Student Finances in A Deregulated Future

Flinders University Students' Association

**Submission to the Final Report of the Review of
Higher Education Policy and Financing**

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Flinders University Students' Association wishes to submit the following response to committee's discussion paper. This paper will be focussed firstly on the student financing issues associated with the operation of tuition fees in a deregulated environment; and secondly on issues associated with the operation of income contingent loans schemes.

There are of course a number of other very important issues raised by the discussion paper, such as the disturbing 'student centred funding' model and public subsidies for private institutions. We felt others were not adequately raised (like equity issues associated with access to information technology). However, many of these were dealt with in our original *Utopias and Dystopias* submission[1], or will be addressed by the National Union of Students in their submission.

However, we wish to initially make some very brief general comments about the overall discussion paper. The *Learning For Life* discussion paper[2] starts with some admirable aims for the future development of higher education. For example, instilling a culture of lifelong learning in the community, working towards universal participation in postsecondary education and in developing the socially responsible 'civic' values needed for participation in a pluralist democratic society. We are also pleased that the committee mentioned that the recent raising of the age of independence to 25 for eligibility to AUSTUDY could be a barrier to study.[3]

However, there is little in the paper which would indicate that the committee has a clear idea of how to achieve these worthy goals. Instead we get a repeated assertion that more of the free market will fix things up. The answer the committee offers is for the Commonwealth to get out of interfering with universities. This will let universities compete against each other for a slice of the education market. The role of the Commonwealth would be largely reduced to ensuring that there is a level playing field so that the market forces could operate effectively ('competitive neutrality').

The proposals to radically deregulate university funding bear a striking similarity to the 'Fightback' package drafted by Kemp and Hewson prior to the 1993 Federal election. Public investment in higher education is portrayed in the discussion paper as a hangover from the seventies, while universities are seen as an industry desperately in need of a strategy. Certainly there are now many commercial aspects of universities which universities should manage in a responsible fashion, but the Students' Association does not believe the planning for universities into the next century should be reduced to a business strategy.

The discussion paper provides little empirical evidence to support the Committee's faith in the market. The discussion paper offers two main arguments why we should undertake radical deregulation of higher education. The first is that this will lead to a much more diverse higher education system. This may be the case but there is a difference between horizontal differentiation (course offerings, pedagogical approaches, geographic location and study modes) and vertical differentiation (based on hierarchies of funding, quality and status). The discussion paper seems to be arguing for a shift that will predominantly result in a degree of vertical differentiation that would be analogous to the US system. There is little in the report to convince us of the superiority of the US system overall (if we disregard the handful of wealthy students who have access to the internationally elite private universities like Harvard)

The second argument is the catastrophism thesis that is touched on in the main report and expounded most fully in a commissioned paper (prepared by Global Alliance). Either rapidly deregulate or perish as the IT education revolution sweeps us by. Certainly to the extent that globalization, deregulation and IT innovation are occurring there are long term ramifications for universities.

1'Utopias and Dystopias: Australian Universities now and in the 21st century', Students Association submission to West Review, April 1997 (available on review's website)
2DEETYA, Learning for Life: Review of Higher Education Financing and Policy, . a policy discussion paper (West Committee), Novemberl997
3Learning for Life, p. 20

However, as we argued in our original submission there is a great deal of hyperbole associated with tines claims about future political economies (the Global Alliance paper being one of the more hyperbolic papers we have seen). The Students' Association hopes that there is a more sober analysis in the final report.

The discussion paper talks a lot about some aspects associated with new means of delivering education, particularly through the Internet. The effective use of new information technologies in teaching is obviously an issue of great importance to universities. However, the discussion paper says little about who has access to this new technology. As we cited in ***Utopias and Dystopias*** even in the most computer literate country, the USA, 1996 studies showed that 43% of the population has never used a computer and only 7% have access to the Internet. The average internet user has a college degree and household incomes over $AUS 83,000.[4] The paper is silent on how everyone else gets access. Nor does the paper address the need for a nationally co-ordinated approach to the introduction of information technology beyond the limited working parties of the Australian Vice Chancellors' Committee. Will we end up with the IT equivalent of the colonial railway system with its incompatible gauges?

In our original submission to the review we provided a wide variety of evidence that tuition fees in the deregulated US and Canadian markets have been soaring. The Committee conceded this point in the discussion paper, but then went on to argue that under a deregulated system the increased competition would ensure that tuition fees came down. We will examine the tuition fee trends in more detail below.

International experience points strongly in the other direction. New Zealand, the country which has recently caught the uni deregulation bug, has seen tuition fees increasing at 15-20% a year. Most disturbingly first year enrolments dropped 9% this year. We will argue below that deregulation seems to have made things worse. It has led to a more expensive, less accessible higher education system (despite the existence of an income contingent loans scheme there).

The prominent higher education researcher, Simon Marginson, argued that another example of market failure that the committee has not been able to grasp is that the forces of supply and demand will tend to result in high levels of demand for the ivy-league universities. The student as consumer will have little influence according to market values because the demand will saturate the available places. If these institutions expand their numbers extensively to meet all of the demand then they will lose their elite status. Such universities will be under little pressure to adapt to meet student requirements.

The discussion paper argues that the existing levels of public funding should be at least maintained. In the current cost cutting funding regime we welcome this. However we believe that the deregulated sector that the paper argues for will produce its own logic which will lead to more cuts. We believe that there is a strong international and historical correlation between the increased resort to private income (such as fees) and declining public funding. We will outline data we received from the US Department of Education which reveals that there is a long term trend in the US for tuition fees to substitute for public funding.

We are concerned that in the long term tuition fee revenue will substitute for existing levels of public funding, rather than boosting overall university revenue. Students will be paying a lot more to the university system, but it does not mean that the overall quality of education they receive will improve substantially. It just makes students seem to be softer targets for governments making cutbacks. The Students' Association is particularly concerned that the paper hints that students will only receive a public subsidy for their initial qualification. Students could have to pay for the full

4 'Microsoft/Intelliquest National Computing Survey', *http://www.mircosoft.com, p.* 120 and O'Reilly and Assocates., 'Defining the Internet Opportunity', *http://www.ora.con'/survey/users/charts/net-income.html,* cited in Wilson C, 'The politics of information technology', *International Socialism,* 74, March 1997

course cost of subsequent study. This seems to be at odds with the paper's central concern about developing lifelong learning.

Ultimately the discussion paper is disappointing because it seems to be based on a limited understanding of the higher education system and offers little to students other than to make them pay higher fees. The other disappointing aspect is that the delayed release of the discussion paper and the December deadline for responses will (again) exclude meaningful student input. It is hard for students to engage in the open and rational debate advocated by the review committee when their only opportunity to respond to the discussion paper is during the exam period.

1. The free market and tuition fees

One of the central contentions of the discussion paper we wish to take to task is the relationship between a fully deregulated higher education market and tuition fee levels. The discussion paper contends that under proper level playing field conditions that the competition associated with deregulation will bring tuition fees down:

> Ultimately, competition between universities, especially if conducted in an environment where all costs must be accounted for, would provide downward pressure on tuition fees.[5]

The discussion paper later qualifies:

> the evidence from the USA private higher education system is that tuition fees have risen sharply in recent years. Tuition at public institutions have also risen, although this is partly due to progressive reduction in public expenditure.[6]

This leads to another concern that we have. The discussion paper recommends that the level public funding to higher education should remain about the same or be increased. We are concerned that over the long term the operation of tuition fees in a deregulated context will lead to tuition fees substituting for existing public funding.

The discussion paper, apart from mentioning the US counter-example, provides no empirical evidence to support its assertions. We submit to committee some of our empirical research into the US experience (as a long run model), and the recently deregulated New Zealand experience (as a short run model). Both examples show tuition fees increasing in real terms, with tuition fee revenue substituting for public revenue in the USA and leading to equity problems in New Zealand.

1.1 The US Experience

The US higher education system is made up of more than 3700 institutions, enrolling over 14 million students. 1,650 institutions are publicly controlled and 2050 are independent of state and federal control. The largest source of public funding comes from state governments who provide a large share of the operating costs and student financial support programs. The federal government meets a large slice of the costs of the operating costs for research by public universities and has its own student grants, loans and work-study schemes.[7] This makes the American higher education system exceedingly decentralized and difficult to draw strong generalizations from.

One generalization has been for substantial tuition fees (although in the USA there are substantial grants and student loans schemes to partially subsidise these fees). The pattern in recent years has

5*Learning for Life, p. 31*
6*Learning for Life, p. 43*
7Breneman D, 'Trends and Issues of Public Education in the United States', paper presented at *Funding Higher Education: Funding and Diversity* Conference (Adelade Uni), July 1997

been for the level of tuition fees to gallop away ahead of CPI with universities taking advantage of the now nearly universal demand for post-secondary education and training. One estimate is that by the year 2000 around 75% of the US workforce will need retraining.8 Already 60% of recent high school graduates go on to some form of postsecondary education.[9]

There is a wide variety in the level of tuition fees set by US colleges. The average annual fees at a four year public college for the current academic year (1997-98) is US$3,111 (A$ 5,195) while the figure for four year private colleges is US$ 13,644 (A$ 22,785). At the top end of the scale the ivy league universities such as Yale, Massachusetts and Princeton charge tuition fees of over US$23,000 (A$ 38,400). At the other end of the scale the average for two year community colleges is $1501 (A$2500).'°

The US experience has been that tuition fees have increased by 90% at private colleges since 1980, and 100% at public colleges. Over the same period median family income has grown in real terms by only 5%." The process whereby tuition fees have been increasing more rapidly than CPI has been accelerating in recent years. Over last four years public colleges have upped tuition fees by 50%.42 US students now pay more than $US 50 billion (A$ 83 billion) in tuition fees annually. There has been a huge public outcry in the US in recent months over this problem. The colleges, despite this high level of public scrutiny, still upped their fees for the new academic year by more than double the CPI rate (2.2%). The US College Board estimated the average price rise to be 5%.[13]

The distribution of the current tuition fees rises provides some evidence to support Simon Marginson's contention that market forces break down at high status universities where supply for places is saturated by demand. The tuition fee increase at the four year private colleges was 19 times greater (in dollar terms) than that for two year public colleges.[14]

Figure 1

Tuition Fees as a share of Current-Fund Revenue for US Colleges

Source: The Chronicle of Higher Educations

	Public Colleges		Private Colleges	
	Total Fees Collected	% of College Revenue	Total Fees Collected	% of College Revenue
1980-81	$5.6 bn	12.9	$8.2 bn	36.6
1990-91	$15.3 bn.	16.1	$22.2 bn.	40.4
1993-94	$20.8 bn	18.4	$27.8 bn	42.0

The other generalization we can make is that there is a long term trend for tuition fees to substitute for government subsidies (state and federal). Rather than fees being used to fund further expansion or modernization of colleges they can also act as a soft option for governments looking to make budget cuts to education. Figure 1 shows that the pattern from 1980-1994 in both public and private colleges is for students to pay for a greater and greater share of the running costs.[16] Figure 2

8 AVCC, *Exploiting Information Technology in Higher Education: An Issues Paper,* 1996
9 Breneman D, Trends and Issues of Public Education in the United States', paper presented at *'Funding Higher Education: Funding and Diversity'* Conference (Adelaide Uni), *July* 1997
10*The Chronicle of Higher Education,* 3 October 1997
11'The Widening Gap in Higher Education', *The Chronicle of Higher Education,* June l4 1996
12 *The Times* Higher Education Supplement, March 15 1996, p. 9
13 *The Chronicle of Higher Education, 3* October 1997
14 *The Chronicle of Higher Education, 3* October 1997
15 *The Chronicle of Higher Education, 30* May 1997
16 *The Chronicle of Higher Education, 3* October 1997

shows how over this period increases in tuition fees (along with increases in private contracts and gifts) have allowed the state governments and the federal government to make large reductions in their respective contributions to higher education.

Figure 2
Percent Change in Share of Total Revenues for US Public Higher Education 1980-81 to 1993-94
(Source: US Department of Education, Digest of Education Statistics 1996, p. 234)

<u>Increases</u>	
Private Gifts and Contracts	Up 53.8%
Tuition and Fees	Up 42.6%
Endowment Income	Up 20.0%
Sales and Services	Up 19.4%
Local Governments	Up 5.3%
<u>Decreases</u>	
Federal Government	Down 12.7%
State Governments	Down 21.3%

The socio-economic composition of 'freshmen' entering the US higher education system shows the strong class segmentation in the system. The American Council on Education conducted a survey of more than a quarter of a million 'freshmen' at 494 two year and four year colleges during 1996 to reveal the following distribution:

Figure 3
Socio-economic Composition of US 'Freshmen' 1996

(Adapted from ***Chronicle of Higher Education Almanac)***[17]

Estimated parental income $AUS	%
Under 16,700	5.2
16,700 - 33,400	8.0
33,400 - 50,100	10.6
50,100 - 83,500	23.0
83,500- 125,00	26.1
Over 125,000	26.9

The richer one is the more likely one is to go to college. There is also a strong class segmentation between the two year community colleges and the private colleges. The low SES students overwhelmingly attend the community colleges, while the children of the (often two) high income earners go to the high status private colleges. The deregulated fee environment in the US does not seem to offer any improvement in equity.

17 The Chronicle of Higher Education ,Almanac, 29 August1997

1.2 The New Zealand Experience

New Zealand is a system that historically has been more like the Australian system than the US. Members of the review committee have apparently looked at the impact of deregulation and tuition fees in that country. Professor Chipman was reported by the *Australian* [8] as arguing that the NZ experience was for fees to go up initially, and then for them to start coming down. In the *Campus Review*,[19] he is quoted arguing that the NZ experience shows that a rise in fees was accompanied by a rise in demand.

The Students' Association is unaware of evidence supporting Professor Chipman's claims. Our own research paints a very different picture.

New Zealand students are in a comparable fee-level situation to Australian students. During the eighties tuition fees were set around the $500 mark, but nearly all students received a fees grant which compensated them for 75% of the fees, so that the real level was $125. In 1990 a fee of $1250 was introduced. The backlash led to fees being abolished briefly, but then reintroduced at a lower level of NZ$1050 in 1992. Since then some universities are charging differential fees based on course costs, while some charge a flat fee.

We have to chosen look at Auckland University for ease of comparison because it has stuck with a flat fee up to now. Its fee levels are comparable with the fee ranges of other New Zealand universities and polytechnics.20 This year the tuition fees at Auckland University were NZ$2464.

Figure 4

Auckland University Tuition Fees (SNZ)[21]

1989	$125	% Change
1990	$1250	n/a
1991	$1250	0
1992	$ 1050	-16
1993	$1400	+33
1994	$ 1798	+28
1995	$1860	+03
1996	$2128	+13
1997	$2464	+16
1998*	$2884	+17

*flat fee passed by University Council 15/11/97 after differential fee proposal defeated

The pattern is actually the opposite of Chipman's contention. The fee was static and then reduced following its introduction due to the public backlash and a sharp drop in first year enrolments. Then it increased by more than 50% in two years and looks like settling down at an annual increase of 15-20% each year. Certainly there seems to be no sign of the market coming to the rescue and driving fees down. Political mobilization, not consumer power, looks like the only way of achieving that.

As is the pattern in North America tuition fees are spiralling upwards well above the inflation rate. Fees are increasing at around at least 15% a year in a country which has had a low inflation regime

18*The Australian*, 26 November 1997

19*Campus Review*, 26 November 1997

20For example the fee levels in 1997 for a 'cheap' course like Commerce were $2711 at Waikato, $2494 at Massey; $1960 at Otago, $2655 at AIT, $2745 at MIT and $2920 at Unitech. (Source: NZ Vice-Chancellor's Committee 'Fees for domestic students 1997')

21Auckland University Students’ Association Briefing Paper, February 1997 for a number of years. The government is fuelling the tuition fees spiral by pursuing a program of reductions to government funding of universities at least to the year 2000. Students are paying directly for the economic rationalist policies pursued by NZ governments for the last decade. If fees continue to increase at the current rate tuition fees will be NZ$3600 by 2000. Like Australian students NZ students also face numerous departmental, laboratory and course fees on top of fees/HECS and textbook costs.

Professor Chipman's other contention is that the rise in fees was accompanied by increased demand. While we have not seen the data on overall applications to NZ universities and polytechnics, the NZ student organizations have provided us with disturbing evidence concerning the recent trends in first year enrolments. The NZ system went through a substantial expansion in size in the eighties, peaking in 1989 at an annual growth rate around 10%. This trend has not been maintained in the nineties.

Figure 5
Net Gain in NZ Student Numbers

1982-87	3,483
1987-91	10,540
1992-96	2,423

What growth there has been in overall numbers in recent years has been very modest given the internationally high levels of unemployment in NZ through much of the recent period (and not reducible just to changing demographics). The disturbing thing is that new entrants into the system (roughly measured by first year enrolments) are declining in absolute terms.

Figure 6
Growth in NZ first year enrolments

1993	+5%
1994	+2%
1995	-7%
1996	-4%
1997	-9%

We would contend that there has been an increase in the composition of students from high socio-economic backgrounds. Changes to government higher education policies over the nineties seem to have led to a more elitist university sector.

Figure 7
Parents' Socio-economic Group - University Students
(Source: CM Research, Student Income & Expenditure Survey 1994. 1996. Elley-lrving Index (Father's SES))

Category	**NZ (1996 Gallop)**	**1988**	**1994**	**1996**
High (professional/ managerial)	30	48	56	60
Middle (sales, teaching, skilled)	50	42	38	34
Low (unskilled)	19	8	5	7

2. Differential Fees

The first ideas about differential course pricing mechanisms (at the time through HECS) were floated in the eighties. It has been a long standing position for the student movement to oppose-differential pricing mechanisms being applied to differing courses. Our position has been to oppose differential course fees because it could skew demand in a socially regressive manner.

For example let us consider a young person from a working class background deciding what course to enrol in. We contend that she or he could well be influenced by the price differential to opt for the low cost Arts option over the much more expensive Medicine option. A supporter of market approaches to education would see this as the young person exercising their consumer choice. But what if the size of debt on average makes a person from a working class background less likely to enrol in high status courses at a high status university. If this is the case then we have a mechanism which reinforces social privilege, ie that the sons and daughters of doctors become the next generation of doctors. Is this socially desirable ? It is still too early to derive much from the introduction of differential HECS.

Nevertheless, if there must be a fee, we support a flat fee. Similar concerns led students at the University of Auckland to campaign vigorously against differential tuition fees. The University Council there just voted down a differential fees proposal 22 We also note that the Dearing Report recommended a flat student contribution in preference to differential course fees.23

3. What sort of loans scheme ?

The logic of a deregulated tuition fee environment is that universities will have the power to set variable fee levels determined by the higher education market, while the level of public subsidy will either be flat, or modified according to factors such as a percentage of course cost or estimates of private benefits arising from studying in a particular discipline. Whatever the outcome the committee is contemplating a system where in most cases there is a substantial gap between the tuition fees and the public subsidy.

The committee identifies that there needs to be a loans scheme to meet the gap between the level of 'public subsidy' (regardless of whether it is centrally allocated or demand-driven). The question is what sort of loans scheme (or indeed if there should be different types of loans schemes to meet the needs of different target groups)?

As we have discussed in our previous submission the Students' Association is opposed to the imposition of tuition fees on students. We support a system that recognises the great 'opportunity costs' (ie missed income) that students forgo to study, and one where students make their contribution to the social wage (education, health, etc) through a more progressive taxation system. In the long run, as we move closer to a system where there is near universal access to post secondary education the intellectual weakness of the user pays position will become more clearly exposed. For if virtually everyone is directly participating in it for some part of their life then it becomes increasingly untenable to argue that it is not a general social good that should be fully funded out of general taxation revenue. At the moment we have the bizarre situation where as the system is moving toward universality, the reliance on individual user pays charges is steadily increasing (ie, the absurd logic of government financing policy is that it is now less of a social good than previous more smaller systems).

However, given the current context we cannot remain indifferent to what sort of fee/ loans systems are imposed. All of them are socially regressive but some mechanisms are more regressive than others. One criterion that we can rank user pays mechanisms on is their impact on participation. Is it access neutral or does it put up barriers to participation by disadvantaged groups? Another, particularly for loans schemes, is the impact on former students as they pay off their debt (or if they can't pay it off). For these reasons we rank deferred payment options as preferable to compulsory up front fees without any deferred payment system, and we rank the HECS mechanism over mortgage style insurance schemes with real interest rates and the possibility of bankruptcy.

22 ‘Differential Fees Defeated’ Auckland University Students' Association media release, 16 November 1997
23 UK Department of Further Education and Employment, Report of the National Committee of Inquiry into Higher Education (Dearing Report), July 1997

As far as loans schemes go the HECS deferred payment option is an improvement on North American and European mortgage style-loans schemes. This is because HECS contains an element of 'default insurance' such that the former student does not have bear the social and economic consequences of defaulting on their debt.[24] As we cited in our previous submission many US campuses default rates are over 20% leaving former students locked out of access to things such as being able to obtain housing loans. The concerns we have raised in our previous submission about mortgage style loans have been reinforced by a recent report in Canada which found that the rate of student bankruptcies have increased by 250% from 1989 to 1995. This has led the major national loans system to be significantly revised. Interest relief for students in need has been extended from 18 months to 30 months, and bankruptcy no longer erases student debt.[25]

The discussion paper claims that:

> the public funding provided to students who defer payment of the tuition charge through HECS is hidden. Students who defer payment of HECS receive the benefit of an interest-free loath The Government pays the difference between the cost of borrowing funds and the rate of inflation, and also bears the cost of administration and default.[26]

The Students' Association agrees with the Committee that all the financial contributions, costs and subsidies used in the running of the higher education system should be transparent rather than 'hidden'. Sound economic management can only occur in full knowledge of the inputs and outputs into the system and the costs and benefits to its users. But why should we confine ourselves to looking for 'hidden public subsidies'. We also need to look at 'hidden' student contributions like the 'opportunity costs' of income foregone while studying, which are barely acknowledged (and then ignored, and certainly not quantified) in judgements about the level of public-private subsidies. Transparency should work both ways.

We are very concerned, though, with idea that the discussion paper (ambiguously) raises that these public subsidies should be abolished. When HECS was originally brought in it was argued that it was more equitable than the US loans systems. One of the main arguments used was that it was more equitable because those who gain less financial benefit and therefore take longer to repay their HECS debt should not be penalised through a punitive interest charge. The discussion paper raises the contention that this concession to equity could be seen as a drain on the public purse which could be rectified by constructing a self-financing income contingent loans system.

This is a thinly disguised code for additional charges on students. The National Union of Students believes that there are two obvious methods of doing this.[27] Firstly we can go down the North American path and apply a commercial rate of interest to all HECS debts, so that it grows faster in relation to inflation than under the current system where the real value of the debt only grows when wages do not keep up with CPI. Chapman in his paper in the discussion paper (Appendix 13) offers the NZ loans scheme as a 'compromise' where real interest rates are charged but debtors with low incomes in particular years are given interest relief for those years.[28]

The second path is to impose an additional levy on students by increasing the level of debt to compensate the government for interest subsidies and unpaid debts. The intellectual case for students directly subsidising other students who default seems extremely dubious even by economic rationalist mindsets. Nevertheless it could be sold politically as students paying for 'default

24Chapman B. *The Australian Income-Contingent University Charge System,* Australian National University, Centre for Economic Policy Research, Policy Perspectives on Higher Education Financing Symposium, June 1996

25 *Chronicle of Higher Education,* 10 October 1997

26 *Learning for Life,* p. 25

27 NUS, West Discussion paper: More Bad News', 26 November 1997

28Chapman B. 'Some Financing Issues for Australian Higher Education Teaching', in *Learning for Life,* App. 13, op.cit.

insurance'. The Students' Association would be appalled if either path were pursued in the final report.

Actually the whole business of determining appropriate levels of private-public contributions is very arbitrary. We could equally validly turn the argument on its head and argue that students who defer are paying a positive real rate of interest. It all depends on what charge you want to start with: do we start with the bottom rate (the up front payment rate), or do we use the middle rate (which offers a 15% reduction for partial voluntary payments paid later) or do we use the deferred payment option (which is 25% greater than the up front rate). If we take the up front payment option as the real base rate then it can be validly argued that those taking the deferred payment option are repaying a debt which is 25% higher, and thus are effectively paying a real interest rate. The so called 'public subsidy' vanishes and we would be arguing about the harshness of a system that penalises low income earners and women who take longer to repay. The point we want to make here that the committee seems to be concerned about a 'public subsidy' which only exists in a notional sense. Yet this will lead to the very concrete result of students paying more.

While preferring the current HECS style system (as a lesser evil) over commercial loans style systems, we continue to dispute Chapman's claim that:

the debt incurred is free of a real interest rate, meaning that there is an implicit subsidy to those who take the longest to repay...the absence of a real interest rate means that low income earners receive a strong protection against adverse circurnskances.[29]

HECS debts are indexed in line with the Consumer Price Index (via a higher education index). If we exclude senior executive salaries, the average wages of workers has generally not kept up with CPI over the last 15 years. For ordinary workers the real value of the debt does increase more quickly than wages (nor do they stash away their 'public subsidy' into high yield accounts). Most of us are worse off the longer it takes to pay off the debt.

4. Are income contingent loans schemes access neutral?

It is much too early to accurately determine the impact of HECS (Mark 2) apart from a superficial look at the enrolment patterns of first year intakes this year, although there are concerns over differential HECS's impact on science and engineering enrolments. The recent DEETYA study of 20 institutions found only a small 1% drop in engineering enrolments, but revealed a worrying 7% drop in science enrolments.[30]

We are very concerned that HECS (Mark 2) breaks with any attempt at drawing the line at a nexus between obligation to repay and the individual receipt of a financial benefit from studying (the economic rationale for the introduction of user pays systems). Now former students in lowly paid jobs (at 74% of the poverty line) who clearly did not receive a financial reward for their studies are obliged to make HECS repayments, not just former students in above average paying jobs. Former DEETYA Minister, Senator Vanstone was cheeky enough to suggest that the students were privileged because they were more likely get a job. Of course graduate unemployment levels are lower than non-graduates, but try telling someone whose has sacrificed several years to study and ended up scrubbing floors that they are 'privileged'. Breaking this nexus also means that the repayment threshold becomes an arbitrary matter determined by short term budgetary considerations rather than linked to any rationale.

The other major regressive feature of HECS (Mark 2) was that it removed the notion that students contribution should be restricted to 20% of average course costs. HECS (Mark 1) was already at

29 *Ibid*.

30 Andrews L, *The Effect of HECS on Interest in Undertaking Higher Education,* DEETYA (Higher Education Division, October 1997, p. 17

31 It had crept up to 23% of course cost by 1996

the top end of the range of course costs by international standards. Average course cost under HECS (Mark 2) are now around 34%. We are very concerned about the proposal put forward in Industry Commission's submission that the average student contribution should be raised to 50%. The NTEU estimated that when tuition fees were abolished in 1973 they were set at covering 15% of course costs. The current situation means that undergraduates are paying more than double than the pre-1974 situation.[32] Using World Bank data HECS (Mark 2) placed Australia's user pays system as the second most expensive in the world for public universities.[33]

We note that the recent Dearing Report in the UK estimated the fairest level for student contribution to be around 25% (much closer to HECS Mark 1 than HECS Mark 2). The Dearing Report specifically referred to the problems of the current arbitrary rationale for the level of HECS and equivalent loans system in New Zealand:

> We have considered the concerns of students and others that with a graduate contribution scheme it would be open to any government to increase unilaterally the proportion of tuition costs paid by graduates. We believe that this concern is based on experience of the Australian Higher Education Contributions Scheme and the corresponding New Zealand scheme where graduate contributions were increased suddenly. In a democracy no government can tie the hands of its successors on such matters but we believe that the issue is so important that any changes should be subject to rigorous public review.[34]

The committee recommended that any changes in the proportion of student contribution must come out of an independent review and have the assent of both houses of parliament. This is the reverse of government policy direction in Australia which is moving towards taking the power to control the level of student contribution away from parliament and instead granting it to ministers (the ministerial guidelines mechanism) or directly to institutions.

Some disciplines are particularly hard hit by the differential HECS. In the case of law for instance it is estimated that the new HECS rates covers 80.5% of course cost.[35] Given that many law students also are facing up front fees costing thousands of dollars for initial professional entry courses the level of public subsidy to someone wanting to become practice law is now tiny. We are also concerned at the significant increase in the levels of student indebtedness associated with the hikes in the HECS rates.

While berating the changes associated with the introduction of HECS (Mark 2) we should not let HECS (Mark 1) off the hook entirely particularly given that various other countries are looking to introduce similar schemes. Crucially what was the impact of HECS (Mark 1) on participation at universities? It is fairly difficult to isolate the effect of HECS from other social processes that could effect participation. For example there was a severe economic recession and a higher percentage of the age cohort completing matriculation. There are also long term trends toward greater student participation increased demand for credentialling and gains in gender equality (female students now make up a majority of undergraduate enrolments). Looking at raw statistics may not be very revealing. For example unlike the up front HEAC the HECS did not cause a drop in overall enrolments. From 1989 to 1995 the size of the university enrolments continued to expand at an average rate of 4.95%.

In 1989 DEET's Evaluations and Investigations Program compared the responses of control groups of students who did apply and those who did not to determine whether HECS had been a factor in choosing not to do so. The report found that HECS did not appear to be a very important factor in

32 'Tuition fees twice as high as in 1973', *Campus Review*, 27 November 1996. South Korea has the highest fees.
33 'Fees will be world's second highest' *The Australian*, 30 October 1996
34 UK Department of Further Education and Employment Report of the National Committee of Inquiry into Higher Education (Dearing Report) July 1997
35 *Campus Review*, 30 October 1997. The estimate was prepared by Bill Burmester, assistant director higher education funding, DEETYA, to the Senate employment education and training committee

limiting access, with the possible exception of postgraduates intending to re-enrol. 10% of postgraduates surveyed cited HECS as the 'most important' or a 'very important' reason for not re-enrolling.[36]

In 1991 a consulting firm was commissioned by the Higher Education Council to look at the impact of HECS on traditionally disadvantaged subgroups. The report based on sample subgroups (low SES, NESB, rural and Aboriginal and Torres Strait Islander) concluded that HECS did not seem to be an issue of great concern in determining whether or not to participate in universities. More highly ranked factors included the desire to make money, the need to get a TAFE qualification, failure to qualify for a student grant, and living away costs. However, the report did note that around 20% of the sample who were single parents (or from single parent families) or from low SES rural areas thought that HECS was 'likely to frustrate their intention to participate'.[37]

The Australian Council of Education Research has been conducting interesting longitudinal surveys of people born in 1961, 1965, 1970 and 1975. The data has been used to cornpare the composition of 18 year olds participating in higher education 1993 with the composition<rf 18 year olds participating in 1988, the year before HECS was introduced. Students were divided into high, middle and lower wealth categories depending on the presence of material possession in their homes such as phones, dishwashers, number of bathrooms, etc. While obviously imperfect such a measure is more useful than the common manner of determining SES by postcode. The conclusion from comparing the two snapshots is that there does not appear to have been a discernible difference between the two groups.[38]

Chapman in his discussion of the ACER study is quick to rush to the conclusion that 'HECS does not seem to have had any discernible effect on the student body'.[39] Appendix 9 of the discussion paper repeats Chapman's assertion, and also indulges in his propensity for selective quoting. We think a fairer extrapolation from the cited studies is that they have so far shown that there has been little change in the SES composition of school leaver entrants (ie, that HECS does not appear to be a significant barrier to school leavers from metropolitan upper-middle income families). However, there does appear once again to be some unquantified impact on people who are likely to have had a personal experience of the debt: mature age students such as postgraduates, single parent families and people in low SES rural areas.

The little research that has been done into HECS (Mark 2) seems to support our thesis that those with direct experience of debt are more likely to be put off by the prospect of acquiring more substantial debts. A recent DEETYA study into the effects of the HECS[40] (despite an extremely narrow human capital methodology) indicated that the HECS changes posed a more significant barrier to mature age entry:

> The number of (mature age) applicants is tentatively estimated...to have fallen by 10,000 persons or 10% of mature age applicants due to the changes to HECS announced in 1997.[41]

36 Robertson F. Sloan J & Bardsley N. *The Impact of the Higher Education Contribution Scheme (HECS)*, DEET Evaluations and Investigations Program, AGPS, Canberra, 1990
37 NBEET, *Assessment of the Impact of the Higher Education Contribution Scheme on the Potentially Disadvantaged*, Commissioned Report No. 15, AGPS, Canberra, May 1992
38 Chapman B. *The Australian Income-Contingent University Charge System*, Australian National University, Centre for Economic Policy Research, Policy Perspectives on Higher Education Financing Symposium, June 1996
39 *Ibid*.
40 Andrews L, *The Effect of HECS on Interest in Undertaking Higher Education*, DEETYA (Higher Education Division, October 1997, p. 15
41 *Ibid*, The study was based on state admission centre data. The author of the report qualified that the size of the drop may be modified if there was a significant change in number of student applying through university special mature entry programs

The study was undecided whether the fall in applications represents 'a permanent reduction in interest or a deferral of interest to later years'.

Another recent report[42],this time conducted by the Victorian Government, which investigated the demand for tertiary studies in engineering and sciences adds more weight to our concerns. The report concluded that the HECS changes may have had an influence on the number of mature age applicants. The lower threshold for repayments means that many mature age students are forced to combine study with part time employment and HECS repayments. It seems that many are deciding that they can't juggle this financially.

Fundamentally, those who are arguing that HECS has no deterrent effect because the social composition of students is much the same in 1997 as it was in 1988 have missed the point. There has been a huge increase in the number of students at universities since 1988. There has also been substantial improvements in the completion rates of students in low SES schools and a tight job market for most of the period. The proponents of HECS need to come up with an explanation why there has been an expansion under conditions that superficially seem favourable to increased participation by low SES without any improvement in equity. A recent OECD study of Australian higher education hinted at this when it mentioned that:

> Even if such enrolments (of target equity groups) were maintained, it is reasonable to ask whether they should have been increased in relation to enrolments from other groups in the course of the expansion.[43]

Studies like the early DEET studies on HECS that show that students rank immediate financial needs like living costs and access to student grants above future debts do little to clarify the situation apart from highlighting that young people tend to worry less about future debts than do older people. We wonder what the social composition of Australian universities could now be like if it could have been kept free of tuition fees and backed up with generous student financial assistance programs. What is equality of opportunity for all Australians worth? It would have been interesting for the discussion paper to have costed the free education option.

The main point we want to make here is that numerous studies have alluded to the finding that HECS now seems to have some unquantified effects on participation rates on students not from the upper-middle class metropolitan school leaver set. There urgently needs to be independent research to determine the extent of these effects, and if we must go down the road of income contingent loans as argued in the discussion paper, then we need to develop strategies to minimise the socially regressive aspects of loans. Income contingent loans are not access neutral. Different social groups have different attitudes to taking on large amounts of debt. A 'one size fits all approach' to student financing and equity issues is not the best approach.

While the authors of DEETYA reviews have confined themselves largely to looking at the effects on the HECS on entry to the system there could well be other significant social effects. There has been strikingly little research into the effects of large debts (of up to $100,000) on the integration of former students into economic activity. Australia does not have the long entrenched social traditions concerning higher education debt that exist in the USA. A recent article in *The Australian* bemoaned that many Australian seemed to be trapped into a lifetime of renting as opposed to home ownership. HECS debts were cited as one of the major factors. The impact of HECS debt on mortgage and other lending activity is an area affecting many more than just former students, ie decline in housing constructions, drop in demand in cars, etc. Certainly at the very minimum HECS repayments reduce the amount of disposable income that can be allocated to servicing mortgage debts, and hence the likelihood of obtaining one. How are financial institutions *in*

42 Report of Ministerial Committee of Advice for Tertiary Education and Training 1997, 'Demand for Tertiary Studies in Science and Technology', Victoria.

43 0ECD, *Thematic Review of the First Years of Tertiary Education: Australia,* Directorate of Education, Employment, Labour and Social Affairs, Paris, February 1997

practice treating HECS debts ? Now that we have had large numbers of people paying off HECS form number of years there should be a detailed study to quantify the economic costs of HECS beyond just government income and outlays.

One other area of concern is that women on average take far longer to pay off the debt. A 1993 study by the National Centre for Social and Economic Modelling into lifetime repayment patterns for HECS and AUSTUDY Loans recipients found that women take substantially longer to repay these debts. The computer projections used for the study predicted that 89% of males would have paid off these debts by the age of 65. For women only 54% had fully paid off their debts by age 65.[44] Converting AUSTUDY grants to a non-optional loans scheme or increasing HECS would mean that the majority of female graduates would be burdened with a debt (from an average of 4 years of university study) for an entire lifetime. The increases in the size of the debt due to the HECS (mark 2) changes must have exacerbated this process. At the extreme end of the scale there will be students who take out income contingent loans for the whole cost of their studies (if the discussion paper's recommendations are implemented). So far the gender bias behind student debt repayment does not yet seem to have made a substantial dent in female enrolments some future time this might become a become a more decisive factor in the decision on whether to participate. On going monitoring by the Commonwealth is needed.

Australia has made a bit of an export market selling the virtues of HECS to the world as the safest option for introducing user pays and dealing with student indebtedness. This should morally place an even greater responsibility on Australia for making sure that the claims that have been made about HECS are subject to rigorous scrutiny and examination. We are also the longest running social experiment with a HECS-style system. Surely there is a need for comprehensive and independent research into all the social 'effects of HECS' that goes beyond that undertaken by the original architects of the scheme and government working parties (and is open to public scrutiny).

To sum up our main arguments are:

- The case for the argument that deregulation will bring tuition fees down remains unproven. The experience of deregulated systems both in the USA and NZ provide strong counter-examples to this argument;

- The US system. while being large. still has strong class segmentation both in terms of access to the system and which colleges are attended. Deregulation and high tuition fees in NZ has been accompanied by a significant shift in the student composition towards those from high income backgrounds;

- Public funding to universities should not be further eroded. There is a long term trend in the US for tuition fees to substitute for public funding. We are concerned that a shift to a radically deregulated system will result in a similar outcome;

- If there must be a user pay system then we would prefer an income contingent loans scheme which was based on the principles of being access neutral not penalising low income earners and women for taking longer to repay and not resulting in student bankruptcy;

- While the current HECS arrangements are better than the North American loans programs there does seem to be widespread evidence that it has had some unquantified impact on some groups (despite the 'official' line to the contrary). We believe there should be serious independent research (open to public scrutiny) to quantify these effects and to develop strategies to deal with these problems;

44 Harding A, *Lifetime Repayment Patterns For HECS and AUSTUDY Loans*, Discussion Paper No. 1, National Centre for Social and Economic Modelling, Faculty of Management, Uni of Canberra, 1993

- Even with a relatively benign income contingent loans scheme there are social consequences beyond entry issues that flow from imposing debts of up to $100,000 on people. Again there needs to be serious independent research to determine the effects of student debt after graduation.

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