

Australian government responds to corporate criticism with Innovation Action Plan

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Australian Prime Minister John Howard used his first major speech for the year—the Federation Address on January 29—to announce an Innovation Action Plan, promising almost \$3 billion in additional spending over five years on science, bio-technology and information technology (IT) research, including thousands of extra university places.

Howard said the package, entitled “Backing Australia’s Ability,” was “the largest group of measures ever put together by an Australian government to foster innovation”. It marks a dramatic about-face by the Liberal-National Party coalition government, which has slashed an estimated \$5 billion from university budgets and research funding over the past five years.

The reversal follows months of corporate criticism of the sharp decline in research and development (R&D) spending, the flight of leading researchers overseas and the lack of any significant high-technology industries. Disenchantment with the government has been expressed by sections of the media and corporate elite, most stridently in the pages of Rupert Murdoch’s newspapers, because of its tardiness in embracing the so-called “new economy”.

Last September, Microsoft boss Bill Gates condemned Australia’s slow roll-out of high-speed broadband networks and said the country needed to act quickly to establish centres of information technology excellence if it wanted to compete successfully in the IT race. Gates made it plain that Microsoft would make no substantial investment in Australia unless the government committed money to such projects.

He was followed by Scott McNealy of Sun Microsystems, who declared that Australia would continue to lose IT investment and its best technicians because “there just isn’t the critical mass, the core competency and industry here”. McNealy called for government investment, tax breaks and university-business partnerships in IT.

As the Australian dollar plunged to record lows of near US50 cents, market analysts blamed dependence on the “old economy” of mining, farming and manufacturing at the expense of the high-technology “new economy”.

In the same month, an International Monetary Fund report listed Australia as second last among advanced economies as an IT producer. Access Economics commented: “What financial markets are looking for is how many world leaders we have in the technology sector and what proportion of the stock exchange is high-tech.”

Two OECD reports ranked Australia at the bottom of 18 comparable countries in the size of its information and communications technology (ICT) sector. The reports showed that Australia’s ICT output accounted for just 4.1 percent of national production, slightly more than half the OECD average of 7.4 percent.

In terms of value-added ICT manufacturing, the gap was even wider. Australia produced \$904 million in 1998-99, a mere 0.14 percent of national production, almost 20 times less than the average of 2.58 percent. South Korea’s ICT output, by comparison, was \$US46 billion—almost 100 times Australia’s level—contributing nearly 8 percent of national

production.

And while two-thirds of OECD countries had increased business spending on R&D since 1995 as a share of national production, Australia recorded the second steepest fall, surpassed only by Hungary.

These reports prompted an open letter to the Howard government, signed by the Business Council of Australia, the Australian Chamber of Commerce and Industry and other peak industry groups, as well as the Australian universities’ Vice-Chancellors Committee and research organisations. Published in full in the *Sydney Morning Herald* on October 3, it called for business incentives, publicly-funded research facilities and closer university-business links.

Stung into action, the Howard government had already commissioned a report by its chief scientist, Robin Batterham, also managing director of mining giant Rio Tinto’s research and technology division. It then convened an Innovation Summit of business and science leaders and spent the summer months of December and January drawing up its Action Plan.

Much of the funding will be poured straight into corporate coffers via bigger tax handouts and research subsidies. Some \$500 million will go into extra research and development START grants for business. Large companies will be eligible for tax concession rates of 175 percent for additional R&D expenditure and labour costs—worth \$460 million in total—while small firms will receive 125 percent tax refunds for R&D spending (budgeted to cost just \$13 million).

Some \$736 million will be spent to double the Australian Research Council’s budget for research grants, with the eligibility criteria oriented to commercial viability, that is marketing plans and profit potential. Universities will increasingly need to take on corporate partners, or go into business for themselves, to compete for these grants.

Another \$227 million will be devoted to expanding the decade-old co-operative research centres program, which ties university research to corporate ventures, and \$176 million will fund “centres of excellence” in ICT and biotechnology. These will be focused on “commercialisation and encouraging spin-off companies”.

In addition, nearly \$500 million will be invested in specific infrastructure equipment and selected national research facilities. Another \$246 million has been promised to upgrade university research infrastructure. Universities will compete with each other for these funds.

Almost \$1 billion of the package is to provide loans for the country’s 240,000 post-graduate students to cover the cost of their fees, which can be as high as \$10,000 a year. This scheme is expected to boost the number of students, even though the loans will have to be paid back as soon as students start earning more than about \$22,000 a year. Howard also announced the creation of up to 21,000 more undergraduate positions over five years, with priority given to science, mathematics and IT.

Elite academics will be enticed to remain in the country by the provision of 25 fellowships, worth \$225,000 a year, and 55 new post-doctoral fellowships. To create a pool of cheaper labour for ICT firms, the government will allocate 2,500 immigration places to overseas ICT

students living in Australia and classify all ICT occupations as “key,” allowing employers to import staff.

Howard's announcement came at the commencement of an election year in which at least five Australian states and territories will go to the polls, as well as the federal government. In its effort to appease powerful media and business interests, it was timed to undercut Labor Party leader Kim Beazley, who has won considerable media backing by foreshadowing the release of a similar “Knowledge Nation” plan. Earlier this month, Beazley announced that a Labor government would finance the creation of an online university, with a goal of enrolling 100,000 students within a decade.

The government's package also constitutes an attempt to regain electoral ground amid growing disaffection among broad layers of the population after years of devastating cuts to the universities and public schools. Opinion polls indicate that education is the top issue for three out of every four voters.

Impact on education

Closer examination of Howard's package, however, reveals that it will accelerate the running down of the publicly-funded universities, government schools and research institutions, and their subordination to the dictates of the market.

Over the past six years, the Howard government has slashed more than \$2 billion off university funding, on top of cuts already made by previous Labor governments. As a result, staffing levels have fallen, class sizes have soared, courses have been terminated and entire departments have shut down, particularly in the humanities and other fields not deemed to be of sufficient relevance to the corporate world. Even in science, there has been a marked deterioration in teaching and research laboratories and other facilities.

Universities are being forced to vie for corporate partnerships in order to earn essential research income. The government already requires them to generate industry-linked research revenue to offset the cuts in their basic teaching budgets. The new package will widen the gulf between the more prestigious, well-resourced and market-oriented universities and the poorer and newer institutions, which tend to be located in working class and regional centres.

Furthermore, universities will have to accommodate thousands more undergraduate and postgraduate students—without any corresponding increase in funding. They will be obliged to tender for the additional undergraduate places, for which only \$151 million will be provided, fuelling a new round of cost-cutting. As a consequence, university administrations will be under even greater pressure to sell student places to those who can afford to pay full fees.

Under the post-graduate loan scheme, universities will continue to set their own post-graduate fees, unlike HECS-based undergraduate fees, which are fixed by the government. This arrangement will force the universities to rely more on post-graduate fees, and to supply courses increasingly focused on narrow vocational or professional requirements.

But post-graduate students themselves will be no better off than their undergraduate colleagues, who face life-long debts under the HECS fee-repayment system. In the 14 years since the Hawke Labor government imposed HECS fees in 1987, the total repayment debt of students has mushroomed to just under \$8 billion. The \$1 billion allocated for the post-graduate loans scheme is somewhat illusory, given that students will be expected to pay the money back in future years.

Some \$130 million will be allocated to foster science, maths and technical skills in government schools. These funds, however, will come from the money that the government has robbed from the same schools under its notorious Enrolment Benchmark Adjustment scheme, which penalises government schools for every student transfer to a private school.

Significantly, none of the extra money will be directed to one of the

country's most important public research bodies, the CSIRO. Funding for the institution, which has for decades conducted important scientific work, notably in agriculture, ecology and medicine, has been successively cut back under Labor and Liberal governments and tied more closely to areas of immediate commercial interest.

Under the package the broader education needs of students, as well as independent research, will be further sacrificed to short-term corporate profits. At the university level, business will be able to more easily suppress, control or exploit scientific research, protecting their interests by aggressive use of patents and copyright. Summing up the package, Education Minister David Kemp said it would provide “a stronger push to commercialisation”.

Nevertheless, business leaders have been less than enthusiastic, criticising the tax incentives as inadequate and demanding a return to the more generous concessions that were scrapped in 1996. According to the *Australian Financial Review*, tax professionals described the overall package as “smoke and mirrors” because of tighter eligibility tests for tax write-offs.

Business Council of Australia president John Schubert said the government would have to spend more in order to attract investment from large companies. “There are some positives there, but it will have less effect on commercialisation of research breakthroughs than I would have liked.” John Raff, chief executive of Starpharma, a pharmaceutical company, declared that the package should have been even more oriented to “concept funding”—essentially marketing—than pure research.

Microsoft declined to comment. Two weeks before Howard delivered his speech, the software company issued its own innovation incentive “white paper,” calling for greater R&D subsidies, financial support for employee share ownership, open access to broadband technology and further de-regulation of banking and finance.

Other commentators have pointed out that the promise of \$2.9 billion over five years is puny by global standards. Singapore, for example, recently announced a \$7.6 billion package over five years. Ireland, Israel and Finland have also unveiled ambitious schemes to entice global investment. The corporate budgets at stake in this bidding war are even larger. Sun Microsystems, for example, claims to spend \$3 billion a year on research and development.



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