Fragile fiscal outlook to be revealed

Business
Marcus Priest

Business groups and analysts warned against deeper budget cuts yesterday, as Treasurer Wayne Swan emphasised the long-term significance to the structural integrity of the budget of new savings and tax increases.

Ahead of the release of the mid-year update today, Mr Swan said a new Treasury analysis showed existing savings and tax measures, along with those to be announced, would improve the underlying cash balance by 0.9 per cent of gross domestic product growing to 2 per cent of GDP by 2022-23.

“To put this into perspective, the budget bottom line would be around $14 billion lower this year with the long-term savings, blowing out to a $51.4 billion shortfall in today’s dollars in a decade’s time,” Mr Swan said.

Today, a business outlook for the September quarter by Deloitte Access Economics will highlight how the fragile fiscal outlook confronting the government makes it much more difficult to repair the budget.

Lower commodity prices could lead to a shortfall in tax of $3.3 billion this financial year, growing to $7 billion in 2013-14 even though unemployment is likely to peak at 5.5 per cent, the report says.

It also warns there is a risk of a slump in economic growth in coming years “as the surge in mining construction finishes before rising gas export volumes hit their straps”.

“Australia’s fiscal finances, both short and long term, became hostage to the fate of commodity prices, and hence to China’s strength,” it says.

“And things may get worse before they get better, with Chinese steel mills still producing too much, leaving steel prices severely mauled.”

The release of the Mid-Year Economic and Fiscal Outlook coincides with the first Minerals Resource Rent Tax payments from companies.

Deloitte Access Economics director Chris Richardson said while he expected stronger tax revenue from wages and goods, company tax and MRRT would be down.

“The budget could be back in deficit before the ink is dry on MYEFO,” Mr Richardson said.

Business Council of Australia president Tony Shepherd said due to an uncertain world economy and the dramatic fall in government revenue, now was the time to do everything possible to support a stronger and more competitive economic environment.

“The Business Council has been one of the strongest supporters for the goal of achieving a surplus in 2012-13, but we always said this should not be at any cost and should be able to be revisited if economic conditions deteriorated,” Mr Shepherd said.

CPA Australia chief Alex Malley warned against cuts in innovation and higher education grants schemes in a “mad rush to surplus. It erodes confidence in one of Australia’s great hopes for comparative global and regional advantage — the knowledge economy,” Mr Malley said.
"Tax receipts are down by tens of billions of dollars every year compared to where we expected them to be before the global financial crisis struck. And the renewed weakness in the international economy combined with lower-than-expected commodity prices has further hit revenues. This will require more savings to be found in our budget."

WAYNE SWAN
Deputy Prime Minster and federal Treasurer
Curtin deal the benchmark for IR talks

Joanna Mather

About 160,000 university employees Australia wide can expect to receive annual salary rises of at least 4 per cent over the next four years.

Beyond this, a fresh round of enterprise bargaining under way now in many universities is set to deliver fundamental changes to academic roles and the make-up of the industrial relations landscape.

The National Tertiary Education Union claims to have reached the sector’s first deal, at Curtin University, although management says there is still work to be done.

The Curtin negotiations described by the union’s general secretary, Grahame McCulloch, as some of the toughest he has been involved in — provided a test case for the union’s new policy on teaching-intensive academics, which is aimed at addressing the rancorous issue of casual employment in universities.

After fighting a losing battle to ensure all academics are active in both teaching and research, the union is seeking to wrest control of the situation by insisting these positions be filled by existing casuals. The union hopes to have secured agreement on the appointment of 2000 “scholarly teaching fellows” nationwide by the end of this bargaining round.

Within the proposed Curtin agreement, the fellows will be on salaries of $74,000 to $86,000 a year.

They will spend 75 per cent of their time teaching and 25 per cent on other activities, such as community engagement.

“The proposition is you take 5 per cent of the casual labour force each year and advertise them as… permanent jobs,” Mr McCulloch said.

“If that program is successful the casual labour force will be reduced by 20 per cent by 2016. “It’s an attempt to both reduce the casual labour force at Curtin but also to give casual academics a foothold in the permanent labour market.”

Once in-principal agreement has been reached at Curtin, staff will vote on the deal before it goes to Fair Work Australia for approval, probably next year.

The agreement sets a benchmark for the nation’s 39 universities.

Agreements for more than 20 universities expired in June and local branches of the union have served ambit claims including annual pay rises of 7 per cent over four years.

Earlier this month Monash University vice-chancellor Ed Byrne fired an early warning shot on the need to contain wage costs.

“We have costed the NTEU’s log of claims, which includes 7 per cent per annum salary increases to 2016, and other potentially very expensive proposals,” Professor Byrne wrote to staff.

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“The total cost of the union’s claims in the terms they have proposed is in excess of $320 million. Agreeing to such claims would impose unsustainable pressures on the university and could lead to longer-term financial problems.”

Analysts at IBISWorld predict wage growth to outstrip revenue gains across the university sector in coming years.

Its September industry report for Australian higher education forecast wage growth of 4.2 per cent a year to 2016-17, by which time salary costs will account for 54.3 per cent of revenue.

“Over the five years through 2012-13, wages are expected to account for a larger percentage of revenue as revenue growth slows,” the report said. “This is probably the result of more frequent wage increases and higher wage demands from academic staff in recent years.”

Universities are operating in the context of falling international student fee revenue and a jump in domestic enrolments as a result of the lifting of restrictions on numbers.

But with just about every eligible student who applied getting an offer of a place this year, vice-chancellors will no doubt argue that the potential to increase income this way is limited.

The peak body, Universities Australia, is considering whether student fees should be increased, as has been argued by the Group of Eight universities. Another potential game-changer is next year’s federal election.

Queensland University of Technology vice-chancellor Peter Coaldrake said it would be “nice” if the union tailored its log of claims to meet the particular circumstances of each university.

“Universities would be understandably cautious because of uncertainties in their political and budgetary environment and while it is always important to bargain in good faith it would be stupid to arrive at long-term agreements without knowing the realities we are likely to face,” he said.

“Universities want to be and see themselves as good employers. I’m sure universities are not looking for fault lines here but surely they’ve got to be alive to the issues of the day and as they relate to local circumstances.”

As it is, the union is unlikely to be the only party at bargaining tables making concessions.

In line with what has been agreed at Curtin University, vice-chancellors will be under pressure to allow academic and professional staff to be covered by the same agreement, which the union believes will give it extra clout.

“Securing a single agreement at Curtin is a very big victory for us,” Mr McCulloch said.

“At the moment a single-agreement model is predominant in the industry, but in large sections of Queensland, NSW and all of Western Australia there is still a pattern of separate academic and general staff agreements, which we say diminishes the standing of both general and academic staff.”
Benefits-based fees plan under attack

The controversial call by the Grattan Institute think tank for students to pay more for university degrees has been challenged by one of the authors of the federal government’s review of higher education funding.

Professor Louise Watson of the University of Canberra criticises the Grattan Institute’s approach, in its Graduate Winners paper, of trying to analyse the benefits to the public, and the private benefits to graduates, which arise from different university courses.

The Grattan Institute paper, authored by the institute’s higher education program director, Andrew Norton, says the returns which accrue to graduates from higher incomes would make many university courses an excellent investment even if students paid the full cost of the course.

Mr Norton tries, where possible, to put a value on these benefits and argues that the government should ideally only subsidise a course if it leads to an additional public benefit which justifies the cost. This could be, for example, the cultural value to society of training historians to help us understand our past, or the enrichment of our culture which comes from educating creative artists.

Or it could be that nursing courses should be subsidised if it turned out that the return to nurses from the investment in their course was not high enough to attract enough nurses to fill the public need.

In her report, which is Issue Paper 1 from the University of Canberra’s Education Institute, Professor Watson attacks the fundamental basis of Mr Norton’s argument, saying it is not reasonable to differentiate the benefits which arise from each course.

She points to the work done in preparing the Higher Education Base Funding Review, which concluded that working out the rate of return for the cost of education in each professional discipline was not a useful approach because of too much variation in the circumstances of individual graduates of a particular discipline.

Mr Norton analyses a number of public benefits which could arise from higher education including volunteering, civic engagement, tolerance and law-abiding behaviour.

Furthermore, Professor Watson criticises Mr Norton’s approach to calculating the public benefits which accrue from each university course. “It is not possible to assign a public benefit to each and every degree of a university,” she said.

In the Grattan Institute report Mr Norton analyses a number of public benefits which could arise from higher education including volunteering, civic engagement, tolerance and law-abiding behaviour and finds no evidence of a university education leading to better outcomes. As a result he restricts his analysis of public benefits of higher education to the financial benefits to the public which arise from graduates earning more money and paying more tax than they would otherwise.

Professor Watson says this is far too narrow a way to measure public benefits.

Professor Watson is one of the authors of the Base Funding Review, which was handed to the federal government a year ago but is still awaiting a response.

The review takes a very different approach to Mr Norton. Although it accepts that an assessment of private and public benefits is relevant in deciding who should pay for higher education, it concludes that it is not reasonable to distinguish between different professional disciplines in calculating private and public benefits.

It recommends that governments should pay 60 per cent and students 40 per cent of the cost of university education in all disciplines.

In response to Professor Watson, Mr Norton said his Graduate Winners paper was conceptually different to the approach taken in the Base Funding Review, which is being defended by Professor Watson.

He said his conclusion that higher education should be publicly funded if it produced public benefits or equity outcomes that would not otherwise occur contrasts with the Base Funding Review’s argument that the public benefits of higher education justify public funding, regardless of whether that funding causes those benefits.

The federal Tertiary Education Minister, Chris Evans, said in August that the government would respond to the review by around the end of this month.
Debate grows on funding for degrees

Who would have thought universities would be so allergic to the spirit of critical inquiry? More than two months ago, Andrew Norton of the Grattan Institute released his Graduate Winners paper questioning whether the government should subsidise the cost of university degrees that lead to high-paying jobs.

Norton asks a worthwhile and fundamental question: is the $6 billion that government spends each year subsidising university degrees justified? It is a complex question with a range of complex answers.

Norton's particular answer is that for many students this public expenditure is not justified because they would still have ample financial incentive to study even if the subsidy was withdrawn and they paid more in university fees. The return they would receive through extra lifetime income would still make higher education an attractive investment.

Norton arrives at this answer with careful arguments based on detailed research, and he is not easily dismissed with a few rhetorical jabs.

But this did not deter some in the higher education community who evidently reject the idea of critically examining the basis for government funding. Norton was merrily attacked, but the merits of his argument were largely left untouched.

Geoff Sharrock, a specialist in tertiary education at the University of Melbourne, put his finger on it in an article in The Australian earlier this month. Norton's Graduate Winners, he concludes, is not being countered by its opponents with substantive argument. Rather it is being treated as heresy.

"The allergic reactions it attracts reflect the strength of a common orthodoxy, that the production of public good requires public money," Sharrock wrote.

Sharrock admits that he is part of the orthodoxy. He works in a senior position as program director for tertiary education leadership and management at the University of Melbourne's L.H. Martin Institute. He does not support the cuts to university public funding advocated by Norton.

"Who in my position would?" he says. But he appeals to the higher education community to use reason, rather than rhetoric, to refute him.

Since Sharrock wrote this nearly two weeks ago, another Norton critic has stepped forward. The director of the Education Institute at the University of Canberra, Louise Watson, has offered a more comprehensive response to Norton.

Watson was a member of the panel that wrote the Higher Education Base Funding Review, handed to the federal government a year ago.

She has a number of criticisms of Norton. One of them is that she believes it doesn't work to distinguish between high-income earning graduates and low-income earning graduates on the basis of the discipline they study. Norton looks at high-income earners, for example dentists, and concludes that they would still study dentistry even if they paid the full cost of their course because the financial return is so great. So why subsidise them?

Norton draws his figures from Watson's Base Funding Review, which asked the Centre for Labour Market Research to estimate the rates of return to graduates in different professional disciplines.

While dentists make 17 per cent to 20 per cent annual return on their investment in education, teachers make 10 per cent to 11 per cent and graduates of visual and performing arts courses get, on average, a negative return because their earnings don't, as a rule, cover the cost of their university course.

Norton uses these outcomes to judge whether students would still be willing to study a particular course if the government subsidy was withdrawn. If the return is sufficient, he believes that the course will still be in demand.

Watson reiterates that the Base Funding Review rejected this approach because of differences in students' individual circumstances.
within a particular discipline. For example, there are rich law graduates and poor law graduates, and if the subsidy for law is withdrawn on the grounds that the average lawyer earns plenty, the poor ones will be penalised.

Law courses illustrate the difference in approach between Norton's plan and the approach taken in the Base Funding Review advocated by Watson.

Norton would have law students pay more for their course, but not that much more because they already pay 84 per cent of the cost of a law degree and paying 100 per cent is not a huge additional impost.

But the Base Funding Review recommends that the government should not try to vary the price of university courses according to the incomes that graduates are likely to receive in different professions.

Instead it urges the government to base the price on the cost of providing the course, with a goal of asking students to pay 40 per cent. This means that law students will pay much less, but the Base Funding Review recommends this be phased in slowly.

It is important to note that Norton does not reject public funding of university courses, but he argues it is only justified if there is market failure and a public subsidy is needed to produce public benefits that would not otherwise occur. He spends a lot of time in his report analysing ways of measuring public benefits. He ends up advocating that about half of the public subsidy for higher education degrees, about $3 billion, be progressively withdrawn.

For her part, Watson questions much of the methodology Norton uses to calculate public benefits. There is not the space here to analyse these arguments, but her paper is available at the Education Institute website. It is a good start at initiating the debate which should take place on this issue.

Norton is not going to go away. This is only the first of many challenging reports he will certainly write from his position at the Grattan Institute. In the higher education sector it's time to get into a state of extreme readiness for some serious policy discussions.

Norton's report is not being countered with substantive argument. Rather it is being treated as heresy.
Reform now and we’ll stay world class

Australia is a global leader in international education. It should secure and enhance that position. This will require full recognition of education potential in the imminent Australia in the Asian Century report, and serious follow-up by successive governments on well-designed supportive policies.

Contrary to some views, including those of this newspaper’s editorial writers, if the review, led by Ken Henry, prioritises education, even over labour market reform, this will be best for securing Australia’s future.

By the standard economic modelling used to inform policy, university reform will add 6 per cent to long-run gross domestic product. Reform of industrial relations or of tax would add less than 1 per cent and around 2.5 per cent to GDP, respectively.

These ongoing reforms are certainly worth having, but we must not exclude the big pay-off reforms of the future. It is time for some creative policy vision for the knowledge century. Brazil launched its Scientific Mobility Program to send 101,000 young Brazilians to study around the world. India has placed education at the centre of its economic strategy. China is raising its best universities to match the world’s best.

In Australia, affirming a competitive environment is itself indeed essential, but it is of only transitional value if there is no new competitive capability being built.

Of special importance in this is international education. It is to be hoped that the review is closely coordinating with the equally imminent Chaney report from the federal government’s International Education Advisory Council. International education vies with gold as Australia’s third-largest export. It is the top export for Victoria and No. 2 for NSW.

If there is worry about a two-speed economy, this is a solution. Indeed, Australia is the world’s highest per capita education exporter. Total exports reached $17.4 billion in 2010. Former prime minister Paul Keating was the accidental father of modern international education for Australia. His “temporary” suspension of full indexation of university grants in 1996 started a 15-year squeeze on university finances, for which international student fees became a substantial (though incomplete) alternative.

Keating’s successor, John Howard, joined him in unintentionally furthering the project, as a by-product of his need to meet business demands for skilled migration without lowering skilled entry standards. He accepted advice from academic consultants to business that points for Australian study be added for migration selection.

Universities seized the opportunity with alacrity and an impressive panoply of courses and associated initiatives emerged. These included innovations in language testing, agent-based recruitment, offshore campuses, educational pathways, student housing partnerships and more – as reflected in names such as International English Language Testing System, IDP Education, Navitas, Campus Living Villages, Study Group etc. Government initiatives reflected in acronyms such as AUQA (Australian Universities Quality Agency) and ESOS (Education Services for Overseas Students) also pioneered in affirming quality of education and protecting students from fee losses.

There are few areas of commerce where Australia has so clearly led the world in entrepreneurship. By 2010, international students represented 25 per cent of university enrolments and provided a cross-subsidy of $1500 per domestic student. Far from taking domestic places, these international university students were cushioning the locals mightily, providing more than 100,000 jobs, and buttressing tourism as friends and relatives surged into Australia to visit.

Within the universities, ideas across cultures were being exchanged and the “soft power” benefits of students returning home were visible. Business, community and government linkages of enduring value to Australia in the Asia-Pacific region were being forged.

To bring this to a screaming halt in 2010 was a remarkably ham-fisted achievement by Australia. A big price was paid for poor migration administration and weak education quality assurance regulation in the growing vocational education and training area. There was self-indulgent election policy debate over a “Big Australia” and student safety problems in Melbourne could have been better managed. With a rising exchange rate as well, the outcome was to halt more than a decade of 10 per cent average annual growth.

Fortunately, intelligent reviews by former ministers Bruce Baird and Michael Knight stabilised the...
Reform now and we’ll stay world class

From page 26 situation and showed ways forward. They have rebuilt overseas student protection and introduced risk-sensitive visa management. But more is needed.

VET regulation by the Australian Skills Quality Authority is over-reactive and clumsy, with unfortunate collateral damage. Migration access operates increasingly via command-and-control mechanisms that would do Havana proud. 'fransport concessions for international students are stubbornly resisted in some states. Concern for safety and protection programs seems on the wane, and preparation for managing new incidents is poor. Local governments are slow to approve student housing projects and often deficient in enforcing health and safety standards. Real estate organisations eschew responsibility to educate members about international student needs. There are ready solutions for all of these deficiencies, if the will exists.

Universities need to broaden their international integration, including for domestic students (the reverse Colombo Plan), as is now happening, through more internationalisation of curriculums and student services, and global research integration. They need to seek employment partnerships for the work-integrated learning sought by modern students, and to help induce businesses to embed cultural diversity in Australian management practice. Obliging a reluctant Immigration Department to “grandfather” onshore visa rules would eliminate uncertainty in international student perceptions. Some creative extension of HECS-HELP to international students would establish a worthy competitive advantage for less affluent students.

The Henry and Chaney reports can activate the need to deal with these issues and bring Australian international education back to world pre-eminence: Their leadership can help convince Australia’s sometime regressive public opinion of the merits. We await their outcomes accordingly.

Glenn Withers is a professor of economics at Australian National University. He was founding chief executive of Universities Australia.

Offering international students transport concessions is a start. Photo: NIC WALKER