

**NUS Submission To Senate Employment and Education
Legislation Committee**

**Higher Education and Research
Reform Amendment Bill 2014**

**Presented by NUS President
Deanna Taylor**

**Prepared by NUS Research Officer,
Graham Hastings, Sept 2014**

Contents

Part One: Understanding the Access Risks

This bill removes the cap on domestic undergraduate student contribution rates. There is a widely held view that income contingent loan systems allow tuition fees to be raised to high levels without any access consequences. This section presents the international and domestic research literature supporting the alternative view - that there are access consequences for debt adverse students from low SES, rural and mature age backgrounds.

Part Two: Scale of Future Student Debts

This section reviews the modelling by various credible higher education specialists of the impact of tuition fee deregulation and the charging of Treasury bond rates of interest on the HELP loan debts. We also look at the situation in the USA where the uncapped fees continue to rise much faster than inflation despite operating in a fully mature deregulated market.

Part Three: The Limitations of Scholarships

Schedule 2 of this Bill creates a Commonwealth Scholarship Scheme funded from the additional student fee revenue collected by universities. The Guidelines governing the operation of the scholarship are yet to be released. We look at the lessons from a similar scheme established in the United Kingdom to underpin partial fee deregulation and the implications for Australia.

Part Four: Graduate Impact and the Economy

Large study debts are not just an access risk. There are also significant implications for the graduates while they are repaying the loans and also for their economic activity (housing, entrepreneurial, savings). We draw heavily from the recent literature emerging from the US and their \$1.2 trillion study debt crisis. While there are considerable differences between US and Australian student loans systems there are some general concerns that could be applicable to the Australian context.

Part Five: Economic Arguments Advanced To Support The Bill

One of the main arguments the government has put forward to support the bill are the higher private rates of return of graduates compared with those who have only completed Year 12 (a figure of 75% over a lifetime is often cited). We present the alternative literature that indicates that the private rates of return are much lower apart from high income professions such as law, dentistry and medicine. Also according to the OECD Australian graduates have much lower internal rates of return than the OECD average and the USA. The government has also argued that the changes are necessary to make the HELP scheme sustainable in the future. We argue that the policy mix associated with this bill does the opposite.

Part Six: Other Factors Affecting Student Fees

This section addresses the proposals to introduce capped tuition fees for postgraduate research students and impact of the changes to indexation on future student fee increases.

Part One: Understanding the Access Risks

There is a widespread view that income contingent loans for students are a golden goose that allows tuition fees to be increased to very high levels with no apparent impact on access or the graduates while repaying the loans. Many want to believe this as it seems to offer an easy solution to address university funding problems in an era of fiscal austerity from federal governments.

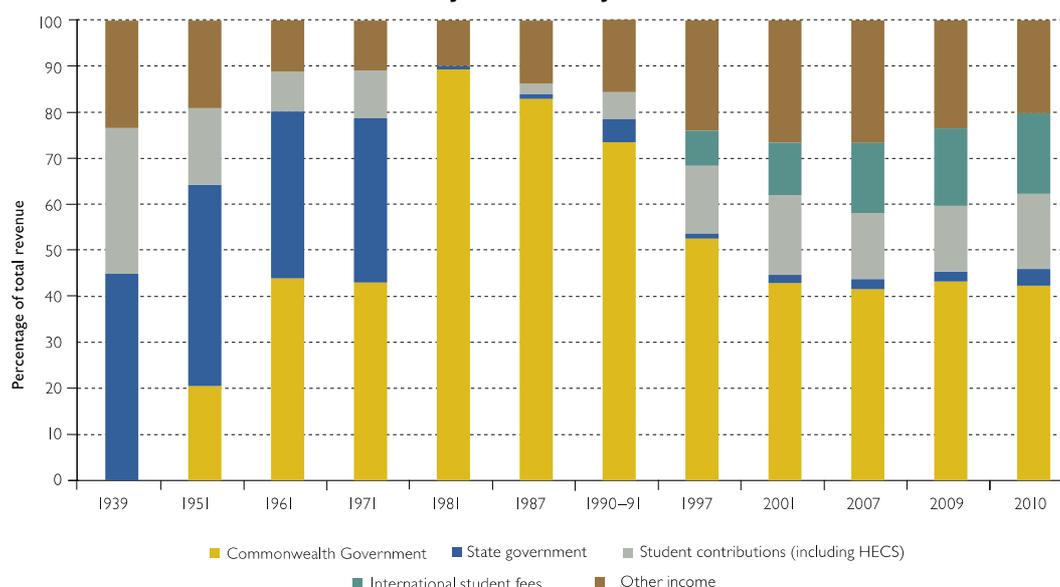
The first year that NUS was fully operational coincided with the 1988 Wran Committee deliberations over the formation of Australia's pioneering HECS scheme. Part One of this submission will present our alternative critical analysis of HECS and other income contingent loans that we have championed and refined over the last 25 years, in particular the study debt aversion theory and its implications for the *Higher Education and Research Reform Bill 2014 reforms*. In Part Five we will address the graduate and wider economic impacts of the much larger study repayments, particularly drawing on the applicable aspects of deregulated system in the USA.

1.1 Historic and International Background on Tuition Fees and Student Loans

Prior to 1974 students in Australia were charged substantial up front tuition fees. Universities were run by state governments and received most of their non-tuition fee income from the states. Universities were left to set their own tuition fee levels. Students who were not wealthy could only afford to access higher education through a limited number of merit-based scholarships (that generally went to high scoring elite private school entrants anyway), bonded scholarships (typically they were indentured, ie. had to work for a particular employer such as state teaching departments for up to seven years) or by taking out a personal loan from a commercial provider (with the risk of bankruptcy if the high paying job didn't quickly follow graduation).

However, by the mid 1960s commonwealth scholarships and state government teaching scholarships were widely available. Student fees accounted back them for 10-15% of university revenue (the current figure is over 40%).

Table 1: University revenue by source 1939 - 2010



Source: Department of Employment, Education and Training 1993 (1939-1990); DEEWR various years (1991-2010).

In 1974 Whitlam Government abolished the up front tuition fees when the Commonwealth took over responsibility for running and funding higher education. The Commonwealth provided 90% of university

funding. Students financially contributed through income foregone while studying and higher taxation contributions arising from their higher graduate incomes.

Australia became a pioneer in the provision of widely available income contingent loans when HECS was introduced by the Hawke Government in 1989 to replace the \$250 up front administration charge. The author of this submission took part in the NUS lobbying of Professor Bruce Chapman (the architect of the original HECS proposal) and John Dawkins (the Education Minister at the time).

The original HECS developed by the Wran Committee was a flat fee of \$1800 across all disciplines. Previous attempts by the Fraser Government to re-introduce tuition fees in 1977 and 1982 backed with commercial student loans had collapsed partly because banks were unwilling to underwrite the loans schemes. The banks' reluctance was informed by the American experience where graduate default rates on loans were running at over 20%. The crucial design innovations of HECS were that the Commonwealth would underwrite the loans and that the loans would be collected by the ATO on an income contingent basis. HECS debts were indexed at CPI to maintain their real value.

In 1996-7 The Howard Government introduced the concept that fees would be differentiated across disciplines and significantly increased the student contribution levels for most disciplines. The income repayment threshold was lowered to just above the pension rates.

In 2004 HECS fees were partially deregulated with universities allowed to charge 0-125% of the existing student contribution rates. Within a year all universities had adopted the maximum rate thus undermining the partial deregulation. As part of the trade-off for the increased rates the income repayment threshold was increased.

Similar HECS style income contingent arrangements were introduced in New Zealand in 1992 (tuition fees and living allowances) and the United Kingdom in 1997. Amongst the non-Anglophone OECD countries Hungary, Iceland, Netherlands and Sweden also have income contingent loan arrangements but mainly to cover student living expenses.¹

Student loan arrangements in the USA and Canada are complex with students often having multiple loans from federal, state and commercial bodies. Loans are predominantly of the fixed repayment (mortgage-style) type. Income contingency provisions within these loans are very limited (for example under the USA's Direct Subsidised Loans Scheme, the main federal program for needy students, the loan repayments can only be delayed for three years due to unemployment). Recently President Obama has been pushing to deal with the graduate debt default crisis through the introduction of an income contingent loans scheme for the most vulnerable students (2009) and the new Pay-As-You-Earn plan (2012).

1.2 Study Debt Aversion Explained

Students and potential students are not homogenous in their attitudes and preparedness to take on large amounts of study-related debt.

The evidence from 25 years of HECS and from overseas shows that there is a large section of the population who are not deterred by current levels of tuition fees if they can defer payment through an income contingent loans scheme. In economic jargon this section of the population are highly inelastic when it comes to tuition fee prices.² Typically these are young school leaver entrants who are from families where at least one parent has a higher education qualification and there are cultural expectations about going to university. They will enrol, incur the debt and hope it all works out. The issues for these students may come later after graduation if it doesn't all work out. Graduate issues will be covered in a later section.

Traditionally the school leaver entrants from professional families have formed the large majority of university enrolments. However, universities have become much more diverse in their student enrolments over the last 20 years. This includes many entrants (and many potential entrants dissuaded by study debt) from social groups (ie, mature age, low SES and rural) who are much more concerned about taking on large amounts of study-related debt.

NUS's core critique of the impact of HECS on equity has focussed on the concept of study debt aversion. The study debt aversion hypothesis is that different social groups may tend to respond

¹ OECD, *Education At A Glance*, 2014, ph 267-8

² Of course there may come a time when the price elasticity is broken even for currently non-debt adverse students, we don't what that level is.

differently to the idea of taking on large amounts of debt – even if it is supported by a relatively progressive income contingent repayment option. While an upper-middle class school leaver may not be put off by a large study debt, a low-income mature-age rural student might well be.

Study debt aversion factors have been raised by various researchers in the context of similar fee and loan arrangements operating in the UK. A study published in the *Journal of Education Policy*³ found that middle class students were fairly confident about money matters and less adverse to issues related to debt. In part this was attributed to the security they had that they could fall back on family resources if unexpected difficulties arose. Students from working class backgrounds had much less confidence that they could secure the necessary resources to maintain themselves at university and after graduation and so were more averse to incurring large study debts.

Unlike Australia the British research has looked at those who have been put off by study debt. An influential 2005 London School of Economics/London South Bank University study (Callender and Jackson) did a statistically robust analysis of a survey of 2,000 prospective students and found that the data shows:

*“how those from low social classes are more debt averse than those from other social classes, and are far more likely to be deterred from going to university because of their fear of debt, even after controlling for a wide range of other factors.”*⁴

When tuition fee deregulation was raised more recently in the UK the Sutton Trust (a charitable body dedicated to improving education opportunities for young people) commissioned research into young people's attitude to study debt. The 2008 study⁵ of 16-20 year olds found that nearly two-thirds (fifty-nine percent) of students who had decided not to pursue study in higher education reported that avoiding debt had affected their decision 'much' or 'very much'. According to the report this was roughly double the percentage of students intending to go to university who reported that avoiding debt had 'much' or 'very much' affected their decisions about university study. Another concerning finding was the very low knowledge that students from working class backgrounds had about the access bursaries (scholarships) that British universities are obliged to offer if they charged the higher tuition fees.

A 2009 study into decisions about higher education participation also commissioned by the Sutton Trust based on a survey of 11-16 year old middle and secondary students from 114 schools across England and Wales found that:

*“An increase in tuition fees to £5,000 a year would result in around one in six (17%) pupils saying they are unlikely to go into further education, rising to almost half (46%) if fees were raised to £10,000 a year.”*⁶

What About Australia?

In Australia there has been much less official recognition of study debt aversion problem and much more acceptance of the 'golden goose' view of income contingent loans as a guilt-free way to fix the funding issues for universities and budget-minded governments.

There are two common types of arguments dragged out to refute the study debt aversion argument. The first is that the SES social composition of year 12 students with ENTER (and other equivalent Year 12) scores to enter universities is similar to school leaver entrants into higher education. There was an impressive study by Cardak and Ryan published in 2006⁷ based on longitudinal data from a large sample of students from a randomly selected cross-section of government, catholic and independent schools. They were able to match measures of student performance (ENTER – year 12) scores, SES status according to father's occupation and whether or not they went to university. Their key finding was that the SES distribution of high performing students in Year 12 was similar to the SES distribution of school leaver university admissions. They concluded from this that HECS does not appear to be a 'credit constraint' on high performing low SES students making the transition from Year 12 to university.

³ Hesketh, A. J. (1999) Towards an economic sociology of the student financial experience of Higher education, *Journal of Education Policy*, Vol. 14, (4) pp. 385-410.

⁴ Callender C and Jackson J (2005), Does the fear of debt deter students from higher education? *Journal of social policy*, 34 (4), pp. 509-540

⁵ Sutton Trust, Davies P, et al, *“Knowing Where To Study? Fees, Bursaries and Fair Access”*, Institute for Educational Policy Research and Institute for Access Studies, Staffordshire University, UK, Feb 2008, pg 1

⁶ Sutton Trust, *Young Person's Omnibus 2010 (Wave 16): A research study among 11-16 year olds*, UK, 2010

⁷ Bully Cardak and Chris Ryan, *“Why are high ability individuals from poor backgrounds under-represented at university?”* Discussion paper A06.04, La Trobe University School of Business, 2006

NUS's bone of contention is not with the study but with the inferences that others have drawn from it. For example the Vice-Chancellor of the University of Melbourne argued that the Cardak and Ryan study refuted claims made by the: "*National Union of Students (which) links tuition fees to concerns about access and equity.*" and that the "*available data make clear that tuition price has been no impediment to participation. The price caps that have kept costs down to all students cannot be easily defended on equity grounds.*"⁸

Actually the Cardak and Ryan study supports NUS study debt aversion argument rather than refutes it. It has been long understood that HECS (up to now) has not acted as a significant deterrent for Year 12 students who have already decided that they intend to go to university (and selected their Year 11 and 12 course options in anticipation of going to university). As the Cardak and Ryan study points out the selection process occurs earlier.

Student decisions about their prospects or not for university study are often formed in junior to middle secondary school. NUS's argument is that the study debt aversion for prospective student is one of the factors. There is a considerable overlap in rural education disadvantage and low SES issues. Prospective student from farming families will be well aware of the crippling impact of large debts associated with the vagaries of farming and not want to add to the family's overall debt burden while those committed to staying in rural towns may see few opportunities for highly paid professional employment to repay the debts.

A University of Ballarat study⁹ of Victorian rural Year 10 students provides insights into the negative impact of HECS and other study costs on the aspirations of disadvantaged middle high school students:

"After the ENTER score achieved, Year 10 students who aspire to university and their parents regard financial factors, specifically the cost of HECS and living away from home, as being the biggest impediments to going to university."

In particular the study found that many students who left school without pursuing further education had been influenced by peer reports of high study debts not necessarily leading to high paid professional work:

"Many had stories about peers still at university, who three years on had lost their way, accrued huge HECS debts and had limited prospects of relevant professional work post course."

"Our data show that it takes courage for many Year 10 students to step into the unknown and take a definite choice for higher education. Hesitancy about the prospects of university success is likely to occur at precisely the point at which some young people need support and reinforcement... The data leave us with no doubt that rural, regional and peri-urban students along with their parents find the cost of HECS extremely daunting."

NUS believes that a similar effect may be occurring in other areas with low SES disadvantage such as outer suburbs where there is a similarly low population of graduates. The scarcity of positive peer reports in low SES areas of successful university participation and graduate financial outcomes (low SES students are even more under-represented in prestigious courses and universities) is having an impact on middle high school aspirations.

The Centre for the Study of Higher Education report into low SES and Indigenous participation (commissioned by Universities Australia in 2008) provided a neat summary of the role of study debt aversion (amongst other financial pressures such as living costs) in low SES and rural education disadvantage:

"The alternative aspirations of low SES and rural students are likely to be the result of "the cumulative effect of the relative absence of encouraging factors and the presence of a stronger set of inhibiting factors" (James, 2002). For many such students, it is the combination of financial pressures and distance with a lack of positive attitudes to higher education that makes university "seem less attractive, less relevant and less attainable (James et al., 1999).

The financial cost of studying at university, and the perceptions of the cost, may have significant influence on the post-schooling choices of students from low SES and rural

⁸ Prof. Glynn Davis, 'Fairness, Fees and Equity in Higher Education', Paper at AFR Higher Education Summit, April 2007

⁹ Golding B et al, 'Everything Is Harder' - Participation in Tertiary Education of Young People from Rural and Regional Victoria, School of Education, March 2007, submission to Victorian Parliamentary Inquiry into Geographical Differences in the Rate in which Victorian Students Participate in Higher Education

backgrounds (James et al., 1999; Teese et al., 2007; Hillman, 2005). For low SES students, James (2002) found that the perceived cost of higher education was a 'major deterrent': low SES students are more likely than other students to believe the cost of university fees may stop them attending university (39 per cent, compared with 23 per cent of higher SES students).

Similarly, the deterrent effect of cost appears far greater for rural students than for urban students. James et al. (1999) found that rural students expressed more concern "on the inhibiting effect of university fees, on the capacity of their families to support them while studying, and on the affordability of suitable accommodation."¹⁰

The second form of argument against the study debt aversion argument is that the participation rate of low SES students (the bottom 25% quartile) has remained fairly static (14-15%) over the period that includes the introduction of HECS and the two major increases in HECS rates in 1997 and 2005. This is cited as proof that HECS has no impact on access.

Our response is to point out firstly that the changes to HECS were linked to initial falls in applications that could not be explained by other factors. In response to the study debt aversion critique the 2011 Higher Education Base Funding Review commissioned Deloitte Access Economics to "to investigate whether changes to the level of student contributions or the repayment thresholds under Australia's income-contingent loan scheme had an impact on student demand for higher education, with particular reference to students from low SES backgrounds."

The Deloitte study was not released publicly at the time but according to the Base Funding Review Final Report¹¹:

"The study found that the reforms to HECS and HECS-HELP in 1997 and 2005 when fees rose and repayment thresholds changed, were linked to a reduction in the total number of university applications, compared with the levels that would have been expected had the reforms not taken place. The study estimated that the reforms on these two occasions led to around 18,000 fewer applications per year (8 per cent) compared with those that would have been expected had the reforms not taken place.

While the study was not able to examine whether the impact on applications varied according to SES groups due to data limitations, analysis of university commencements found that low SES students appeared to be more affected by price changes than other students."

This is what is known as 'headline' study debt aversion that is related to heightened community concerns about the impact of these debts when tuition fee increases are flagged in the media.

Our second response to this static participation rate argument is to pose the counter-factual question; why didn't low SES participation rates improve? There has been a massive improvement in Year 12 completion rates since 1980 from about 35% to over 66% of Gen Y's. This has significantly increased the pool of low SES Year 12 school completers as a percentage of the population. For example school completion rates of students with parents in blue-collar occupations nearly tripled during the 1980s to the mid 1990s.¹² Also the Dawkins-era reforms that introduced HECS also brought nursing training, an occupation with high low SES participation rates, into the university system. Researchers critical of the early research into HECS concluded that once these factors were taken into account (and using longitudinal data) was that the "picture is one of a significant declining university participation rate by the children of manual workers."¹³

The third response is that study debt aversion is not just a low SES issue. There continues to be a slow decline in the participation rates for regional and remote students (from 21.3% in 2002 to 19.5% in 2012¹⁴), The reasons for this are multi-faceted and complex but study debt aversion may be a factor alongside changes to income support arrangements for these students.

¹⁰ Centre for the Study of Higher Education, Participation and Equity (Commissioned by Universities Australia): "A review of the participation in higher education of people from low socioeconomic background and indigenous people", University of Melbourne, 2008, pp 34-5

¹¹ DEEWR, *Higher Education Base Funding Review Final Report*, October 2011, pp 126-7

¹² Long M, Carpenter P and Hayden M, *Participation In Education and Training 1980-1994*, ACER, 1999, p.59

¹³ See for example Long M, Carpenter P and Hayden M, *Participation In Education and Training 1980-1994*, ACER, 1999; Curtin, Tim, *Equitable financing of higher education – taxes versus fees*, 2003, www.anu.edu.au/emerittus; OECD, *Thematic Review of the First Years of Tertiary Education: Australia*, Directorate of Education, Employment, Labour and Social Affairs, Paris, February 1997

¹⁴ Kemp D and Norton A, *Review of the Demand Driven System: Report*, Commonwealth of Australia, 2014

Also mature age (over 21) bachelor degree enrolments have generally risen over the last couple of decades reflecting the heightened labour market demands for the qualification. However, numerous Australian studies have shown that there is at least a “headline” aversion effect associated with HECS increases.¹⁵ Applications from mature age students fell significantly for several years after the 1997 increases and there was a smaller dip following the 2005 increases. There was also some evidence from the 1997 increases that the mature age students who did enrol shifted to low cost options.

While it is possible to look at mature age enrolment and application trends it isn't possible to do the rigorous cohort analysis that for example was done by Cardak and Ryan in comparing Year 12 student cohorts with first year university enrolments. “Mature age” is too nebulous and broad as a category. The reality is that researchers know a lot less about how many mature age people are put off going to university by the prospect of large study debts than we know about direct school leaver entrants.

The recent British experience with tuition fee highlights some of the issues. In 2010 the Browne Review Final Report recommended that all caps on tuition fee levels be abolished. Following a couple of large, militant student demonstrations in London, where hundreds of students were arrested, the parliament voted to retain a cap on tuition fees but narrowly voted to treble the limit in England and Wales to 9,000 pounds (27 Conservative and Liberal MPs crossed the floor to vote against the government).

Because of the time-lags on statistical data collection and analysis the impact of the post-2011 fee increases are just starting to come out. The emerging trends are quite startling:

- Following growth in overall student enrolments of around 4% between 2008/9 and 2009/10 the enrolment growth in the UK fell to 0.3% in 2010/11 and actually shrank by 0.2% in 2011/12 when the fees came into effect;¹⁶
- While first degree undergraduate and postgraduate research enrolments continued to grow there was 9% decrease in non-first degree undergraduate enrolments in 2010-11 followed by a 13.8% fall in 2011-12;
- Enrolments in ‘postgraduate (taught) courses’ (equivalent to Australia’s postgraduate coursework) fell by 5.2% in 2011-12¹⁷;
- Acceptance of applicants fell by 1.7% between 2011-12 and 2012-3, this was largely due to 7.1% drop for students over 20¹⁸
- The number of part-time undergraduate enrolments have fallen by 40% since the changes were announced in 2010, with the part-time postgraduate enrolments falling by 27%¹⁹

The evidence points to quite significant trends for mature age and second degree students, many who were studying part time (probably mixing full time work with study). The most recent data shows a partial recovery in part-time enrolments but more work needs to be done to fully understand the causes. Nevertheless the case highlights the access risks associated with such large increases in fees.

1.3 Implications of the Study Debt Thesis for HERR Bill

NUS has been representing students since 1987. Across the generations the key factors that will affect whether and where they will embark on university study can be distilled to four themes:

- That they will get a good quality education that provide them with the general and specialist skills and knowledge they are seeking; many internal students are also seeking quality campus interactions with their peers and teachers;
- That they will be able to cover living costs while studying, income support arrangements and availability to casual employment are particularly important to full time students;
- That the lifetime education costs will be affordable, taking into account that future labour markets may require postgraduate qualifications or further upskilling and retraining;

¹⁵ For example Aungles, P., Buchanan, I., Karmel, T. and MacLachlan, M. (2002) *HECS and opportunities in higher education*, Department of Education Science and Training; Andrews, L. (1997) *The effect of HECS on interest in undertaking higher education*, Department of Education, Training and Youth Affairs; Deloitte Access Economics (2011c) *The impact of changes to student contribution levels and repayment thresholds on the demand for higher education*

¹⁶ Universities UK, Patterns and Trends In UK Education 2013,

www.universitiesuk.ac.uk/highereducation/Pages/PatternsAndTrendsInUKHigherEducation2013.aspx, pg.7

¹⁷ *ibid*

¹⁸ Higher Education Funding Council For England, Higher Education In England: Impact of the 2012 Reforms, March 2013, pg 4

¹⁹ *Ibid*, pg. 13

- That students in junior-middle secondary school who are deciding whether or not to aspire to go university need to get positive feedback from peers, family members and teachers, also that students need to receive accurate and easily digestible information about the benefits of higher education, career choice and support mechanisms for disadvantaged students

The good news is that since the implementation of several reforms arising from the Bradley Review there seems to be the first signs of improvement in low SES participation rates. The reforms included the uncapping of university Commonwealth Supported Place enrolment loads, the mainly positive student income reforms improvements, and the revamping of university outreach and retention programs under the Higher Education Participation and Partnerships Program (HEPPP). While it is difficult to isolate the impact of specific reforms the overall outcome is that low SES enrolments have risen from 16.1% in 2008 to 17.1% in 2012, reversing a trend of declining low SES participation in the preceding years.²⁰

The current government has removed the 20% low SES target introduced by the previous government and has reduced HEPPP funding. There are two measures in the bill that aim to improve low SES Participation rates. The first is the Commonwealth Scholarship Scheme as outlined in Schedule 2 of the bill. This will be addressed in Part Three.

The second measure is to extend demand-driven Commonwealth Student Places arrangements to non-university providers such as TAFE to provide sub-bachelor diplomas that act as pathways to bachelor programs. This was recommended by the Review of the Demand Driven System.²¹ NUS concurs that the research literature points to the likelihood of increased low SES enrolments arising from this measure. There needs to be robust credit transfer, articulation and quality processes so that these students have a positive overall experience that will encourage them to continue into bachelor programs and maybe beyond.

NUS in principle supports the extension of demand driven system for this purpose. However, we do share the concerns raised by the NTEU in their briefing paper, *The case against government funding of non-university higher education providers*²², that the regulatory framework for non-Table A providers, must guard against budget blowouts and exploitation of students through false and misleading advertising. In the wake of \$30 million of cuts to TEQSA we are concerned about whether TEQSA has the resources to rigorously scrutinise the plethora of existing and new providers.

In Part Two we will outline our concerns about the scale of study debt repayments that students will be facing. NUS is concerned that scale of debts will magnify the study debt aversion factors already seen for some potential low SES, rural and mature age students under current and previous HECS levels. This risks reversing the modest gains in low participation since 2008. It could also spill out beyond these groups into occupations where there are low – medium rates of private return. This will be addressed in Part Five.

²⁰ Kemp D and Norton A, *Review of the Demand Driven System*, Final Report, 2014, pg 37

²¹ Kemp D and Norton A, *Review of the Demand Driven System*, Final Report, 2014, pp. 58-61

²² NTEU Briefing Paper, *The case against government funding of non-university higher education providers*, June 2014

Part Two: Scale of Future Student Debts

2.1 Debts on Graduation

While we do not know what tuition fees will be charged in the deregulated system we do know that the discipline-based funding clusters of the Commonwealth contribution rates per student will be substantially changed in 2016.

Under the current arrangements (see Table 2) there are eight funding clusters reflecting different student contribution rates, commonwealth contribution rates and total resourcing per student.

Table 2: Current Funding Rates for Commonwealth Supported Bachelor and Higher Level Degrees at universities (2014)

Funding cluster	Part of funding cluster	Maximum student contribution amounts	Australian Government contribution	Total resourcing
Funding cluster 1: Law, accounting, administration, economics, commerce		\$10,085	\$1,990	\$12,075
Funding cluster 2: Humanities		\$6,044	\$5,330	\$11,574
Funding cluster 3: Mathematics, statistics, behavioural science, social studies, computing, built environment, other health	Mathematics, statistics, Computing, built environment or other health	\$8,613	\$9,782	\$18,395
	Behavioural science or social studies	\$6,044		\$15,826
Funding cluster 4: Education		\$6,044*	\$10,178	\$16,222
Funding cluster 5: Clinical psychology, allied health, foreign languages, visual and performing arts	Clinical psychology, foreign languages, or visual and performing arts	\$6,044	\$12,031	\$18,075
	Allied health	\$8,613		\$20,644
Funding cluster 6: Nursing		\$6,044*	\$13,432	\$19,476
Funding cluster 7: Engineering, science, surveying	Science, Engineering or surveying	\$8,613	\$17,104	\$25,717

Funding cluster 8: Dentistry, medicine, veterinary science, agriculture	Dentistry, medicine or veterinary science	\$10,085	\$21,707	\$31,792
	Agriculture	\$8,613		\$30,320

*students enrolled before 1 Jan 2010 the maximum student contribution is \$4,836

Under the proposed 2016 arrangements (see Table 3) there will be no maximum student contribution cap. In terms of the Commonwealth contribution there will only be five funding clusters.

The average level of Commonwealth funding per student will be reduced by 20% but the size of the cut varies across disciplines. The biggest percentage cuts are in Engineering, Science, Social Sciences, Surveying and the Visual and Performing Arts that have all effectively been dropped down a funding band.

Table 3: Commonwealth Funding Rates for Bachelor and Higher Level Degrees at universities from 1 Jan 2016

Funding Cluster		Commonwealth Subsidy per year
1	Law, Accounting, Administration, Economics, Commerce	\$1,805
2	Humanities, Social Studies, Communications	\$6,021
3	Computing, Behavioural Science, Welfare Studies, Education, Visual and Performing Arts, Built Environment, Other Health	\$9,033
4	Mathematics, Clinical Psychology, Allied Health, Nursing, Engineering, Science, Surveying, Environmental Studies, Foreign Languages	\$12,045
5	Dentistry, Medicine, Veterinary Science, Agriculture	\$18,067

Despite the reduction in Commonwealth funding the Minister has stated that he believes that some course fees will come down. This may be possible in some courses with low teaching and infrastructure costs, advances in on-line pedagogy and fierce competition with new private providers in particular courses. However, the legacy of past efficiency dividends and inadequate indexation has severely limited the capacity of the public universities to absorb another large drop in overall funding. This will be covered later in the submission when covering the new indexation arrangements (Part 6). Also at least in the medium term there is no University of Phoenix type private for profit provider waiting in the wings to offer massive enrolments on a low cost basis.

NUS believes that is reasonable to assume that for most courses universities will increase their fees to at least cover the cut to Commonwealth contribution levels.

Beyond this working out the levels of student debt under fee deregulation and market interest rates is like asking how long is a piece of unseen string. The answer will vary depending on many variables that aren't known yet.

However, there are some general indicators that can be drawn from known data or inferred from reasonable expectations of university and student behaviours.

One thing that is indisputable is that Australia is already one of the most expensive places to study for both domestic and international students. The most recent available data in the OECD *Education At A Glance 2014* for publicly funded Tertiary Type A institutions (universities) is based on 2011 data (and expressed in \$US) is as follows.

Table 4: Annual Average Domestic Student Tuition Fees for OECD Tertiary Type A Institutions (2011)²³

	Average Domestic Student Tuition Fees (\$US converted by PPPs)
Chile	\$US 5885
United States	\$US 5402
Korea	\$US 5395
Japan	\$US 5019
United Kingdom (excluding Scotland)	\$US 4980
Canada	\$US 4228
Australia	\$US 3924
New Zealand	\$US 3645
Netherlands	\$US 1966
Spain	\$US 1129
France	\$US 200 - \$US 1402
Switzerland	\$863
Belgium	\$653
Turkey	\$332
Austria	Free
Cyprus	Free
Czech Republic	Free
Denmark	Free
Finland	Free
Greece	Free
Iceland	Free
Ireland	Free
Malta	Free
Mexico	Free
Norway	Free
Scotland	Free
Slovakia	Free
Slovenia	Free
Sweden	Free

Since 1997 Australia has consistently sat in the cluster of six OECD countries with the most expensive universities. In Australia, New Zealand, United Kingdom, United States and Canada the fees are underpinned with widely available loans schemes. Japan and Korea have mainly private universities with very limited access to mortgage style loans so family wealth (or a commercial sponsor) is the main driver of access. The OECD country with the most expensive fees, Chile is also heavily reliant on private universities and commercial loans. However, in 2013 the new government has committed to introducing free education within six years.

Notably many other OECD countries have drawn very different conclusions to the neo-liberal budget and taxation priorities operating in Australia and have retained either a free or low fee cost university system.

Australian Vice-Chancellors have stated the post-2015 deregulated domestic fees will not exceed the (already deregulated) tuition fees charged for international students. By international standards this notional cap is set at a very high level. HSBC's latest 2013-14 survey²⁴ of 15 countries found that Australia has second highest average international student tuition fees, only narrowly behind the USA.

²³ adapted from OECD, *Education At A Glance 2014: OECD Indicators*, pp. 271-2

²⁴ HSBC, *The Value of Education: Springboard for Success*, Sept 2014, <https://www.hsbc.com.au/1/2/about/news/14/140910>

Table 5: HSBC Comparison of International Student Fees

	Average University Fees per year (\$US)
United States	\$24,914
Australia	\$24,081
United Kingdom	\$21,365
Singapore	\$18,937
Canada	\$16,746
Hong Kong	\$13,444
Indonesia	\$4,378
China	\$3,844
Taiwan	\$3,338
Malaysia	\$2,453
Turkey	\$1,276
Mexico	\$750
India	\$581
France	\$247
Brazil	\$59

Andrew Norton at the Grattan Institute released the 2013 data on average international student undergraduate fees broken down by discipline. By converting the 2016 commonwealth contribution rates into 2013 terms and subtracting that amount from the average international student fee it was possible to generate some notional average domestic fees (see Table 6) if we assume universities will seek to maximise their revenue by increasing their fees to match this notional cap.

Table 6: Grattan Institute Calculations (using 2013 data)

Course	Average annual international student fee in 2013	Commonwealth contribution in 2016 (in 2013 \$)	Difference (implied 2016 student contribution in 2013 \$)	Domestic student fee in 2013	Increase in domestic student fee
Science	\$25,443	\$11,212	\$14,230	\$8,363	70%
Info Tech	\$23,406	\$8,409	\$14,997	\$8,363	79%
Engineering	\$26,560	\$11,212	\$15,348	\$8,363	84%
Architecture	\$26,133	\$11,212	\$14,921	\$5,868	154%
Agriculture	\$27,487	\$16,818	\$10,669	\$8,363	28%
Nursing	\$23,836	\$11,212	\$12,623	\$5,868	115%
Education	\$20,720	\$8,409	\$12,311	\$5,868	110%
Business	\$22,739	\$1,680	\$21,058	\$9,762	115%
Arts	\$20,828	\$5,605	\$15,223	\$5,868	159%
Creative Arts	\$21,951	\$8,409	\$13,542	\$5,868	131%
Law	\$24,095	\$1,680	\$22,415	\$9,792	129%
Medicine	\$54,649	\$16,818	\$37,831	\$9,792	286%

However, in the Masters By Coursework sector where universities charge deregulated full fees on both domestic and international students, the fees for domestic students are usually significantly lower.

A quick, rough sample of coursework masters by coursework fees at Go8 universities by NUS shows them to be typically 10-30% lower. The Group of 8 has also released a policy note analyzing 500 coursework masters tuition fees which showed that in most cases domestic students are charged less than international students.²⁵ This can be partly explained by the extra costs of ESOS Act and migration compliance (ie pastoral care and support) associated with international students. There may also be some cross subsidisation.

Geoff Sharrock, Program Director at the LH Martin Institute (associated with the University of Melbourne's Centre for the Study of Higher Education) has released ballpark calculations that take

²⁵ Group of Eight, *Policy Note: Tuition Fees at Australian Universities*, May 2014, pg 3

these variables into account. He compares current 'status quo fees' with the scenario that domestic undergraduate fees are increased to the Grattan Institute rates (ie, as in Table 6 average international fee minus commonwealth contribution); and also the scenario where domestic fees are 20% lower than international fees.

Table 7: Tuition fees for Australian undergraduates based on 2016 subsidy rates and linked to 'average' international student fees

Course Type and Years of Study	Average annual international student fee in 2013 (Grattan Institute)	New Domestic fee to match average income per international student at 2016 subsidy rates	New Domestic % fee rise to match average income per international student	Status quo: domestic student fee per year (at 2014 rates)	New 2016 domestic fee per year at Grattan % rise on 2014 fees	New 2016 domestic fee per year at Grattan% rise on 2014 fees (less 20%)
Medicine (5 years)	\$54,600	\$37,800	286%	\$10,100	\$39,000	\$31,200
Law (4 years)	\$24,100	\$22,400	129%	\$10,100	\$23,100	\$18,500
Engineering (4 years)	\$26,600	\$15,300	84%	\$8,600	\$15,800	\$12,600
Education (4 years)	\$20,700	\$12,300	110%	\$6,000	\$12,600	\$10,100
Commerce (3 years)	\$22,700	\$21,100	115%	\$10,100	\$21,700	\$17,400
Science (3 years)	\$25,400	\$14,200	70%	\$8,600	\$14,600	\$11,700
Humanities (3 years)	\$20,800	\$15,200	159%	\$6,000	\$15,500	\$12,400
Nursing (3 years)	\$23,800	\$12,600	115%	\$6,000	\$12,900	\$10,300

Another complication is that international student fees are higher at Go8 universities. In Table 8 Sharrock looks at the HELP debt implications at 'average' institutions (unshaded) compared to Go8 universities (shaded).

Table 8: HELP debts based on 'average' and 'Go8' international student fees

Course Type and Years of Study	New 2016 domestic fee per year at Grattan % rise on 2014 fees	Post 2016 HELP debt if fees rise by Grattan % (at constant 2016 prices)	Post 2016 HELP debt if fees set at 20% less than Grattan rate	Go8 international student fee rate per year in 2014	Overall HELP debt of fees set at Go8 international rate (less 2016 subsidy)	Overall HELP debt if fees set at 20% less than (Go8 international rate less 2016 subsidy)
Medicine (5 years)	\$39,000	\$195,000	\$156,000	\$58,000	\$200,000	\$160,000
Law (4 years)	\$23,100	\$92,000	\$74,000	\$33,000	\$125,000	\$100,000
Engineering (4 years)	\$15,800	\$63,000	\$51,000	\$35,000	\$92,000	\$74,000
Education (4 years)	\$12,600	\$50,000	\$40,000	\$26,000	\$68,000	\$54,000
Commerce (3 years)	\$21,700	\$65,000	\$52,000	\$33,000	\$94,000	\$75,000
Science (3 years)	\$14,600	\$44,000	\$35,000	\$33,000	\$63,000	\$50,000

Humanities (3 years)	\$15,500	\$46,000	\$37,000	\$26,000	\$60,000	\$48,000
Nursing (3 years)	\$12,900	\$39,000	\$31,000	\$26,000	\$42,000	\$34,000

The upshot of this modeling is that student debt at completion of the degree will range from \$26,000 - \$48,000 for Humanities to \$156,000 - \$160,000 for Medicine.

The Norton and Sharrock calculations only estimate debt at graduation. The amount that students will actually repay will be much larger due to the impact of applying Treasury bond rates of interest to these graduation debts. In many cases graduates who take longer to repay due to period of low income or raising a family will pay more to cover the interest than the original HELP debts.

2.2 Taking into account the interest rates

With repayments taking two or three decades (and a lifetime in some cases) the interest rates applied to HELP debts will become a crucial matter. At a recent seminar at Melbourne University the architect of HECS, Bruce Chapman, described the proposal to charge real compound interest rates on HELP debts as bigger than the original introduction of HECS in 1989.

According to Chapman HECS and other HELP debts are indexed at CPI so that the value of the debt is maintained in real (CPI) terms. While the nominal dollar amount of the debt increases with time its real value is constant during times when there is no repayments being made by the graduate/former student (such as when income is below repayment threshold or taking time off to raise children). NUS's long standing contention with Chapman is that this view is predicated on the belief that wages, allowances and pensions will rise by at least the CPI, which isn't always the case.

Section 140-10 of the bill outlines that that HELP debts be indexed by 10 year Treasury bond rates (the rate the Commonwealth borrows the money to underwrite the HELP loans). The justification for this from right wing economists is that the progressive income contingent nature of HELP loans is acting as an implicit public subsidy to students. In essence the profound change to HELP arrangements is that there is now a substantial financial penalty for taking longer to repay HELP debts. This penalises graduates who do not choose high paying professions and go into careers such as nursing, social work, teaching or the arts. There is also a strong gender aspect. The Graduate Careers Australia analysed the 2013 Graduate Destinations Survey data and found that average female new graduate salaries are 9.4% lower than males.²⁶

Modelling from the Melbourne Institute of Applied Economic and Social Research²⁷ estimates that the impact of interest rates on the amount actually repaid will be the most acute for low-middle income earners (males in the 10-20th income percentile, women in the 35-45th percentile). People who spend most of their lives in the lowest percentiles will only repay part or none of the debt while people in higher percentiles will repay the debts more quickly and not have to pay off as much interest.

Table 9 outlines the higher real interest rates that would have applied if the bond rates had been introduced when the Howard Government introduced differential HECS in 1997.

Table 9: Treasury Bond Rates vs Actual HECS/HELP Indexation (1997-2013)

As at	10-year Treasury bond rate	HECS/HELP Indexation rate	Difference
30-Jun-13	3.76%	2.00%	1.76%
30-Jun-12	3.04%	2.90%	0.14%
30-Jun-11	5.21%	3.00%	2.21%

²⁶ Graduate Careers Australia, *An analysis of the gender wage gap in the graduate labour market, 2013*, www.graduatecareers.com.au, Melbourne, June 2014

²⁷ Ryan C, *Impact of Australian Higher Education Funding Reforms*, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, Policy Brief No. 2/14, August 2014

30-Jun-10	5.10%	1.90%	3.20%
30-Jun-09	5.52%	3.90%	1.62%
30-Jun-08	6.45%	2.80%	3.65%
30-Jun-07	6.26%	3.40%	2.86%
30-Jun-06	5.79%	2.80%	2.99%
30-Jun-05	5.11%	2.40%	2.71%
30-Jun-04	5.87%	2.40%	3.47%
30-Jun-03	5.01%	3.10%	1.91%
30-Jun-02	5.99%	3.60%	2.39%
30-Jun-01	6.04%	5.30%	0.74%
30-Jun-00	6.16%	1.90%	4.26%
30-Jun-99	6.27%	1.20%	5.07%
30-Jun-98	5.58%	-0.10%	5.68%
30-Jun-97	7.05%	2.00%	5.05%

Student debts (in nominal dollar terms) under the bond rates indexation would have increased by 92.2% over this time (average of 5.4% a year). The CPI indexation over this period was 42.5% (average of 2.5% a year).

It is difficult to develop precise models of the impact of the bond rates on student debt as the rates are set ultimately by capital markets and have varied from 3 – 7% over 1997-2013. Even though the bond rates are now below 4% due to the current low inflation monetary policies there is no guarantee of this over the decades it will take many students to pay off their HELP debts. Section 140-10 of the bill sets a 6% cap on annual HELP debt indexation. NATSEM notes that the current rates are at an historic low and instead has used a 5% average in its modeling.

Credible forecasts of real life student debt repayments taking into account modest fee increases and the market rates of interest:

National Tertiary Education Union: Someone enrolled in a three year accounting degree under pre-Budget arrangements will graduate with a debt of \$30,255 and take about 10 years to repay it without paying any real interest on that debt, Someone enrolling in a three year accounting degree under post-Budget arrangements could graduate with a \$75,000 debt, take 22 years to repay it, and end up repaying almost \$100,000 including \$25,000 in real interest payments.²⁸

Universities Australia: A nursing student (medium fee level increase scenario, works part-time for six years during her career to raise children, and faces an average interest rate of 5% (lower than the long term average) will pay \$60,692 over 21 years (nearly half, \$29,963 will be the interest).²⁹

Universities Australia: A engineering student (medium fee level increase scenario and faces an average interest rate of 5% (lower than the long term average) will pay \$116,018 over 22 years (nearly half, \$54,776 will be the interest).³⁰

NATSEM (University of Canberra): A science student, low fee increase scenario (fee rise only to cover Commonwealth cuts), 5% interest, on average males will take 10.7 years to repay the debt and repay \$88,378, females will take 13.9 years and repay \$95,720³¹

²⁸ National Tertiary Education Union, media release, 2 June 2014

²⁹ Universities Australia, The Impact of Changes to HELP Design on Students, 2014

³⁰ Universities Australia, The Impact of Changes to HELP Design on Students, 2014

³¹ 'HECS upon you: NATSEM models the real impact of higher uni fees, The Conversation, 25 June 2014

The upshot of this is that students doing longer 5 or 6 year degrees or courses with low commonwealth subsidies will be incurring debt repayments close to or exceeding \$100,000 for their initial qualification. Students doing shorter three year programs and with higher proportions of Commonwealth contribution will still incur costs of \$40,000 – \$60,000. This doesn't cover the additional costs faced by students who need a masters qualification for initial professional qualification.

This isn't based on extreme assumption in the modelling. It is the ballpark scenarios that most credible commentators have come to using moderate scenarios.

2.3 Post 2016

NUS expects that many Australian Vice-Chancellors (but not all) may prove to be cautious in 2016 and keep fee rises close to a break even point apart from some flagship courses and courses with very high rates of private return. They will be keeping an eye on what their competitors are doing and if there are courses where demand dramatically drops. However, what will be the longer term trend with tuition fee rises after 2016?

We expect that in the medium term the initial caution will fade away. In the USA where tuition fees are fully deregulated and there is considerable diversity on the types of higher education providers. Private not for profit four year institutions have much higher average fees than public and private for profit institutions. Despite being a fully mature deregulated market there is no sign that market competition in the USA is holding tuition fee prices down. The *Washington Monthly* commented in September 2011 that:

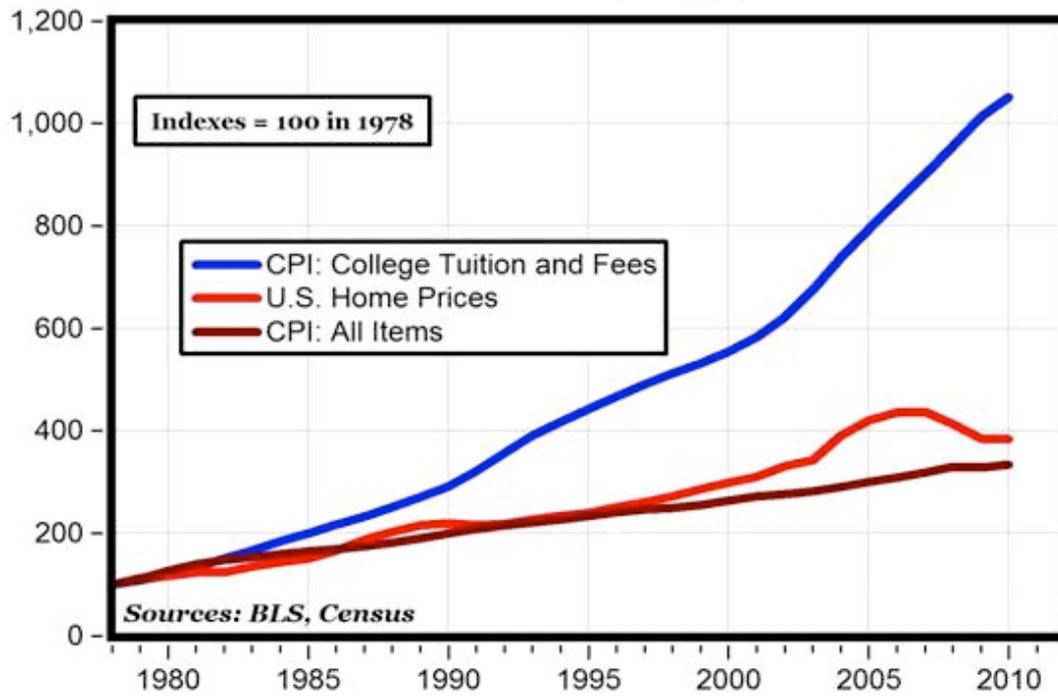
"Since 1980, inflation- adjusted tuition at public universities has tripled; at private universities it has more than doubled. Compared to all other goods and services in the American economy, including medical care, only "cigarettes and other tobacco products" have seen prices rise faster than the cost of going to college." ("Administrators Ate My Tuition", www.washingtonmonthly.com)

Several reasons have been advanced by US higher education commentators for this tuition fee spiral:

- The depressed labour market;
- Higher debt limits on federal student loans;
- Student demand for high quality and up to date amenities, support services and information technology;
- Reduction in public funding per student from the state governments;
- Higher Tuition Fees Acting As A Proxy For Quality (ie as rivals raise their prices high status institutions raise their prices to maintain their perceived status)

Professor Mark Perry (Economics and Finance, School of Management, University of Michigan) has generated this chart using US Bureau of Labor Statistics data to compare the rate of rise in average tuition fees in the US (1978-2010) compared with median new home prices and the CPI (<http://mjperry.blogspot.com.au/2010/06/higher-education-bubble-its-about-to.html>).

CPI: College Tuition vs. U.S. Home Prices vs. CPI: All Items, 1978 to 2010



While there are some important differences between the US system and the arrangements proposed to come in here (such as the wider availability of income contingent repayments in Australia, and that the US federal loans are capped at a much lower level) the differences actually make it easier for Australian universities to raise tuition fees. In the USA students have been making up the gap by paying up to 18% on commercial loans. In Australia it would be racked up as more HELP debt.

The experience of tuition fee spiral in the USA poses a problem for those in Australia who believe that market pressures will keep prices in check. The tuition price inelasticity of non study debt averse students is a prominent factor. Indeed in the absence of reliable information about quality the price of a course can become a proxy for quality. Rather than students acting as rational calculators choosing to minimise costs they compete to get into highly selective courses and pay the higher fees that they believe will lead to a high status job. While this is their 'choice' the struggle for perceived positional advantage in courses where demand far outstrips supply breaks down normal market forces.

There seems to be nothing in the legislation that avoids replicating the tuition fee spiral and graduate study debt crisis in the USA. Graduate debt issues will be covered more fully in Part 4.

Part Three: The Limitations of Scholarships (Schedule 2)

The major equity measure to offset the impact of the fee increases arising from fee deregulation is the new 'Commonwealth' Scholarship Scheme. Unlike the similarly named scheme that was proposed by the Chifley Government in 1949, and legislated by the Menzies Government in 1950, this scheme is based on what is effectively a levy on the student fees. Also the scholarships will be awarded on equity grounds to 'disadvantaged students' rather than high university admission scores.

Other announced 2014-15 budget measures convert existing Start Up Scholarships into loans and restrict eligibility for commonwealth relocation scholarships.

Universities and other higher education providers with more than 500 students will be required to set aside up to \$1 for every \$5 of increased fee revenue collected from students. Schedule 2 of the *Higher Education and Research Reform Amendment Bill 2014* also allows for the development of (yet unseen) Commonwealth Grant Scheme Scholarship Guidelines (or the provider's funding agreement if the Guidelines are silent). The legislation (Section 36 -75 (4)) seems to allow the Minister through changes to the Commonwealth Grant Scheme Guidelines to set a lower percentage (than the 20%) requirement for scholarship revenue.

The Minister has made it clear that the universities will have the discretion to determine what the scholarship revenue will cover and how the scholarships will be distributed. At his recent National Press Club address the Minister stated: "*The scholarships will also be able to cover fee exemptions and mentoring, tutorial support and even relocation and living expenses.*"³²

Some of the inspiration for this scheme seems to have come from the British access scheme developed in response to the introduction of variable tuition fees in 2006. Universities that took advantage of the partial deregulation were required to set aside part of the money for bursaries (scholarships) and other institutional access agreements that were approved by a statutory body, the Office For Fair Access (OFFA).

Initially institutions were required to offer a statutory minimum bursary that covered the difference between the government grant and the tuition fee to all students on the full maintenance grant (in Australian terms this would be students on the maximum rate of Youth Allowance, Austudy or Abstudy). Otherwise British universities were free to set bursary levels and eligibility criteria as they saw fit. The amounts arising from the bursaries available to students varied from a few hundred pounds to 4,000 pounds. From 2010-11 the minimum bursary for students on the full maintenance grant was set at 10% of the tuition fee.

There are at least two significant differences between the British access system and the little that is known about the proposed Commonwealth Scholarship Scheme. The British model has a statutory minimum bursary level for the most needy students and also has a statutory body that approves the institution's plans and evaluates the effectiveness of the plans. We await the Guidelines to establish what the relationship between the Department and institutions will be but the indications are that it will be a hands off approach.

Research by the OFFA does provide some caution for those who see scholarships as a straightforward panacea for the equity issues arising from higher tuition fees. Like Australia the socio-economic composition of British universities is highly stratified with 'highly selective' research universities having a similar high SES/upper middle-class undergraduate composition as Australia's Group of 8 universities. The selective universities charged higher fees and had fewer disadvantaged students, and were thus able to offer higher bursaries.

However, the OFFA report into the impact of the bursaries on student choices between institutions³³ concluded that the "*introduction of bursaries have not influenced the choice of university for disadvantaged young people*" and that "*applications from disadvantaged young people have not changed in favour of universities offering higher bursaries*". In short most of the improvements in the participation of disadvantaged young people in the sector have remained quarantined within the low status universities offering low bursaries.

³² Education Minister, Chris Pyne, National Press Gallery Address, 6 Aug 2014

³³ Office For Fair Access, "Have bursaries influenced choices between universities ?", 2010/06, September 2010, United Kingdom

Low SES students often have higher dropout rates than other students. Another OFFA report³⁴, released in March 2014, investigated the impact of bursaries on retention rates. The raw data since 2006 seems to indicate that bursaries coincided with improvements in continuation rates across all the SES quintiles. However, when the data was adjusted for other factors such as student's prior academic achievement and where they lived the report concluded that it was "unable to find evidence that the core bursary schemes delivered between 2006-7 and 2010-11 had any effect on the retention rates of the students that received them."

The evidence from the UK seems to indicate that creating lots of small bursaries may not affect student choice of institution or improve retention rates.

Australia also has a highly stratified higher education system according to SES composition ranging from Central Queensland University (with 36% low SES enrolments) to Australian National University (with less than 4% low SES enrolments). Also despite the existence of relocation scholarships there is a much lower rate of movement of prospective students to other regions compared to the UK.

Table 10: Low SES Composition at Australian Public and Private Universities (Department of Education Stats, 2012)

University	Low SES%	Domestic Student Enrolments
Central Queensland	36.87	12,980
Uni of Southern Queensland	30.24	20,419
Southern Cross	26.97	11,902
James Cook	26.05	14,378
Uni of New England	25.36	18,361
Uni of Tasmania	25.98	20,044
Charles Sturt	23.96	32,294
Uni of Newcastle	23.67	23,830
Uni of Western Sydney	23.46	17,607
Uni of Ballarat (becomes Federation University Australia under Schedule 9 of this bill)	22.59	6,271
Uni of SA	22.07	24,503
Victoria	21.74	17,817
Charles Darwin	18.51	8,980
Flinders	17.82	17,554
Sunshine Coast	17.56	8,767
Murdoch	17.07	13,854
La Trobe	17.05	25,375
Wollongong	17.01	8,767
Griffith	14.91	31,768
Edith Cowan	14.50	22,005
RMIT	13.77	27,540
Aust Catholic	12.89	20,638
Curtin	12.85	30,102
Swinburne	12.69	17,625
Deakin	12.63	34,601
Uni of Adelaide	12.63	18,464
QUT	11.27	37,108
UTS	10.89	26,586
Monash	10.50	40,305
Uni of Queensland	10.34	34,780
UNSW	8.58	36,201
Uni of Melbourne	7.88	35,771
Bond	7.79	3,950

³⁴ Office For Fair Access, "Do bursaries have an effect on retention rates?", 2014/02, March 2014, United Kingdom

Macquarie	7.59	27,005
Uni of Canberra	7.36	11,959
Uni of Sydney	7.15	40,123
Notre Dame	7.14	9,858
Uni of WA	5.67	19,619
ANU	3.69	14,229
National	15.47	921,186

The numbers here above show that there is a real potential that universities that serve low SES/low-middle SES regional and outer suburban catchments will be in a situation where they cannot increase fees much beyond break even levels but have to distribute whatever bursary income they collect to a much larger pool of disadvantaged students. Ballpark modelling from the NTEU indicates that universities with more than 20% low SES enrolments will not be able to cover the increase in tuition fees with the average value of the Commonwealth scholarships.

Conversely the high status universities with very low SES enrolments will have plenty of money to poach a few high achieving students from low SES backgrounds from other universities. The risk of a hands-off approach is that we end up with a scholarship scheme that does little to improve overall access to higher education or the distribution of low SES students within it.

Part Four: Graduate Impact and the Economy

While there are some important differences between the US system and the arrangements proposed to come in here (such as the wider availability of income contingent repayments in Australia, and that the US federal loans are capped) the differences actually make it easier for Australian graduates to accumulate large study debts and for universities to keep inflating their prices above inflation. Drawing from the US experience there are other significant social consequences that will arise from the much larger study debts repaid by graduates compared to current, typical HELP loan debts.

4.1 Life-Delayed By Study Debt

“My goal in life is to be happy, work hard, and be free. I wake up every day and I think about my loans. My student loan debt is such an oppressive obstacle to my happiness and freedom, that I feel like I can’t start living my life until I’m 35, when I pay off my loans. And even then, I’ll need to take out more loans to earn a master’s degree to earn more money.”- ASA survey respondent, 2013

American Student Assistance (ASA) is a not-for-profit organisation run by professional financial advisors. ASA was established to provide US students with ‘neutral’ advice about student loans and empower them in their financial decision-making around higher education. In 2013 ASA conducted the “Life Delayed” survey of the impact of Student Debt on the daily lives of Young Americans.³⁵ The survey report notes that the student loans in the USA were originally established with the aim of improving students’ social mobility but the repayments were now limiting young people’s ability to achieve financial success. Applicable findings to the Australian context (ie about scale of debt and duration of repayment rather than poverty associated with excessively high weekly repayment rates) included:

- 63% said their debt affected their ability to make larger purchases such as a car;
- 73% said they have put off saving for retirement or other investments;
- 75% indicated that student loan debt affected their decision or ability to purchase a home;
- 30% responded that their student loan debt was the deciding factor, or had considerable impact, on their choice of career field;
- 47% indicated it was the deciding factor, or had considerable impact, on their decision or ability to start a small business;
- 29% indicated that they have put off marriage as a result of their student loans;
- 43% said that student debt has delayed their decision to start a family.

The report concludes:

“Even those never personally hampered by student loan debt are being impacted as society at large bears the burden of career paths not taken, first homes not purchased, entrepreneurship stalled, public sector employment diminished, investments not made, and lives delayed.”

4.2 Career Choice

Large study debts can impact on graduate choices about their career. 30% of respondents to the ASA survey said that their student debt was a deciding factor or had considerable impact of their choice of

³⁵ American Student Assistance, *Life Delayed: The Impact of Student Debt on the Daily Lives of Young Americans*, 2013 (<http://www.asa.org>)

career field. This reinforces other research that found a correlation between study debt and career choice. A selective US university in the early 2000s introduced a 'no loans' policy where the loans component of the tuition fee costs were replaced with student grants. The National Bureau of Economics commissioned Jesse Rothstein and Celcilia Rouse, a couple of Princeton University researchers, to seize the opportunity of this "natural experiment" to identify if there was any casual effect of student debts on early career employment outcomes.³⁶

According to Rothstein and Rouse: *"The traditional economic view of borrowing and saving rules out these sorts of effects. In a standard life-cycle model, student debt has only an income effect - proportional to the ratio of debt to the present discounted value of total lifetime earnings - on career and other post- college decisions."*³⁷

As student loan debts are generally much smaller than additional lifetime earnings the traditional economic view is that these debts would only have a small impact on graduate career and other major economic choices. However, after examining the cohorts of graduates where many took out loans compared to the cohorts from the no-loans era the study concluded the opposite:

*"We find that debt causes graduates to choose substantially higher-salary jobs and reduces the probability that students choose low-paid "public interest" jobs. We also find some evidence that debt affects students' academic decisions during college. Our estimates suggest that recent college graduates are not life-cycle agents."*³⁸

The American Medical Association told a 2013 inquiry into the affordability of student loans that that high debt burdens may impact on a medical student's choice of practice area, leading some to abandon geriatrics and family medicine in favour of more lucrative specialties, exacerbating the primary care shortage.³⁹

A corollary of this is that in the long term publicly funded institutions (schools, welfare, nursing, aged care support and many community organisations) will need to pay higher wages if they want to attract the best and brightest graduates. Ultimately the taxpayer would foot the bill for this.

4.3 Graduate Well Being and Entrepreneurial Activity

Indiana's Purdue University recently commissioned a large, evidence-based study of the impact of student debt on 30,000 university graduates across the USA using the Gallup Well Being Index survey instrument.⁴⁰ Overall graduate "well being" was measured according five dimensions: life purpose, social engagement, community engagement, financial satisfaction and physical health. According to their responses graduates were then categorised as "thriving", "struggling" or "suffering". Those who are thriving are strong, consistent, and progressing, while those who are struggling are moderate or inconsistent. Those who are suffering are at high risk.

The study found that moderate-high levels of student debt were linked to significantly lower levels of graduate well-being:

*"The amount of student loans that graduates take out to pay for their undergraduate degree is related to their well-being in every element. The higher the loan amount, the worse the well-being. Only 4% of graduates who owed between \$20,000 and \$40,000 are thriving in all areas, compared with 14% of those who did not take out loans."*⁴¹

The study also found a negative association between high student debt and entrepreneurial activity of graduates (such as starting a business):

³⁶ Rothstein J and Rouse CE, *National Bureau of Economics: Working Paper 13117*, "Constrained After College: Student Choice and Early Career Occupational Choices", 2007 (<http://www.nber.org/papers/w13117>), Cambridge, USA

³⁷ Ibid. pg. 2

³⁸ Ibid (abstract)

³⁹ Consumer Financial Protection Bureau, "Student Loan Affordability: Analysis of Public Input on Impact and Solutions", May 2013

⁴⁰ "Great Jobs, Great Lives": *The 2014 Gallup-Purdue Index Report*, Gallup and Purdue University, 2014

⁴¹ Ibid, p 15

“High student loan debt also may inhibit entrepreneurial activity, particularly among those who graduated after 1990. The higher the loan amount that graduates reported they took out for their undergraduate education, the less likely they are to say they started a business.”⁴²

This inquiry should be asking whether these study debts may stifle graduate entrepreneurial activity associated with innovation arising from Australian research outside of the public sector agencies?

4.4 Home Ownership

In the ASA survey 75% indicated that student loan debt affected their decision or ability to purchase a home. Some impact of HELP debts in delays in graduates taking out mortgages has also been raised anecdotally in Australia by real estate organisations. In the USA there is serious research being undertaken by financial institutions. A recent study by researchers at the Federal Reserve Bank of New York ⁴³ has raised concerns about the impact of student loans on graduate home ownership rates in the post-GFC housing recovery. The study using bank credit data examines the relative proportions of thirty year old Americans with mortgage debts over the last decade.

The traditional pre-GFC pattern were for 30 year olds with student loans debts to have higher home ownership rates than those without student loan debts. This can be partly explained by higher income of graduates compared to non-graduates and the easier access to bank credit in years preceding the GFC. Home ownership rates for all young Americans tumbled in the wake of the GFC.

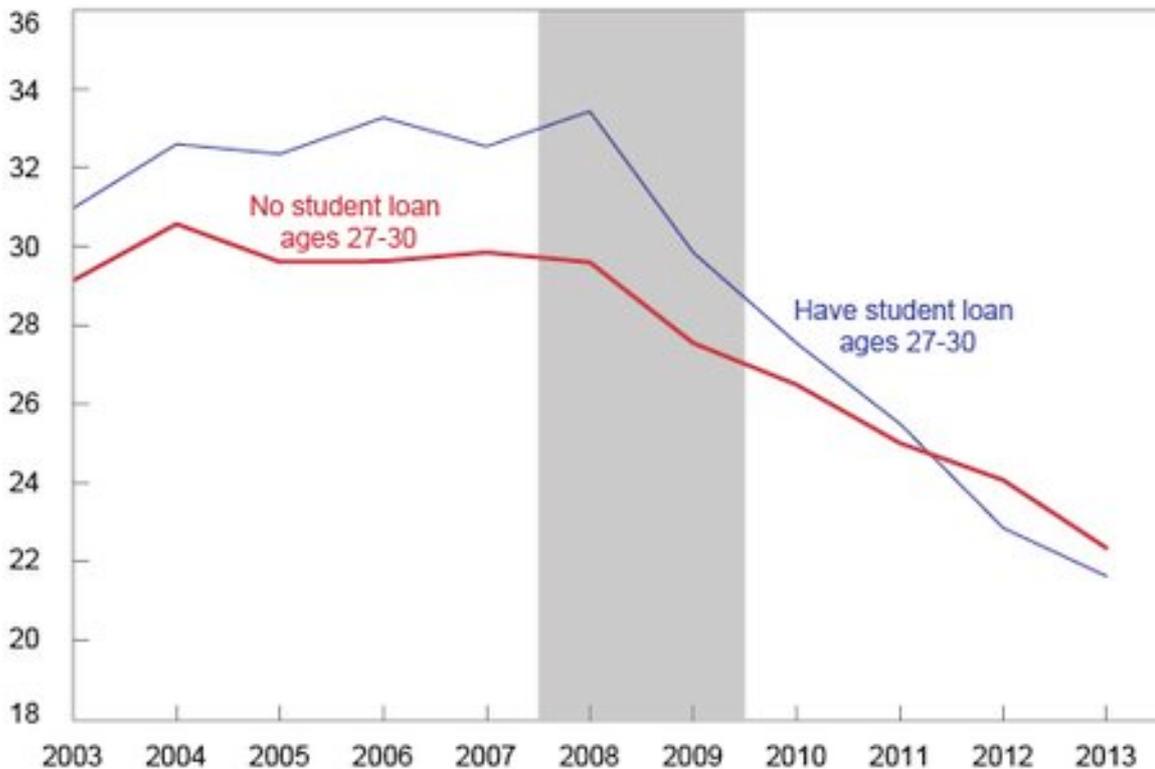
The disturbing finding arising from the study is that despite a marked recovery in the housing industry in 2013 (reflected in an 11% increase in average house prices) that the home ownership rates for young Americans continue to tumble. The decline in home ownership of graduates with study debts is more acute than for Americans without study loans. Since 2011 the pre-GFC pattern has reversed such that young Americans with a study debt have lower home ownership rates than those without study debt.

⁴² Ibid, p 15

⁴³ Brown M, Caldwell S and Sutherland S, “Young Student Loan Borrowers Remained on the Sidelines of the Housing Market”, *Liberty Street Economics*, Federal Reserve Bank of New York , April 2014 (<http://libertystreeteconomics.newyorkfed.org>)

Proportion with Home-Secured Debt at Age 30

Percent



Source: FRBNY Consumer Credit Panel/Equifax.

The researchers postulate various factors behind this trend:

“(T)he failure of young consumers, and particularly the comparatively skilled young consumers of our student loan group, to re-enter the housing market remains a puzzle. Many factors could be contributing to this phenomenon, including growing student debt balances, limited access to credit, lowered expectations for future earnings, and perhaps even a cultural shift by which young people—whether they went to college or not—are deferring home purchases. Whatever the cause of student borrowers’ reticence, the housing market rebound of 2013 appears to have proceeded without the help of this skilled set of young buyers.”

In 2013 the US Consumer Financial Protection Bureau held a public inquiry into the affordability of student loans. It received 28,000 submissions and comments. The National Association of Home Builders submitted that the higher student debts “*impair the ability of recent college graduates to qualify for a loan*”. In particular they cited impact of the loans on the debt-to-income ratio metrics used to assess eligibility. The National Association of Realtors also pointed out that the first-time homebuyers typically rely on savings to fund down payments. They argued that: “*For many borrowers, unmanageable student debt can make it difficult to accumulate any savings.*” They produced data showing that in 2013 the first time home-buyers share of the US housing market had fallen to 30% from its historic 40% level.

This Inquiry should be asking the Australian real estate industry about the implications of these massive debts on the Australian housing market for first home-buyers.

4.5 Ballooning Student Debt Acts As A Drag on Economic Recovery

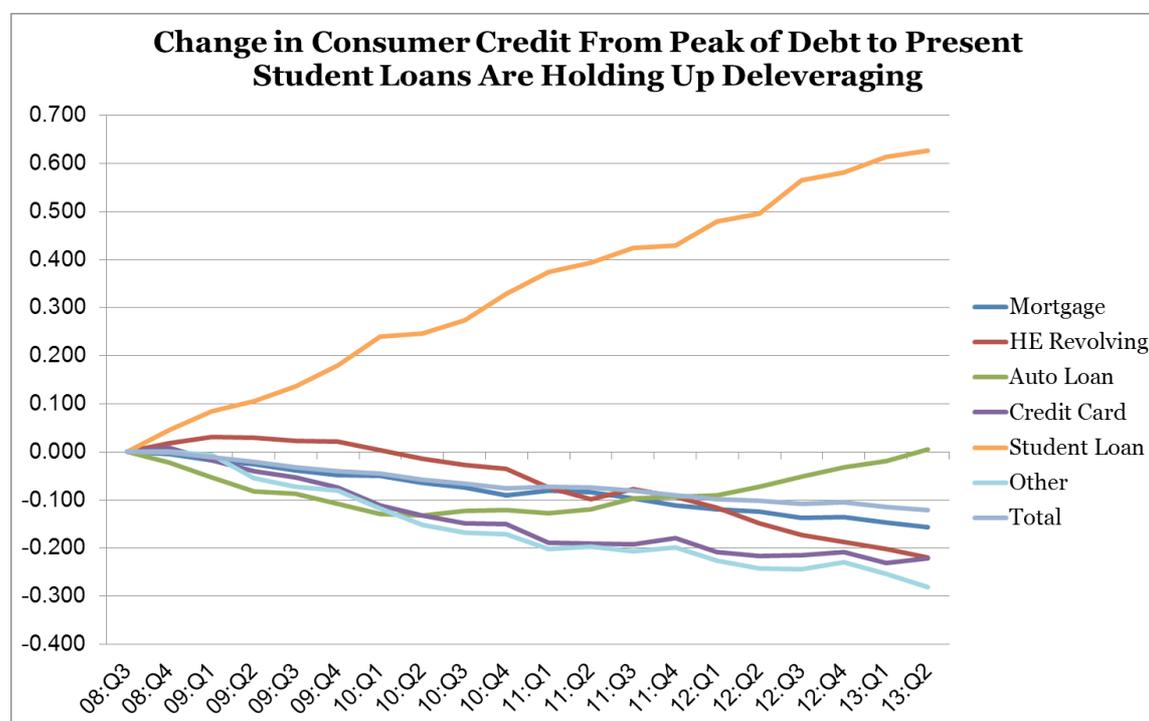
In recent months US economists have been debating the wider impact of student loan debts in slowing down the post-GFC recovery of the US economy. The national student loan debt is approaching \$US1.2 trillion and exceeds the national credit card debt. It is the second highest form of personal debt,

only exceeded by mortgages. Tuition fees in the USA's deregulated higher education market grow at the well above the inflation rate. According to the *Washington Monthly*:

"Since 1980, inflation-adjusted tuition at public universities has tripled; at private universities it has more than doubled. Compared to all other goods and services in the American economy, including medical care, only "cigarettes and other tobacco products" have seen prices rise faster than the cost of going to college."

Josh Freedman, economic writer with the New America Foundation, argued in *Forbes*⁴⁴ that that high private debt levels acts as a drag on US economic growth. The typical post-GFC households have been trying to deleverage, or pay down their debt "so they can have a healthier financial outlook, reduce the amount of their income that they use to service their debt, and begin investing and consuming and again. During the deleveraging process, household spending is constrained, serving as an impediment to a healthy economy."

Freedman's data (below) indicates that student loans have slowed US households in the process of deleveraging (paying down debt). Since the peak level of household debt in 2008 households have lowered their levels every type of debt except student loan debt. Student loans have continued to grow rapidly throughout this process of deleveraging.



This Senate Inquiry should be asking economists whether or not the fee deregulation and the risk a of US-style a study debt spiral will act as a break on Australian savings and other possible negative economic consequences.

4.6 Applicability To Australia

Not all of the American experience is transferable to the Australian context. There is a wide variety of federal and state government student loans schemes in the USA but access to income contingent loans schemes is rather limited, there are restrictions on the amount of time loans payments can be deferred due to unemployment or low income, and a greater reliance on commercial loans to top up the capped government loans. These factors lead to issues of graduate default on loan repayments and graduate poverty arising from high monthly loan repayments (even under the most generous Federal Direct

⁴⁴ Josh Freedman, *Forbes*, 11/2/14

Subsidised Loans Scheme the repayments are capped at 15% of income). 27% of the ASA survey respondents said that the loans repayments made it difficult to buy daily necessities.

In Australia the issues of graduate defaults and graduate poverty arising from loan repayments are minimised as there is universal access to income contingent HELP loans and under the proposed HELP reforms the repayments will cut in at \$50, 638 (2%) with the top 8% rate cutting in at \$104,492.

However, some issues arising from the US experience are more applicable to Australia under the proposed higher education reforms. Most "millennials" studying post-2016 will be incurring much larger student study debts on graduation than current students and debts will be indexed at Treasury bond rates rather than CPI. Even the Australian Treasury has quietly conceded that the projections the national HELP debt will double over the budget forecast period. The accumulated HELP debt was estimated in the 2014-15 Federal budget papers (*Budget Paper No. 1, Ch 7: Debt Statement, Assets and Liabilities, pg 7-21*) to be \$25.2 billion on 30 June 2014. The Treasury forecast for 2017-18 is that the HELP debt will be \$51.4 billion.

In the USA the federal loans are capped (for example the widely used Direct Unsubsidised Loan is capped at \$US5,500 a year). This has not slowed the tuition fee spiral with students taking out commercial loans at up to 18% interest to fill in the gap. In the Australian higher education reforms the removal of the HECS-HELP maximum student contribution rates and also the FEE-HELP life-time loan limits give the Vice-Chancellors a blank cheque to increase tuition fees without forcing students down the commercial loan path.

As mentioned previously some Vice-Chancellors may initially be cautious and raise tuition fees initially to cover the reduction in Commonwealth funding. However, in the longer term they will find that the millennial school leavers (outside of the most debt averse groups) who seek professional careers have no option but to incur these life-delaying study debts and hope for the best.

There are stark issues of inter-generation equality between the cohorts affected by the changes and baby boomer generation largely responsible for making the policies. The labour market the millennial graduates will be moving into will be very different from that experienced by the free education era baby boomers. Average private rates of return for the millennials will be much lower compared to baby boomers simply as a result of the fact that bachelor degree graduates form a much bigger proportion of the adult population. Unlike the 1990s professional wages are plateauing in real terms. Also for many careers a masters qualification or some other post-bachelor degree is already necessary for initial professional registration. This considerably increases the study costs and income foregone while doing the extra years of study.

The baby boomer world where graduates could expect stable full-time employment and regular promotions based on long service is disappearing. While millennial graduates will have higher employment rates than people with only with a high school certificate they will spend much of their early career in insecure contract and casual positions. Many people with in demand trade qualifications already have much higher wage outcomes than the bachelor graduates. Women who take time out of their career to raise a family will incur market rates of interest on their debt.

The acceleration of technological and social changes also means that doing a one-off bachelor degree will not be enough for a prosperous life-long career. Many millennials will need to have several careers over a life-time. As far back as the mid 1990s an Australian Vice-Chancellors Committee discussion paper anticipated that the average working life of the future would consist of six or seven different careers, each requiring new skills, attitudes and values.⁴⁵

Australia needs a higher education degree system that enhances life-long learning, whether for upskilling or the re-training of graduates whose industry has become obsolescent. Little of the debate about graduate private rates of return reflects these new realities.

The central problem is that the proposed reforms give the Vice-Chancellors and budget-savings obsessed governments a blank cheque to rack up open-ended amounts of debt on the student credit card. Despite the scholarship scheme there will be deterrent effects on debt adverse groups (mature age, low SES, rural and isolated students).

However, the proposed higher education reforms will have a more profound social impact than simply affecting who chooses to go to university. The combination of large deregulated study debts, market interest rates and an increasingly insecure graduate labour market is a recipe for re-creating the 'life-delaying' impacts faced by current US graduates (career choice, home ownership rates, delays in starting a family, diminished well-being and entrepreneurial activity). The higher education reforms

⁴⁵AVCC, *Exploiting Information Technology in Higher Education: An Issues Paper*, 1996

arising from this bill are essentially a sideways transfer of many billions of dollars of public debt to private debt rather than facing up to the deeper structural challenges of the future that will require affordable life-long learning processes.

The millennial generation entering higher education post-2016 risk becoming known as Generation “Life on Hold” with all the profound social and economic consequences that will flow.

Part Five: Economic Arguments Advanced To Support The Bill

5.1 Private rates of return (Graduates vs Year 12 School Leavers)

There is considerable controversy amongst economists about how to calculate private rates of return to graduates and the external social benefits that flow generally to the community.

The Education Minister has repeatedly used the argument that on average graduates will earn over \$1 million more than students who only studied to Year 12 and that Australian university graduates on average earn 75 per cent more than school leavers who have done no further study.⁴⁶ The research that underpins the Minister's claims are from the Group of 8's policy note, *Graduate Skills and National Productivity*⁴⁷ (based on 2011 census data) and the Grattan Institute's *Graduate Winners*⁴⁸ (based on 2006 census data and authored by Andrew Norton, who co-authored the government's review of the demand driven system).

Other researchers have put the average lifetime earning benefits of graduates over Year 12 completers at a much lower level. For example the National Centre for Social and Economic Modelling (NATSEM)'s *Smart Australians* report found that a male with bachelor degree will earn about \$3.66 million and a female \$2.14 million. The corresponding figures for year 12 completers a male with year 12 will earn \$2.55 million and a female \$1.52 million. This represents increased earnings of a person with a bachelor qualification of around 40%.⁴⁹

Once costs associated with study are taken into account (tuition fees, income foregone while studying, etc) the net private rates of return for graduates also fall. The *Graduate Winners* report estimated that the net private benefit for the median male bachelor graduates was \$600,000 higher than the median year 12 completer. The highest net benefit (over \$1 million) went to male dentistry and law graduates, and to male and female doctors. However, graduates in sciences, architecture, nursing, education, agriculture, humanities and performing arts had much lower net private benefits than the median. The private rates of return in agriculture and humanities were less than \$250,000 while males in the performing arts actually showed a net loss.

The 2010 Centre for Labour Market Research report, *The Private Rate of Return to a University Degree in Australia*⁵⁰ found a similar divergence of internal rates of return⁵¹ for bachelor graduates across disciplines.

Table 11: Internal Rates of Return for Bachelor Degree Graduates

Discipline	Length of Degrees	Males	Females
Humanities	3	3%	9%
Science	3	10%	11%
Allied Health	4	13%	14%
Mathematics/Stats	3	13%	12%
Info Tech	3	17%	15%
Engineering	4	15%	14%
Architecture	5	9%	6%
Medicine	5	16%	15%
Nursing	3	17%	14%
Dentistry	5	20%	17%

⁴⁶ For example on ABC TV pre-budget Q&A and *Late-Line* (20th May)

⁴⁷ Group of 8 universities, *Policy Note: Graduate skills and national productivity*, March 2014

⁴⁸ Norton A, *Graduate Winners: Assessing the public and private benefits of higher education*, Grattan Institute, August 2012

⁴⁹ AMP/NATSEM Income and Wealth Report, *Smart Australians: Education and Innovation in Australia*, Oct 2012, NATSEM, University of Canberra

⁵⁰ Daly A et al (2010), *The Private Rate of Return to a University Degree in Australia*, The Centre for Labour Market Research, University of Canberra

⁵¹ The internal rate of return is a widely used technical term in this field to average lifetime costs and benefits of study, a zero or negative score as there is for Visual and Performing Art would mean there is no net financial benefit, see Daly et al, pp 6 -14 for those wanting more technical information.

Education	4	11%	10%
Visual and Performing Arts	3	*	*
Commerce	3	17%	15%
Law	4	17%	15%
Economics	3	18%	15%
Total		15%	12%

- is a zero of minus result

The upshot of this is that while there is a net average private benefit that flows to graduates (apart from Visual and Performing Arts) it is much lower than the 75% or the million dollar plus cited by the Minister apart from law, dentistry and medicine. The size of debts that graduates may be repaying under this legislation will take a large chunk out of the net private benefits that flow to graduates in less lucrative professions.

Private Rates of Return for Graduates in Australia are Low By OECD Standards

Table 12: Latest OECD Comparison of Internal Rates of Return (Private Costs and Benefits) of tertiary education participation compared to those who only attained upper secondary or post-secondary non-tertiary education⁵² Data is from 2010 unless otherwise stated.

	Internal rate of Return (Male)	Internal rate of Return (Female)
OECD Countries with High Private Rates of Return for Tertiary Education Participation		
Estonia	20.6%	29.7%
Hungary	28.5%	24.6%
Ireland	29.9%	21.0%
Poland	24.6%	21.6%
Portugal	18.3%	22.0%
Slovak Republic	21.4%	18.5%
Turkey (2005)	19.3%	19.2%
USA	19.4%	16.7%
OECD Countries with Medium Private Rates of Return for Tertiary Education Participation		
Belgium	11.9%	13.7%
Canada	10.2%	11.4%
Czech Republic	18.6%	15.3%
France	11.4%	10.9%
Korea	12.8%	11.0%
Slovenia	17.1%	15.3%
Spain	11.2%	14.5%
United Kingdom	14.3%	12.3%
OECD Countries with Low Private Rates of Return for Tertiary Education Participation		
Australia (2009)	9.0%	8.9%
Austria	10.1%	9.0%
Denmark	8.4%	6.5%
Finland (2009)	11.9%	8.8%
Germany	13.4%	8.5%
Greece (2009)	7.5%	9.6%

⁵² Adapted from OECD, *Education At A Glance 2014*, pg 167-8

Israel	11.8%	8.6%
Italy (2008)	8.1%	6.9%
Japan (2007)	7.4%	7.8%
Netherlands	7.2%	7.0%
New Zealand	7.3%	10.3%
Norway	8.2%	9.6%
Sweden	7.4%	7.1%
OECD Average	13.9%	13.2%

Most of the OECD countries with the low rates of private return also have no fee or low fee regimes. The exceptions to this are Australia, Japan, and New Zealand that uniquely combine high fees paid by students with relative low rates of private return.

The Australian rates of internal private return are 35% below the OECD average for males and 32% for females. Notably in light of the *Higher Education and Research Amendment Bill 2014* provisions about tuition fees and loan repayment rates the Australian rates of private return are 54% lower than those in the USA for males and 47% lower for women.

If the bill is passed this will push up costs further and lead to a further decline in private rates of return post 2016.

What about VET?

Another consideration is that the above models are comparing Bachelor graduates with Year 12 completers who do not do any further study. 23.7% of the population have achieved a university qualification. This is dwarfed by the numbers attending doing post-school Vocational Education Sector, with a quarter of all 15-19 year olds completing a Certificate 2 or above at VET. Two million people attend a VET course each year. Surely it would be valid to compare the private benefits of a bachelor degree to those with VET qualifications.

The course fees are generally much lower yet many trade qualifications lead to higher income jobs than many bachelor graduates. For example a plumber faces study costs of around \$2,000 and can reasonably expect a \$100,000+ annual income, while a graduate nurse faces \$60,000 of repayments under this bill but will have an income half that of the plumbers. This isn't an argument or higher fees for plumbers but shows how it easy to construct these private rates of return arguments to create political wedges.

The author of this submission has been around the sector long enough to see John Dawkins argue that the private rate of return meant that students should contribute 20%, for Amanda Vanstone to reduce the Commonwealth subsidy for high private return courses such as law to 15%, for Brendan Nelson to argue that the fair average student contribution be set at 40% and now for Christopher Pyne to argue that it should be at least 50%. Political decisions about student contribution rates are really driven by budgetary decisions not by technocratic judgements about the balance between private and social rates of return.

5.2 Sustainability of HECS

The justification for the many of the proposed changes is that they are necessary to maintain the financial sustainability of the HELP loans system, ie through removing implicit public subsidies such as the CPI interest rate on student loans.

However, much of the financial benefits that flow to the Commonwealth from this bill will occur in the long term (15 or 20 years or longer away) as most graduates are repaying at the same rate but a larger amount over a longer time frame. Many more graduates will never repay the full debt. For example the recent Melbourne Institute of Applied Social Research paper estimates that women earning below the 40th income percentile will not completely repay the forecast debts.⁵³

⁵³ Ryan C, Impact of Australian Higher Education Funding Reforms, Melbourne Institute of Applied Economic and Social Research, University of Melbourne, Policy Brief No. 2/14, August 2014, pg 7

The exception to this is in the Bill that provide more immediate budget savings are the 20% reduction in Commonwealth funding, the abolition of the HECS discounts for national priority courses, and the reduction of the repayment threshold through the creation of a new minimum repayment band (Schedule 4).

However, as we have seen from the US experience the combination of full fee deregulation and easy access to loans (the legislation abolishes the FEE-HELP loan limits) becomes a recipe for Vice-Chancellors to print money (paid for eventually by the student but underwritten by the Commonwealth). This blank cheque approach is more of a threat to the long term sustainability of HECS than implicit public subsidies.

Politics is driven by shorter cycles (such as four year budget projections). The combination of policy settings in this package set up the conditions for the next medium term crisis. Even the using the Federal Government's optimistic budget projections the national HELP debt will double over the forecast period. The accumulated HELP debt was forecast for 2017-18 is that the HELP debt is forecast to be \$51.4 billion.

As well as the measures in this bill this government has made it clear that it wants to use the threat of denial of access to income support as a mechanism for ensuring that young people under 30 are either in employment or doing some form of formal training or education. This will also bring considerable additional financial pressures on the long term sustainability of HECS-HELP and VET FEE-HELP

Technically under the Commonwealth's negative accrual accounting methodology the debts are counted as assets for the headline deficit/ surplus. However, there will come a time when a future government will want to limit how much it is prepared to set aside its revenue to underwrite unlimited amounts of student debt which may not be repaid until later decades, or not at all. Is it \$100 billion, \$200 billion, etc ?

It may choose the scrap the remaining progressive features of HELP student loans arrangements by lowering the repayment thresholds to just above the pensions (as occurred under the Howard Government), increasing repayment rates, or moving fully to the US system which only has very limited access to income-contingency protections. Or it could try to control fee rises by re-capping loan limits, an approach that has failed in the USA.

The best way of avoiding the next crisis is to retain a cap on student contribution rates.

Part Six: Other Factors Affecting Student Fees

6.1 Research Training Fees (Schedule 5)

For the first time domestic students in research degrees will pay tuition fees. Research Training Scheme funding by 10% (\$173 million over 3 years) from 1 Jan 2016 and allow universities to make up the shortfall by charging fees for postgraduate research students. The fees would be up to \$3,900 for high cost courses and \$1,700 for low cost courses.

In 2013 there were 36,364 domestic PhD students and 6,861 domestic masters by coursework students. Domestic coursework masters and international research students already are charged full fees.

Many of these students will have foregone full time income for up to 10 years by the time they have completed the university study needed to get a PhD. Many researchers will end up in their early career with casualised, intermittent work in the academic labour force or be told by employers that they are over-qualified to work in non-academic jobs.

We have not found recent modeling on average employee income levels broken by age specifically for research students but NATSEM has done this using 2011-12 data for postgraduate students as a general category.⁵⁴ Until their mid thirties postgraduates earn less than bachelor graduates after which they have modestly higher incomes until their fifties. At this stage their annual income is only about \$5,000 a year higher than a bachelor degree only employees. In their fifties there is a sharp divergence with postgraduate degree holders incomes rising to over \$110,000 a year while bachelor degree holders incomes plummet below \$80,000. Because of the small numbers involved this rise in postgraduate wages may be associated with a relatively few gaining very high wages as faculty heads, senior university administrators and senior managerial roles in public and private research bodies.

This modeling was conducted prior to widespread cuts to government funding research agencies such as the CSIRO, Co-operative Research Centres and the Bureau of Meteorology that are closing many employment pathways in Australia for early career researchers. There is an effective freeze on new jobs and the many of early careers researchers who form the bulk of the limited contract positions have been told their contracts will not be renewed. This is leading to a brain drain as existing young researches are forced overseas. This is folly given both the public subsidies and the personal sacrifices that have gone in developing our best and brightest young researchers who should be forming the basis of an Australian innovation-driven future.

While the debts may seem modest compared to the deregulated levels likely to be imposed on bachelor degree students, it needs to be remembered that these students will have already incurred debts from their bachelor degree, and in many cases the honours or masters programs they needed to study to gain entry to the research training program. In light of the narrowing of employment opportunities the imposition of fees seem an ill-advised additional deterrence to research training.

6.2 Indexation of Commonwealth Funding (Schedule 8)

In the long term indexation will become highly problematic for students as a use of an inadequate indexation formula will lead to higher student fees that off-set the real decline in level of Commonwealth funding. Inadequate indexation also occurred from 1995 until 2011 when the Gillard Government introduced a new indexation formula based largely on movements of the Professional, Scientific and Technical Services labour price index (rather than the minimum wage). This was phased in and became fully in operation for the 2012-13 budget. This bill instead proposes to use the CPI. According to the federal budget papers this measure will reduce Commonwealth funding by \$202.8 over 3 years from 2015-5, an amount that will almost certainly be recouped by higher student fees under the deregulated system.

⁵⁴ AMP/NATSEM Income and Wealth Report, *Smart Australians: Education and Innovation in Australia*, Oct 2012, NATSEM, University of Canberra, pg 28

The legacy of past cuts and efficiency dividends leave little extra scope for universities to cover costs through academic labour force restructuring. In the period between the 1989 Dawkins reforms that created the Unified National System the 2008 Bradley review there was an incremental but relentless deterioration in the student: staff ratio, that became particularly marked from 1995. According to research by Coates et al⁵⁵ between 1989 and 2007, there was an increase of about 376,000 full-time equivalent students, from about 350,000 to nearly 726,000 in 2007. This represents an increase of about 107%. In the same period teaching staff increased by about 8,400 from 25,060 full-time equivalent staff in 1989 to 33,496 in 2007. This is an increase of about 34%. The figures include all teaching staff, including those employed under casual contracts. The lag in the increase in teaching staff numbers led to an increase in the ratio of students to teaching staff from almost 14 per teacher to nearly 22, even when casual staff are included.

The second major shift has been the dramatic increase in the use of sessional teaching staff to deliver undergraduate teaching rather than permanent staff. University employment patterns over the last 15 years have shown a strong preference towards casual and part-time employment over permanent or tenured employment. The use of full time equivalent data in DEEWR data masks the extent of the casualisation of Australia's undergraduate teachers. At the time of the 2008 RED study commissioned by the Australian Learning and Teaching Council the DEEWR data pointed to a casuals making up 15% of the academic workforce. However the RED report found that two universities had reported that 80% of their undergraduate teaching was now conducted by sessional teachers.⁵⁶ In another case 198 individual part-time teachers were collapsed into 16 FTE. The report estimated that overall about 40-50% of undergraduate teaching in Australia was performed by sessional teachers.

NUS has been conducting large scale biennial surveys⁵⁷ (around 7,000 students) of the undergraduate perceptions about the quality of education they are receiving. Students have repeatedly been critical of the overcrowded class rooms, laboratories and tutorials and the over-use of sessional teachers who are often difficult to access outside of the lecture theatre as they don't have an office on campus. Despite changes to pedagogy and the greater use of multi-media formats in undergraduate teaching the funding stresses in the teaching system are evident in many faculties.

We expect that universities instead of pursuing further cost efficiencies will instead the recoup the costs through higher student fees.

Conclusion

While NUS is not opposed to every measure in this Bill we are opposed to its core proposals of tuition fee deregulation, the application of bond market rates of interest to HELP debts and postgraduate research training fees.

Due to study debt aversion these measures will undermine access for many potential low SES, rural and mature age students. Graduates will be facing repayments of over \$100,000, which some will be repaying over a lifetime. There are also many broader social and economic consequences of these debts that have barely been raised in the public debate so far such as its impact on first home ownership, savings, entrepreneurialism and also the low rates of private return for Australian graduates compared to other OECD countries.

We note that the Bradley Review of Higher Education recommended that the base funding for teaching should be increased by 10% and the Base Funding Review's findings about widespread underfunding of many disciplines. Fee deregulation, while seen by many as providing a quick funding fix, will not serve the long-term interests of Australia. Instead we need a funding system that is premised on affordable life-long earning that will be even more necessary for the high skill labour markets of Australia's future.

We urge Senators to vote down this bill in its entirety.

⁵⁵ Coates H, Dobson I, Geodegbuure and Meek L, "Australia: Casual approach to academic workforce", World University News, Issue 110, 7 Feb 2010,

<http://www.universityworldnews.com/article.php?story=20100205110147448&mode=print>

⁵⁶ Australian Learning and Teaching Council, *The Red Report (Recognition, Enhancement and Development) – the contribution of sessional teachers to higher education*, June 2008

⁵⁷ The most recent is the NUS, Quality Survey Report, 2012, e-versions are available on request from research@nus.asn.au