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Global strategies of Australian institutions

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What is the global position of Australian higher education? The Bradley panel was frank in some areas but not all areas. It was accurate in what it said about our comparative position in relation to participation, and our dependence on the export market. It avoided or glossed over the issue of comparative research capacity that preoccupies many policy makers in other nations. Minister Carr was more direct and more focused yesterday.

It's not rocket science... We are a strong export nation and a middling research nation. It is difficult to be anything else within the present system settings. Export growth is driven by public under funding. Because research capacity has not been quarantined from under funding as in the UK, inevitably this regime has weakened research potential. We are falling behind the competition in research. We need to focus on this. Do the SWOT analysis. Think about the imbalance. Consider whether it is where we want to be positioned in the long term.

Let's start the global comparison by looking at **national investment in higher education in 2005 in US billion dollars**. This includes public and private investment. Australia is hanging onto the edge of the big league, we are the 14th largest system in financial terms. It is easy to see how the USA is the world's number one power in higher education. It is going to take China quite some time to catch up. In 2005 the USA spent on higher education of all kinds more than seven times as much as the next nation, Japan.

The graph of **global export market shares** is different. While most developed nations like to see increased foreign student demand for places, only some countries want to build market share for economic reasons. (Though the demographic downturn in much of Europe and Japan suggests that more nations may do so in future). This graph is a misleading in one sense. The nations are pursuing various policy agendas. We are not comparing like with like. Australia, New Zealand, Singapore, some European and North American institutions, the Malaysian private sector and some universities in China see international students as a revenue source. The USA is primarily concerned to recruit high quality doctoral students into its universities as graduate research and teaching assistants, and as knowledge workers after graduation. The UK wants both revenues and the top research students. Most European nations would like more and better foreign research students. France fosters the education of Francophone Africa. Germany and Japan are see international education as foreign aid. Exports by nations that are commercial providers have grown faster than exports in other nations; though the most recent trend in the USA, during the GFC, is a sharp increase in demand from foreign students.

The graph of the **world's top 100 research universities** looks different again. American domination is obvious. The performance of the UK also stands out. The UK is three times our size in population and GDP, but it spends just over twice as much on higher education as Australia. Like Australia the UK has built a stellar education export sector. But unlike Australia the UK also has stellar research universities, 12 of the top 100 on measured performance with three in the top 20. The UK has been able to expand exports, and expand domestic participation at a faster rate than us, while channeling differential research funding into its leading universities, maintaining a general research role across the whole higher education sector, creating a viable division of labour between institutional types, and evading the intense quantity/quality tradeoff that plagues us. Canada is 40% bigger than Australia but its best research universities are much stronger, two are in the Jiao Tong top 40. Australia has three universities in the top 100 but the highest is ANU at 59. I am not talking here about rankings as a measure of reputation. Unfortunately, reputation matters. But much more important is that we have a real problem of research capacity.

Does this matter? Yes. Since the advent of the Internet there has been an explosive growth in communicated knowledge. **Basic research capacity is more vital in the k-economy: the OECD has shifted its main priority for university research from the nurturing of intellectual property by universities, to the creation and dissemination of 'open science'.** Commercial R&D and knowledge intensive industries should be developing IP, not universities. If universities lock breakthrough discoveries in long patent chains it slows the rate of innovation overall. Universities should give their main attention to what they are best at, which is curiosity-driven basic research, its dissemination, and research training. This leaves Australia at something of a disadvantage because our policy settings have focused on shifting university research out of basic research and into commercializable activity. As if basic research and industry innovation are 'either/or', instead of 'both and more'.

The most useful current indicator of comparative research capacity is the number of **discipline in the Jiao Tong top 100**, that is, the number of research concentrations that do leading work. The USA has 308 of the top 500 including an amazing 77 per cent of social sciences. The UK has 50, Canada has an impressive 28 (almost 6 per cent of the world total). Australia has ten, seven in Medicine and Life Science. Less than Netherlands, smaller than us. Same as Israel, much smaller, and China which has nine of its top 100 groups in Engineering. China will keep increasing its annual investment in R&D through the global recession. Knowing that most OECD governments will limit education and research spending amid electoral pressures to focus on stimulating economic activity and relieving unemployment, China figures that the recession provides a golden opportunity to close the knowledge economy gap at a faster rate.

How strong are the fundamentals of the export industry?

Fundamentally, the trajectory of **international education in Australia is framed by the policy settings**. Globalization, the worldwide demand for English language skills, and the emergence of new Asian economic powers, have expanded the potential pool of student demand, but the extraordinary growth of international education in Australia is a function of national supply side policies. Numbers in all sectors reached 543,898 last year, 20.7 per cent higher than 2007. The policy design consists of a careful combination of public under-funding to drive entrepreneurship, through partial indexation, and HECS prices and HECS place

subsidies that fall below the real cost of places, and part funding of the costs of research; coupled with the fostering of a marketing and quality assurance culture whereby institutions sell themselves and in doing so sustain the reputation of the national industry.

Even more than income contingent tuition, this is our gift to the world: this model of government-frame, market competitive **Anglo-Australian commercial international education**. It is difficult to turn higher education into a market commodity. Knowledge is a natural public good – once the first mover advantage has passed it becomes non-rivalrous and non-excludable – and the same is true of the knowledge component of teaching and learning. There are public good components in general education, in vocational education through productivity spillovers for educated workers to others in the workplace, and in access and equity programs. There are also private benefits from degrees and that gives the commodity economy its purchase. But no nation provides degrees for its citizens on a fully commercial basis. Even the US undergraduate market is heavily subsidized. However, the education of foreigners allows the public good component to be set aside, and it also allows a captive market to be created, by routing the migration of skilled labour through tertiary education. Australia has pumped up this bag of tricks into a \$15.5 billion industry, while reducing public allocations to higher education by about 0.5 per cent of GDP, a major fiscal saving. Clever government policy. Not so good for higher education.

Let's look at the **growth in international student fee revenue in higher education**, now running at 14.9 per cent of total revenues. No wonder the PM is pleased.

Education exports are **ever more necessary to the economy, especially if higher education is 'recession proof'** on the international scale. Whatever policy configuration is developed in future, it will include a major export sector. The policy questions are (1) will *all* institutions, except ANU which seems exempted because of its special research funding, remain locked into high volume international provision; and (2) will international enrolment growth continue to be driven at the same rate as the recent past, regardless of all other tasks and priorities?

What will happen in future? To repeat, **this is not your conventional demand driven market**. Demand out of Asia matters, especially China. So far it remains robust though today's enrolments are driven by yesterday's investment decisions. We have not seen the full impact of recession yet. 2010 will be the test. Nevertheless, it is likely that even then, at the level of the national system (though not in all institutions), applications for places in Australia will exceed the places provided. What happens will depend primarily on supply side policy and particularly whether DIAC continues to facilitate student migration and whether the federal government continues to drive export growth by under-funding teaching and research.

Have we successfully balanced research and revenue raising? Do we have the optimum configuration of domestic provision and global provision? No. The brilliant business success of the export industry has been bought at the price of under-funding of teaching, the blowout in student-staff ratios, and the under-funding of the publicly-dependent component of research, which is most of university research. The policy settings have also limited the potential of international education itself. We have been forced to treat international students as cash cows. We have to. We have to rinse every last dollar of surplus out of international students so as to prop up facilities, and domestic teaching and research. This has blocked the larger third wave international agenda that Adam talked about yesterday. We should be using

international revenues to subsidize international doctoral scholarships, Asian languages, offshore ventures in research, student exchange, and local students off shore at scale. We do a little of this but much less than institutions in North America and Western Europe.

Australia is very good at producing high volume standard cost medium quality business education degrees. **We are very good at export quantity. This has been the dominant objective and we have achieved it in spades, locking ourselves into national macro-economic strategy in the process. In our international agendas, our problem has always been and continues to be the substance of quality, as indicated by capacity to attract the best international PhDs, global research strength compared to the other English-speaking nations, and so on.** For the most part we have been unable to synergize our business strengths in the export industry with our research strengths and global outreach in research.

The growth of international students in higher education since 1988 has taken place amid much slower growth in domestic participation, especially since the mid 1990s. This configuration is unique in the OECD. Australia is also the only OECD nation that has both substantially increased private funding of higher education since 1995, and substantially reduced public funding. Other nations that grew private funding also grew public investment, so as to foster participation growth and research capacity, both public funding dependant.

Our strengths and weaknesses are the heritage of past policy successes and failures, with their catalogue of **intended and unintended consequences**. Our general staff divisions, in many though not all institutions, must be close to the best in the world – for example marketing and recruitment. Academic cultures are not as strong as in the US doctoral sector, the top half of the UK system and much of Western Europe. Yet it is in academic units that the products are forged. We focus on service and quality assurance, more than focus on product and global excellence – the legacy of business models that have been insufficiently tailored to higher education. Around the world in higher education, the big issues are tertiary participation and research. We are moving back into high participation mode. But unclear about research. How important is it? If we want high value manufacturing and top flight urban and environmental design then R&D is crucial. If we see Australia as a branch office of global capital, a resource economy and a knowledge dependant which imports its technologies, ideas and identity, then building local research capacity becomes less important. The branch office assumption led Treasury to advise against the development of a domestic IT industry in either hardware or software. We became almost totally IT dependant. Was that the right decision? Do we want to do that with research? This is a debate we need to have. We might have to grow up to do it. It is a serious error to read the debates about national research capacity, and strategic research concentrations which are part of capacity, solely in terms of institutional self interest. That is a corruption of the policy discussion. Research capacity is not primarily about institutional marketing and local league tables. It is about national intelligence, global effectiveness and global comparisons and it has become the main game in the sector. Consider China, Singapore, Korea, Germany, France, Switzerland, Sweden, Finland: all strong or emerging knowledge economies, all more focused on building research performance than on growing education exports. Or we could do both like the UK. When will the penny drop?

Where to from here? The Bradley report wants the emphasis to switch from growth of international to growth of domestic participation and enrolments. It proposed open ended domestic student growth, in conjunction with near full indexation and full funding of teaching

and research costs to weaken the incentive to grow internationals. The government bought the first half of Bradley's equation, participation and equity, but so far has not endorsed the second which is full funding at cost. And we have been warned that fiscal circumstances do not permit all the Bradley funding to be allocated. This suggests that institutions in the bottom half of the pecking order will grow both local and international students. Institutions in the top half may have little incentive to grow local enrolments (certainly, unless domestic students are funded at least at cost), but will have a continuing incentive to grow international numbers. This suggests that dependence on international enrolment growth will continue. And third wave internationalization will still be blocked. Australia is the only nation that asks top 200 research universities to prop up the balance of payments. The bottom line question is this. If public funding is shored up, full cost funding, the growth of export revenues might slow, halt or reverse. What will Treasury choose? Will it drive another increase in export revenue from \$15.5 billion to \$20 billion and more? Or will it start to fix up the universities, take the pressure off and allow exports to plateau at \$12-15 billion? Or will it continue to underfund teaching, so driving export growth, but fully fund research – what could be called the UK solution? Not very egalitarian at home, but enhancing the global position in research as well as exports (though at the risk of teaching quality) The May budget will tell us whether and how much the settings will shift. Whether Australia's global position will be defined solely in terms of international exports and domestic participation, or whether the knowledge economy is also embraced, and what will be the longer-term balance between all three elements.

Thank you, have an international day, and I wish you all good fortune for the rest of 2009!