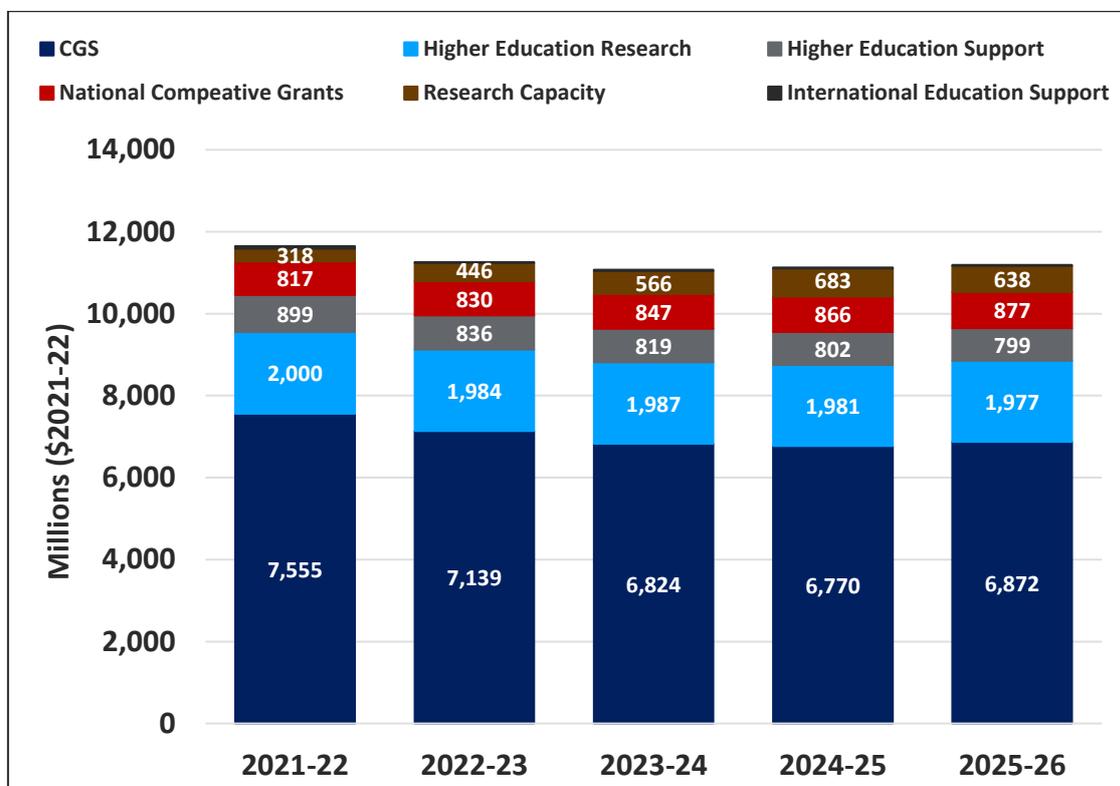
³² Parliamentary Budget Office (2022) *Historical fiscal data, 2022-23 Budget*, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Data_portal

³³ DESE (2022) *uCube*, <http://highereducationstatistics.education.gov.au/>

Using the government’s own forward projections for funding outlined in the budget, real funding for higher education in 2025-26 will be \$879 million less compared to 2021-22, equating to an 8.2 per cent decline.³⁴

Figure 13 shows the forward estimates of direct government expenditure for higher education by function in real terms. Overall expenditure each year is slightly different to Figure 12 above, as it is based on data in the Department of Education, Skills and Employment’s 2022-23 Budget Portfolio Statement rather than Budget Paper 1.³⁵ Also note that this tally doesn’t include the government outlay on HELP, as the government will recoup most of these costs. The government plans to cut real funding to higher education by \$460 million or 4 per cent over the forward estimates.³⁶

Figure 13: Real funding for higher education by function, 2021-22 to 2025-26



Source: DESE (2022) 2022-23 Portfolio Budget Statement

However, this overall figure masks changes in funding by function. International Education Support, which is barely visible in Figure 13, will decrease by more than half

³⁴ Between 2020-21 and 2024-25 based on the Treasury forward estimates of CPI.

³⁵ DESE (2022) Portfolio Budget Statements 2022-23, <https://www.dese.gov.au/about-us/resources/portfolio-budget-statements-2022-23>

³⁶ Note: this is slightly different to the estimate cited earlier in the paper, as it is based on funding by function rather than funding dedicated to higher education.

over the forward estimates, resulting in \$33 million less government funding dedicated to growth of the international education sector.

Research funding will receive a significant boost as a result of the government's research commercialisation plan. Between 2021-22 and 2025-26 the government will increase real research funding by 12.8 per cent or \$298 million. This can largely be attributed to the additional funding announced for the National Collaborative Research Infrastructure Strategy and Trailblazer University initiatives. Research funding distributed through the ARC via the National Competitive Grants Program, will increase by 7.25 per cent in real terms between 2021-22 and 2025-26. While a funding boost for university research is much needed, as discussed above the funding is increasingly being tied to business interests, limiting the capacity of universities to undertake independent, public-good research.

Public funding to cover the cost of teaching, via the CGS, will take a 9 per cent hit over the forward estimates, worth \$683 million in real terms. As domestic enrolments are expected to increase over the forward estimates, cuts to CGS funding means real funding per student will fall dramatically. Cuts to CGS funding can be attributed to perverse impacts of the JRG reform package, which came into effect at the start of 2021.

Job-Ready Graduates

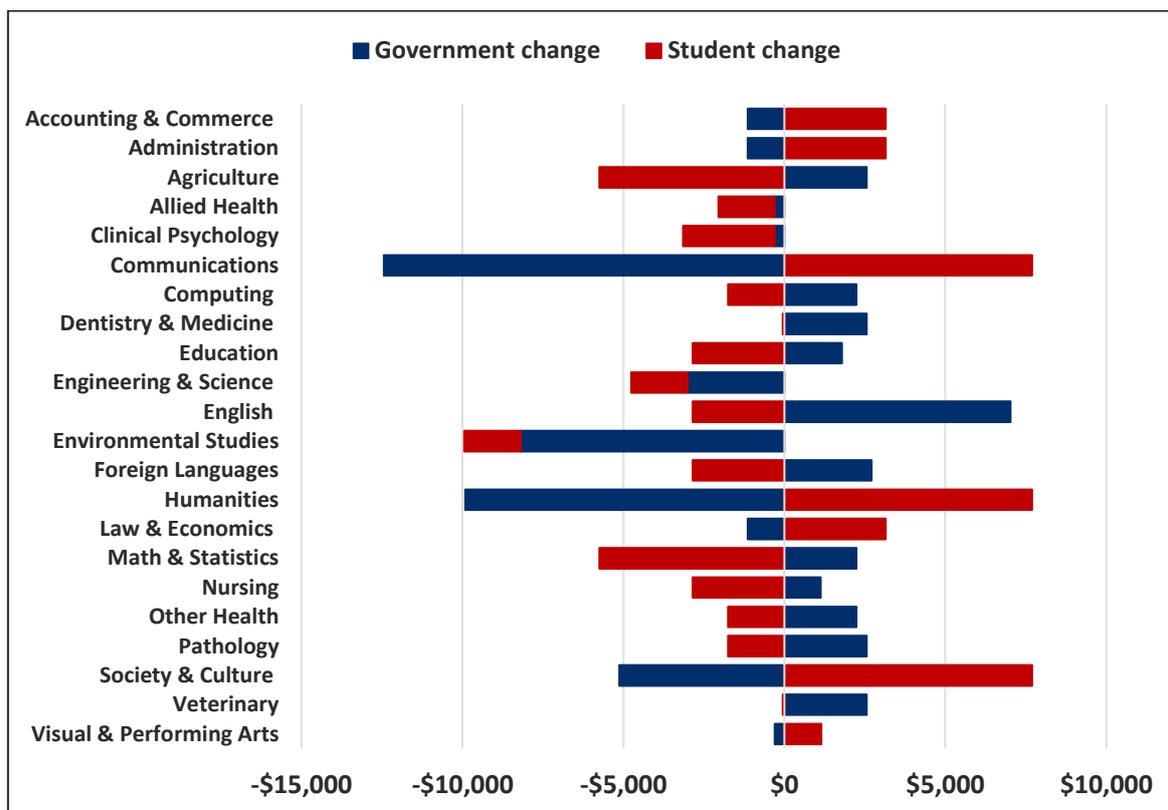
One of the objectives of the JRG reforms is to increase the number of graduates in areas of proposed current and future employment demand, such as science, technology, engineering and mathematics (STEM), agriculture, teaching, nursing, and IT fields. To this end, the government claims to have “rebalanced” student fees and funding contributions across fields of study to incentivise enrolment in areas of industry need and future growth.³⁷

Figure 14 shows changes to student contributions and government funding per student by field of study under the JRG program. Student contributions are falling for the government's priority degrees: by 18 per cent for engineering, science and IT, 42 per cent for nursing and education, and 59 per cent for math, statistics and agriculture. Universities have received more government funding per student for most of these degrees, but not for engineering and science programs (which actually saw a 16 per cent decline in government funding on top of the reductions in student fees).

³⁷ DESE (2020) *Job-ready Graduates Discussion Paper*, <https://www.dese.gov.au/job-ready/resources/job-ready-graduated-discussion-paper>

At the other end of the financing spectrum, student fees have increased by 113 per cent for humanities degrees, including society and culture, communications, behavioural science and social studies. Student fees have also increased by 28 per cent for economics, law, commerce and accounting. To make matters worse, government funding per student has dropped by between 50 per cent and 91 per cent for humanities, economics and law degrees. The exception to the trend for social sciences is English, linguistics and literature – which has received a 113 per cent boost in government funding alongside a decrease of 42 per cent in student fees.

Figure 14: JRG reform changes to government and student contributions



Source: APH (2020) Higher Education Support Amendment (Job-ready Graduates and Supporting Regional and Remote Students) Bill 2020

It is still unclear what impact this will have on supply and demand for different fields of study. The government’s purported intention is to use changes in student fees as ‘price signals’ to encourage student enrolments in undergraduate programs with stronger demand from employers. However, humanities, law and economics still saw a 13 per cent increase in enrolments in 2021, up from a 1.4 per cent increase in 2020.³⁸ In

³⁸ Universities Admissions Centre (2021) *Undergraduate first preferences and offers by broad field of study (2016-20221)*, <https://www.uac.edu.au/media-centre/statistics/domestic-undergraduate-first-preferences-and-offers-by-broad-field-of-study-for-2017-18-admissions>

comparison, degrees with reduced prices for students under the JRG system saw a similar increase in enrolments; up 9 per cent in science and 13 per cent in engineering. This suggests that student demand is not being significantly impacted by the price ‘signals’ at this stage. However, the funding changes are likely to impact how many students are accepted into university per degree, particularly in the longer term.

Subjects	Change in total funding	% Change in total funding
Environmental Studies	-\$9,944	-29.1
Communications	-\$4,751	-23.3
Mathematics & Stats	-\$3,513	-17.0
Engineering & Science	-\$4,758	-16.4
Clinical Psychology	-\$3,151	-15.5
Behavioural Science & Social Studies	-\$2,219	-12.5
Agriculture	-\$3,194	-9.4
Allied Health	-\$2,045	-8.8
Nursing	-\$1,729	-7.9
Education	-\$1,066	-5.8
Foreign Languages	-\$151	-0.7
Information Technology	\$487	2.4
Other Health	\$487	2.4
Pathology	\$806	2.4
Visual and Performing Arts	\$849	4.2
Dental, Medical and Vet	\$2,499	7.0
Law, Economics and Commerce	\$2,008	14.8
Psychology & Social Work	\$3,381	19.0
Society and Culture	\$2,570	19.7
English, Linguistics & Literature	\$4,170	32.0

Source: APH (2020) Higher Education Support Amendment (Job-ready Graduates and Supporting Regional and Remote Students) Bill 2020

The combined change in government funding and student contributions impacts the total funding universities receive per student for each field of study, as shown in Table 2. The resulting changes in funding by field of study do not consistently reflect the supposed objective of the funding reforms. Universities will receive the biggest total funding boost per student for English (32%), society and culture (19.7%), psychology and social work (19%), and law and economics (14.8%). Overall funding will decrease for some priority fields, including math (-17%), engineering and science (-16.4%), agriculture (-9.4%), nursing (-7.9%), and education (-5.8%). This means universities will receive a lower rate of funding per student in fields in which they are expected to expand enrolment.

The reduced rate of funding per place for national priority courses sends a confusing message to universities. They will be receiving a lower rate of funding at a time when they are expected to expand enrolments, and will incur additional expenses when recruiting students to these disciplines. This is likely to produce outcomes counterproductive to the stated objects of the policy (which, of course, are subject to criticism in their own right).

Overall, the JRG reforms have the effect of reducing overall funding per undergraduate place. Under the previous funding model, universities received an average of \$20,597 per student. Under the JRG reforms, this has declined by 5.9 per cent to \$19,389.³⁹ Based on the number of domestic students enrolled in 2020, of 614,235 full-time bachelor students, universities stand to lose a total of \$742 million per year. However, it is more likely that enrolments continue to expand, in which case funding per student will fall even further. Students will in aggregate pay an extra \$414 million a year to study, and the federal government saves \$1 billion (or 15%) of CGS funding under the new model. In a further perverse incentive generated by the JRG reforms, universities will prioritise fee-paying Masters courses and enrolments of international students over domestic bachelor degree students, further destabilising the system.

University research

The higher education sector has a vital role to play in sustaining and expanding Australia's research effort – and has faced cuts in public investment. Government funding for university research is predominately delivered through grants including the Research Training Program and the Research Support program, worth almost \$2 billion in 2022-23, and National Competitive Research Grants delivered through the Australian Research Council's Discovery and Linkages programs, worth just over \$850 million per year.⁴⁰ Before the JRG reforms, research funding had also been derived from the CGS. According to the Department of Education, Skills and Employment, 10 per cent of CGS was previously estimated to be spent on non-teaching functions, including research.⁴¹

Government support for university-based research has declined as a proportion of GDP over the last couple of decades, as shown in Figure 15. Investment in higher education

³⁹ DESE (2020) *Job-ready Graduates Discussion Paper*, page 21, <https://www.dese.gov.au/job-ready/resources/job-ready-graduated-discussion-paper>

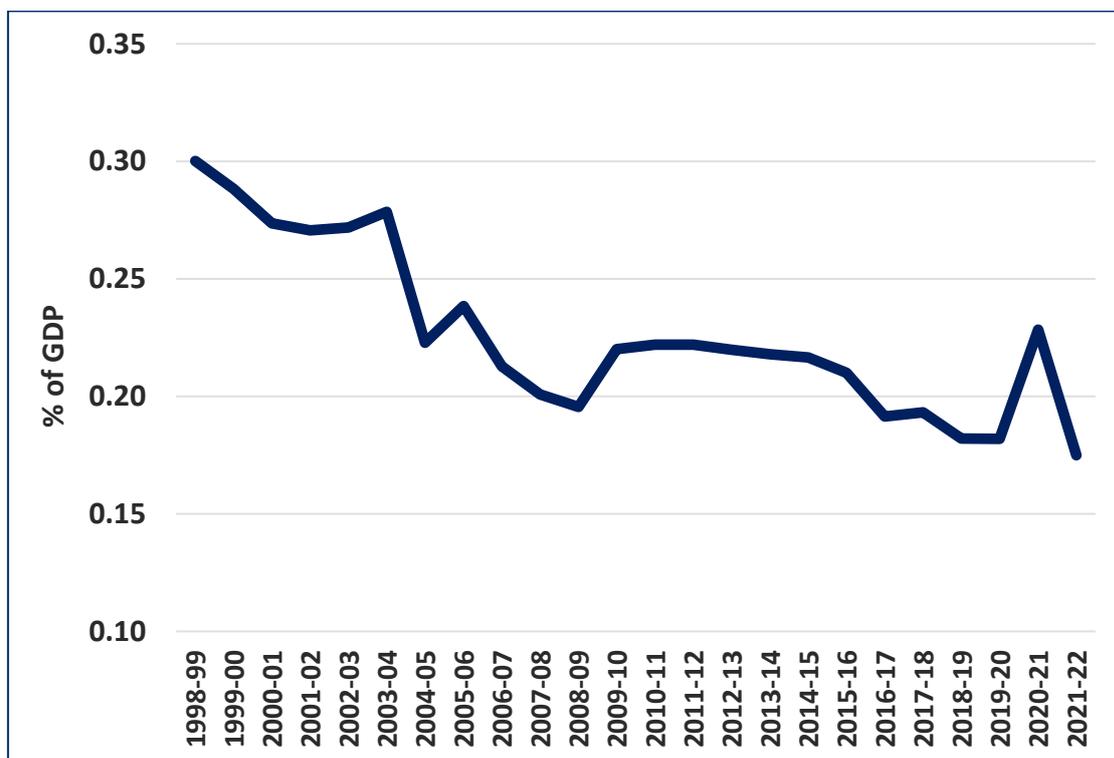
⁴⁰ Australian Government (2022) *Portfolio Budget Statements 2022-23, Budget Related Paper No. 1.4*, page 61 and 147, <https://www.dese.gov.au/about-us/resources/portfolio-budget-statements-2022-23>

⁴¹ DESE (2019) *Transparency in Higher Education expenditure for publication*, <https://www.dese.gov.au/higher-education-publications/resources/2019-transparency-higher-education-expenditure-publication>

research has dropped from 0.30 per cent of GDP in 1998-99 to 0.17 per cent in 2021-22. Since 2012-13, the federal government has cut \$59 million from ARC’s nominal funding.⁴² That translates into a much larger effective cutback of \$95 million or 11 per cent, after adjusting for the effects of inflation. Note that the spike in 2020-21 funding is a result of the one-off \$1 billion special support delivered to university research during the pandemic.

While the government has forecast minimal increases to university research funding over the forward estimates, this will do little to offset the erosion of public funding. So instead of addressing the issue of declining public funding for university research, the government’s recent research reform agenda will only reallocate a shrinking envelope of funding.

Figure 15: Government research funding allocated to higher education as a percentage of GDP, 1998-99 to 2021-22



Source: Author’s calculations based on DISER (2021) *SRI Budget Tables 2021-22*.

Outside of government support, research funding is also provided through the discretionary income of universities. This funding is worth over \$6 billion per year, half of which is ultimately sourced from international student fees. In 2018, universities

⁴² DISER (2021) *SRI Budget Tables 2021-22*, <https://www.industry.gov.au/data-and-publications/science-research-and-innovation-sri-budget-tables>

spent a total of \$12.2 billion on research and development.⁴³ It is estimated that the loss of international student revenue will result in a shortfall of between \$6.7 billion to \$7.6 billion in discretionary income available to support research over the next five years to 2024.⁴⁴ This will impact the quality and variety of research produced at universities, and also the number of research jobs. Higher education likely faces more research job losses over the coming years.

Research funding has been heavily affected by higher education policy changes and the negative economic and policy impacts of the pandemic. Under Australia's higher education business model, international student fees have been vital in subsidising university research. With a 17 per cent drop in international student enrolments in 2021 compared to 2019, available funds for research have also been affected. In acknowledgment of this, the federal government delivered a one-time \$1 billion funding boost for research in 2020-21, however they did not renew this funding in the 2021-22 or 2022-23 budgets. On top of this, the funding cuts to CGS delivered under the JRG reforms will continue to affect available funding for university research into the future.

⁴³ ABS (2020) *Research and Experimental Development, Higher Education Organisations, Australia*, <https://www.abs.gov.au/statistics/industry/technology-and-innovation/research-and-experimental-development-higher-education-organisations-australia/latest-release>

⁴⁴ Frank Larkins and Ian Marshman (2020) *COVID-19 pandemic research funding shortfalls and workforce reductions modelled for individual Australian universities*, <https://melbourne-cshe.unimelb.edu.au/lh-martin-institute/fellow-voices/individual-university-research-funding-challenges>

The future of higher education

Decades of eroding public funding, the abrupt decline in CGS funding due to the JRG reforms, and the impact of the pandemic on international student fees, together create a serious crisis in higher education funding into the future. In the short term, the implications of the revenue shortfall will be substantial, likely leading to more cost-saving measures targeted at university workers (including more casualisation of staff), with worrisome impacts on the quality of education and compromised research output. In the long term, the continued corporatisation of universities, with growing dependence on private funding sources, and government measures tying research funding even more closely to corporate priorities, jeopardises the crucial public service that universities deliver: namely, knowledge creation in the public interest, the broad benefits of which are shared by the whole of society.

SHORT-TERM IMPLICATIONS

Cost saving measures

To compensate for declining revenue and protect against deficits, universities will continue to reduce expenses (as they did in 2020 and likely 2021). As discussed above, the biggest cost incurred by universities is the cost of labour, and hence it is inevitable that this will be a primary target for further cuts. In fact, attempts to reduce the employee compensation share of revenue are already playing out in wage bargaining between universities and unions. For example, some universities have demanded a cap on employee compensation at 50 per cent of university revenue. This is an arbitrary and perverse benchmark, which could ironically encourage universities to spend more on non-compensation items (such as building projects or outsourced services).

Currently, across the 39 public universities in Australia, total employee compensation represents 59 per cent of total expenses in the sector. The large labour compensation share in total costs simply reflects the core function of delivering education and research – something that can only be done by the people employed in the sector. Employee compensation as a share of total costs in higher education is not out of line with other human service industries. For example, in residential and social services, employee compensation represents over 70 per cent of total costs; in primary and

secondary education, employee compensation accounts for two-thirds of total expenses.⁴⁵

An arbitrary cap like this one could easily produce unintended consequences. Reducing labour costs through casualisation, downsizing, and other forms of austerity would likely result in a decline in total costs. But when total costs decline as a result of staffing restrictions and pay cuts, the denominator of the labour cost ratio also shrinks, requiring even further compensation cuts to meet the arbitrary 50 per cent target. Chasing this target will therefore produce an ongoing process of cutting spending on wages and salaries. Alternatively (and perversely), the compensation share could be reduced simply by boosting spending on other functions and projects.

Human service industries like education necessarily have a high proportion of compensation costs. This is not a 'problem'; it is a natural reflection of the role of the workers who deliver those vital services.

Casualisation and wage theft

Over the past 20 years, insecure employment has reached epidemic proportions in the higher education sector. According to the Department of Education, Skills and Employment, between 2000 and 2020 casual staff employed at Australian universities have increased from 12,670 to 23,946 (in full-time equivalents – FTE).⁴⁶ Casual employment has grown much faster than total employment. While employment has increased by 19 per cent over the two decades, casual employment (FTE) has increased by 89 per cent.

FTE measures of employment, however, mask the true scale of casual employment. Based on figures from the Australian Charities and Not-for-profits Commission in 2020, a total of 207,829 people were employed by public universities, 84,000 of them employed on a casual basis.⁴⁷ Casual staff thus accounted for 40.5 per cent of all employment (measured in headcounts, rather than FTEs). Casual staff perform over

⁴⁵ Author's calculations from ABS (2021) *Australian National Accounts: Input-Output Tables, 2018-19*, Table 5, <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables/latest-release>

⁴⁶ DESE (2020) Higher Education Statistics, 2020 Staff full-time equivalence, <https://www.dese.gov.au/higher-education-statistics/resources/2020-staff-fulltime-equivalence>; DESE (2014) Higher Education Statistics, Selected Higher Education Statistics Staff 2000 report and tables, <https://www.dese.gov.au/higher-education-statistics/resources/selected-higher-education-statistics-staff-2000-report-and-tables>

⁴⁷ Australian Charities and Not-for-profits Commission (2021) *2020 Annual Information Statement for all public universities*, <https://www.acnc.gov.au/charity/charities>

half of all teaching at universities, often providing core course offerings but without being offered the protection of permanent work.

The insecurity of casual work leaves staff vulnerable to losing their jobs, as witnessed during the pandemic. Casual work is also strongly associated with underpayment and wage theft. Research completed by the NTEU and the USYD Casuals Network found that 90 per cent of surveyed casual staff (29) worked in excess of their paid hours. In total, 1,998 hours of unpaid work was completed, compared to 4,343 hours of paid work. This means on average casuals are not being paid for 32 per cent of the work they complete.⁴⁸ This confirms that casual staff are systematically not provided enough paid time to complete the tasks they are given.

Insecure fixed-term contracts are also rife in universities, particularly among research staff. This is mainly due to their contracts being tied to funding cycles. However, many fixed-term teaching staff report being employed on rolling short-term contracts for years on end, despite teaching ordinary units in line departments.⁴⁹ Rampant job insecurity among university staff has implications for the health and well-being of workers, but also for the quality of teaching and research.

Quality of education

The federal government's *Bradley Review of Higher Education* in 2008 found that rising student-staff ratios were jeopardising the quality of teaching and the learning support provided to students.⁵⁰ The recent financial crisis and resulting pressure on universities to cut and casualise staff will certainly exacerbate this trend.

With increasing demand for university education, including during the pandemic (as displaced workers returned to university in hopes of preparing for post-COVID career adjustments), universities clearly need more resources and staff – not less.

The 35,000 job losses in public universities during the first year of the pandemic, and potential for more job losses in future years, will inevitably increase class sizes and negatively affect the quality of education. This has implications for both students and teachers. Smaller class sizes have been found to improve higher level thinking, student

⁴⁸ USYD Casuals Network and NTEU (2021) *The Tip of the Iceberg: A Report into Wage Theft and Underpayment of Casual Employees at the University of Sydney*, <https://usydcasuals.network/reports>

⁴⁹ NTEU (2022) *Casualisation and insecure work*, http://www.nteu.org.au/changetherules/higher_ed/casualisation_insecure_work

⁵⁰ Denise Bradley et al. (2008) *Review of Australian Higher Education, Final Report*, <https://apo.org.au/node/15776>.

motivation, and satisfaction with their educational experience. In contrast, large classes are particularly detrimental to learning outcomes for disadvantaged students.⁵¹

The degradation of education quality in very large classes reflects in part the additional strain placed on teachers to manage more diverse cohorts and additional work. The strain on academic staff has been exacerbated by the recent expansion of online classes. Often, a tutor (usually a casual worker) will have to manage classes of students in the room, plus online, in the same session – splitting their attention between those physically present and those attending virtually. These changes have been rushed in response to the pandemic, with very little support or training on how to manage new class dynamics offered to teaching staff. Universities have used the pandemic to hasten digitalisation of the classroom, abandoning in-person lectures to reduce labour costs.

Academics and tutors are burdened with heavier marking loads, and interpersonal and applied skills are more difficult to incorporate into learning activities and assessments with larger class sizes. All this has negative implications for the wellbeing of staff, compounded by increasing job insecurity. A recent OECD report also warns that increased casualisation of university staff and accompanying precarity is associated with lower incomes and greater job dissatisfaction, further detracting from the provision of quality education.⁵²

Quality and variety of research

Universities are uniquely placed to explore complex problems in a rigorous, and collaborative way, reviewed for bias and less influenced by corporate and other external interests. The use and development of new technologies during the pandemic has highlighted the research contribution universities are making to our economy. The pressure on research funding stemming from policy decisions and the pandemic threatens the quality and variety of research produced in Australia.

Reduced revenue for research will not impact all universities evenly. Firstly, because research activity varies between universities, some institutions focus more on teaching. Secondly, not all universities are equally exposed to a drop in international student fees, which make up a large component of researching funding at some universities. The Group of Eight tend to have both a larger research output and a

⁵¹ Gael McDonald (2013) “Does size matter? The impact of student-staff ratios,” *Journal of Higher Education Policy and Management*.

⁵² OECD (2020) *Resourcing Higher Education: Challenges, Choices and Consequences*, <https://doi.org/10.1787/735e1f44-en>

greater reliance on international student fees.⁵³ However, this vulnerability may be managed in part on the basis of higher fees for domestic postgraduate coursework students.

Additional pressure will be placed on university research because of increased restrictions on funding allocation via the ARC. The ministerial power to veto research funding when projects don't have obvious value for business, or meet some ideologically-defined 'national interest', will severely limit what kind of research is conducted. It is worth noting that this veto power has been used 22 times to date, and only by Coalition ministers; all grants denied were for projects in the humanities.

The narrowing of research focus in line with political imperatives will undoubtedly forgo research in areas that may later contribute to vital breakthroughs. There are numerous examples of discovery in which the ultimate value of the research was not known at the time of discovery, or the discovery of vital knowledge comes about in the pursuit of other research exploration.

Not only are these policy decisions limiting the types and the volume of research performed in Australia, but they have also led to endemic precarious employment in the research sector. Research funding is often fixed term with employment linked to the duration of projects and grants. This has implications for individuals trying to build careers in the sector, but also for the quality of research as workers are denied the time to properly explore questions and issues.

Therefore, it is crucial for government to fund a full range of basic and applied research, independently of the short-term preoccupations of business.

LONG-TERM IMPLICATIONS

The withdrawal of government support for universities has forced these public institutions to adopt a business model shaped intrinsically by competitive market considerations. Corporatisation of universities will further exacerbate over-reliance on international student fees, casualisation and short-term contracts, the erosion of key disciplines, and equal access for students. But more than this, the focus of university administrators on their institutions' 'profitability' undermines the public service delivered by universities. Continuation along this policy trajectory is sure to produce dystopian consequences not just for university students and staff, but all Australians.

⁵³ Larkins et al (2020) *COVID-19 pandemic research funding shortfalls and workforce reductions modelled for individual Australian universities*, <https://melbourne-cshe.unimelb.edu.au/lh-martin-institute/fellow-voices/individual-university-research-funding-challenges>

Within the context of severe financial constraints, universities compete with one another for students, faculty, research grants, revenue, rankings, and prestige, to the detriment of quality, equity, well-being, and creativity. Vice-Chancellors are treated like CEO's: paid millions to run universities in line with the reigning principles of cost efficiency and profit accumulation. Course fees are rising faster than income, plunging students into many years of debt to buy what is perceived as a pre-requisite for subsequent labour market success. University jobs are casualised and insecure, while staff in all categories are forced to take on unsustainable workloads, work more unpaid hours and abandon careers. The reputation of institutions relies on staff continuing to go above and beyond, work outside their position descriptions, and undertake unpaid and unrecognised professional development – exploiting the good will, dedication, and professionalism of workers. Research is caught up in the tides of politics and profit, produced under conditions contradictory to academic freedom, originality, and rigour. Democratic process in the delivery of education and research is eroded in the interests of business.

We face a future where university becomes almost exclusively about training for employment, degrees are shorter, teaching is online, and students are pressured to complete study quicker at the expense of their mental health, their financial well-being, and the quality of their education. The holistic student and campus experience that equips people with strong social bonds, exposing them to critical thinking, debate and new ideas, will be reserved for those with well-off parents able to support them. Higher education will cease to be a public service, equipping graduates with a well-rounded understanding of all aspects of life – rather than just greater 'employability.'

In this grim future, decent careers in academia will become rare, while most staff are cheated out of the time necessary to offer supported learning experiences and in-depth, creative classes. Curricula will narrow, teaching will become a check-box exercise, and the ability to cover content that is not directly relevant to industry needs will be eroded. The gap between elite universities (better able to tap private funding for higher-quality facilities and instruction) and other institutions will widen, forcing mergers and market concentration. Government proposals to force institutions to specialise in either teaching or research will accelerate this bifurcation of the university sector. Lack of educational access to large segments of the community will continue to drive deeper and longer class divisions. Political and economic vested interests will be the sole gatekeepers of knowledge production, leaving little room for research that indirectly and indispensably enhances our understanding of society, justice, and equitably drives progress. Struggling universities will prioritise survival over research and education that services the public good.

AT WHAT COST?

Higher education is not just an item in the budget that costs the public money. Rather, it contributes significantly to the prosperity of the country, and provides indispensable benefits to individuals and society. Public universities employ almost 200,000 people and teach over 1.6 million students a year. Improvement in the level of educational attainment among the population is a key driver of economic productivity, and enhances our capacity to develop and integrate technology in a modern innovative economy. Meanwhile, the wages and salaries paid to university workers (\$20 billion per year) in turn support some \$3 billion in annual tax revenue (see Table 3).⁵⁴ This is equivalent to 28 per cent of what the Federal Government spends on higher education.⁵⁵

Higher education is also a key driver of subsequent employment and income for students. University qualifications boost post-study incomes by an average of well over \$1 million in earnings over a typical graduate's career.⁵⁶ The resulting increase in wages has spill-over effects, putting upward pressure on wages throughout the economy. Tertiary education is Australia's 4th largest export industry, contributing \$40 billion to Australia's total exports before the pandemic.⁵⁷

Table 3	
Higher Education: Economic Contributions (2020)	
Employment	207,829
Students	1.6 million
Total revenue	\$34.7 billion
Export value¹	\$40 billion
Wages and salaries	\$20 billion
Income tax paid	\$3 billion

Sources: Authors calculations based on Australian Charities and Not-for-profits Commission university data for 2021; DESE Higher Education Publications: 2020 Student summary tables; DESE Higher Education Publications: Finance Publication 2020; International Trades in Goods and Services, Australia, Table 11a; and based on Australia's average personal income tax ratio. 1. 2019.

⁵⁴ Australian Department of Education. Skills and Employment (2021) *Higher Education Publications: Finance Publication 2020*, <https://www.dese.gov.au/higher-education-publications/finance-publication>

⁵⁵ Australian Government (2021) *Budget Paper No.1: Statement 6*, page 169, <https://budget.gov.au/2021-22/content/bp1/index.htm>

⁵⁶ Hana (2017) *A university degree is worth \$1,180,112 over the course of a lifetime*, <https://www.smh.com.au/money/a-university-degree-is-worth-1180112-over-the-course-of-a-lifetime-20171026-gz8mgd.html>

⁵⁷ Universities Australia (2021) *International education and post-pandemic economy recovery*, <https://www.universitiesaustralia.edu.au/media-item/international-education-and-post-pandemic-economic-recovery/>

While the economic contributions of higher education are undeniable, universities should not be seen purely in terms of producing returns on government investment. This overlooks the less quantifiable but significant contribution universities make to the political and sociocultural development of Australia.

For decades universities have been expanding the frontiers of knowledge, educating citizens, and driving societal change. Progress in the fields of science and technology has lengthened and enriched our lives, and contributions from social and political sciences have improved political process and shaped society in ways that reflect and represent citizens. Higher education serves to build greater equality and equip people with skills in critical thinking, communication and problem-solving to make informed choices about their lives.

The advent of new technologies dictates the enhancement of people's talents and skills and the creation of a knowledge-based-economy, which in turn, demands even more high-skilled workers. Universities equip individuals and society with the tools to tackle unknown challenges and will play a significant role in ensuring humans can thrive into the future.

The degradation of the sector through deprivation of funding and an increasingly private orientation robs us all of the collective benefits universities should be delivering, as publicly funded, publicly accountable service-providers.

Rethinking higher education

It's time Australia proclaimed a national vision for higher education that reconfirms the public service mission of the sector, and prioritises the needs of students, staff, and society. An adequately-funded and more democratically-governed higher education system will ensure that education is treated as a public service and a human right, rather than a traded commodity. Relieving the financial constraints on universities and curbing their reliance on private and corporate funding will help to address many of the sector's problems. However, achieving a comprehensive alternative vision for the sector will also require a shift in the governance model of universities – pushing them toward more democratic decision-making processes and a public (not-for-profit) focus.

In this alternative vision, financial barriers to higher education would be removed, restoring universal access to higher education, and enhancing its effectiveness as a driver of social mobility. Students should have the flexibility and time to pursue broader interests, explore career options, and think creatively about how work will fit into the many other aspects of their lives.

With increased funding, universities can become better employers. The higher education workforce would be expanded to ensure a more sustainable distribution of tasks, and more attention paid to course content, support for students and the quality of research output. In an environment where workers have time and energy to fulfil their duties, activities can be more responsive to new ideas and technological developments, with opportunities created for collaborative problem solving and community engagement.

There is no doubt this vision for higher education will require the investment of significant resources and far-reaching structural reforms to university operations. But like any government expenditure, it's a question of social priorities. For example, current government policies emphasise the protection and subsidisation of private wealth – through policies such as top-heavy superannuation tax concessions, negative gearing, the capital gains tax discount, and excess franking credits. Together, these tax concessions reduce federal revenues by \$60 billion per year:⁵⁸ roughly 10 per cent of total federal government spending. The knee-jerk claim that government does not have the resources to fund a more democratic and quality higher education system is

⁵⁸ Matt Grudnoff and Eliza Littleton (2021) *Rich men and tax concessions: How certain tax concessions are widening the gender and wealth divide*, <https://australiainstitute.org.au/report/rich-men-and-tax-concessions/>

refuted by the enormous cost of concessions and expenditures favouring wealthy interest groups.

POLICY RECOMMENDATIONS

Achieving this expansive vision of a stronger, more accessible, and more democratic university system will require a long-run commitment to better funding, better jobs, and better governance. We have identified seven specific policy initiatives that would start this ambitious process of higher education revitalisation.

1/ Adequate public funding for universities

Direct public funding of Australian universities has been declining relative to size of the economy since the mid-1980s, representing just 0.65 per cent of GDP by 2018/19 (well below the OECD average of 0.9 per cent). Inadequate funding lies at the heart of many of the issues facing Australian public universities. Higher education requires significant structural reform and more fiscal support. While longer-term changes are being planned in conjunction with all higher education stakeholders, including governments (both federal and state), staff, students, industry bodies and the wider public, federal public funding should increase immediately to relieve current fiscal pressures to 1 per cent of GDP (slightly over \$20 billion per year in total). That increased envelope of public funding will support the other reform proposals identified in this list (as discussed below, and summarised in Table 4).

2/ Fully funded research

Australian research and development funding has been declining as a proportion of GDP since 2008, when it peaked at 2.25 per cent. It has since declined to only 1.8 per cent of GDP, well below the OECD average of 2.5 per cent.⁵⁹ This figure includes R&D spending in all sectors, including government, industry, and higher education. Many factors explain the worrying decline in Australia's innovation activity, including the shifting focus of the economy toward resource extraction (which invests relatively little in R&D), the decline of technology-intensive manufacturing, and policies of arbitrary fiscal restraint by Australian governments.

The higher education sector has a vital role to play in sustaining and expanding Australia's research effort, and has similarly suffered from declining public investment. As discussed above, government support for university research has declined as a proportion of GDP, falling from 0.3 per cent of GDP in 1998-99 to only 0.17 per cent in

⁵⁹ OECD (2022) *Gross domestic spending on R&D*, <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>

2021-22. Cuts to research funding have continued apace, in particular through the introduction of the JRG reforms. Universities stand to lose an estimated \$742 million per year in funding under the JRG reforms – and a large part of this shortfall will be reflected in redirection of money previously assigned to research.⁶⁰

Simultaneously, research funding allocated through the ARC is being more strictly tied to industry needs and political agendas. The emphasis on applied research that has so-called ‘real world impact’, creates a false binary that overlooks the varied ways research contributes to society. Ministerial veto powers over the allocation of ARC funding must be revoked, and research funding should be tied to providing secure, long-term employment for research staff.

Providing adequate funding for research benefits everyone; students, research staff, the private sector, government, and society as a whole. Publicly funded research plays a critical role in addressing multi-faceted, complex emerging problems like climate change, global pandemics, and demographic change.

It creates the foundation for major advancements in areas of health and medicine, communications, food, economics, energy, and national security. Investing in public research undertaken in universities, in turn, fuels economic growth and competitiveness. Economic research evidences a significant payoff from investments in university research – as much as \$5 in incremental GDP for each \$1 in government support for university research.⁶¹

Providing universities with stable, ongoing funding for research – and then respecting the autonomy of universities in allocating and managing those funds, in line with peer-reviewed scientific judgment (rather than the political imperatives of the government of the day) – is a vital investment in the future capability and success of Australia’s economy. Funding for research should be more reliable and be tied to secure employment for researchers.

To ensure Australia meets its pressing national challenges, the federal government must expand public investment in quality independent university research, and maintain investment with the rate of economic growth. Restoring higher education research funding back to 0.3 per cent of GDP would cost an estimated \$2.6 billion per

⁶⁰ This estimate is based on the difference between the cost per student under the old CSG model and new model since the JRG reforms, times the number of commencing domestic students (FTE).

⁶¹ See Deloitte Access Economics, “Universities’ Contributions to the Australian Economy” (Deakin, ACT: Universities Australia, 2020), <https://www.universitiesaustralia.edu.au/wp-content/uploads/2020/04/200325-Deloitte-one-pager-FINAL.pdf>.

year. This is in addition to the existing \$3.7 billion already spent through the various programs.

3/ Free undergraduate education for Australian students

Primary and secondary school education is widely recognised as a basic human and social right that should be available to all students, regardless of ability to pay. That is why public schools are funded by governments. Tertiary education has similar benefits. It has become essential to individual employment prospects in most industrial countries. Today, 68 per cent of Australians aged 15-74 years hold a tertiary qualification or are studying towards obtaining one (including vocational qualifications), up from 62 per cent of all Australians in 2013. The increasing prevalence of tertiary qualifications makes it harder for those without to compete for work.⁶² According to government estimates, 52 per cent of new jobs in the five years to 2025 will require a university degree or higher qualification.⁶³ University graduates also enjoy greater success in the job market compared to those without degrees. Of those between the ages of 25-44, 88.5 per cent with a bachelor's degree or higher are employed, compared to only 78 per cent of those with year 12 or equivalent.⁶⁴

Growing demand for higher education and ongoing hikes in course fees mean that student debts are becoming unsustainable. Total outstanding HELP debt stood at \$68.7 billion in 2021, around four times as much as 2009. The average amount of student debt is now \$23,685 per student, up from \$15,191 in 2012. This steep increase is not just a reflection of the natural increase in the price of services. Students start to repay HELP debt once they earn over \$47,014 per year; debt repayments are an increasing burden during important early-career years. Students now take an average of 9.4 years to pay off their degree, compared to 7.7 years in 2009.⁶⁵ The price of university education is definitely a barrier to access, denying hundreds of thousands of young Australians an opportunity to attend university, and enhance their chances of finding quality employment.

By deferring and shifting the cost of higher education, HELP has put students in the firing-line of the funding struggle between universities and the government. With

⁶² ABS (2021) *Education and Work, Australia*, Table 27,

<https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest-release>

⁶³ National Skills Commission (2020) Skill Level projections – five years to November 2025,

<https://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>

⁶⁴ ABS (2021) *Education and Work, Australia*, May 2021, Table 23,

<https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest-release#data-download>

⁶⁵ ATO (2021) *Higher Education Loan Program (HELP)*, <https://data.gov.au/dataset/ds-dga-ce4c58ec-9330-4a05-8a37-f244d960e5f8/details?q=>

universities lobbying for funding increases on one side and governments shirking responsibility for funding public higher education on the other, both sides tend to look to students as the source of needed income. The HELP system hides the mounting debt students accumulate in the course of their education; many realise only later in life how significant this burden is, while others recognise the ultimate costs up-front in which case it is a powerful deterrent to university enrolment.

Removing the financial barriers to higher education allows for greater social mobility, ensuring that students from diverse backgrounds have access to education and in turn previously restricted employment opportunities. It is well established that lack of education is a key driver of inequality. Improving equal access to education helps to break down the connection between family socio-economic status and the future economic prospects of the next generation, by shifting the financial responsibility of education to the public sector.⁶⁶ It also allows students to pursue education in fields which best match their personal interests and preferences, and their judgment of their own long-term career prospects – rather than being compelled to choose the least expensive course offerings.

The federal government should make undergraduate education free for all Australians. This not only has the benefit of reducing the widening gap between rich and poor, but would help to ensure a workforce with appropriate skills for the future economy. Free university tuition is not a radical idea. Many countries around the world offer free university level education, including Germany, Norway and Sweden. The New Zealand government recently implemented changes to tuition fees that provide the first year of tertiary education fee-free for New Zealand citizens, with plans to make additional years of study fee free in the future.⁶⁷ Furthermore, the Australian government made university education free under the Whitlam government in 1974, helping spread the benefits of tertiary education to all parts of society. This saw enrolments expand by 25 per cent, providing access to people who would otherwise not have been able to attend.⁶⁸ Unfortunately, fees for higher education were reintroduced in 1988 along with the implementation of the Higher Education Contribution Scheme (HECS). This

⁶⁶ Oxfam (2019) *The power of education to fight inequality*, <https://www.oxfam.org/en/research/power-education-fight-inequality>

⁶⁷ Bothwell (2017) *New Zealand government confirms plan to abolish tuition fees*, <https://www.timeshighereducation.com/news/new-zealand-government-confirms-plans-abolish-tuition-fees>

⁶⁸ Forsyth (2014) *Maybe free university didn't improve access for all, but neither will fee deregulation*, <https://theconversation.com/maybe-free-university-didnt-improve-access-for-all-but-neither-will-fee-deregulation-31165>

increasing competition to keep their jobs. One study found that, on average, full-time academic staff work 50 hours a week, far above the standard 38-hour working week.⁷³

While increased funding for the sector would go some way to reducing the expansion of insecure work at universities, it will not resolve all employment related issues in the sector. The federal government should introduce regulation limiting the use of casual employment to legitimate cases based on relevant criteria – for example, where tasks are not ongoing or part of the core activities performed by universities, and the positions are short-term. We suggest that the proportion of casual staff in university employment should be limited to around 10 per cent of total employment – about half the casual share recorded in 2021 (22.4%). Additionally, the federal government should lift the award wage for casual academic staff at universities to disincentivise the use of this type of employment when it is not necessary. By increasing the costs of casual employment for universities, they would be encouraged to convert many existing casual staff to permanent positions.

Converting part-time casual positions to permanent full-time jobs could result in job losses. However, it has been established that current university staff (including casuals) are working well beyond their contracted hours, position descriptions and healthy working hours. To address workload issues and prevent job losses during the process of casual conversion, a portion of the new funding provided to the university sector should be tied to requirements to increase staff numbers in the sector. To reduce academic workload from an average 50 hours per week to a consistent average of 40 hours per week, it is estimated that an additional 11,743 FTE academic staff would be required.⁷⁴ This would cost an additional \$1.2 billion in salaries, superannuation, payroll tax, worker's compensation, and leave entitlements.⁷⁵

5/ Improve higher education governance

Many issues in the higher education sector stem from declining funding, political intervention and uncertainty around future political decisions that affect universities. Universities have increasingly been re-constituted in corporate-like forms, adopting similar operating logic to businesses. These changes have involved a gradual

⁷³ Hamish Coates et al (2009) *The attractiveness of the Australian academic profession: a comparative analysis*, page 25,

https://research.acer.edu.au/cgi/viewcontent.cgi?article=1010&context=higher_education

⁷⁴ This calculation uses the 2021 DESE figure of 46,971 (FTE) academic staff, working on average 40 hours instead of 50 hours.

⁷⁵ Based on average labour cost derived from the Australian Charities and Non-profit Commission's Annual Information Statement for public universities in 2020. This figure includes the cost of salaries, superannuation and pension contributions, payroll tax, worker's compensation, long service and annual leave, and termination benefits; weighted average.

diminution of transparency and staff and student involvement in decision making. One especially worrisome manifestation of this trend has been the changing composition of university councils.

All universities have a council: a governing body with the power to set strategic direction of the university; monitor the highest levels of management and academic activities; and approve budgets, plans and commercial activities. These bodies establish policy and procedure for the operation of the university. Over the past twenty years, the number of elected members on the governing bodies of public universities has decreased. In 2000 more than one-third of positions were elected, by 2020 it was down to one in four.⁷⁶ Instead, more council members are now corporate appointments. While their financial and commercial expertise is valuable, the influence of these interests in such an important governing body serves to undermine democratic accountability, as well as the participation of staff and students in university management. The federal government should restore the proportion of elected council members in publicly-funded universities to a majority of members. Furthermore, all decisions made by governance bodies of Australian public university must be transparent and visible to the entire community they serve.

To reposition universities as public institutions that serve the common good, rather than the corporate good, universities need more certainty over future funding and regulation. The federal government should establish an independent higher education agency to review and oversee government fiscal parameters, university governance practices, and the regulatory framework for higher education. An independent agency would operate at arms-length from the government of the day – much in the same way research funding is allocated by the ARC (but without the Education Minister’s veto powers).⁷⁷ Existing higher education agencies including the ARC, TEQSA and the National Health and Medical Research Council (NHMRC) would be integrated into the new agency. Based on running costs in similar regulatory agencies, establishing, and running this new governance agency would cost an estimated \$200 million per year, with only \$90 million in additional funding.

Lastly, to rein in the dominance of commercial interests in university governance, the government should ensure that Vice-Chancellors are drawn from candidates with expertise in education and the public sector.

⁷⁶ Parliamentary Library data, cited in Mehreen Faruqi (2021) *The university of the future: higher education built on democracy and equity*, <https://greens.org.au/campaigns/uni-future>

⁷⁷ NTEU (2022) *2022-2023 Federal Budget Submission: An Alternative future for higher education policy*, soon to be released.

6/ Cap Vice-Chancellor salaries

Growth in Vice-Chancellor salaries has outstripped growth in incomes for university staff members for decades. In 1975, vice-chancellors received about 2.9 times the salary of regular lecturers.⁷⁸ By 2018 they were earning 16 times as much.⁷⁹ In 2020, the average Vice-Chancellor's pay at 37 public universities was nearly \$1 million a year – about double the salary of the Prime Minister of Australia. There are of course big differences between universities: with the University of Sydney Vice-Chancellor the highest paid (\$1.6 million), and the University of Canberra's the lowest (\$535,000). As public institutions, largely funded by the federal government, it is important for expenditure to be distributed more evenly through the institution and to reflect public sector pay rates – rather than inflated private sector executive norms. The federal government should introduce a salary cap for Vice-Chancellors at public universities of \$500,000 per year, with that cap indexed to inflation in future years.

7/ Data collection and transparency

As public institutions, universities should be transparent in their operations so they can be held accountable to government and citizens. Making data publicly available helps non-government organisations provide useful insights into issues, and inform policy decisions to the benefit of all Australians. Over-emphasis on quantitative metrics to judge the success and failure of institutions can be dangerous and misleading – as with, for example, competitive university rankings. However, there are several ways that universities could improve their data collection and transparency, without contributing to simplistic judgments and resulting unintended consequences.

- Currently, only universities in Victoria are required by law to report casual employment data based on headcounts (not just the FTE data provided through the Department of Education, Skills and Employment). The Federal Government should expand its data collection processes to make it mandatory for all public universities to report detailed employment data (including permanent and casual positions, including headcounts, hours, and FTEs) to the Department.

⁷⁸ Rowlands et al (2020) *How Australian vice-chancellors' pay came to average \$1 million and why it's a problem*, <https://theconversation.com/how-australian-vice-chancellors-pay-came-to-average-1-million-and-why-its-a-problem-150829>. This study measured the remuneration of Vice-Chancellors compared to lecturers at elite research-intensive universities in Australia from 1975 to 2018.

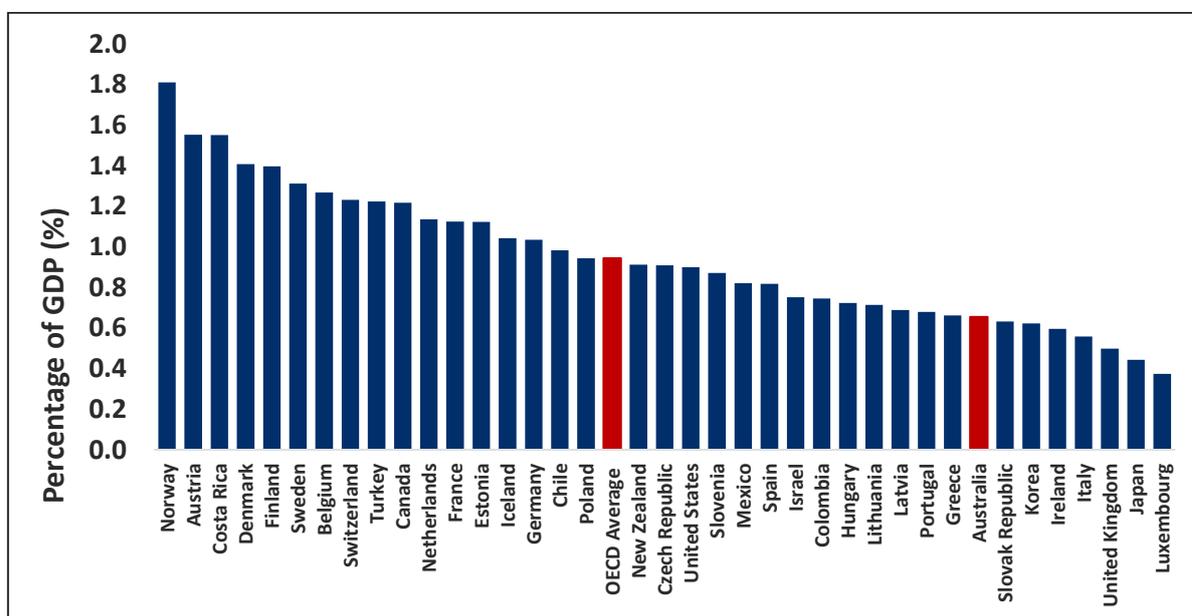
⁷⁹ Julie Rowlands and Rebecca Boden (2020) *How Australian vice-chancellors' pay came to average \$1 million and why it's a problem*, <https://theconversation.com/how-australian-vice-chancellors-pay-came-to-average-1-million-and-why-its-a-problem-150829>

- The Federal Government should make it mandatory to collect and make public data on courses offered within each faculty every semester, so gains and losses in course offerings can be tracked.
- Workers, students, and employers all need access to timely and high-quality labour market information to facilitate job matching and more successful school-to-work transitions. There is presently no integrated higher education and labour market data source available in Australia. Governments should invest and facilitate the development of a comprehensive labour market portal accessible to employers, students, graduates, and educational institutions.

FUNDING THE RECOMMENDATIONS

Direct public funding of tertiary education in Australia has been declining relative to size of the economy since the mid-1980s, and now constitutes only 0.65 per cent of GDP. Government funding of tertiary education⁸⁰ is low by international as well as historical standards, falling well below the OECD average of 0.94 per cent of GDP.⁸¹ In fact, Australia has one of the lowest levels of public investment in tertiary education of any industrial countries, as shown in Figure 16.

Figure 16: Public spending on tertiary education as a percentage of GDP, 2018/19



Source: OECD (2022) *Public spending on education (indicator)*

⁸⁰ OECD definition of tertiary education also includes vocational education and training.

⁸¹ OECD (2022) *Public spending on education (indicator)*, <https://data.oecd.org/eduresource/public-spending-on-education.htm>

The key policy recommendations discussed above (including free undergraduate education for Australian citizens, reducing reliance on casual staff, expanding the university workforce, establishing an independent regulatory agency, and increasing investment in research funding) will require significant expansion and reform in the overall envelope of public university funding. However, those incremental investments would only lift public university funding to 1 per cent of Australia’s GDP: in line with the practice of other peer industrial countries.

Implementing the key recommendations of this report is estimated to cost the government an additional \$6.9 billion per year and would need to grow each year in-line with economic growth. This additional funding is estimated to create an additional 26,647 FTE jobs in higher education, including the 11,743 staff to ease workload pressures, 1,4557 people employed with additional researching funding and 374 new staff employed by the independent higher education agency.

Table 4 Government cost of implementing recommendations	
Reform	Annual Cost (2022)
Additional research funding	\$2.6 billion
Free undergraduate education	\$3.1 billion
Labour cost of hiring new staff	\$1.2 billion
New funding for higher education agency	\$90 million
Total	\$6.9 billion

According to the Department of Education, Skills and Employment’s budget portfolio, the Commonwealth government spends \$13.4 billion per year (including HELP) on higher education. These reform recommendations would lift annual government spending to a total of \$20.5 billion per year. At below 1 per cent of GDP, this would put Australia broadly on par with the average level of public support for higher education provided in other OECD countries.

The measures outlined in this paper are just a start in building a brighter, more democratic future for higher education. Ultimately, even more far-reaching structural and fiscal reforms will be required, involving coordinated strategy and consultation engaging all university stakeholders: including universities, the NTEU, governments, and community representatives. But the core reforms recommended in this report would constitute a significant change in direction for a vital public service in Australia, which has been unduly reoriented toward meeting corporate and industrial needs, rather than the public interest in high-quality, accessible, democratic higher education.

Conclusion

Australia's higher education system was hit harder by the COVID-19 pandemic and resulting recession than any other industry in Australia's economy. Public health measures and the closure of Australia's borders to international students created a financial and operational crisis for Australia's universities. The federal government made matters worse by arbitrarily excluding universities from the JobKeeper wage subsidy program (originally budgeted at \$130 billion). Universities were left on their own to deal with collapsing revenues, operational challenges (like online learning), and health restrictions. They responded by cutting staff and increasing workloads for remaining staff.

As devastating as the pandemic has been for Australia's universities, the structural challenges facing this vital public service are longer-term in nature, with the sector distorted and damaged by corporatisation, casualisation, and privatisation long before COVID arrived. The resumption of 'normal' economic activity alone will not resolve the deeply rooted structural problems facing Australia's public higher education sector.

For decades, Australian governments have systematically and incrementally reduced real funding to public universities, while making the allocation of funding more contingent upon meeting sectional industry and government agendas. Dwindling public funding for higher education has driven universities to become more reliant on private sources of revenue (including international student fees and investment income). It has pushed universities to adopt a business model based on competitive market considerations, subordinating the provision of quality higher education to commercial interests.

The underfunding and corporatisation of universities, and the funding shift to private sources has had devastating impacts on the sector. These problems have contributed to overreliance on international student fees, casualisation and short-term contracts, the erosion of key disciplines, and accessibility for students. A corporate-like focus on institutional profitability overlooks the public service mandate that should guide the activities of universities – generating broad-reaching benefits from knowledge creation, education, and participation reaped by the whole of society.

On the one hand, universities are publicly funded to perform the public service of educating the future workforce. On the other hand, federal policies have forced universities to compete for both public and private funding –degrading the education

and employment performance of the sector. This contradiction has led Australia's higher education system to a crossroads.

Under a business-as-usual scenario, higher education will continue to become even more dominated by corporate priorities and cost-cutting. University qualifications will become expensive traded commodities, inaccessible to many Australians – while university jobs become increasingly precarious, and impossible workloads detract from the quality of research and teaching. But this path for higher education is not inevitable. It reflects deliberate economic and political choices.

If governments make different choices, a better, more democratic future for this vital public service is possible. Down an alternative path, public funding is restored, universities can be fortified as places of knowledge creation, education, and participation, with the potential to advance the public interest in myriad ways. Universities would also become sites of decent, stable, enriching, and productive employment. Australia can choose a future for higher education that is affordable and accessible, a vehicle for social mobility and enhanced democracy, and a source of high-quality careers for many thousands of Australians.