The non-university higher education sector in Australia is very much shaped by history. That history has given the universities, and public universities in particular, a dominant position. They have a more than 90 per cent market share.

That dominance is built on several factors. The first is just that they have been around for a long time, in an industry where longevity matters. We can see the effects of history in demand statistics, ATAR cut-offs, and rankings.

Second, a result of the Dawkins reforms is that the university brand seems important. In Australia we talk about ‘going to university’ rather than ‘going to college’. Since 2000, there have been high barriers to university status. You have to do a lot of research with no public subsidy to get it. Unsurprisingly, only one full university has been established since, and even that would not have happened under the current rules (Torrens University was established under a special transition measure from South Australia’s old accreditation system).

Third, public universities have a privileged funding position. They receive 99.75% of money from the Commonwealth Grant Scheme, which in turn gives them a significant price advantage. This advantage is enhanced by an anomaly in FEE-HELP, which imposes a 25% loan fee on full-fee undergraduates only.

The result of these three factors is that the non-university higher education providers are in niche markets that typically avoid direct competition with public universities. That’s not to say that there are no students making genuine choices between public universities and non-university higher education providers, but generally there is strong product differentiation.

Clearly there is demand for a different product, even at a higher price. Before public universities received demand driven funding for their bachelor degrees there was concern that the non-university higher education providers would be hit. The old quota system provided them with some protection by constraining public university student numbers.

But non-university provider numbers continued to increase after demand driven funding was introduced, and that continued until at least 2014, the latest statistics we have. Adjusting for the effects of new providers, enrolments that year were up 3% for domestic students and 10% for international students.

It’s reasonable to think that if fees were lower there might be stronger growth still. That was one of the goals behind the reforms to the demand driven system that I recommended with David Kemp last year, which has been supported by the government but not, to date, the Senate.

In 2014, about 60% of undergraduate courses in non-university higher education providers had fees that were below what a university would get for a Commonwealth supported place. This implies that compared to public universities most non-university higher education providers could match or better the universities on price, with a different funding system.

TAFEs are particularly well positioned, as generally they have low fees relative to other non-university providers.
However, if there was a 30% cut to the Commonwealth contribution that capacity would drop from 60% to about 40%.

All this assumes that university fees will not be deregulated – if they were, the price differences would be larger.

While changes to funding policy would be market expanding in the bachelor degree market, that is not necessarily true for the sub-bachelor market. Remember that under demand driven funding universities would get access to unrestricted numbers of sub-bachelor places. The Department said last year that they had declined applications for an extra 4,000 places, or about a 20% capacity increase. The universities clearly think that there is unmet demand for diplomas, and several already have their own pathway colleges. Non-university providers have a significant share of their enrolments (15%) in sub-bachelor courses.

While a shift in funding policy would change the market for non-university higher education providers, it is not in the short or medium term going to change other factors that explain your current position.

You will still start from a position of courses that fill vacant niches. For TAFEs, you have chosen courses that fit with your existing strengths. For both accreditation and market reasons, it would be a bold move to depart radically from that and move into general provision of low cost undergraduate degrees.

Remember that price is only one of the three advantages of the universities, and that price is not necessarily a critical factor – as the experience of non-university providers shows. A Grattan report we released last week shows that in the international and domestic postgraduate full-fee markets there is usually an enrolment skew towards the more expensive courses.

The close relationships that some providers, including TAFEs, have formed with universities may be the safer medium term strategy: a complementary rather than directly competitive relationship with universities.

Although I am obviously a strong supporter of opening up the higher education market, I am also not over-claiming on its likely effects.

I think it would speed up an evolution to a more diverse and competitive higher education system. But speed up does not mean fundamentally transform anytime soon.