

Student Debt: A HECS on Fertility?

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EXECUTIVE SUMMARY

Opponents of university fees are tapping into concern about declining fertility levels by arguing that there may be a link between student debt and fewer births.

- As the young women who started university in the late 1980s when HECS was introduced are still in their childbearing years it is impossible to say whether or not they will end up having fewer children than previous generations.
- The rate of childbirth to women in their late twenties in 2001, who were all charged HECS for their entire degree, is the same as women in their late twenties in 1996, who had lower levels of HECS.
- The evidence points to a connection between university education and lower rates of childbirth, rather than a connection between HECS and lower rates of childbirth.
- Older university educated women, who did not pay HECS, have lower birthrates than less educated women of the same age.
- University educated women have career and lifestyle reasons for at least postponing children.
- A shortage of suitable male partners may be one reason university educated women have fewer children than less educated women.
- Even if subsequent evidence shows a link between HECS and fertility, it does not follow that HECS debts should be generally reduced, because this rewards equally those who do and those who do not have children.
- Taxes like stamp duty on homes affect more young couples than HECS debts.

Introduction

Although Australia's fertility rate slipped below the 2.1 births per woman replacement level in the 1970s, only in recent years has it become a matter of significant public and political concern. Topical issues give new impetus to old agendas, and opponents of university fees have not missed this opportunity. The Higher Education Contribution Scheme (HECS), they say, may be part of the complex story behind declining fertility.

So far, it is the ALP's Shadow Minister for Education, Jenny Macklin, who has given this idea greatest prominence. Ms Macklin drew the link between HECS and fertility in an article she wrote for *The Australian* last October. Using research by Natalie Jackson, an academic at the University of Tasmania, she suggested that 'saddled with HECS debts of \$10,000 to \$35,000, and with their earning potential yet to be realised, increasing numbers of graduates are delaying some of the key decisions of life, particularly buying a home and starting a family'.¹ It is a theme she has returned to since. In January she nominated a 'reduced HECS debt' as one thing needed if Australia was once again to be considered a family-friendly society.²

Others have boarded the HECS/fertility bandwagon. A journalist, Julia Baird, suggested that HECS may be stopping women in their twenties having kids.³ Julie Wells, formerly of the National Tertiary Education Union, a leading opponent of increased university charges, asks 'what effect will soaring debt have on fertility rates and family formation?'⁴ Robert Manne cautions that rumoured fee increases from higher education reform 'might even affect the fertility rate of the broad Australian middle class'.⁵ The Council of Australian Postgraduate Associations warns against 'further jeopardising population growth by increasing student debt'.⁶ 3RRR presenter Tony Wilson suggests that Education Minister Brendan Nelson 'should think of the Higher Education Contribution Scheme as a giant, Australian sized prophylactic'.⁷

An unprovable hypothesis

The most detailed version of the HECS reduces fertility argument is Natalie Jackson's, though she candidly admits that as no data yet exists to test her hypothesis, she is instead trying to establish the 'case'.⁸ We are dealing here with a theory supported by circumstantial evidence. The basic theory is quite easy to state. Since the introduction of HECS in 1989, and especially since the introduction of higher HECS charges in 1997, most graduates enter the workforce with debts. On 2003 prices, students who defer paying their HECS charges (there is a 25% discount for paying up-front) will incur a minimum debt of \$11,000 for a three year degree, but for longer courses in the more expensive fields of study debt could, as Ms Macklin says, exceed \$30,000. Repayments on this debt add to the financial burdens on young people, causing them to delay having children, or having fewer children. Delays can turn into fewer children even if this was not the original intent, as women move out of their childbearing years. At an intuitive level, the logic is evident.

What of the evidence? As Jackson agrees, at this stage it is an unprovable hypothesis. Most of the 1989 school leaver university entrants are still in their potential childbearing years, so we cannot yet say how many children they, on average, had. It is much too early to have any worthwhile evidence on the 1997 school leaver first year university students, who are still only in their early to mid twenties. To complicate matters, we cannot, on the existing data, separate out those who did not have a debt because they or their parents paid up-front. This group is important to substantiating the HECS reduces fertility hypothesis, because if they had more children it suggests that no HECS debt might be the variable explaining it. If they had the same or a similar number, it would suggest that while, as we will see, university educated women are less likely to have children, it is not because of their debt but because of other factors.

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University educated women have fewer children

On a careful reading of Jackson's article, even the circumstantial evidence is very weak, because most of the information she presents points to education itself, rather than debt, being the force driving fertility down. She shows that at the time of the 1996 census, women with bachelor degrees or above aged 45-49 (an age when they are unlikely to give birth again) had average family sizes of 1.9, compared to 2.3 for all other women. Jackson realises that very few of these women were liable for HECS, which started when they were in their late thirties. Even if they studied later in life, in all likelihood it was after having children. Maybe some were among the minority who paid university fees before 1974, but the number of such women must be very small. Yet still they had fewer children than other women.

Assuming her hypothesis is right, Jackson remarks that 'perhaps the disparity could be greater for the later-born'.⁹ Well, perhaps. But on another interpretation of why university educated women have lower fertility, perhaps not. On that interpretation, university educated women have fewer children because the cost of doing so is higher than it is for other women.¹⁰ Since university educated women typically earn more than other women, they lose more income by leaving the workforce to become mothers. In 2001, the average female wage or salary earner with a bachelor degree earned \$906 a week, compared to average earnings of \$643 a week for women with a Year 12 education.¹¹ Though tax diminishes the difference between the two types of worker, it is more expensive for university educated women to exit the workforce. However, labour market research indicates that this cost has significantly *declined* over time, from an estimated \$435,000 over a lifetime in 1986 for a first child, to \$162,000 in 1997.¹² The reason is that women now spend less time out of the workforce while raising their children. Given that continued work can greatly reduce the opportunity cost of motherhood, women could pay their HECS and still be much better off financially than earlier generations of women. If finances are affecting the number of births, the fertility disparity may be lesser, not greater, for the later-born.

Jackson rightly points out that when considering possible effects of HECS we need to consider not just women's debts but also men's. As most children are born to cohabitating couples, financial considerations are likely to be household rather than individual, and if the father is also a graduate his HECS repayments will affect the family's financial capacity. Here Jackson presents evidence that she says 'could incorporate a HECS effect'.¹³ Women with bachelor degrees or above, aged 25-29 or 30-34 in 1996, have significantly lower fertility than other women, and their fertility is lowest if their partner is also university educated. Though the drop in fertility associated with the father's education is very small compared to the drop associated with the mother's, it is what you would expect if HECS was postponing childbirth.

On reflection, however, this explanation is less persuasive. Male graduate earnings are higher than female graduate earnings, and even after HECS repayments and higher marginal tax rates graduates, on average, have higher incomes than non-graduates. Such men earn more than enough to finance a child, if they want one. The first wave of the Household, Income and Labour Dynamics in Australia (HILDA) survey contains results consistent with graduate men having the capacity to support children. HILDA asks its respondents about their expectations of childlessness. It finds that men age 18-29 with degrees are less likely than men with Year 11 education to expect to be childless.¹⁴ This is what you would expect of men who know they have a relatively high financial capacity to support children.

Another difficulty with Jackson's case here is that the 1996 census mixes people with and without HECS debts. Only the youngest of these women, the 25 year olds who turned 18 the year HECS started, certainly incurred HECS debts for their entire degree. Unknown numbers started university at a slightly older age, and other older women who started earlier in the 1980s incurred some debts for the post-1988 parts of their degree. Given that HECS charges were initially around \$2,000 a year, this latter group accumulated only small debts. The chronology is even more

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complicated for fathers. Jackson provides no information on their ages, but as grooms/fathers tend to be two to three years older than their female partners, as of the 1996 census they are less likely than mothers to have accumulated a HECS debt.

Ideally, we need to compare the 2001 census, at which time most women aged 25-29 and their partners would have incurred HECS debts for all their university education, with the 1991 census, when very few people aged 25-29 had HECS debts, or the 1986 census, when none of them did (though the drawback with 1986 is that the further back in time we go, the greater the complicating effects of other factors such as changed social expectations). I can compare 1996 with 2001, but not 1991. For women with bachelor degrees or above in 2001, the average number of births per women is stable at 0.2. Average births to women without qualifications dropped from 1 to 0.9.¹⁵ Perhaps these women with degrees will have fewer children in their thirties than the older group with lower or no HECS debt. At this stage, however, their rate of childbirth is the same. The 2001 census provides no evidence that greater HECS debts are further delaying childbirth.

Lifestyle and money

Even if data from subsequent censuses is consistent with the HECS on fertility hypothesis, we need to consider other explanations. The twenties are also a time when young couples might want to do a range of other things before having children, such as establishing themselves in professional careers, travelling, and enjoying the DINK (Double Income No Kids) lifestyle, all of which are easier without children. The Australian Temperament Project collected information about 17-18 year olds in 2000. They found that teenagers who rated themselves as academically above average most commonly said they wanted to be a parent in 11 years or more, whereas those who were academically average or below average wanted a family before they were 25.¹⁶ A lack of children from educated parents when aged 25-29, when it appears in the 2011 census, will not necessarily be a policy-induced disappointment, but something planned all along, just as it may have been for an earlier group of academic high achievers.

Despite the high direct and indirect costs of raising a family, there is very little evidence that this prevents people from having children. The 1996 Australian Life Course Study asked childless people able to have children why they had no children. There were only 39 people aged 25-34 in this category, so the results ought to be used with caution. Consistent with the lifestyle explanation, though, 49% nominated 'not interested/prefer life without children' as an explanation. Some 21% said that they disliked children. Only 10% nominated financial reasons.¹⁷ Indeed, the inverse relationship between socioeconomic status and number of children, evident in Jackson's data,¹⁸ is hardly consistent with her hypothesis that children become unaffordable with HECS. The less money people earn, the more kids they have.

The problem here may not be too little money because of HECS repayments, but too much despite them. The average person aged 25-34 with a bachelor degree or above and still repaying HECS earns about \$8,000 a year more than a person with Year 12 education,¹⁹ and for couples it will be approximately double that. For couples with lesser educational qualifications and little prospect of being able to live the DINK lifestyle they might as well start a family sooner rather than later. But if a high cash flow is there, as it will be for couples both in professional employment, postponing children means they can have it all. Indeed, young professionals do from survey evidence seem to believe that they can achieve a mix of career and personal objectives, including children.²⁰

The great man shortage?

Jackson's article contains much interesting information, but it does not necessarily support the case she wants to make. Take for example her discussion of the low marriage and partnership rates of university educated women. At both the 1986 and 1996 censuses women with bachelor degrees or above were the least or equal

least likely to have cohabitating partners, across all age groups.²¹ This fact, more than any other, explains why on average university educated women have so few children. University educated women with partners have more children than the 'average' woman, but the low number of births to unpartnered women drives the university educated average down.²² Peter McDonald's work on the 1996 census shows that married women aged 35-39 in management and administration jobs (many of whom would have degrees) had above replacement fertility, 2.19, and those in professional jobs slightly below replacement fertility, 2.02.²³ A major reason university educated women do not have more children, it seems, is that so many of them do not have husbands.

For the HECS reduces fertility theory to work, we need to find some reason why HECS might damage marriage itself. In previous eras of low marriage rates, such as the second half of the 19th and first part of the 20th centuries, the convention was not to marry until a home and children could be afforded.²⁴ This does not seem to explain contemporary marriage or partnership rates. After all, on average graduates earn more than school leavers, even after deducting HECS repayments and higher tax. Marriage (or at least cohabitation) improves affordability by creating economies of scale in sharing a household, freeing up resources that can be put toward supporting children. In any case, as this pattern of unpartnered women applies through all age groups, it incorporates women who were never liable for HECS.

The 2001 census further complicates the thesis that HECS undermines partnership rates for women. The same basic pattern is there, as women with a bachelor degree or above are less likely to have partners than women in any other educational category. However, the partnership gap is narrowing, at least for women in the age group with most HECS debts, those aged 25-29 in 2001. In 2001, 48.3% were without partners, compared to 51% in 1996. For women with no post-school qualifications the number without partners increased slightly between 1996 and 2001, from 42% to 43.2%.²⁵ If lower partnership rates for women with degrees persist into later life fertility will be affected, but *less* so than in the past, despite the costs of HECS.

This still leaves the question of why partnership rates for university educated women are lower than for other women. Reasons for marrying or not marrying are obviously very personal, so we can only draw inferences from social statistics. It seems, however, that university educated women's marriage rates may have fallen victim to their own academic success, combined with a preference for marrying men who are at least their educational equals. Of the women who did have partners in 1996, by far the largest group, 50.2%, were with men who also had bachelor degrees or above. Only 17.7% were with men with no qualifications at all.²⁶ Unfortunately for women with a preference for similarly educated men, there are not enough of them to go around. Since 1987, women have outnumbered men on Australia's university campuses, and by 2001 the discrepancy exceeded 70,000.²⁷ By 1996, there were 67,921 women with degrees but without partners, but only 48,206 men.²⁸

Compounding this, older men especially seem more willing than women to 'marry down' the academic and occupational scale. Even in age groups when there were more of them with bachelor degrees than women, fewer are unpartnered. Of women in their forties at the 1996 census, there were in excess of 17,000 more unpartnered women with bachelor degrees than men.²⁹ Unless university educated women become less committed to finding male partners with matching degrees, significant numbers will remain unmarried and childless.

Policy alternatives

Though it does not seem probable on the current evidence, at some time in the future researchers may be able to show a link between student debt and low birthrates. I cannot prove conclusively that it will not happen, just as Natalie Jackson and those using her research cannot establish that it has or will in the years to come. It still would not follow, however, that we need a 'reduced HECS debt' to make Australia a more family-friendly society, as Ms Macklin claims.

University educated women's marriage rates may have fallen victim to their own academic success.

Stamp duty abolition or reduction is a much more obvious candidate for policy attention than HECS.

A general cut in HECS debt for all women would reward them whether they had babies or not. This is ineffective and inefficient social policy, because it rewards equally the behaviour the policy is intended to encourage (more children) and the behaviour it is trying to discourage (childlessness). To increase the birthrate, a HECS debt reduction would need to target mothers, and not women in general. Similarly with men, if their HECS debts affect the fertility rate through household decision making. If all men are financially rewarded through a reduction in HECS, the incentives are equally to stay childless or become a parent. The policy would need to focus on fathers, and not just potential fathers. In response, it may be argued that what matters is not so much the incentives, as making a family financially possible. Yet much more could be done to make families financially possible if limited resources were concentrated on people with children, rather than educated people generally.

If birthrates are sensitive to financial incentives, a HECS-reductions-for-babies policy may lower the age at which the first child is born, so the benefit is received before too much of the HECS debt is paid. How long HECS takes to pay off depends on several variables, including government set repayment rates, whether any up-front or voluntary payments have reduced debt, and the graduate's earnings. We do not know a lot about actual repayment rates. One set of estimates put the age of final repayment, for school leaver university students, in their late twenties to early thirties.³⁰ If this is so, it would make personal financial sense for women with degrees to have babies in their twenties rather than their thirties. Such a policy would be an interesting social experiment. It may be that university educated women (and their partners) are sufficiently committed to 'having it all' over their lifecycle that they would forgo a HECS baby bonus.

The HECS reduces fertility argument is a subset of the argument that financial circumstances affect decisions to have children. It is difficult to see that HECS could have any distinct added negative effect, independent of the fact that it is an added cost. To the contrary, the fact that it does not have to be repaid if income is low makes it less onerous than other debts. So it follows that rather than looking just at HECS, which cannot affect more than a minority of young people because most do not go to university, we should perhaps look at other costs that affect larger numbers of people. After all, declining fertility is a general as well as a specific problem, and unless the HECS causes infertility advocates have a eugenic objection to births being dominated by less educated women, they should also be concerned about factors affecting other women's fertility.

For many couples, an important step in starting a family is purchasing a home. Stamp duty on a home purchase is a tax that directly affects any family buying a home, and not just those with HECS debts.³¹ The current Victorian stamp duty on a median property purchase is \$15,760.³² According to the Australian Taxation Office, 92% of HECS debtors owe less than \$16,000. And unlike HECS, which is just indexed to inflation, most people buying a home will have to borrow this money, pay a real and variable rate of interest, and do not enjoy any repayment holidays or reductions if their income drops. Stamp duty abolition or reduction would have a much larger positive financial impact on the young adults whose circumstances we are trying to affect, and is a much more obvious candidate for policy attention than HECS.

None of these finance-focused policies target what, on the available evidence, looks to be the biggest single factor affecting university educated women's fertility, which is their low rate of partnership and marriage. This is plausibly linked to the lack of suitable partners, which is partly due to the relatively low number of men attending university, which in turn is linked to boys' comparatively poor school performance.³³ The reasons for boys' declining school results are complex, but it is a problem with social implications extending well beyond university educated women's marital prospects. If educational dollars are to be spent on fertility issues, then there may be far better social returns on them if they are spent improving boys' schooling than if they are spent improving the lifestyles of adult educated women.

Conclusion

Jackson remarks that 'a policy does not have to be even remotely concerned with population for it to have demographic outcomes'.³⁴ This is true, but Jackson is picking on the wrong policy. The higher education policy that most affects fertility is not HECS, but mass education. When relatively few people went to university, and even fewer of them were women, lower fertility amongst this group did not have much effect on total fertility rates. But now that a third of young women go from school to university, and more still enrol during their childbearing years, university education is almost certainly exerting downward pressure on fertility levels.

Low fertility indirectly caused by university education is largely immune to short term policy decisions. A more even male/female ratio at university may help, but given the deep causes of boys' declining school performance that is not going to happen in the near future. University educated women being more willing to marry men without degrees would make a difference, but there is little government can do to make less educated men more attractive partners. Cutting student debt is something the government can do, but a general reduction creates no added incentive to have a child. In that at least it is consistent with current higher education policy, which spends money without any serious attempt to maximise social and economic benefits.³⁵ But consistency is not always a virtue, and we should not throw good money after bad.

The higher education policy that most affects fertility is not HECS, but mass education.

Endnotes

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- ²¹ Jackson, 'A HECS on the Family', pp.111-112. The census data used in this analysis only counts live-in partners. While this underestimates the number of people in partner relationships, it identifies the households most likely to produce children.

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- ³⁵ Andrew Norton, *The Unchained University* (Sydney: The Centre for Independent Studies, 2002), throughout but especially chapters 3 and 9.

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