Christopher Pyne’s reforms will, for the first time, give private colleges that supply higher-education and university-feeder courses, access to government course subsidies. Photo: Andrew Meares

Education observed

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Education Minister Christopher Pyne has two weeks before Federal Parliament sits again and he gets another chance to do a deal in the Senate to get his higher-education reforms through.

If he has time to pause and reflect he should think about one phrase: “moral hazard”. It’s used to describe a situation in which one individual takes risks and another bears the consequences of it going wrong, and moral hazard is on display right now in the private college industry.

Generous government subsidies, which are meant to ensure young people can gain vocational qualifications as a reasonable price, have spawned a massive expansion of private colleges.

As is almost inevitable when lump of government money is available, shonky players have emerged to get fat fast on public subsidies, while delivering low-quality courses which don’t get graduates jobs.
Those who bear the consequences, or the hazard, are the students and the taxpayers whose money has been wasted.

The biggest object lesson is Vocation, the company chaired by a former federal education minister, Labor’s John Dawkins, which floated to huge enthusiasm last year. Its share price collapsed last week when it became clear the Victorian government would take back $20 million which had previously been given to BAWM, a Vocation subsidiary, following an audit which revealed the group’s shortcomings.

The Australian Council of Private Education and Training (ACPET), which represents private colleges admits its industry contains “unscrupulous operators”.

It’s very ready to admit this because it knows the consequences of not addressing the problem are dreadful to contemplate.

It could mean the winding back of state and federal government policies which have built up over the last five years and are now pouring billions of dollars into private colleges each year.

State governments (mainly Victoria) now pay private colleges $1.4 billion a year for providing courses and the federal government is offering an estimated $1.3 billion in VET FEE-HELP loans to students to do courses this year. Five years ago the VET FEE-HELP scheme was virtually non-existent.

The private college industry is also rapidly changing its structure with the recent emergence of agents who sell courses, sometimes using unscrupulous marketing tactics.

Why should Pyne ponder this carefully? Because his higher-education reforms will, for the first time, give private colleges that supply higher-education and university-feeder courses, access to government course subsidies. Their university-level students will also be able to get HECS loans.

If it’s not carefully regulated, Pyne risks spawning another feeding frenzy in which some college operators will try to empty the government’s pot of money as quickly as possible with no regard for students.

Subsidising private higher-education providers is a key part of Pyne’s reforms because it provides competition to universities in a deregualated system.

But can Pyne avoid creating moral hazard in an area where other governments with similar policies have tried and failed?