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## **Higher education: it's time.... [to change the policy framework].**

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I welcome the opportunity to participate in the ANZSOG lecture series for 2008.

Let me begin with a comment about self-interest. If I don't, I'll be reminded that I should have done so in the coming days.

Experience tells me that self-interest is a vice often observed when somebody else says something with which you disagree. If ever you have a flash of insight and detect self-interest in your own comments, you know at least that it is pure because, as you know with certainty, that's how you are.

I hope what I am about to say will be heard to be beyond pure self-interest. Although I am paid by the ANU to work in its interests, there are some issues that go to the state of the higher education sector and not just the state of a single university – and I will address some of those.

But, when you get down to it, we are an odd sector. And up there on the scale of oddness is our perverse attitude to performance.

As one of my former colleagues asked several years ago: are we the only country that penalises success? He was commenting on the fact that research council grants cover nothing like the full costs of the projects they support - so the more you have the more you have to top-up. Naturally this diverts resources from other, say, prospective activity and is quite antithetical to a strategic approach to research and research development. It means that the best are penalised to enable more to be funded.

More recently, the same sort of thinking intruded into evaluating teaching performance. The ANU, for example, lost roughly \$1m a couple of years ago because scores were

adjusted as the students the year before the allocation (not those actually surveyed as graduates) entered the university with high average cut-off scores. It was assumed, I presume, that we added less value to those graduates than did a university whose entry scores were low. I will come back to this later.

But even if we are not the only nation to penalise success – we seem to be expert at perverse incentives.

It is time to get past this implicit ‘equalisation’ strategy and to put in place sensibly enlightened policies that will reinvigorate and advance the sector in a way that is coherent. They need to acknowledge that we perform differently – and that we should not hold back (some would say continue to hold back) the best performing universities in the hope that some of the others will join them at some high level if we deflect resources, or spread them thinly, for long enough. As I will discuss later, the gap does not appear to be closing.

Holding back is a recipe for levelling down. And that, I would argue, is in nobody’s interest. Even so, it is an issue about which we cannot expect consensus in the sector; it will need real political courage if we are to maintain at least some of our universities in the upper reaches of the world league.

While it is a vexed issue, it is raised, not in self-interest, but rather as part of an urging that we come to terms with what we want to be, and our place in the world – as a nation, as a community, as a sector.

This is as important now as it was when ANU was established as part of post-war reconstruction. The Minister declared then that the activity of the University should lead to it taking its *rightful place among the great universities of the world* and that by it doing so *Australia will have taken one more step to align itself with the great and enlightened nations of the world*. This may be even more important now.

Clearly the circumstances facing the world are different from 1946 – but still massively complex: the issues of climate change, environment, terrorism, pandemics, migration of people are a few examples of problems that don’t respect national boundaries. And solutions will only be found if the best minds in the world work on them, are given the skills to work on them and are able to work on them across cultures and boundaries.

This is no time for reducing the capacity of our best. This is no time simply to say that what used to be is still good enough. It is not the time to assume that a country with a small population can have its universities presume that they are essentially scale models of some ideal teaching and research university. Nor is it the time to reduce the opportunities for Australians to get access to university, if it is their wish and they have the talent to succeed.

I take heart from comments made by the Deputy Prime Minister, Julia Gillard<sup>1</sup> when she said: *we can't compete with the worldwide higher education revolution unless we improve the quality of our universities and keep some [more] of the best minds here*. She went on to announce a doubling of undergraduate scholarships and new mid-career fellowships and she linked education, training and social inclusion. Good news.

But importantly, she acknowledges up front that there is a worldwide revolution; that starting point is crucial to our future.

I argue that it **is**, indeed, **time**.....time for a policy framework that is fresh, strategic and supportive. That would certainly be revolutionary for us.

We have an opportunity. We have an opportunity to rethink, **fundamentally**, public policy, because of a change of federal government following the lengthy incumbency of its predecessor. While it is an opportunity we can't afford to miss, there are some preconditions necessary for turning the chance into a revolution. Let me suggest five prerequisites.

First, the incoming Government needs to be interested in substantive policy reform. There are early indications of renewed interest in ideas and debate, which is refreshing. The COAG initiatives, the commitment to indigenous communities, the Review of the National Innovation System, and the 2020 Summit, for example, indicate a new energy and a commitment to consultative policy development. The real tests will come in choosing between competing ideas and taking the hard decisions to put into effect necessary policies.

Second, the Government needs to have adequate capacity for policy development. It needs access to evidence, analysis and creative thinking to guide longer-term policy formulation and evaluation. The policy capacity of the Australian public service is stretched in responding to the demands of the new government, as a result of its recent focus on 'can-do' program delivery and generational change. In the circumstances there is a role for people in the university community to assist in offering policy analysis and advice.

Third, the Government needs to invest the resources required for reform. There seems likely to be fiscal capacity for targeted investment in future years, but now, with inflationary pressures throughout the economy, and large election spending commitments, we are asked to be patient. While giving the new Government room to set

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<sup>1</sup> The Hon Julia Gillard MP. Minister for Employment, Workplace Relations, Education and Social Inclusion. Address to the Australian Industry Group, December 3 2007.

the house in order, we also need some signals of intent to address pressing concerns. We would be wise to ensure that the case we make for future investment is sound.

Given the current environment and condition of the sector, it is unrealistic to expect government to increase public investment in higher education across the board without regard to cost-effectiveness and adding value— in other words if we want extra investment we offer reform in return. It will take two to tango to bring about micro-economic reform in higher education.

Fourth, the community needs to be ready for change. The signals of this are ambiguous. On the one hand the community is calling for more effective and efficient service delivery, such as in health and education. On the other hand, resistance can be expected to further structural reform that disconnects people from their anchors in society. It is particularly essential that the institutions involved are encouraged to embrace change constructively by the policies, regulatory frameworks and financial incentives that are put in place, and by the way they are put in place.

Fifth and I think foremost, reform needs to be guided by clear vision and values. Blurred policy signals and incentives lead to dysfunctional systems. Yet a prescriptive approach is inappropriate for a pluralistic society. Policy needs to be alive to differences in community circumstances and institutional missions while also having coherence of purpose. It becomes important for government to be clear about its objectives and also for universities to articulate how well they do what they do, and what they stand for.

I believe we have not only an opportunity but a responsibility to help build a balanced and sustainable policy framework for the future. The Government is asking us to contribute ideas, so I will outline what I see as the key features of well-designed policy architecture and the building blocks necessary to support it.

But before considering where we might go in the future we need to understand where we have come from.

Australia's policies for education and research have been built around national and sub-national orientations, politics and ambitions. But at the sharp end, **national** ambitions will not be realised if Australia fails to sustain a cluster of globally networked research universities. At the same time, we will fail as a nation to achieve the goal of an inclusive well-functioning society if we do not provide equitable access to quality education and training.

The course of educational policy development in Australia, particularly over the last decade, has been segmented across the schooling, vocational education and training and higher education sub-sectors, with fissures between public and private provision.

Once we enjoyed a capacity to consider policies and developments across sectors. We were able to consider things like trends in demand and supply, the interactions of incentives for educational participation and employment, the effect of changes in education costs on access and study choices of students, the destinations of graduates and changes in employer requirements and expectations. There were also structured arrangements for inter-governmental consultation and cooperation, and provision for input from business and the unions.

It is time to join the dots again, to take an arms-length view of needs across sectors, a helicopter view of international developments, and a contemporary view of regulation for the increasingly competitive operating environment. And now that there is recognition of those long-neglected bookends – early childhood education and adult and continuing education – it is all the more necessary to adopt a joined-up approach.

But how to join the dots?

Although he was focusing particularly on the universities, the view expressed by Peter Karmel back in 2000 is still apt today. He wrote then:

*“The government needs objective advice unaffected by political/ideological and political/electoral considerations and by the pressures of lobby groups. It cannot receive such advice from a government department subject to ministerial direction and the lobbying of individual institutions....”*<sup>2</sup>

In addition to requiring sound and objective advice, the Government also needs to be putting in place policies that will stand above the fads and fashions of political expediency. The higher education sector suffers from the legacy of accumulated incremental policy shifts and drift. The result is a lack of policy coherence, and an introspective and narrow view of possibilities, and a limit to institutional futures.

Both sides of politics have railed against ‘one-size-fits-all’ funding. Before the 2007 election both sides conceded that the Dawkins’ model of the unified national system had passed its use-by date. There is a consensus that greater flexibility is necessary.

But we know that flexibility is not easily achieved. Experience suggests that even when measures are introduced to dilute funding incentives that induce sameness, cultural norms remain powerful in a sector where institutional status is confused with institutional purpose and performance.

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<sup>2</sup> Karmel, P. (2000), *Reforming Higher Education*, Occasional Paper Series, 2/2000, Academy of the Social Sciences in Australia. Canberra.

This problem is not unique to Australia, as the American commentator Martin Trow has noted:

*“a central problem for higher education policy in every modern society is how to sustain the diversity of institutions, including many of which are primarily teaching institutions without a significant research capacity, against the pressure for institutional drift toward a common model of the research university – the effort alone shapes the character of an institution to be something other than what it is – a prescription for frustration and discontent.”*<sup>3</sup>

Amid the confusion we cannot expect consensus within the sector about future directions for policy and financing, other than the kind of lowest common denominator position – calling for a spread of funding increments – that has resonated throughout the last quarter century and has levelled the system downward.

Before the election, Labor offered mission-based funding compacts. This was intended as a way to manage the transition over several years from an outmoded model of central control to a more market-driven approach, while also safeguarding the essential public good of universities.

That approach may be regarded as a balance between the ‘grand plan’ and ‘muddling through’. On the one hand, it envisages the Government clarifying its objectives and policy principles and, on the other, universities identifying how they can best play to their strengths in fulfilling their missions and contributing to government objectives. It has appeal as a two-way process. We can’t start again as it were with a clean slate, and centrally prescribe some new model, just as we can’t rely solely on the self-referenced aspirations of individual institutions to cater adequately to varying needs.

The compact model recognises that universities have multiple roles in contemporary society, and that different universities have different roles. The concept of compacts, as outlined in Labor’s 2006 discussion paper, indicated the potential for new funding streams for community service and innovative activities, additional to funding for the traditional functions of teaching and research.

Labor in government has signalled its intention to use compacts as a means for effecting reform. The Innovation Minister, Senator Kim Carr, recently said:

*“...compacts will be instrumental in bringing about structural reform and cultural change, and in concentrating people’s minds on our international*

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<sup>3</sup> Trow. M. (2003). “On Mass Higher Education and Institutional Diversity”, in *University Education and Human Resources*, Technion-Israel Institute of Technology, Tel Aviv.

*competitiveness. They will enable us to manage the transition from the present centralised system to a more flexible environment in which each university can respond to the needs of its students, its community, the country and the global knowledge economy by exploiting its comparative advantages – by leading with its strongest suit.”<sup>4</sup>*

It is not yet clear how far the Government will adopt the details of the compacts approach outlined in 2006, what modifications will be made, and where compacts will fit in the broader policy framework. It is timely, though, to emphasise that the notion of compacts is Government policy – it is the detail that remains to be sorted. This fact is apparently a shock to some in our sector.

The Government’s decision to separate the portfolio of research from that of education allows a more open consideration of tertiary education possibilities, without the distractions involved in exaggerated claims of a ‘teaching-research nexus’. Instead, we are being invited to explore the potential of strengthening the nexus between university functions and innovation, in ways that will enlarge the contributions that universities make to the community. Compact funding in that context can help to improve knowledge exchange between universities and enterprises, and government and community organisations.

The Government has also linked compact funding to tightening the access of universities to funding for research and research training on the basis of verified research quality. Quoting from their White Paper:

*“A university will be expected to cease admitting research degree candidates to areas where adequate quality of research performance cannot be validated. The university may shift funds for research training to build its capability in those fields of research where it has rated well or it may transfer the funds to undergraduate or postgraduate coursework places, or to develop activities for community service or innovation.”<sup>5</sup>*

This approach has the potential to shore up Australia’s research capacity, by focusing future investment in areas of best performance. The areas of strength may initially be identified through the work of the Australian Research Council in developing a replacement for the flawed Research Quality Framework.

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<sup>4</sup> Senator The Hon Kim Carr, Minister for Innovation, Industry, Science & Research, Address to the Australian National University, 7 February, 2008

<sup>5</sup> Macklin, J. (2006). “Australia’s Universities: Building our future in the world – a white paper on higher education, research and innovation.” Australian Labor Party. Canberra.

One approach would be for each university to self-rate its research against the benchmarks it considers relevant for the type of research it undertakes. The ARC/NHMRC could then validate that the benchmarks are appropriate and assess how well the research rates against the benchmark, using a combination of appropriate metrics and peer judgement.

A major outcome of this approach would be a greater concentration of investment in research, and improved research training. Several universities will be able to sustain comprehensiveness in research and research training, others will be more selective, and a few will be active in niche areas only.

The “hub and spokes” element of compact funding, as outlined during the election campaign, and, like compacts, part of the policy that the Government took to the last election (again a revelation to some in the sector) will complement this reform, by widening opportunities for individual academics to be active in their scholarly field irrespective of the research focus or capacity of their home institution.

Already there are rumblings in some universities about this direction, but the Government must stand firm. All Australian universities should benefit through the profile and access that the best performers enable. Australia cannot afford any longer to dissipate resources and level down the performance peaks.

Australia’s capacity and performance slippage against the international leaders reflects an underlying deficit of national investment in research, research training and research infrastructure. I hope that a number of Ministers soon get to see the scale of investment in facilities and talent in the leading universities of China, Europe and elsewhere. Then they will understand just how far we have fallen behind, and how precarious is our future. I would hope that they would see the benefits to be gained by adopting an approach that funds the full costs of research – and by accepting that there needs to be some focus of funding notwithstanding some political consequences.

Australia’s catch-up cannot be predicated on a thinly spread distribution of any additional investment because of the scale and pace of our competitors. The hard reality is that the rest of the world is not waiting for Australia, and if we play catch up politics internally – waiting a few more decades in some vain hope that the Dawkins reforms will eventually give every university a place in the sun – we may well be watching the world from the sidelines.

We cannot continue to be timid about this imperative. Despite government incentives encouraging research expansion in newer universities, the performance gap between the top research universities and the rest has widened – not narrowed – since 1992, on all available quantitative and, especially, qualitative indicators. For example, the leading eight increased their share of total research income from 66% in 1992 to 68% in 2004.

The bottom twelve increased their share from 5% to 6%, and the ATN universities from 7% to 8% over the same period. Among those in the middle the performance trends have been variable. One fell from a 3.4% to 1.5% share, one fell from 1.7% to 1.1%, while another rose from 0.3% to 0.7%.

It is no wonder that some are very vocal advocates of funding on the basis of potential rather than performance. Potential is a bottomless pit, whereas track record is finite. It is, indeed ironic that a sector that bases so much on track record – from the accomplishments of entering students to research grants and their allocation to what staff have done to earn promotion – should suddenly discover that ‘potential’ is more important when it comes to funding. Sometimes, it might be thought, self-interest is not always pure.

Around the world research is funded, including in emerging areas, on the basis of track record. Research grants are not awarded and researchers are not employed on the basis of promise alone. Their promise is inferred from what they have done.

So for research, research training, research infrastructure and improved connections of universities to the innovation system, the compacts approach should drive much-needed reform. I would like to see this process moving in the direction of customised block grants to universities from the Research Councils reflecting true operating costs with accountability for quality of outcomes as the means by which we judge the quality of our work and adjust the block.

In the short term, compacts could provide opportunities for university repositioning, new incentives for mission differentiation, and funding envelope flexibility.

Diversification is itself a means rather than an end. The key purpose is to modernise the structure of provision to accommodate more cost-effectively an enlarged body of students with varying characteristics. The main point is, in the words of Peter Karmel, to achieve *“the twin objectives of widespread access to higher education and of nurturing the most intellectually able.”*<sup>6</sup>

Access should be widened in ways that recognise differences in student readiness, ability and motivations. Particular effort is needed to enable those with poor readiness to progress - not to make it easy to succeed by lowering standards, but to ensure they acquire the skills necessary to achieve good employment outcomes. This means support: with studying and the relevant skills and support mechanisms. It also means minimising distractions: if we are to improve access to post-school education, and completion of

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<sup>6</sup> Karmel, P. (2000), *Reforming Higher Education*, Occasional Paper Series, 2/2000, Academy of the Social Sciences in Australia. Canberra.

courses, we need to think creatively about how to ensure that all students are able to meet basic living costs while studying.

Unlike course fees, day-to-day living costs cannot be deferred through HECS. Living costs present as an upfront deterrent to access and recent studies have shown that ever more full-time university students are having to work longer hours in part-time and casual jobs just to make ends meet.

The student income support system has not been the subject of a proper government driven review since 1992, there is an urgent need for a reform.

In higher education, we are more likely to see diversity flourish when we address policy across the whole spectrum of post-school education and training. Conceiving of a holistic system for tertiary learning has implications not only for institutional structures, but also for student access, financing mechanisms and student income support.

In this wider context, we need to revisit the rationale for the education component of compacts as conceived in Labor's 2006 outline, and to move to a less bureaucratic discussion. There are many questions to be addressed, and serious work needs to be commenced shortly to underpin future policy considerations. Matters requiring attention include: student-driven models and the allocation of funding; the balance between private and public costs; the continuity of scholarship in areas that are not sustained by student demand alone, as well as the balance between graduate output and labour market requirements; and the principles and operations of a more appropriate regulatory framework for a competitive services sector.

In recent years the OECD has been undertaking a series of thematic reviews of tertiary education, with 13 countries participating in a program of visits by international assessors. Australia did not volunteer for a visiting panel, and missed out on the benefits of international perspectives and comparative assessment. I am sure an international panel would have been struck by the disconnections within the tertiary education system, and the disconnections between it and the labour market. It is time to take a wider view.

There is a further matter that must be addressed, and that is the actual costs of teaching at acceptable standards. A better understanding of actual costs will be needed for a more deregulated system. Truer signals about quality will be needed to inform student choice and safeguard educational standards.

We have danced around the question of standards for far too long. There is a dizziness affecting our thinking and a reluctance to confront reality. We persist with a notion of parity of esteem of degrees even though we know there are sizeable differences in the entry scores of students, in the capabilities of academic staff, in campus environments and cultures, and in amenities for learning and research. Through the Learning and

Teaching Performance Fund, these differences are smoothed out in order to detect a notional institutional value add, on the assumption that the exit standards of graduates are equal.

We know that there are differences in graduate destinations that reflect differences in student preparation, such as in Engineering and IT. For instance, employers look to one university for computer systems designers and to another for computer programmers and to another for computer operators. That is what happens in the real world, and it is a good thing, and we should reveal rather than disguise the fact. Yet we have not achieved acceptance, neither in rhetoric nor practice, of the concept of fitness for purpose.

In Australian higher education we have a process of quality auditing that assesses processes but does not necessarily assure acceptable standards. It may even, by dint of the process, validate mediocrity, especially when the criteria are referenced only to national norms. I understand the Minister for Finance and his 'razor gang' are looking for savings options. I can nominate some for him.

Evaluating standards is inherently difficult, and that is probably why most of the higher education QA industry treats quality of process as a proxy for quality of outcomes. Standards-referenced evaluation requires a focus on how well students learn and how institutions assess this, rather than a preoccupation with how well the paper work is prepared and the records kept.

It is time to establish a minimum acceptable standard for a degree and to develop benchmarks for differences in performance standards achieved by graduates. There are various options available, such as comparisons of student work assessed at different grades across institutions in comparable areas of study, as well as examinations of the kind used in other countries, such as the Graduate Record Examination in the US. We have responsibilities to our graduates to safeguard the reputation of Australian qualifications in the international market.

It is time to grasp the nettle and get around what, I remind you, Trow described as "*a central problem for higher education ..... the pressure for institutional drift toward a common model of the research university.*"

Our Australian way of handling the '*central problem*' has been largely to ignore it as we penalise success in order to spread the already thin largesse.

It is time to discuss the whole issue of standards and accept that there are differences, real differences, within the sector – and that those differences lead to consequences.

It is time to consider the relationships between our universities in order to provide better opportunities for staff and students.

It is time to focus on the purpose and performance of universities.

It is time to seize this rare opportunity for rethinking, renewal and reinvigoration.

All in all, it is time.