

**Paper presented**  
**to**  
**The Australian Financial Review**  
**Higher Education Summit**

**by**

**Stephen Smith MP**  
**Shadow Minister for Education and Training**  
**Member for Perth**

**Wednesday 4 April 2007**

**Melbourne**

## Introduction

Thank you for that introduction.

I have been asked to speak on the topic of *"World-beating universities: Labor's agenda for Higher Education"*.

The notion of '*world beating universities*' resonates sympathetically and strongly with Labor's education revolution.

Traditionally, Australians have looked at education in terms of social policy, of equity and opportunity, as a policy instrument to give people the opportunity to maximise their potential and the chance to get ahead.

I might be old fashioned, but it remains the case today that the single most important thing you can do for a young Australian is to give them the chance of a good education.

It is also the case today that education is the vital instrument of economic policy, the vital policy instrument to drive productivity and therefore national economic and social prosperity.

My starting point for the future of education at every level – whether it is early childhood or pre-primary education, primary or secondary school education, vocational education and training, University or on the job skills and training or ongoing professional development – is that we are now in an international competition, and as a consequence must invest more at every level of education.

And as a consequence, investing in the education, skills and training of our people and our workforce is the single most important thing we can do to drive our productivity and maintain and enhance our international competitiveness.

As a nation of just over 20 million people nestled as we are in the Asia-Pacific region, we now must consider not just how our education standards compare between NSW and Western Australia or Queensland and Victoria, we must look beyond our shores to rising international investment in education and rising education standards at every level.

Today we operate in a globalised economy. That economy puts a premium on the things that add value: knowledge, information, innovative thinking and ways of doing, ingenuity.

These are things that can put us at the head of the international pack.

This puts education front and centre of the economic debate in our country today. It recognises that investment in education at every level, both the quantity and the quality of that investment, is essential to our future productivity, and therefore our prosperity.

## **Productivity and international competitiveness**

Australia is now into its 16<sup>th</sup> year of continuous economic growth. This has been built upon the key reforms of the previous Hawke/Keating Labor Government to open up and internationalise our economy.

More recently our sustained economic growth has come off the back of a minerals and petroleum resources boom to China.

While Australia has had 5 year and nearly 10 year economic expansions in the past, the extraordinary part of this more than 16 year expansion has been the last five years.

In 2006-07 alone, it is estimated that the surge in the terms of trade inspired by the resources boom will add \$55 billion to our national income, or over \$3,000 per annum for each Australian. The flow-on effects of the resources boom include higher wages, lower unemployment, higher company profits, and a tax 'windfall' for the Federal Government.

The resources boom is chiefly responsible for an estimated \$280 billion increase to Federal Government tax revenue above its original estimates from 2002-03 to 2009-10.

But the conditions that created the prosperity we have enjoyed in recent years will not guarantee our future long term prosperity.

The key question is how we maintain this prosperity.

What will give us the impetus to continue and improve our current economic trajectory?

The answer is a productivity driven boom, driven by investment in education, skills and training.

All these are currently, and have been for some considerable time, low on the Howard Government's list of national economic priorities. This is the real neglect and complacency of the Howard Government over the past 11 long years.

And this is despite the fact that even the Government's Intergenerational Report 2007, released Monday, picks up on the importance of education and training to the future of our economy, saying at page 62 that education and training contributes to higher living standards for individuals, by increasing labour productivity and labour force participation.

The fact the Howard Government ignores this is made more acute by the fact that Australia's productivity growth has declined in recent years:

- Benchmarked against the United States economy, Australia's labour productivity fell back from a peak of 85 per cent to just 79 per cent between 1998 and 2005, almost completely losing the relative productivity gains of the 1990s.
- Labour productivity growth fell from an average annual 3.2 per to 2.2 per cent in the latest five year period (1998-99 to 2003-04) compared to the previous five year period.
- During the same time, multifactor productivity growth fell from 2.1 to 1.0 per cent.

The need to lift our productivity is made more urgent by the distinct possibility that as we approach the second decade of the 21<sup>st</sup> century, Australia may well face moderating

conditions in global resource markets. This will particularly be the case if India and China moderate their demand for our resources while over time their economies simultaneously deliver increasingly intense competition to other aspects of our own economy, like the services and knowledge industries, industries that are possible only through a strong higher education sector.

We are already beginning to see this. Increasingly, companies in the developed world are outsourcing ever larger portions of their business to low-cost, highly skilled workers in the developing world.

Over the last 20 years we have seen the loss of low, semi or un-skilled jobs to so-called developing countries.

In manufacturing for example we've seen more than 145,000 Australian jobs lost since 1996, 60,000 of which have occurred in the last three years.

If we are not careful, in the next 20 years we will also be at risk of losing the high-knowledge, high-value, high-skill jobs and that will kill our prosperity.

A good illustration of this – particularly for a service economy such as Australia – is the fact that for more than seven years, American investment banks have been outsourcing much of their financial analysis and modelling tasks to India and to Indian trained graduates.

This constitutes a big international tick of approval of the developing educational and knowledge strength of one of the two emerging economic superpowers of this century.

By 2004, China ranked fourth in expenditure on research and development, behind only the US, the EU and Japan and, on the basis of growth rates from 2000 to 2004, China was expected to rank second by the end of 2006.

In addition to this, China today is investing significantly in its research university capacity, having already commenced work on constructing from scratch around 100 research-universities modelled on University of California-Berkeley.

Today, China has around 3.5 million graduates every year.

In China today there are about 15 million tertiary students. By 2010 there will be about 25 million.<sup>1</sup>

India, a country still underappreciated by some as a major international contributor, is making significant investment into its education systems as well.

Today, India has 2.5 million graduates every year, coming out of 300 universities and more than 15,500 colleges.<sup>2</sup>

Gary Gereffi and Vivek Wadha at Duke University estimate that the numbers of graduates from engineering degree programs in India number about 112,000 while around 350,000 graduate each year in China.<sup>3</sup>

---

<sup>1</sup> <http://www.theage.com.au/news/business/education-failures-hold-china-back/2007/02/27/1172338625547.html>

<sup>2</sup> [http://news.bbc.co.uk/2/hi/south\\_asia/4793311.stm](http://news.bbc.co.uk/2/hi/south_asia/4793311.stm)

While some may question the quality of the education these students currently receive, both countries, like others in our region, understand and appreciate the value of a high quality education. And they are treating investment in high quality education as a strategic investment.

These statistics are significant. They reinforce that within our own region alone we are facing a rapidly changing world. And they recognise the fundamental importance of higher education in lifting our productivity and workforce participation.

But more significantly, these figures are a significant portent about what could happen to our future economic prosperity if we complacently sit back and do nothing.

It is not just developing economies and their investment in higher education that poses an economic and social challenge to Australia.

We are also seeing movement in advancing higher education in Europe. While its immediate effect on Australia's higher education sector and our economy is likely to be more muted than that which is taking place in India and China, the development of the Bologna Process, of moving towards greater comparability and harmonisation of higher education across Europe is further recognition of the importance of higher education in lifting the bar on productivity and economic growth.

29 European countries undertaking a range of reforms to establish an integrated European higher education area is a significant international economic development.

For the first time on a pan-European scale, we are witnessing movement toward greater comparability of degree structures, aligning quality assurance mechanisms, greater staff and student mobility and mutual recognition of qualifications.

Its central thesis is about delivering the educational needs of the European workforce of the future, and building into the European higher education framework the flexibility to meet changing and challenging requirements.

Combined, these developments represent something of a quantum shift in higher education globally.

The changes taking place in Europe and on our doorstep in India and China and the countries of South East Asia present our biggest economic challenge today and into the future.

Like Europe, China and India, we must recognise that investment in the education, skills and training of our people and our workforce is the single most important thing we can do as a nation to increase our productivity and secure our future economic and social prosperity.

Investment in education, skills and training from early childhood through to mature age workers offers significant social and economic returns for individuals as well as for our economy.

---

<sup>3</sup> <http://www.theage.com.au/news/business/education-failures-hold-china-back/2007/02/27/1172338625547.html?page=2>

Indeed, there is considerable evidence linking investment in education and economic growth:

- OECD research shows that if the average level of education of the working-age population was increased by 1 year, the economy would be 3-6 per cent larger, and the growth rate of the economy would be up to 1 per cent higher.
- A recent international study found that countries able to attain literacy scores 1 per cent higher than the international average will achieve living standards – measured by GDP per capita – that are 1.5 per cent higher than other countries.

Whether it is through focusing on literacy levels, improving retention rates, or increasing the average number of years spent in education, the evidence is clear: more educated economies are wealthier economies. Countries that invest in education do better in maximising their economic growth.

It is here that Australia is exposed into the future unless change occurs.

### **The Howard Government's Higher Education Investment Record**

Australia's level of national investment in education at 5.8 per cent of GDP is behind 17 other OECD economies. In many areas Australia's education outcomes are now either lagging or falling behind other nations.

Over the past 11 long years this Government has presided over the deterioration of our higher education and University sector.

The simple fact remains that this Government has under-funded our university sector.

It has not invested enough in higher education.

The Australian Vice Chancellors' Committee has frequently raised concerns about the adverse impact of financial constraints on the quality of teaching Universities are able to deliver, and the educational outcomes this means for graduates.

The cold reality is that the Commonwealth has reduced its contribution as a proportion of total revenue. Commonwealth grants to Universities have decreased from 57 per cent of their revenue in 1996 to 41 per cent in 2004.

Irrespective of this, the Howard Government, and the Minister, state as their defence that Commonwealth expenditure has increased in the University sector since 1996. What the Government maintains its silence about is the fact that it has been outpaced by the total number of students at University.

Between 1995 and 2005 there has been a 30 per cent increase in the total number of students attending university. Over the same time, the Government states that there has been a 26 per cent increase in Commonwealth funding.

And if we look at statistics released yesterday by the Australian Bureau of Statistics, while the Commonwealth increased funding for Universities by approximately 6 per cent since 2000-01, this has fallen far short of the 12 per cent increase in the number of full time students since 2001.

So even by the Government's own figures, there has been a reduction in the total Commonwealth allocation per student in the period it has been in office.

This has seen a deterioration in the staff/student ratio over that time.

This has been supported by the Group of Eight universities, which say they have been under funded for each university place, with the University of Melbourne stating it is being underfunded by around per \$1200 per student by the Commonwealth.

We have also seen over that period a substantial shift from public investment in our Universities to private investment.

In 1995, private sources of income made up 35 per cent of University financing. In 2004 that had jumped to 52 per cent.

Individual student contributions from fees and charges in the same time has nearly doubled, increasing from 13 per cent in 1996 to 24 per cent in 2004.

Australia's education system now relies more on private financing than all other OECD countries except for the United States, Japan and South Korea.

This has partly been explained by the rapid increase in overseas student numbers over the past decade.

In our higher education institutions, this has been a dramatic rise, from fewer than 52,000 in 1995 to nearly 240,000 in 2005 – a 360 per cent increase.

In percentage terms, international fee income today makes up 15 per cent of total University revenue, an all time high.

We have also seen significant increase in HECS debt borne both individually by our University students and by our nation.

HECS has gone up on average 100 per cent over the last 10 years.

University students now face the prospect of a large, long-lasting debt burden after they complete their studies. Since 1996-97, the debt burden for University students has more than tripled from \$4.5 billion to nearly \$13 billion in 2005-06.

As public investment in tertiary education has fallen, Universities have had little option but to increase their reliance on HECS fee increases, fees from international students and fees from full-fee paying students.

If we look forward, this situation does not look likely to improve under the current Government.

Again, according to the Intergenerational Report 2007 at page 63, spending on education is projected to fall as a per cent of GDP over the next 40 years, from 1.85 per cent in 2006-07 to 1.78 per cent in 2046-47.

It is not just in the teaching of students that has suffered.

## **Research**

A core component of any University's activities remains its contribution to research.

A critical driver of a nation's research capacity is the strength of its academic institutions. Universities, as research hubs with major research personnel resources, are critical to Australia's research and development capacity.

Public sector leadership in research is particularly important in Australia, whose remoteness and lack of scale work against its development as a global centre for research and innovation.

Some international surveys suggest that by world standards, Australia's university sector is not driving innovation as well as in many competitor nations. Such surveys, which measure research output show that Australia's universities are sometimes poorly rated compared with their counterparts in North America, Europe and East Asia.

The 2005 Times Higher Education Supplement, for example, rated only one Australian University in the world's top twenty – the University of Melbourne, at 19<sup>th</sup> place. According to the Shanghai Jiao Tong University's Institute of Higher Education ranking system, Australia has two universities in the world's top 100, the Australian National University and the University of Melbourne. In this survey, most of Australia's top 20 Universities did not even rank in the top 200.

Significant under-investment in Australia's research capacity has played a crucial role in Australia's poor research outcomes. Investment in research and development in other OECD countries is around a quarter higher than in Australia, which invests only 1.77 per cent of GDP.

The Prime Minister's Science, Education and Innovation Council Working Group on Asia highlighted continuing inadequacies in Australia's investment in research infrastructure on a scale to enable Australia to be internationally competitive in research:

*The Universities need substantial funding to address their global competitiveness and capture opportunities. They need this funding to build world class infrastructure to attract the best researchers in their field...*

The Australian Vice-Chancellors' Committee has recommended that Australia pursue a national innovation strategy that includes, among other targets, the goal of increasing Australian investment in research and innovation to 2 per cent of GDP by 2010 and to 3 per cent of GDP by 2020.

The Howard Government's response has been to introduce a layer of complexity and bureaucracy through the implementation of its so-called Research Quality Framework, rather than providing ways of genuinely lifting the research output and quality of our Universities.

## *Research Quality Framework*

In the last Parliamentary sitting fortnight the House of Representatives dealt with the *Higher Education Legislation Amendment (2007 Measures No. 1) Bill 2007* which provided funding for the implementation of the Government's Research Quality Framework, through which it proposes to assess the quality of research undertaken and to assess the impact on the economy that research has.

Labor did not oppose the legislation, which appropriated money to implement the Framework. We made it clear that we do not support the Government's approach on the RQF. During debate in the House I confirmed that in Government Labor will not be proceeding with the RQF model.

Instead, in Government Labor will use the money already appropriated for the development and implementation of our own research assessment approach.

This is because, despite Labor not supporting the RQF approach, we do support measuring the impact of research undertaken. We must try and quantify and assess the value of research being undertaken.

It is not just Labor that has expressed reservations about the RQF.

The Productivity Commission in its *Public Support for Science and Innovation* report, released two weeks ago, found that:

*The costs of implementing the Research Quality Framework may well exceed the benefits...*

and that

*...while the RQF may bring some benefits, the UK and NZ experiences suggest that these would have to be substantial to offset the significant administrative and compliance costs.*

Concerns have also been expressed by the higher education sector itself, particularly that the RQF would reduce the research links with industry, lessen collegiate efforts among researchers and academics from different universities, and that the assessment of quality and impact is of itself problematic.

In submissions to the Productivity Commission last year for its draft research report:

- The Australian Academy of Technological Sciences and Engineering has expressed 'doubts about the value of such an approach'.
- The Australasian Institute of Mining and Metallurgy has commented that *... the allocation of a single ranking based on aggregate scores for 'Quality' and 'Impact' ... is confusing, [and that]... these different measures protect interests which are of varying relative importance for different kinds of research.*
- The Australian Academy of the Humanities has said of the RQF approach that

*...very little macro and micro economic benefit analysis has been performed of the contributions of the humanities and creative arts to national innovation [and that this] ... is due to the difficulty of measuring the impact of humanities research in such terms.*

And the Group of Eight universities stated in its follow-up submission to the Productivity Commission's draft report that

*There is a prospect that an RQF could become a burden to researchers, be expensive to administer and deliver very little reward to support and stimulate the best quality research.*

It is only by ensuring research conducted by Australian Universities is of the highest possible standard that we can make the critical advances so important to Australia's future prosperity.

Labor believes in a research quality assurance policy that:

- Is rigorous, transparent, fair, equitable and efficient;
- Is recognised and accepted internationally as world's best practice;
- Distributes funds in a way that transparently reflects research quality and achievement;
- Encourages Universities to concentrate on their respective research strengths;
- Rewards genuinely high achievement;
- Weights research costs accurately by field and discipline;
- Promotes University autonomy in decision-making on research funding and policy;
- Recognises and rewards long-term research; and
- Provides separate, objective measures that reflect research quality in broad discipline areas, including the Arts & Humanities, Social Sciences, and Science & Technology.

Labor will use this as the basis to develop its Research Quality approach.

### **Labor's positive policy approach**

At the core of Labor's approach to higher education is a belief in the need to lift the overall quantity and the quality of our investment in education and our educational attainment. As a nation, investing in the future of our education is the most important thing we can do for our economic, intellectual and social future.

Australia's long-term aim must be to have a globally competitive workforce. It is only through adequate investment and increasing the quality of the education delivered that we can hope to compete with our international competitors.

For this reason, we have to recognise the importance of education as both a foundation for productivity and economic growth and a necessity for the well-being of our people.

But we also have to recognise that today, it is a global competition for talent and not only do we have to look over our shoulder as we have historically at North America and Europe, but increasingly, to Shanghai, Beijing and Mumbai.

What is needed then is a Government that has the philosophical and financial commitment to make the long term investments in our Universities and higher education in order to win that competition.

Investment in education cannot simply be a matter of increasing the quantum of that investment, but making sure the investment in education is a quality investment, made efficiently, making sure the educational program delivered is rigorous and secures high quality outcomes.

Labor has announced so far this year four detailed costed election commitments across the education spectrum from early childhood education, national school curriculum in core education areas of maths, science, history and English, and bringing local schools – Government, Independent, religious and secular – together to share important facilities like science and language labs, and in your own area encouraging the study of maths and science at University by providing financial incentives worth \$110 million over four years.

Labor recognises that the foundations of a highly skilled workforce are increasingly laid in the maths and science qualifications of our graduates. Some of Australia's keenest competitors are making substantial investments in educating their future workforces and are giving priority to maths and science teaching. They recognise how crucial the basics of maths and science are to building a highly skilled workforce and a strong, advanced economy.

Australia currently lags behind many of our competitors in both the number of maths and science graduates and the quality of our maths and science education. If Australia is to become the most educated country and have the most skilled economy and best trained workforce in the world, we need a stronger foundation of maths and science learning in our schools and universities.

To build that foundation, we must address the growing shortage of qualified maths and science graduates. We need well trained teachers to give the next generation of students a strong command of maths and science. We also need to encourage more students to undertake tertiary maths and science study to build a stronger foundation of higher level skills in the workforce.

There is of course, much more policy work to do and there will be more policy to be announced between now and the Federal Election.

That work currently includes, but is not limited to, consideration of the following areas:

- Additional recurrent funding for Universities, both across the board, and targeted;
- Additional funding for University infrastructure, including additional funding for University Research Infrastructure;
- Greater accessibility and affordability of higher education so far as student income support is concerned; and
- HECS relief and remission for various disciplines and relevant occupations.

Unlike the Howard Government, Labor believes that funding higher education is a national responsibility. There is a national, social and economic obligation to provide for adequate funding for our Universities.

Labor wants to restore the balance to our higher education sector that has been distorted over the past 11 years.

Labor also believes it is important to examine what targeted funding initiatives can be implemented to maximize the benefit to our nation and to the taxpayer of any investment a Rudd Labor Government makes in higher education.

Our Universities need to have modern and adequate infrastructure. According to the Government's own Department of Education, Science and Training, DEST, our Universities have deferred approximately \$1.5 billion in infrastructure investment. There is a simple reason they have done so: squeezed by the Howard Government's reduction in University funding, Universities have had to delay or defer spending on maintenance or the upgrading of new infrastructure.

Labor believes there is a role for the Commonwealth in funding infrastructure in our Universities. This applies not just to general infrastructure, but importantly extends to specialist infrastructure, in particular specialist research infrastructure like science laboratories.

In relation to research infrastructure, funding infrastructure can be effected in a number of ways, for example, funding tied to particular Commonwealth priorities or projects, of which the funding of specialist research infrastructure may form a component of the overall budget.

Alternatively, it may come from a pool of funds set aside for general research infrastructure and for the general use and benefit of the University.

Labor is consulting with the higher education sector and will make our funding arrangements known in the run-up to the Federal Election.

In relation to the accessibility and affordability of higher education, Labor strongly believes that more can and must be done.

Over the past 11 years, higher education has become increasingly expensive for students to manage. The *'Australian University Student Finances'* report released by the Australian Vice Chancellors' Committee on 9 March this year found that:

- 40 percent of full-time students and 33 percent of part-time students believed the jobs they were doing were having an adverse impact on their studies;
- 22 percent of full-time students and 33 percent of part-time students regularly missed classes because they had to work; and
- The number of students incurring a debt has more than doubled from 11 percent in 2000 to 24 percent today.

The Minister's response was that students should be somehow more frugal. That was just about lifestyle.

I strongly disagree with that sentiment. More can and should be done to support students through their higher education studies today. Already burdened by increased HECS debts, we know that it is tough for students today to make their financial ends meet while undertaking a full time study load.

That is why Labor has already announced that a Federal Labor Government will give university students under pressure a modest helping hand by reintroducing the Voluntary Student Supplement Scheme – abolished by the Howard Government in 2004.

The Voluntary Student Supplement Scheme will allow repayable loans of up to \$7,000 per annum to be made available to students currently receiving Commonwealth income support.

The scheme will allow students to:

- Trade in one dollar of their income support payment (e.g. Youth Allowance or AUSTUDY), to obtain a two dollar loan supplement, up to the value of \$7,000; and
- Repay the loan, without interest, once their annual income rises above a certain level.

The Voluntary Student Supplement Scheme rewards students for agreeing to pay back the income support they would receive as a student when they achieve a higher level of salary as a graduate.

Labor is examining additional measures to alleviate the financial and work pressures on higher education students. Labor is examining a range of options, including:

- scholarships for the best and brightest, scholarships for low SES students, and scholarships for particular disciplines;
- one off assistance for significant expensive lump sum items like accommodation; moving expenses associated with the take-up of higher education in a different location; or expenses associated with course costs, like text books, software, or clinical equipment.
- Further HECS relief and further targeted HECS remissions for particular occupations identified as critical to our economy.

Just a word on HECS.

I believe the jury is still out on the extent to which HECS fees are a disincentive to attend University, particularly for those from struggling families.

The architect of HECS, Bruce Chapman, said in January that the system was at a 'tipping point'.

Over the last decade we have seen the cost of a University degree increase by between \$7,500 and \$30,000. The HECS debt burden for the nation has nearly tripled under the Howard Government to almost \$13 billion. As a consequence the increasing cost of HECS remains a relevant factor in our policy deliberations.

As well, even if some are sceptical about HECS as a disincentive, as we showed with our policy to encourage young Australians to study and teach maths and science, reducing HECS does send a signal that the Nation regards studying a particular discipline as important.

## **Conclusion**

To be 'good enough' is no longer acceptable for Australia's national performance. Australia cannot afford to be part of the trailing pack of nations - it must be up there with the leading handful in every major area. We cannot afford to waste the talent and potential of any Australian.

We must now embrace a new national vision – for Australia to become the most educated country, the most skilled economy and the best trained workforce in the world.