

The Higher Education Contribution Scheme:

Conceptual basis and implications*

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1 **The Shared International Challenge**

- unmet demand for places
- inequitable access
- shortage of finances
- inefficient resource use

2 Costs and Benefits for Students

- . costs: foregone earnings (+ tuition)
- . benefits: additional earnings
- . summary: Figures 1 and 2
- . costs mean financial assistance is necessary
- . net benefits imply the case for a charge

Figure 1

Typical Female Age-Earnings Profiles: 2001

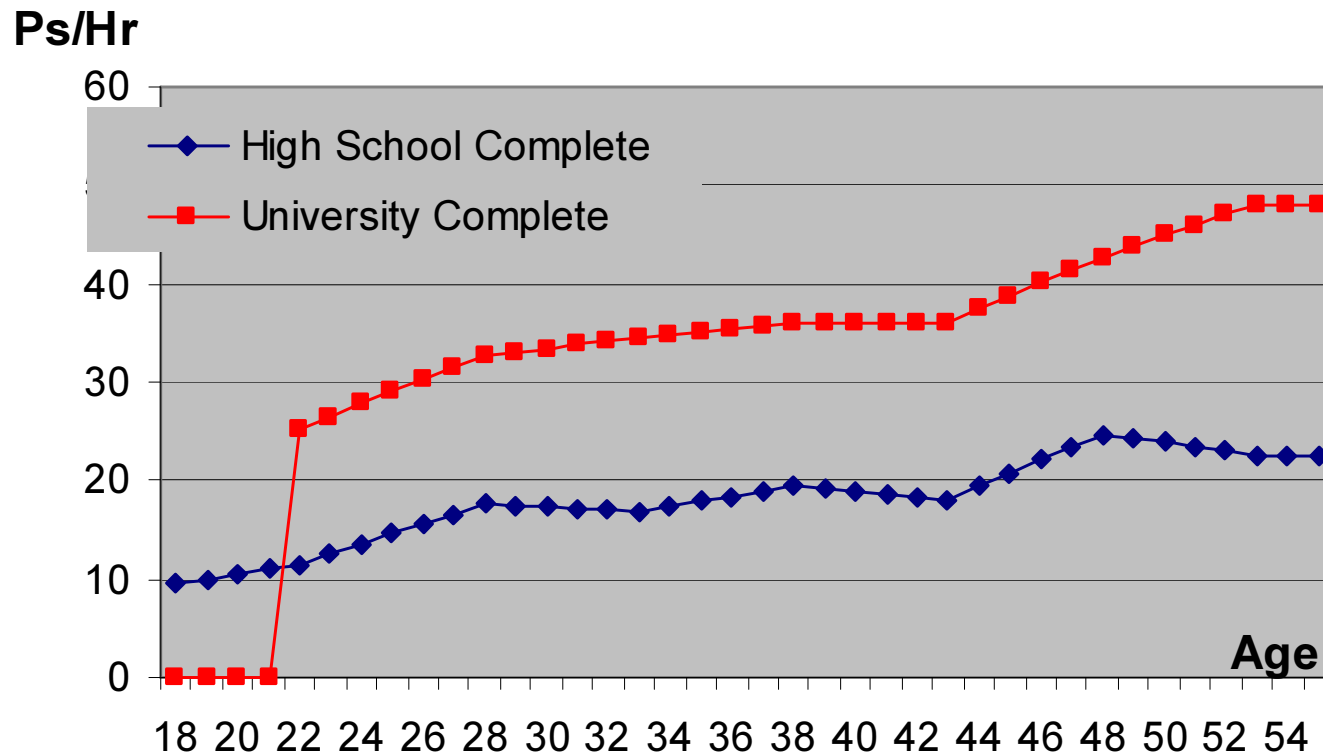
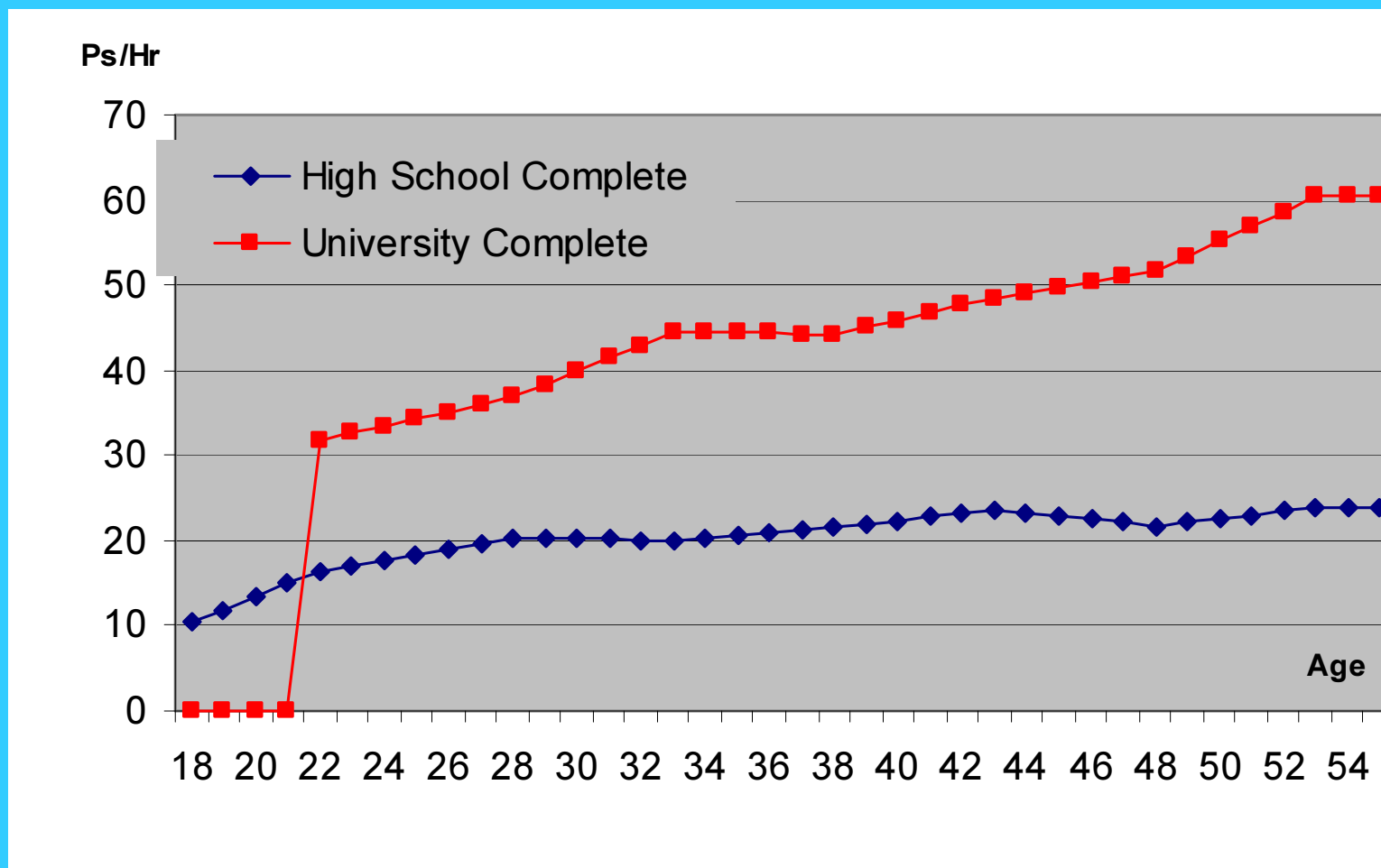


Figure 2
Typical Male Age-Earnings Profiles: 2001



3 Loans: The Need for Government Intervention

- . human capital investment is very uncertain for lenders and for borrowers – completion
- . human capital investment is very uncertain for lenders and for borrowers – ability
- . human capital investment is very uncertain for lenders and for borrowers – the future labor market
- . uncertainty leads to default
- . the problem for banks: no saleable collateral
- . the problem for students: no access to loans
- . government intervention is required

4 The Costs and Benefits of Government Guaranteed Bank Loans

- . the usual solution: government guaranteed commercial bank loans
- . benefit 1: solves the lender default problem
- . benefit 2: provides commercial finance simply
- . cost 1: defaults expensive for taxpayers
- . cost 2: means-testing raises inter-family sharing issue
- . cost 3: no default protection for students
- . cost 4: potential hardship of repayment
- . cost 5: collection can be administratively expensive

5 The Costs and Benefits of Income Related Loans

- describing an unusual but growing solution: income related loans
- benefit 1: solves the lender default problem
- benefits 2: solves the student default problem (insurance)
- benefit 3: solves the inter-family sharing issue since universal
- cost 1: some advantaged people avoid payment
- cost 2: collection requirements can be complex

6 An IRL Case Study: Australia's HECS 1989-2003

- HECS described: recording the tuition debt with the Tax Office
- HECS described: \$3,000-\$6,000 pa, different by course
- HECS described: collection parameters: < \$25,000, zero; \$25,000-\$26,000 (3% of income); ; > \$43,000 (6% of income)
- HECS described: typical repayments (Figures 3 and 4)

Figure 3
Earnings Before and After HECS: Males, 2001 (A\$)

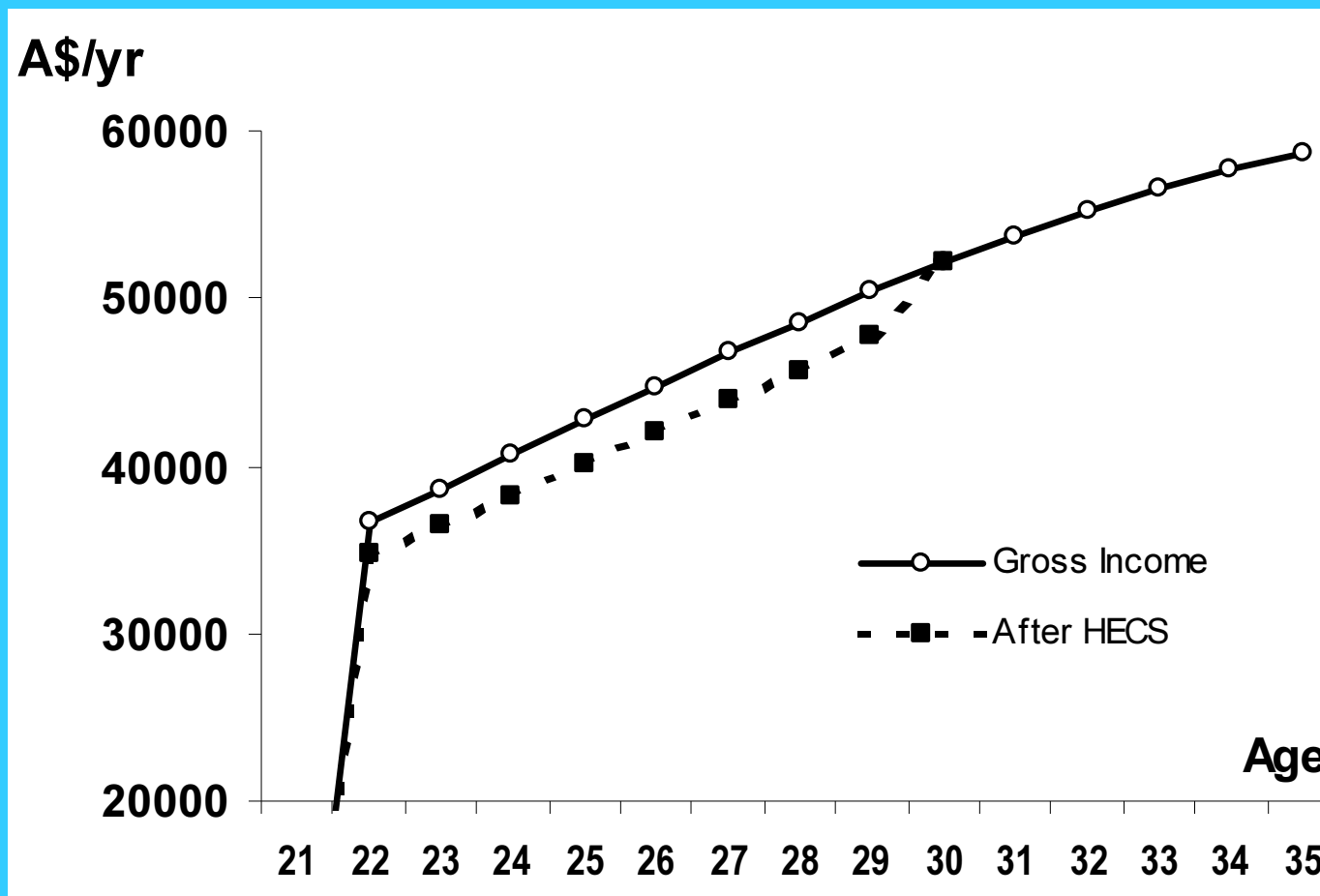
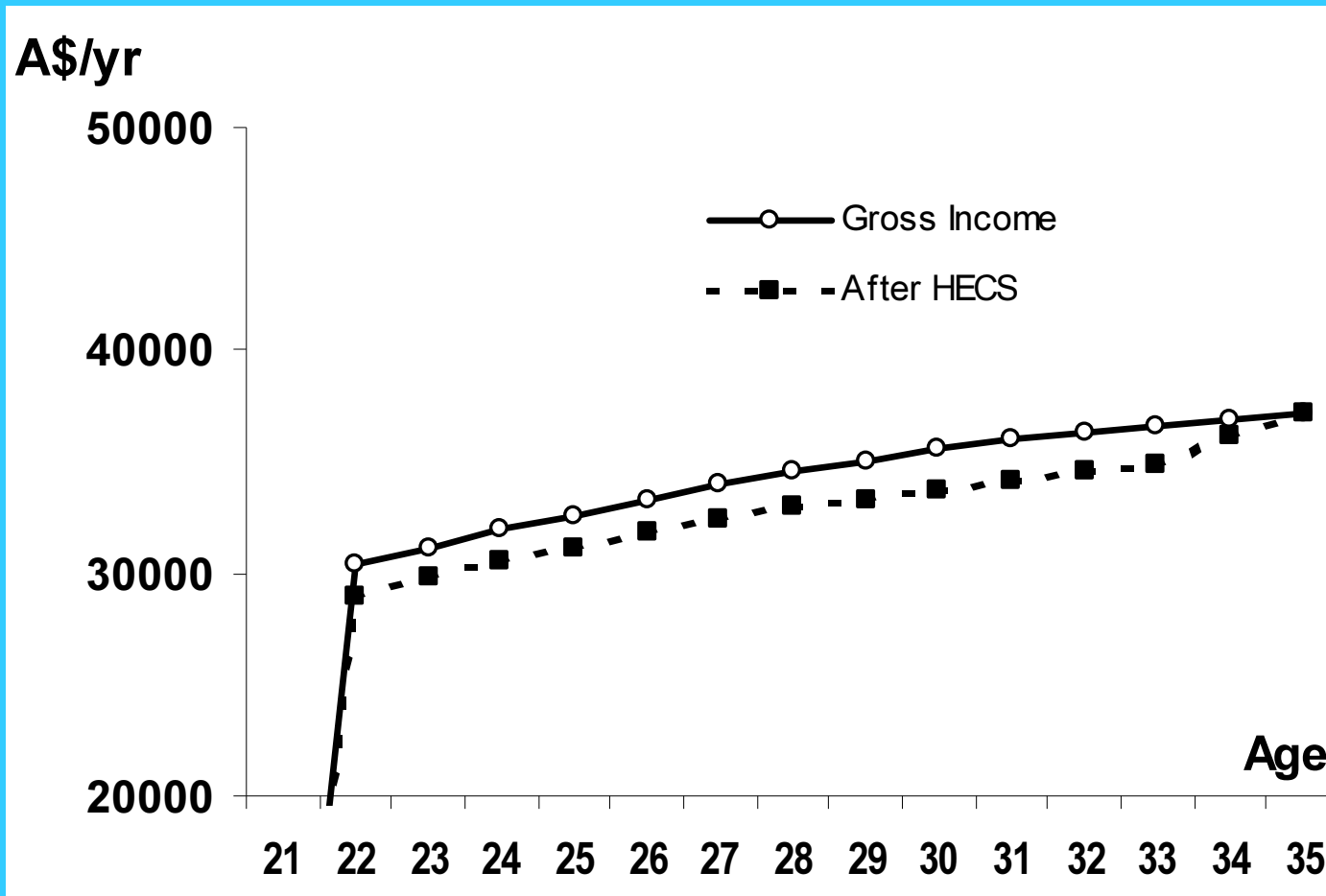
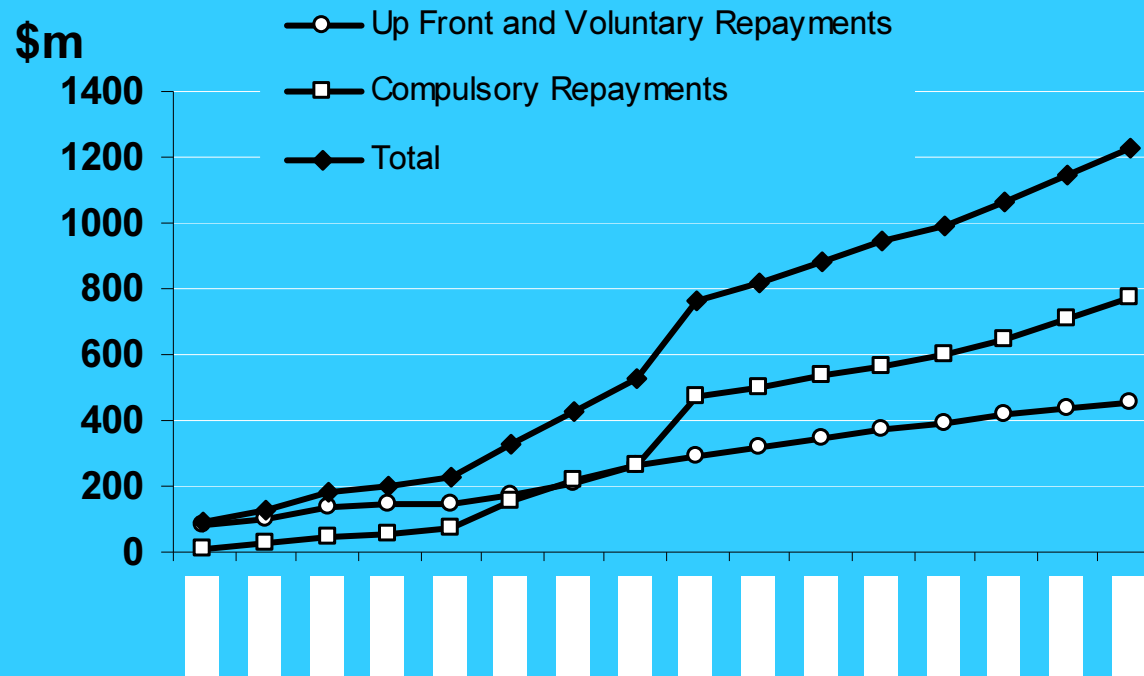


Figure 4
Earnings Before and After HECS: Females, 2001 (A\$)



- The effect of HECS on revenue:

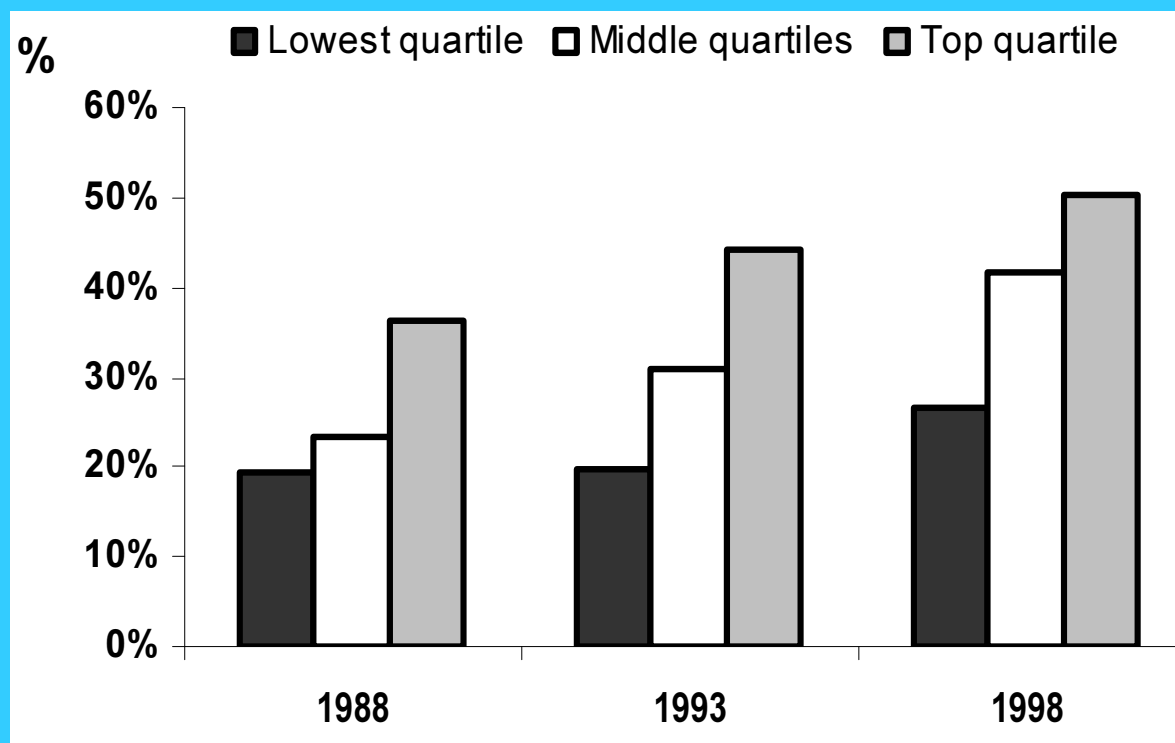
Figure 5
Actual and Projected HECS Revenue: 1989–2005 (A\$)



- The effect of HECS on domestic student numbers: an increase of 45-50 %

- The effect of HECS on access:

Figure 6
Proportion of 18 year olds Undertaking a Degree by Family Wealth



Source: Chapman and Ryan (2002).

7 The Critical Role of Collection

Minimum Requirements in Summary:

- a reliable, preferably universal, system of unique identifiers;
- accurate record-keeping of the accruing liabilities of students (while studying); and
- an efficient way of determining with accuracy, over time, the actual incomes of former students; and
- a collection mechanism with a sound, and if possible, a computerised record-keeping system.

8 Changes Internationally Towards IRL

- . Yale (1970s) (failed)
- . Sweden (mid-1980s) (blunt form)
- . Australia (1989) (Tax Office first)
- . New Zealand (1991)
- . Chile (1994)
- . the US (1996)
- . South Africa (1996)
- . the UK (1997, expanded 2004)
- . Recommended, not adopted: Papua New Guinea, Malaysia, Rwanda, Indonesia, Ethiopia and more