Opinion

The government is facing the 'impossible trinity' in higher education

University councils agreeing to cap vice chancellor salaries could be the trade-off for removing the hard cap on revenue stream that keeps our universities afloat.

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As the economic roundtable fades in the rearview mirror, the higher education sector looms as a key driver of the workforce, research and innovation needed to drive productivity in a service-led economy.

However, the sector faces its own structural crisis [https://www.afr.com/policy/health-and-education/long-term-vision-for-universities-hung-up-on-short-term-politics-20250818-p5mnq0] as the federal government sets out to institutionalise caps in the international student market.

The government has softened its language and policy towards the international student sector – but it remains committed to capped growth. **Elke Meitzel**

In choosing this policy objective, the government is running up against the “impossible trinity”. Australia can have a high-performing higher education and research system, capped international education, or a low call on the public purse – but not all three.

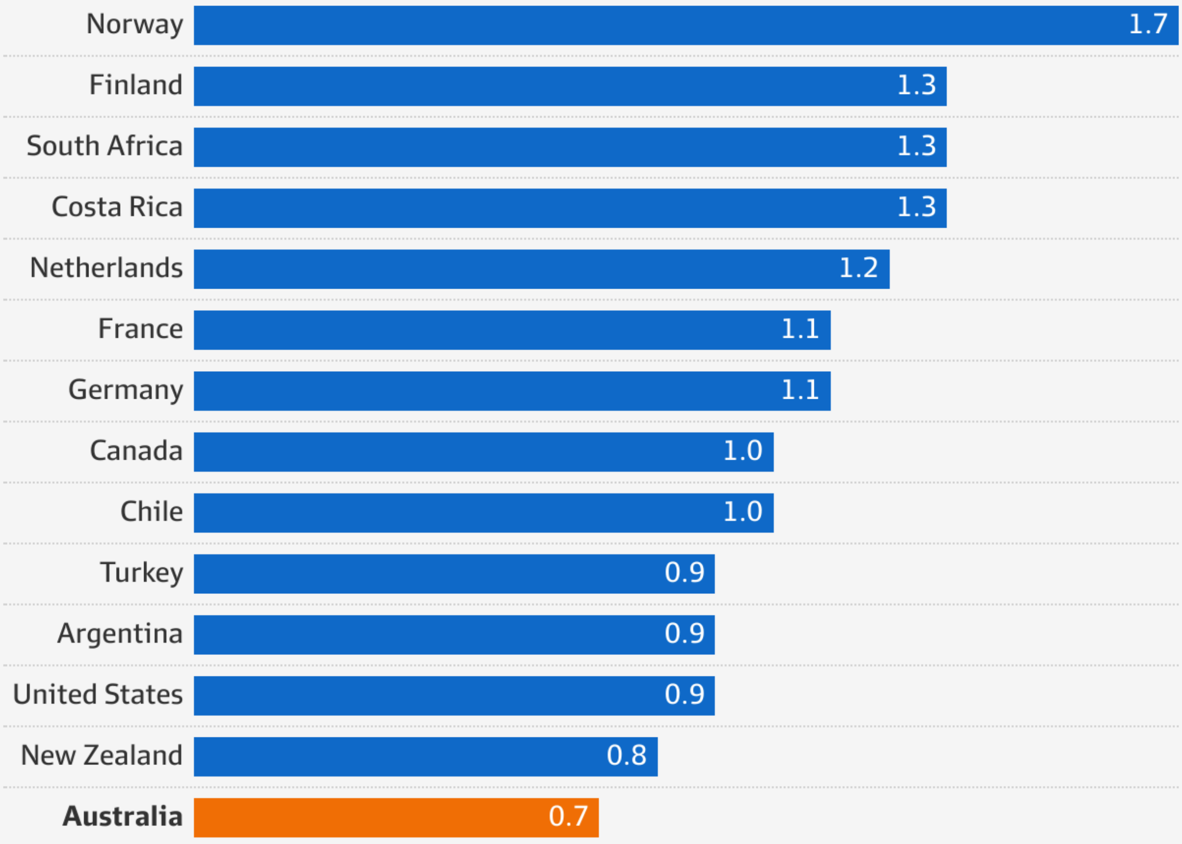
Australia spends just 0.6 per cent of GDP on higher education (figure 1) – near the bottom of the OECD. Northern European states like Norway spend nearly triple that amount, while Canada spends 70 per cent more, and the US 50 per cent more. Even New Zealand commits 36 per cent more to higher education than Australia.

Our public spending is not only low, but also trending downwards, with the percentage of GDP committed to higher education falling every year since 2015, except for the COVID year of 2020 (figure 2).
The low levels of public sector funding would have impacted the performance of our universities [https://www.afr.com/politics/federal/fixing-the-crisis-of-australian-universities-20250518-p5m045] were it not for one factor: the decades-long growth of international education, which has risen from 10 per cent of university funding in the year 2000 to nearly 30 per cent last year (figure 3).

“If we want a world-class system without raising taxes, we must allow universities to... [grow] international enrolments at or above CPI.”

Despite occasional protestations from the government about universities' excessive reliance on international fee income, this arrangement suited all parties. Our universities grew participation rates for domestic students, graduated tens of thousands more nurses, teachers, engineers and other critical professionals, produced world-standard research, and grew their profile and reputation internationally.

Figure 1: Government expenditure on tertiary education, 2022 (% of GDP)



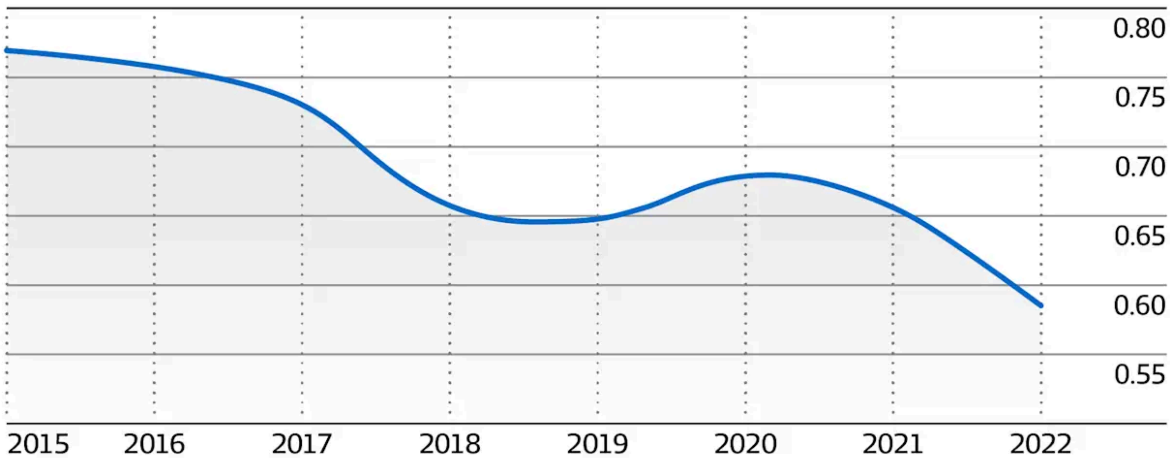
Source: OECD

And then international students became a political issue because of the housing crisis.

Post-election, the government has softened its language and policy towards the international student sector, but it remains committed to capped growth. With the launch of the Australian Tertiary Education Commission, the government is creating the institutional vehicle to make this a long-term reality.

Controlling immigration flows is a legitimate policy objective, but combining this policy choice with continued low levels of public funding of higher education will lead to an inevitable decline in the performance of our universities. Teaching is expensive – especially in the health, engineering and technology domains. Research is even more expensive, as is maintaining physical and digital infrastructure, and investing in artificial intelligence and other new technologies. As universities throttle their spending in these areas to match their reduced funding profile, the performance of the sector will fall.

Figure 2: Australian government expenditure on tertiary education, 2015-2022 (% of GDP)

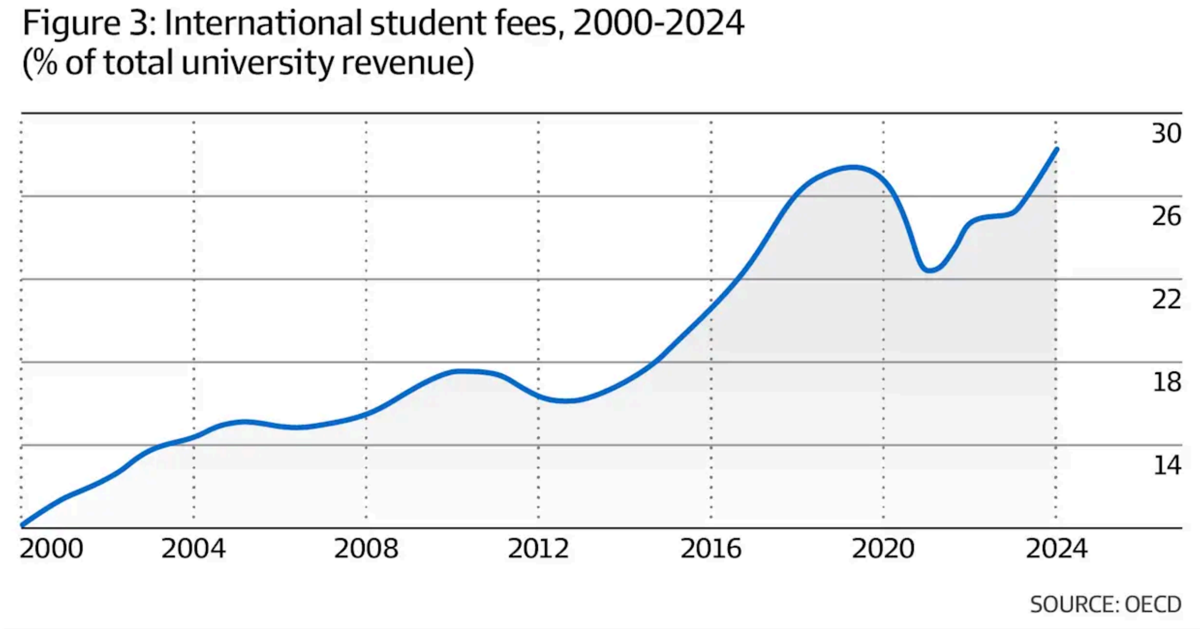


SOURCE: OECD

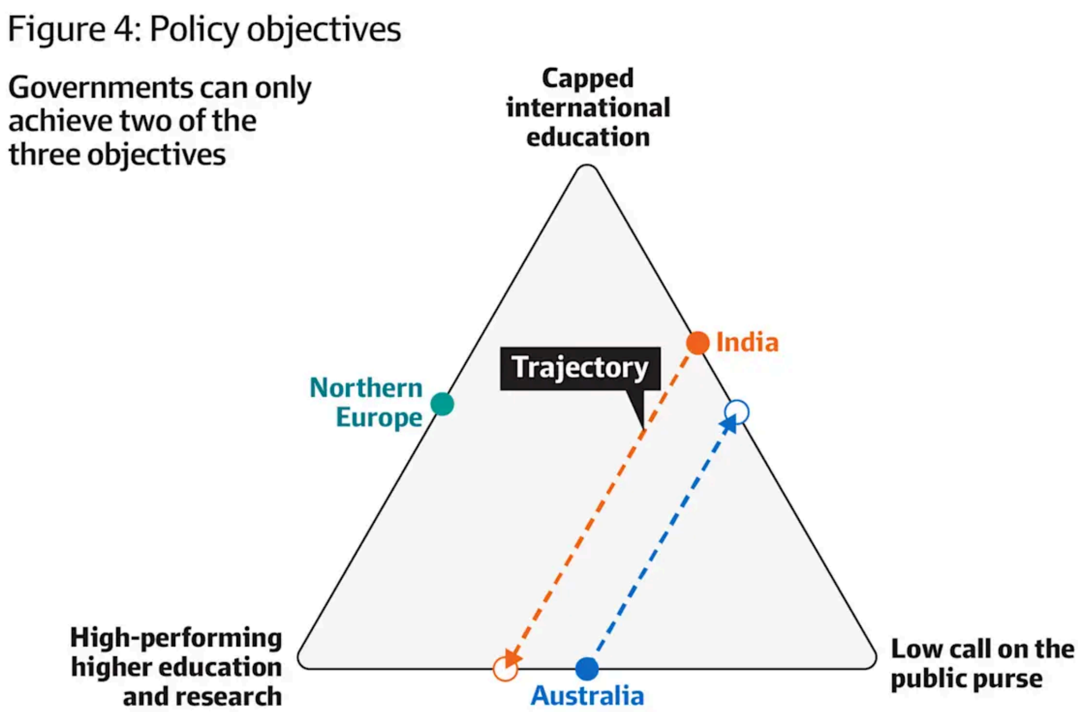
Figure 4 shows the conceptual dilemma facing the government and the nation. We must choose one side of the triangle and forgo the outcome in the opposite corner. If we want a world-class system without raising taxes, we must allow universities to subsidise their operations by growing international enrolments at or above CPI. If we want high-quality outcomes and a capped number of international students, we must lift public funding. Current policy – capping students and minimising public spending – rules out a world-standard sector.

The different choices by other countries

Other nations have made different choices. Northern European countries have enabled a high-performing higher education sector, with relatively few international students through generous public spending. India has historically had low levels of public spending and few top-tier universities. It is setting the foundations for a higher-performing sector by liberalising its international education rules, growing the number of foreign students and institutions coming to the country. The US under Donald Trump is moving in the same direction as Australia, implementing tough restrictions on inbound student flows with seemingly little regard for the future performance of its world-leading research institutions.



Students of monetary policy theory will recognise the similarity of this trilemma to the impossible trinity faced by central bankers, namely, that a nation cannot have free capital flows, independent monetary policy and a fixed exchange rate simultaneously. What is the implication for policymakers from this parallel? That it’s better to make a conscious choice than let the market dictate an outcome you may not want.



Source: Justin Bokor Advisory

Few taxpayers want to strip money from health care or defence to increase university funding – or to increase the taxes we pay. And yet, we need a thriving university system to provide the workforce, knowledge capital, and fundamental and applied research that will support our living standards in the decades ahead. So, we need to give universities the headroom to sustain steady growth of international students.

This doesn't mean open slather and double-digit growth like years past. The sector may need consistent growth of 3–5 per cent to underpin the finances of institutions across the country. Growth targets could be higher for smaller institutions, lower for the large institutions, with 30-40+ per cent of their income already coming from the international market.

Perhaps the government could grant this policy certainty to universities and their governing bodies in return for, say, university councils agreeing to cap vice chancellor salaries. That might not be popular with sector leaders but it would have less impact on our nation's future than a hard cap on the revenue stream that keeps our universities afloat.

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