

Higher education financing: Theory, data, policy and recent research

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**Crawford School of Economics and Government
Australian National University**

OUTLINE

- The History of Student Charges in Australia
- Theory Part 1: The Case for a Charge
- Theory Part 2: The Need for Government Intervention
- Theory Part 3: Bank Loans versus Income Contingent Loans (HECS)
- Illustrating Consumption Smoothing form HECS
- HECS and Access
- Recent Research Developments: US loan problems
- Bureaucratic Politics and the Academic
- Conclusion

The History of Student Charges in Australia

- Fee abolition: 1973
- HEAC: the charging watershed, 1986
- HECS: income contingent charges, 1989
- PELS, 2002
- FEE-HELP, 2005 and extended in 2007

Theory Part 1: The Case for a Charge

- higher education as an investment process
- private costs: foregone earnings + tuition
- private benefits: additional lifetime earnings
- graphical summary: Figures 1-4
- net benefits imply the case for a charge (budgets are not free)

Figure 1
Typical Australian Female Age-Earnings Profiles: 2004

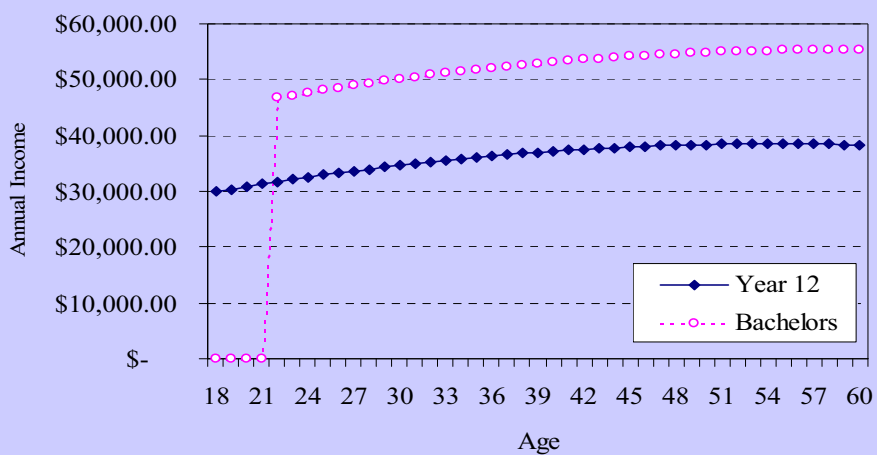


Figure 2
Typical Australian Male Age-Earnings Profiles: 2004

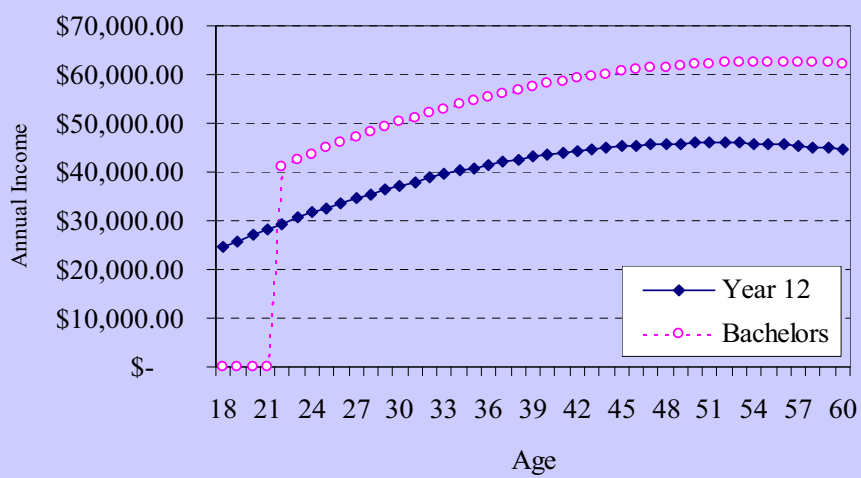


Figure 3
Typical Male Age-Earnings Profiles: Mexico 2001

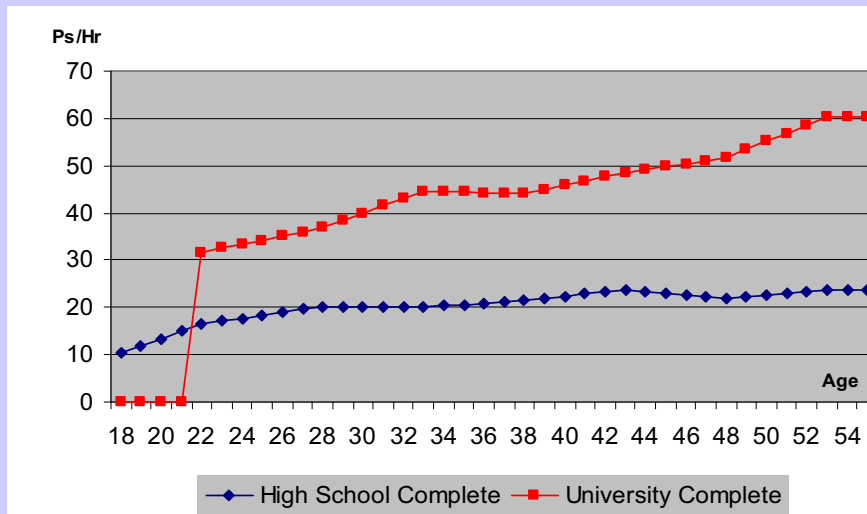
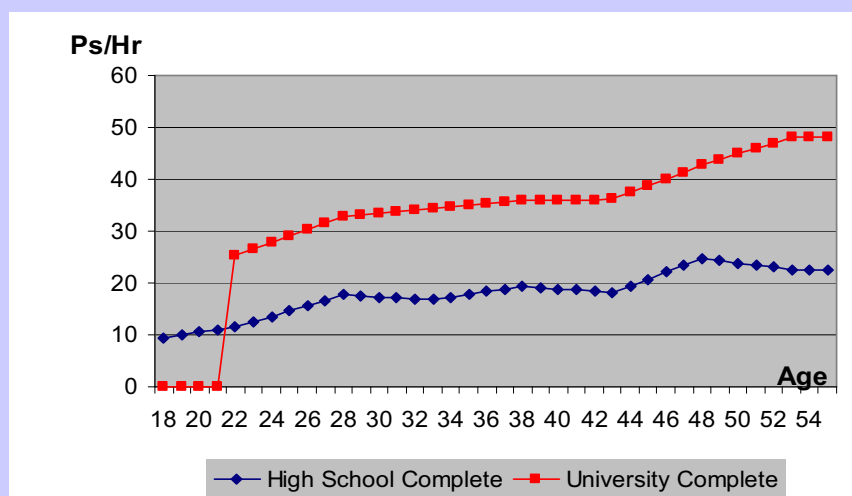


Figure 4
Typical Female Age-Earnings Profiles: Mexico 2001

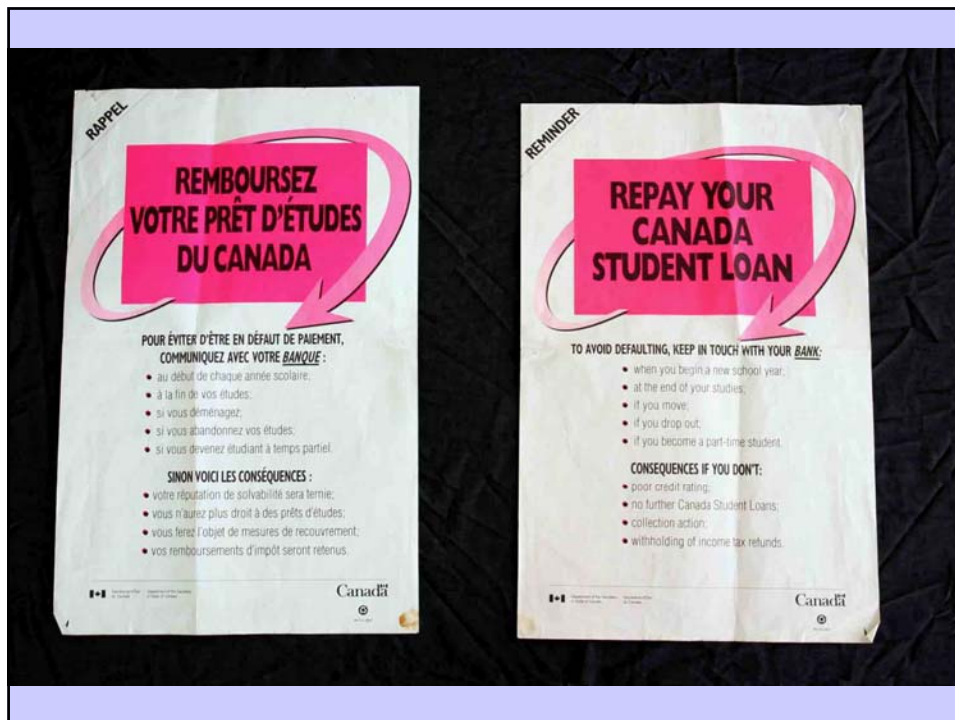


Theory Part 2: The Need for Government Intervention in Higher Education Financing

- human capital investment is uncertain: completion; ability; and the future labour market.
- poor outcomes can lead to default
- the problem for banks: no saleable collateral
- the problem for students: no access to loans
- government intervention is required
- two types of loans: bank (gov't guaranteed, US, Canada) and ICL

Theory Part 3a: Bank Loans, Costs and Benefits

- Bank Loans Benefit: solves the market failure and the lender default problem
- Bank Loan Cost 1: defaults expensive for taxpayers, so rationing
- Bank Loan Cost 2: some repayment hardships, no consumption smoothing
- Bank Loan Cost 3: no default insurance for students (poster)



Theory Part 3b: Income Contingent Loans, Costs and Benefits

- What is an ICL?
- Critical difference to a bank loan: repayments based on capacity to pay.
- ICL Benefit 1: default insurance
- ICL Benefit 2: consumption smoothing
- ICL Cost 1: adverse selection and (and associated non-payment)
- ICL Cost 2: moral hazard (and associated non-payment)
- ICL Cost 3: collection complications

Illustrating Consumption Smoothing with HECS (2004/05)

- HECS debts and repayment parameters
- Repayment streams of a typical debt, women and men
- Comparing bank loan and HECS repayments for full-time working graduates: IT DOESN'T MATTER FOR CS
- But HECS critical for CS when there is high income variance: an unlucky woman described
- Bank and HECS repayments can be very different in impact

HECS Income Thresholds and Repayment Rates: 2004/05 (debt = \$16,000)

HECS repayment incomes in the range: (A\$) per year	Per cent of income applied to repayment
Below \$35,000	Nil
\$35,001–\$38,987	4
\$38,988–\$42,972	4.5
\$42,973–\$45,232	5
\$45,233–\$48,621	5.5
\$48,622–\$52,657	6
\$52,658–\$55,429	6.5
\$55,430–\$60,971	7
\$60,972–\$64,999	7.5
\$65,000 and above	8

Figure 5
Typical male repayments: Full time graduates

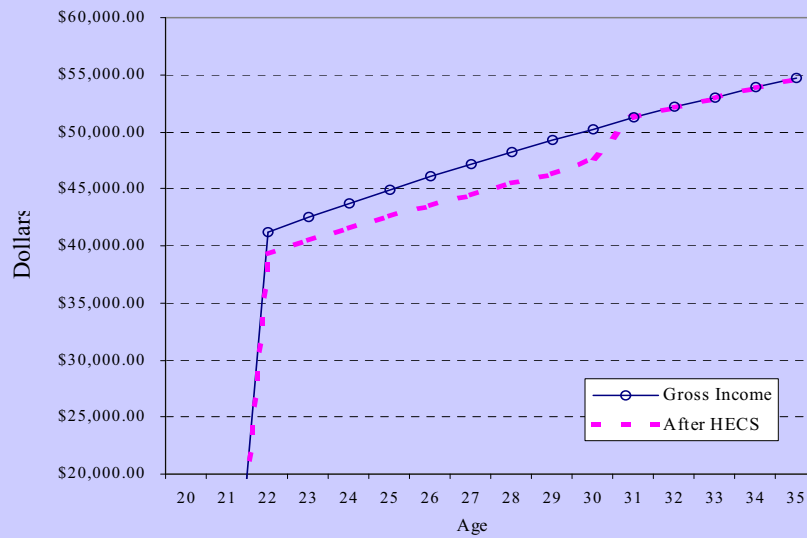


Figure 6
Typical female repayments: Full time graduates

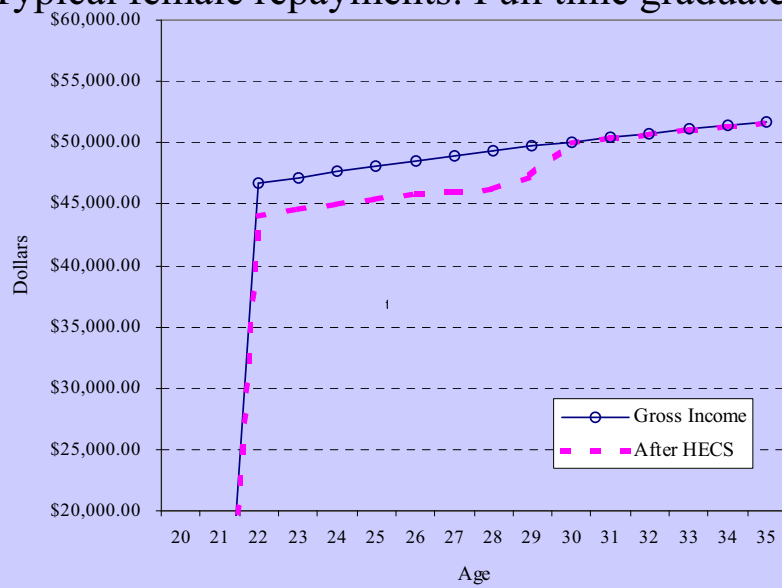


Figure 7
Comparing Bank and HECS Repayments for
Graduates Working Full-time

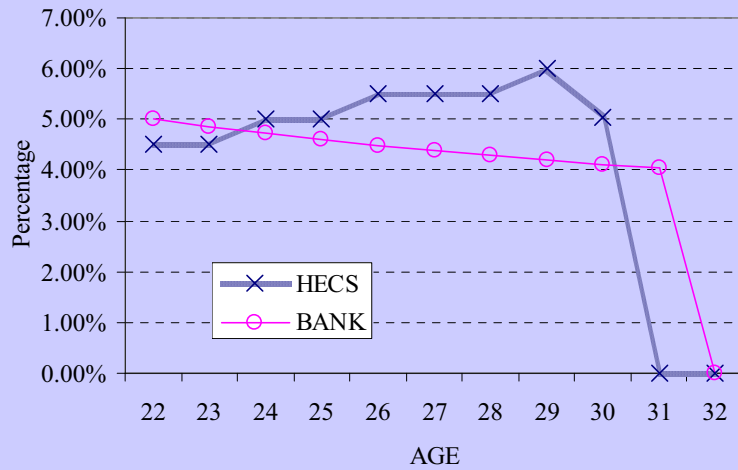


Figure 8
Illustrating consumption smoothing for a very unlucky
woman (\$2004)

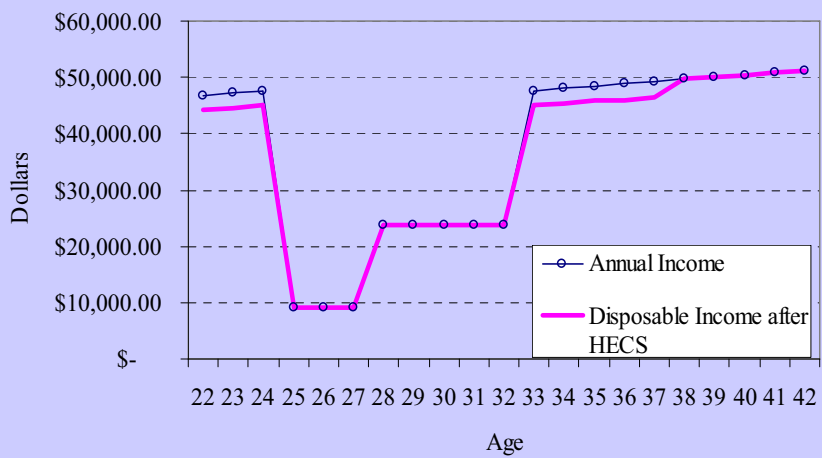


Figure 9
Bank and HECS Absolute Repayments for an Unlucky Graduate

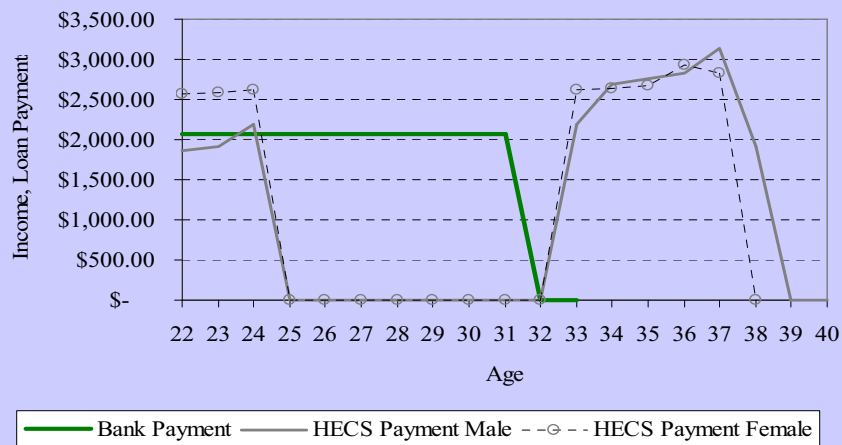
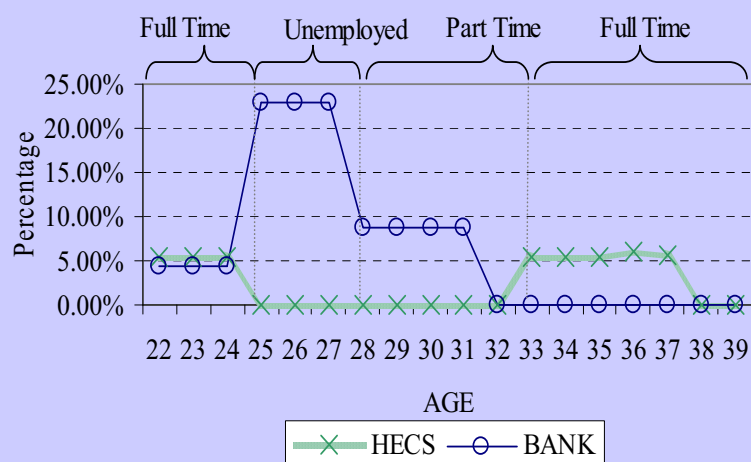
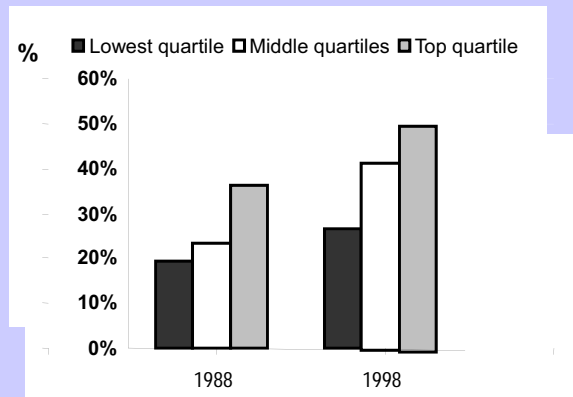


Figure 10
The Big Story: Debt Repayments as a proportion of taxable income for an unlucky graduate: females



HECS and ACCESS

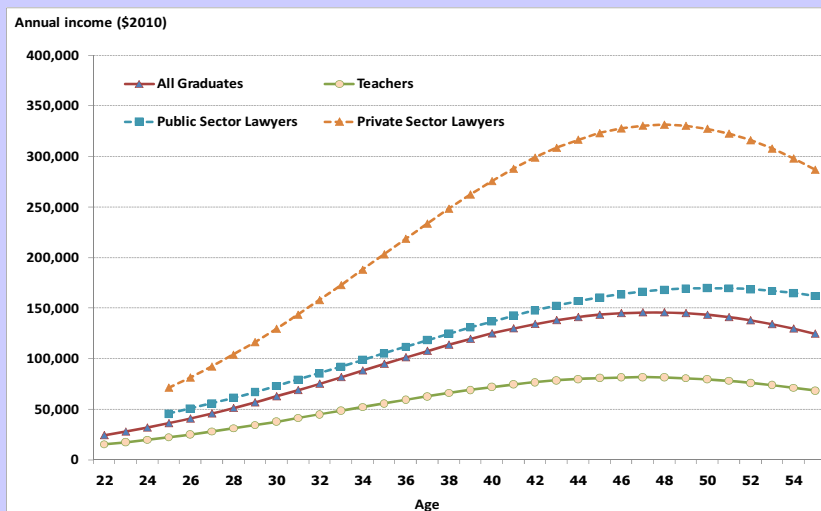
Figure 11
Proportion of 19 year olds enrolled by
family wealth



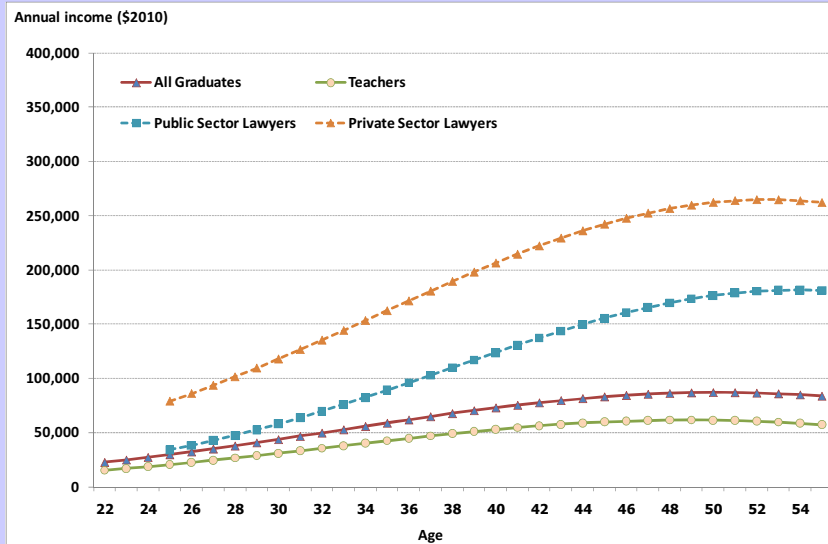
Source: Chapman and Ryan (2002).

Recent Research Developments: US loan problems

US MALE GRADUATES' OLS AGE-INCOME PROFILES



US FEMALE GRADUATES' OLS AGE-INCOME PROFILES



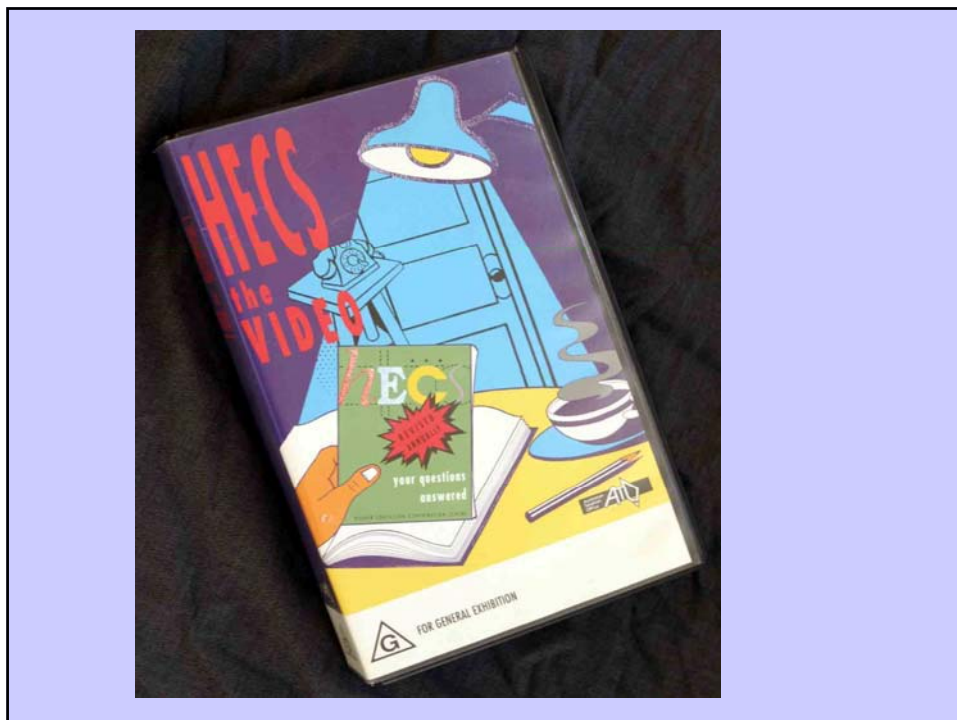
REPAYMENT BURDENS OF LOW INCOME LAWYERS WITH MAXIMUM DEBT (\$138,500)

Borrowers	Repayment plan	Male		Female	
		Maximum	Average	Maximum	Average
Private sector lawyers	Standard	0.49**	0.25**	0.38**	0.23**
Public sector lawyers	Standard	0.76**	0.38**	0.93**	0.47**
Private sector lawyers	Extended	0.29**	0.15	0.23**	0.14
Public sector lawyers	Extended	0.46**	0.23**	0.56**	0.28**

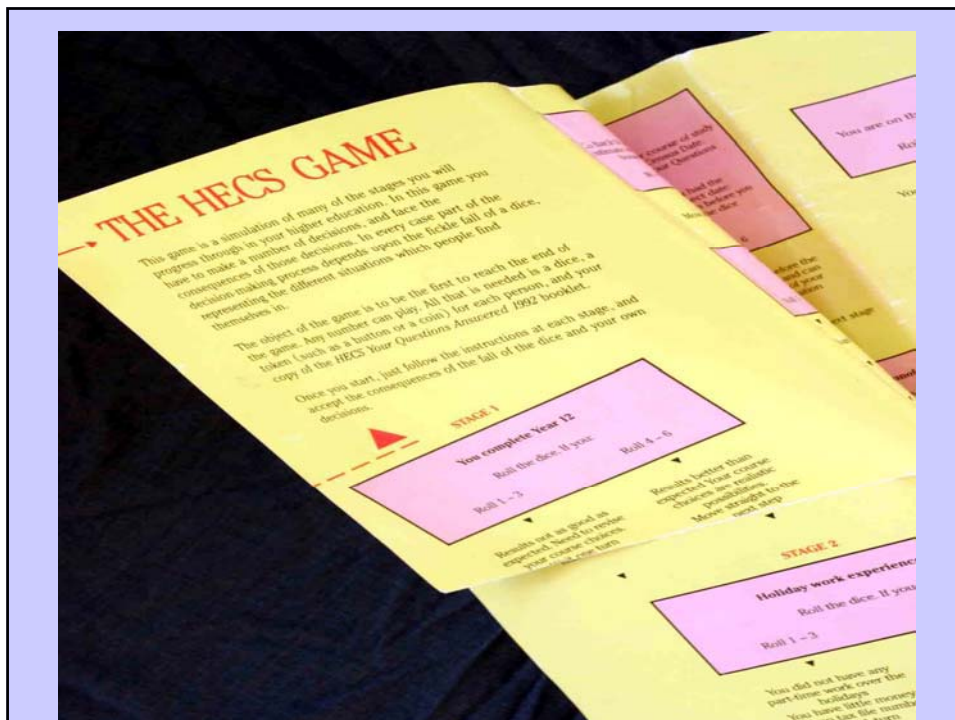
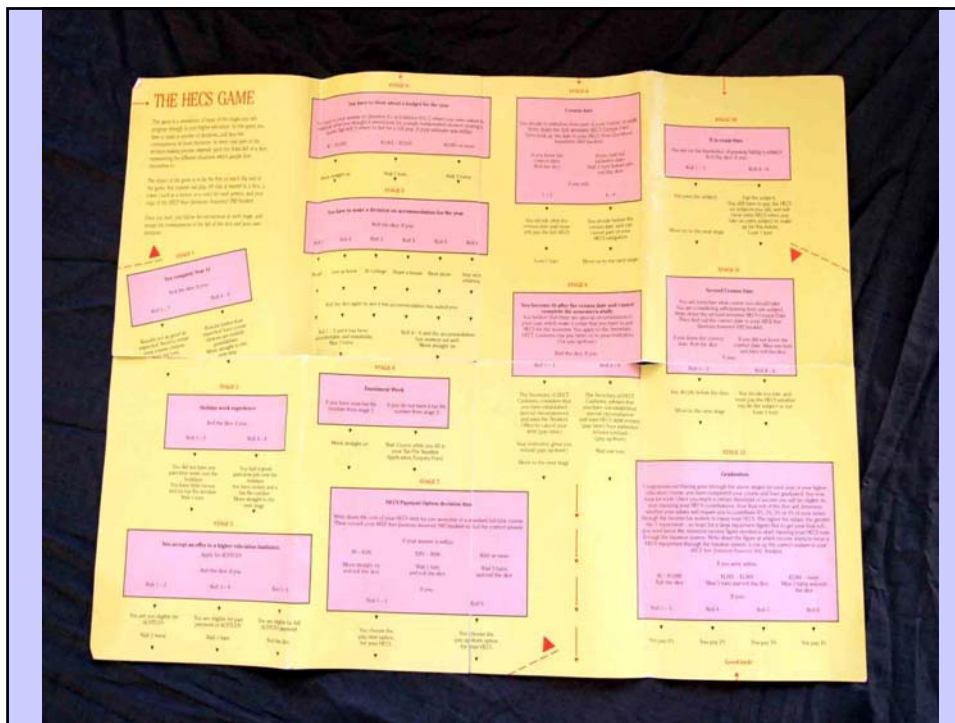
Bureaucratic Politics and the Academic

- We love the ATO
- Meeting the ATO, Mark I (Meredith Edwards had set the scene)
- Meeting the ATO, Mark II





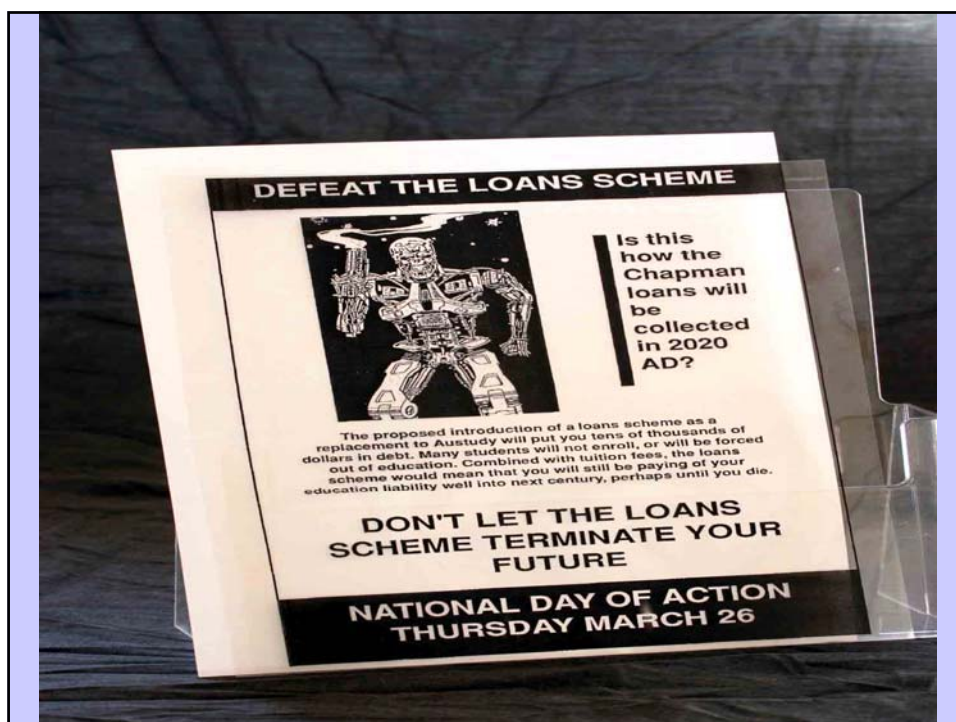
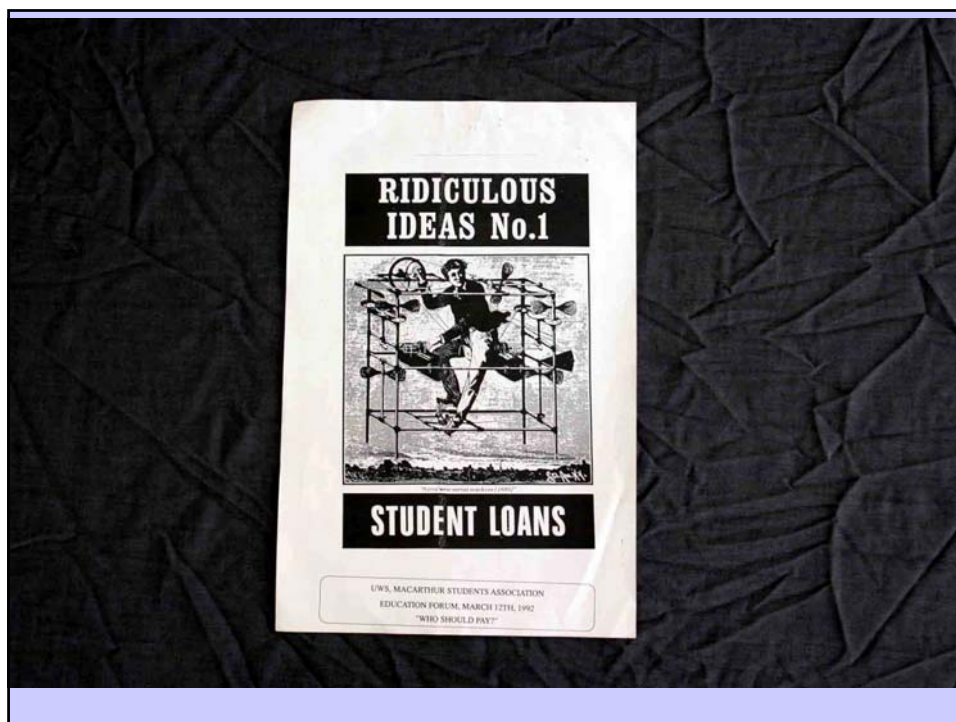


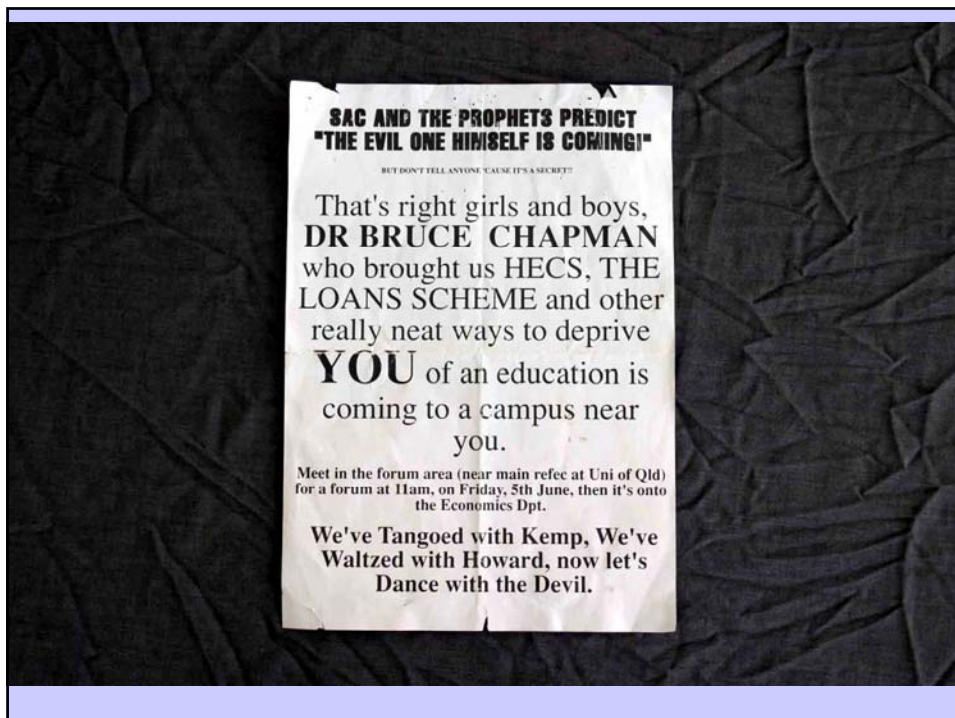
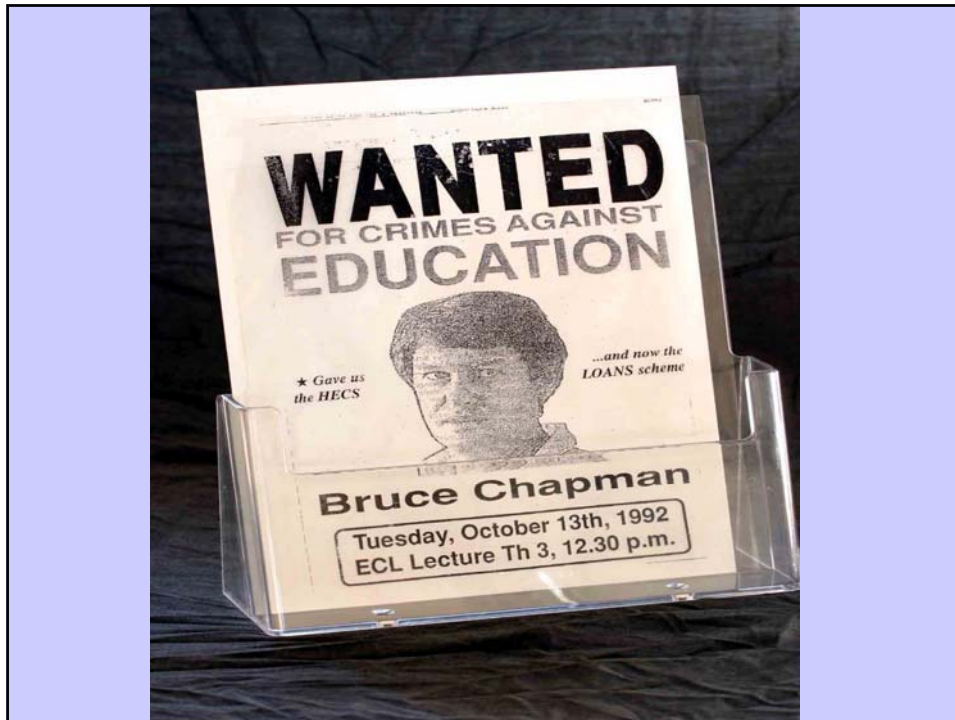


The International Experience of ICL

- The Yale Plan, 1972
- Sweden, 1988 (deferral if incomes low)
- Australia, 1989 (first to use the tax system)
- New Zealand, 1991
- South Africa, 1991
- Chile, 1994
- The US, 1993
- The UK, 1997 – 2006
- Ethiopia, 2002
- Thailand, 2006
- Israel, 2008
- Up-coming visits: Mexico and Colombia, 2007
- Crawford/DPU East Asian Conference (Japan, Thailand, Malaysia, Indonesia), 2008

Thank you







Dr Bruce Chapman
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Monday March 16, 1992

Dear Dr Chapman

Thank you for forwarding your "Article for Student Newspapers" for consideration by *Farrago*.

We have read your paper, and regret to inform you that it fails to reach the standards we usually require of our contributors.

Further, we view your comments as a cynical attempt to dampen the co-ordinated efforts of students across the country as we prepare to crush your loans scheme proposal.

Your science is a sham. Your co-conspirators are exposed. Your motivations are perverse. Your propositions are clumsy. Your philosophy is anti-social. Your employers are embarrassed. Your days are numbered.