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By Derek McCormack

There has been a lot of talk recently about Australia's economic surge ahead of New Zealand over the past couple of decades. How do we catch up? Can we catch up? Is it minerals or something else?

The government has taken up the challenge to close the gap with the Australians.

I was in Australia recently at a meeting about changes in higher education there. As most will know, the Australian government has adopted a goal of having 40% of 25 to 35 year-olds with a bachelor's degree or better by 2025. Currently they have about 30% of 25 to 35 year-olds at that level – around the same as New Zealand has.

It's a huge challenge for the Australian higher education sector requiring buildings, staff and boosted student recruitment. At the meeting I attended there were Vice-Chancellors and other university leaders with various officials scratching their heads wondering how they were going to get all these extra young people to go to university.

I came back to New Zealand to the regular meeting of the Vice-Chancellors at which we, with officials of the Tertiary Education Commission, were scratching our heads wondering how we were going to stop all the extra young people that were showing up from getting into university.

The main reason for the divergent discourse between the two countries is the same financial crisis. Australia has come through the crisis so far in better shape than New Zealand. They are spending up – including on higher education. We are restraining public spending - including on higher education. Although, we should note that the previous government, pre-crisis, had already set in motion the arrangements for higher education and wider tertiary education that restrict the number of places with funding caps.

The Australian 40% goal isn't to be based on increases in efficiency at the higher education institutions. It comes with some big government funding commitments. On the other side it also comes with challenging performance expectations:

- Higher completion rates
- Open reporting by universities on performance
- Increases in enrolment from lower socioeconomic status backgrounds
- New quality assurance arrangements
- Assessment of research quality with a funding link

We could note in passing that several of these are a catch up with where New Zealand already is.

What does Australia's higher education direction mean? Australian Minister for Education, Julia Gillard, stated a couple of weeks ago, "In an era when investment in knowledge and skills promises to be the ultimate determinant of national and individual prosperity, Australia is losing ground against its competitors."

So the conviction over the Tasman is that it's not just what is under your feet – like minerals or grass – that determines your national fortunes. It's also, or more so, what is above your shoulders.

There is some evidence to back that up. It is estimated that on average an Australian graduate receives \$1.5 million more taxable income over a career life-time than a non-graduate. Independent estimates of the economic return to Australia from a government investment in university education and research are high and compelling.

But Gillard expressed concern that there was also evidence of the Australian higher education system starting to creak uncompetitively in the world.

- Australia was dropping down the OECD table from seventh to ninth in university participation rates. (New Zealand is slightly lower)
- There were poor student completion rates. (Similar concerns have been expressed here)
- There were high student to staff ratios, which have gone from just thirteen to one to twenty to one over the past fifteen years. (New Zealand has had a similar rise – though ending up slightly better than the Australian figure)
- There were concerns about student satisfaction. (the Co-presidents of the New Zealand students association expressed the same concerns to me last week)

Gillard also noted that other countries –UK, Germany, Ireland - had set higher goals for the production of graduates. Those goals made the 40% stretch in Australia seem almost modest. New Zealand has no goal as such to improve its graduate numbers – although the government's recently announced Tertiary Education Strategy mentions it in a general way as an area for improvement.

At the moment, New Zealand is experiencing a huge lift in the numbers of people interested in tertiary and higher education, particularly the young. At the same time it is adhering to fixed funding and enrolment cap. All universities are overenrolled to the maximum the government will allow. The situation is the same right across the tertiary sector – for Institutes of Technology and Polytechnics, Waananga and also many Private Training Establishments.

Applications for enrolment at my university were up 27% this year, on top of a similar increase last year after a stable situation during the previous four years. We can only take a minor portion of the increase without breaching the government's cap. We aren't sure what happens to those turned away. There is no coordinated admissions information. No doubt some will go to other institutions.

What are the reactions to this situation?

The Chamber of Commerce in their response to the Draft Tertiary Education Strategy late last year, spoke for an opinion group that thinks that the tertiary education balance is all wrong with too many young people trying to go to university. In fact, according to the Ministry of Education statistics the increase in domestic university enrolments (as Equivalent Full Time Students or EFTS) from the year 2000 to 2008 has been slight at 6%¹, compared with an increase of 21% in the polytechnic sector, and 28% across the tertiary sector as a whole. Universities began the decade as 55% of the sector and in 2008 had dropped to 47% of the sector.

¹ Colleges of Education have been included in University for this comparison because by 2008 they had all been merged with universities.

Participation analyses show the same trend. While age adjusted participation rates reported by the Ministry indicate an increase in tertiary participation generally they show a downwards trend in university participation and in bachelors degree participation across the whole sector of tertiary provider categories.

While Australia plans to surge ahead, New Zealand could be going backwards. Although hidden in the overall statistics there are some positive trends: a slight increase in under-25 year old participation in university education and in Maori participation.

Another response to the present situation has been from government and some commentators who have suggested focussing the scarce places on those most likely to succeed in the universities. This is seen in proposals for performance incentives both for the individual student and the provider, and in the possible tightening of university entry requirements. But of course fewer going to university will mean still greater pressure on the other tertiary sub-sectors, which are already over-subscribed with no more funding available to them either.

Others have suggested focussing the government's tertiary investment on young people. This has an appeal. The young are tomorrow's capability. But what about our aging workforce and rapidly changing skills requirements? As we all know, skills and qualifications age faster than a career does. Can we afford to lock off the system to older people whom we will have to rely on increasingly in the workforce?

In a similar argument, others have suggested making tertiary and higher education a government-investment priority ahead of other spending in the restrained government budget. This would allow us to take up the surge of interest and use the opportunity it represents to invest in the future skills capability of all our people but particularly the larger numbers of young people now fronting up. The argument is that the economic fortune of the country rests most with the aspirations and capabilities of the young.

Nevertheless, we do have a money issue. The government already spends a good proportion of GDP on tertiary education that compares well within the OECD and it has no more, it says. However, that spend doesn't leave the higher education sector in a competitive space. And it doesn't support the level of demand for tertiary education.

One of the problems is our GDP compared with competitor nations. It's lower per capita so we are going to have less to spend per student. Or we can spend a bit more on fewer students than other countries.

But a second problem compounds the situation. New Zealand spends a much higher proportion of the government's investment than others on the student and consequently less on the provision of their education. The OECD average is about 20% on the student and 80% on the institution providing the education. The Australians and the Americans spend a high 31% on the student, but New Zealand spends 42% on the student leaving a much lower proportion to be spent on the education the student receives. The student-spend in New Zealand goes on a generous allowances scheme and the support of student loans. The cost of the loans scheme has increased tremendously with the interest-free regime introduced in 2006.

Everyone wants students to be able to access good quality higher education with the minimum financial burden and impediment later in life. New Zealand does pretty well by its tertiary students with its allowances, generally low tuition fees, and interest free loans. However, we might be well down the path towards letting our students down over the quality of education and their educational experience.

A significant risk is our ability to compete in the global market for academic staff. As would be expected a significant portion – close to half – of New Zealand academics come from overseas. Academics world-wide are an aging group, aging as demand for them escalates with increasing participation rates in higher education. Predictions are for a crunch in the academic market as competition heats up for fewer academics. Certainly, with Australia ramping up its higher education sector, New Zealand can expect to be targeted with offers of remuneration that it will be impossible for our universities to compete with. Already New Zealand is a prime source-market for Australia's academics.

Stuart McCutcheon, Vice Chancellor of the University of Auckland, has recently been in the media talking about the loss to Australia of key staff from his economics department as an example of what is already happening.

While many academics will have non-financial reasons to come to or stay in New Zealand, the risk is that in the spread of academics across the Tasman there will be a skewing of better quality towards Australia.

Of course academics don't move around just for higher salaries. They are attracted also – perhaps mainly – to opportunity, represented by other costly items: resources, facilities, research funding and quality students.

New Zealand could also be at risk of losing good students. I was talking to a couple last week whose son couldn't get into Otago or Auckland medical schools. He got into one at Australia National University, a top Australian university. On the one hand, it's great that our medical schools have standards that make ANU the second choice. But on the other hand, the couple's concern was that he'll ever come back to New Zealand. We've had this issue with medical schools for decades. But with capped enrolments in the present environment and the possibility of dropping quality it will spread far wider, with the consequence of losing many more of our bright young people than we need to.

There are only three options for funding more places or funding better quality:

1. More government money
2. More private sector money
3. More efficient use of the money already there

We can expect to see a close focus on the third option. But efficiency shouldn't just be about doing more for less. We've stretched that rubber band quite a long way already as indicated by, say, student staff ratios. New Zealand is one of the world's most efficient providers of high quality higher education. With five universities in the top five hundred of either of the main world university league tables, New Zealand ranks the number one country on a population basis. Yet we spend considerably less on higher education than any other country close to the top of that scale.

Any efficiency drive should look instead across the whole tertiary sector at where we are spending money and at the benefits from that expenditure. For various reasons our tertiary student population, which is now very large for our size as a nation, has become increasingly weighted to the lower end. Yet if we look at completion and success rates we find that they are greatest by far in the higher education parts of the sector's provision. If we look for individual benefit in terms of employability and income boosted by qualifications we find again it is in the degree and postgraduate end of the sector with some analyses revealing almost no benefit at the other end.

Why then has there been a huge increase over the decade of participation and investment in this less valuable part of the tertiary sector? One likely reason is the unitary funding and control system for tertiary education that we've had for a couple of decades, and which is now operated by the Tertiary Education Commission. This "one size fits all" approach assumes equal value and equal operation at all points. But different parts of the tertiary sector have different outputs and different requirements. They need to be considered specifically, as distinct from one another. Fortunately, the TEC seems to be accepting this as a necessary direction of development.

Obviously, we need a balance of provision and participation across the whole range of the tertiary sector – I am not arguing against that. We need skills, knowledge and opportunities provided at a variety of levels and across the range of capabilities. As someone has said, "our pipes must hold water as much as our theories do". But we have probably tipped over the balance point with the huge growth in enrolments at the less beneficial end of the tertiary spectrum. Second chances, literacy, numeracy, and staircasing that brings the less confident to tertiary opportunities, are all very important. But staircasing needs to go somewhere, and that is into well-resourced higher education and trades-training that are at a standard of quality not only that New Zealanders should be able to expect but also that will enhance national economic fortunes and prosperity.

The government's investment, the public spend, needs to be rebalanced to be able to support more at the higher education end of the tertiary spectrum. And the evidence strongly suggests that rebalancing would make the public spend more efficient in terms of its outcomes.

What about private sector money? Basically this means student money. While there may be increasing income from philanthropy and commercialisation these won't be a significant source of income for New Zealand tertiary education any time soon. The student income has been an increasing portion of tertiary revenues since 1990 and now in the University sector pays one third of the tuition costs. Should it increase? Other jurisdictions have higher student fees than New Zealand does. There is no evidence yet that fees are impacting negatively on demand or on the widening of participation. However, student groups and a large constituency of political support would argue against any increase.

And, domestic fees are in a trap. If the government has no money, domestic fees can't increase because the government funds them through the loan scheme.

Of course, international students pay the full cost of their tuition and bring much non-financially to higher education as well. There is only market pressure to control the prices for international student places in universities. New Zealand at the moment is a fairly lowly priced higher education destination.

UNESCO estimates about 2.8 million country-mobile students in the world. The biggest portion of these goes to the USA, 20% of them. Thirteen percent go to the UK. Germany and France are the next biggest destinations and the biggest non-English provider countries. Australia does well with 7% of the total international market; that made international education the third largest export earner for Australia in 2007 and international students 17% of the Australian student community. In New Zealand universities student populations are less than 11% international. There is an opportunity here.

But as well as bringing the potential to improve the quality of our higher education system with their money, international students are attracted to quality that is already there. We can't let that slip. We must continue to invest in facilities, resources, technology, research and great research opportunities for international postgraduate and PhD students, in order to obtain a greater share of the international market, and especially so as Japan, China and others enter the market as destinations rather than source countries.

Also, we must ensure that international students enhance the opportunities and benefits for local students rather than diminishing or replacing them in the constrained system.

In regard to our own students, Maori and Pasifika students have made strong inroads into tertiary territory. We need to have a care that advance is not stopped in early stages. Maori and Pasifika are fundamentally important groups to Aotearoa New Zealand, both in terms of its identity and its future.

Rob McLeod, KPMG, Business Roundtable, Ngati Porou, has reported estimates of tens of billions in return to the national economy from Maori moving from where they are currently clustered in unemployment and low-wage employment to work commensurate with their abilities and aspirations.

One in four children starting school in the Auckland region has a Pasifika identity. Their success and satisfaction with tertiary education and higher education will have a huge impact on the economic capability and fortunes of the Auckland region as they comprise an increasingly large part of the citizenry and potential workforce. What happens in Auckland will have a huge impact on the rest of the country.

Participation and quality are in tension in a constrained funding environment. But the funding environment is always constrained – an oft-repeated reason for doing nothing just now, whenever “just now” happens to be. We must grapple with this issue as an urgent priority. Competitor nations are ahead in their thinking and implementation. Our economic futures, our social cohesion, our prosperity whether individually, nationally, or culturally depend on a higher education system capable of responding:

- To the aspirations of our young people
- To the shifting capability and innovation needs of industry in a global business environment
- To the changing international standards and modes of operation in higher education
- To the needs of our nation's financial recovery and subsequent economic development.

The need to review what we are doing in tertiary education is clearly apparent. Such a review offers a huge opportunity to build our national intellectual capital and vibrancy. To ignore that opportunity will mean that we wallow, or go backwards in a rapidly changing world.

I'm hopeful, however, that the combination of the pressures to go forward will prevail, pressures that come in many forms and from many quarters: from students, from employers, from industry and business, from government, from Maori and from the wider community.

Thank you.