Centre of Full Employment and Equity

Opinion and Commentary

CofFEE

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The Higher Education Endowment Fund – just a scam!

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In last week's Budget, the Treasurer created the Higher Education Endowment Fund (HEEF), a perpetual endowment designed to generate earnings to fund infrastructure for Australian universities. It follows last year's decision to create a Future Fund to fund future public liabilities. My analysis applies to both.

The Federal Government builds these funds by buying financial assets such as shares in domestic and off-shore markets. The initial $5 billion HEEF injection thus comes at the expense of other targets of Government spending.

The annual HEEF earnings will initially be around $300 million and will be prorated to universities on a competitive basis.

The announcement has been a hit. The Treasurer claims "it will set Australia up forever" while the Australian Vice-Chancellors Committee said it was "a fantastic outcome". The academic union also were "particularly pleased".

So why it is a huge scam?

First, the Federal Government's claim that it is committed to higher education is laughable given the last decade of neglect.

OECD data show that Australia performs poorly in terms of funding higher education and the public investment share (48%) has declined significantly since 1996 and is among the lowest of the OECD countries (who average 76.4%).

Most of the funding growth for Australian universities since 1996 has come from increasing domestic HECS fees and the rapid growth in non-HECS full fee enrolments. Foreign student fees, the most important source of non-HECS income, provided 6% of total income in 1996 but grew to 15% in 2005.

Federal funding has fallen in real terms since 1996. The Government has been privatising the public university system by stealth rather than building high quality infrastructure.

Second, most people misunderstand how these endowments relate to the Government's spending capacity.

Here we get to the pointy end.

The Treasurer says the HEEF is like a “bank account” that will enhance our future. This is highly misleading and is predicated on the lie that Government faces the same financial constraint on spending that households face. It does not.

We all use “fiat” money issued by the Federal Government. Legislative fiat requires us to use this money to discharge our tax liabilities to government. We therefore desire it even though it has no intrinsic value. In the past, commodity money like gold pieces did have intrinsic value.

In a fiat money system, the Federal Government has no greater capacity to spend money with the HEEF than if no such fund existed. Just as it has no greater capacity to spend in the future when it runs a budget surplus now than when it runs a deficit.

The Government does not need revenue and can fund any beneficial project at any time irrespective of what has happened in the past. Households have to finance their spending. The Government has no such financial constraint.

This doesn’t sanction unlimited government spending. Spending drives economic growth but can be inflationary if the economy is beyond full capacity. Government spending should ensure the economy is at full capacity but not go beyond that.

While the Treasurer claims the HEEF is “saving for the future”, it makes no sense for the Government to save its own currency. Households save for future spending. The Government can spend anytime, irrespective. Worse still, budget surpluses by ripping purchasing power from households, actually reduce our ability to save.

Moreover, the HEEF is built by Government spending rather than drawing on savings.

It becomes important to focus on the nature of this spending.

You might think that if the Government wanted to invest in the capacities of our people and build a quality university system then it could easily spend $5 billion redressing the decade of neglect. Universities are in crisis with run-down buildings; over-crowded lectures, and rising student-staff ratios.

But in building the HEEF, the Government is using its spending capacity to buy financial assets (speculating in share markets), which benefits wealthy asset holders by boosting asset demand.

The annual $300 million that the HEEF will return could have been spent anytime without unnecessarily tying up $5 billion in financial assets.

Why not invest $5 billion in improved port facilities; a national skills development scheme; improved public health; better aged care facilities, sensible climate change initiatives, aboriginal housing and quality jobs for all?

Any of these infrastructure projects would be more beneficial than creating the HEEF.

We are being sold a pup, and those who are applauding it should instead fight for a decent commitment to building public community infrastructure.