

## HELPlless: How the FEE-HELP loans system lets students down and how to fix it

Andrew Norton

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EXECUTIVE SUMMARY

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- Australia pioneered repaying student loans through the tax system, the HECS scheme.
- In 2005, HECS was replaced by three new loans schemes called HELP (Higher Education Loan Programme): HECS-HELP for students receiving federal government tuition subsidies, FEE-HELP for full-fee students, and OS-HELP for study overseas.
- FEE-HELP has the potential to reform higher education radically.
- It extends loans to all full-fee students, undergraduate or postgraduate, at both public and private institutions.
- This gives the private higher education sector a chance to expand, creating more choice for students and more competition among institutions.
- However, FEE-HELP's effectiveness is undermined by a maximum lifetime loan of \$50,950 (with \$80,000 proposed for medicine).
- The loan cap is a crude way of controlling lending, taking no account of course costs or capacity to repay.
- A truly radical reform would make student loans mimic commercial loans: students with good earning prospects could borrow large sums, other students could borrow less, and some could not borrow at all.
- A more incremental reform increases the cap to realistic levels of \$95,000 for most courses, and \$160,000 for medicine, dentistry and veterinary science.
- The government can improve HELP's finances by :
  - Charging postgraduates for the cost of lending.
  - Collecting HELP debts owed by people living overseas.
  - Not writing off HELP debts on death.

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Australia's higher education policymakers have one initiative to their name that is both innovative and good: income-contingent loans to help students pay for their education.<sup>1</sup> Unlike the fixed repayment schedules of bank loans, income-contingent loan repayments vary with the debtor's earnings. On low incomes, no loan repayment is required. On higher incomes, a percentage of the debtor's earnings is put toward reducing his or her outstanding liabilities. Income-contingent loans ingeniously solved the problem of re-introducing university tuition charges without reducing affordability. Nobody had to pay up-front, and the permanently poor did not pay at all.

Australia's original income-contingent university loans scheme, known as HECS (Higher Education Contribution Scheme) because of its links to the new charges, began in 1989. Only students in places eligible for Commonwealth-government subsidies could borrow under HECS, but this covered virtually all Australian students at the time. As full-fee paying postgraduate coursework student numbers grew in the 1990s, however, pressure built to offer a HECS-equivalent for them. The Postgraduate Education Loan Scheme (PELS) began in 2002.

Since 1998, full-fee places have been available to Australian undergraduates at some public universities. Without a loans scheme, these students had to pay their fees up-front. The private higher education system was also left out of the loans system. Along with the relatively well-known private universities, Notre Dame and Bond, more than a hundred non-university private higher education institutions enrolled tens of thousands of students. Except for postgraduates at a few institutions specified in the funding legislation, these students were not eligible for income-contingent loans.

The apparently anomalous treatment of full-fee students at both public and private institutions led to a major reform of the loans schemes in 2005. The new Higher Education Loan Programme (HELP) created three types of loans. HECS-HELP replaced the old HECS system, and was used to lend money to cover the 'student contribution amounts' paid to universities by students in places receiving Commonwealth subsidies. FEE-HELP replaced PELS and extended loan availability to full-fee undergraduates and postgraduates at both public and private higher education institutions. OS-HELP was a completely new scheme to assist students including study overseas as part of their Australian coursework.

### Changing rationales for student loans

These changes to the loans scheme have larger implications than is apparent at first glance. The new loans scheme still does what HECS did, which is to delay payment of student charges to a time when they are more affordable. HECS facilitated user pays, but it did not confer any consumer power on students. The best students could hope for was to influence the real power-holders in Canberra or university administrations, through persuasion or protest. Unlike HECS, however, the new FEE-HELP loans have a microeconomic effect as well. They help empower universities as entrepreneurs and students as consumers, strengthening markets in higher education.

The original HECS charge was, conceptually, closer to a tax for attending university than a price in a market exchange. Like taxes, HECS contributions were set by the government and went to the government. Costs did not affect HECS charges; students paid the same amount regardless of course. Nor did charges differ depending on university; the same flat amount applied at all public universities. Unlike a market price, HECS charges could not influence supplier (that is, university) behaviour. Since HECS did not increase the amount of money universities received per student, it did not encourage them to offer additional places or improve services.<sup>2</sup> The major influence on student numbers and per student spending remained federal government policy. Nor were HECS charges capable of significantly shaping consumer (that is, student) behaviour, as a market price would be. The initial flat charge, \$1800 a year, may have influenced the decisions of prospective students who were very uncertain of the benefit in going to university.<sup>3</sup> It could not, however, affect their choice of course or institution. The information and incentive effects of prices were almost entirely absent from the first student loans scheme.

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Since HECS began, the volume on price signals for students in Commonwealth-subsidised places has twice been turned up.<sup>4</sup> In 1997, 'differential HECS' divided courses into three groups, each with a flat price. In 2005, universities began setting their own 'student contribution amounts' up to a maximum of 25% more than the old HECS rates, except for education and nursing courses, which kept the old HECS rates as maximums. To date, there is no evidence that price differences between fields of study have significantly affected choice of course. The two changes in relative prices failed to disrupt the long-term stability evident in patterns of student applications.<sup>5</sup> Without HECS or its successor HECS-HELP, poorer students may have been forced into cheaper courses. With no up-front costs, however, the underlying driver of field of study choice—student interests<sup>6</sup>—prevailed. The system itself was deaf to these new price signals, since the number of Commonwealth-subsidised places is set by quota, and not by student demand. The courses with the highest student contribution amounts—law, veterinary science, medicine, dental science—also have the highest rate of 'unmet demand', the percentage of eligible applicants who are not offered a place.<sup>7</sup>

Until 1998 little could be done about mismatches between supply and demand. Universities received less than \$3,000, as an over-quota payment from the Commonwealth, for enrolling an additional student. It was a very weak incentive to enrol additional students in high-cost courses. Unsuccessful applicants for within-quota places could only enrol in another course or institution and hope to transfer to their first-preference course later, or give up. This changed when full-fee Australian undergraduates were allowed to enrol in 1998, provided that all Commonwealth-subsidised places were filled first, and conditional on Australian full-fee numbers not exceeding 25% of any course, except in medicine where no full-fee Australian students were allowed.<sup>8</sup>

Because of the cheaper alternatives, most students considering full-fee undergraduate places can save themselves a lot of money by taking courses with Commonwealth subsidies and price caps.<sup>9</sup> Nevertheless, by 2004 over 10,000 Australian undergraduate full-fee places had been filled. Growth rates were high, 30% between 2003 and 2004, while Commonwealth-subsidised places decreased by nearly 2%.<sup>10</sup> Students calculated that the returns—financial and otherwise—on degrees were high enough to warrant enrolment without subsidy.<sup>11</sup> Attracted by fee income, universities increased supply. Market outcomes differed markedly from those produced by Commonwealth funding and regulation.

FEE-HELP should allow more of the underlying market preferences for courses to be satisfied. In 2005, 31% of applicants who received an offer received it for a second or lower preference course, creating a large pool of people who may be prepared to pay more to enrol in their most preferred course.<sup>12</sup> Almost certainly more than 10,000 places would have been filled in 2004, except for the fact that for many school leavers neither they nor their parents could afford up-front fees of typically between \$10,000 and \$20,000 a year. Consistent with the hypothesis that full-fee places appeal mainly to the relatively well-off, about 5% of Year 12 students from independent schools received Victorian full-fee offers in 2003, but only 1.7% of students from government schools.<sup>13</sup>

2005 also saw the first year of FEE-HELP applying to private providers of higher education. Just over 30 providers had been approved by the middle of 2005, and about 7,000 of their students are reported to have taken out FEE-HELP loans.<sup>14</sup> Tim Smith, the executive director of the Australian Council for Private Education and Training (ACPET), the peak body representing most private higher education providers, described FEE-HELP as a 'phenomenal success'.<sup>15</sup> Student numbers in this sector should increase rapidly because of the pipeline effect (that is, next year most of this year's students will still be there, plus new commencing students) and because FEE-HELP was promoted during 2005. Last year, delays in approving access to the scheme prevented this occurring.<sup>16</sup>

For postgraduate students at public universities, FEE-HELP replaces the old PELS system. PELS was less attractive to students than HECS loans, lending to about half the eligible students, compared to a nearly 80% take-up rate with HECS.<sup>17</sup> Postgraduate students are more likely to be able to pay up-front fees from their own earnings, from employers, or from partners. PELS probably ensured continued rapid growth in

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postgraduate coursework numbers, though the 16% growth rate the year PELS began was only slightly higher than the average annual growth rate in the deregulated postgraduate sector between 1994 and 2004 of 15%.<sup>18</sup>

Because postgraduate education was expanding quickly before PELS, it was helpful for but not critical to the development of new postgraduate markets. Between 1994 and 2006, the number of postgraduate courses on offer increased by nearly two-thirds.<sup>19</sup> A loans scheme for postgraduates creates entrepreneurial opportunities for higher education providers targeting students less likely than traditional postgraduates to be able to finance their own education. For example, FEE-HELP is important to the University of Melbourne's proposal to move most professional courses from undergraduate to postgraduate, as often occurs in the United States.<sup>20</sup> Since many of these students will proceed straight from generalist undergraduate degrees, loans are critical to the success of Melbourne's initiative.

FEE-HELP's greatest long-term consequences may be in the private higher education sector. To date, private higher education institutions have operated mainly in niche markets of little interest to public universities. These include theological colleges or other institutions with religious associations, natural and alternative medicine academies, and specialist industry or professional education bodies. Over the decades in which public universities charged students little or nothing, they could dominate any market they entered, leaving little or no room for the private sector. The short-term expansion in private provider student numbers reflects previously unsatisfied underlying demand for courses in these areas.

FEE-HELP could see private providers move from operating in parallel to public education to competing directly, as occurs in the United States. The experience of American for-profit universities such as Phoenix or DeVry is relevant here. As newcomers to the education industry, they had to prove they were better (or better value) than existing public and private institutions. They have done it with quality-controlled courses tailored to labour-market needs, delivered year-round at times and places convenient for students.<sup>21</sup> In December 2004, the American for-profit higher education sector had more than 600,000 students.<sup>22</sup> Burdened by heavy government regulation and inflexible internal structures, and without their previous significant price advantages, Australia's public universities are no longer invulnerable to challenge.<sup>23</sup>

Though FEE-HELP evolved from a loans scheme designed to finance a quasi-tax, it may turn out to be an important microeconomic reform. It will facilitate private and public entrepreneurship. It can move students from where history and politics send them in public sector education to where they want to go. It can shift the amount of money invested in each student from a sum chosen in Canberra to what the student and the university believe to be appropriate. As the private sector grows, it will give public universities more competition than they have ever faced before. Unfortunately, FEE-HELP as it stands has a major flaw that will limit its power to reform Australian higher education.

### **The FEE-HELP borrowing limit**

HELP loans differ from the predecessor income-contingent loan schemes not just in eligibility, but in imposing limits on total borrowing. For HECS-HELP students, this is done indirectly. While under the old system students could continue enrolling in Commonwealth-subsidised courses for as long as a university would accept them, the new system restricts Commonwealth support, in most cases, to the equivalent of seven years of full-time study. A student enrolling only in the most expensive subjects for seven years could, in theory, accumulate about \$57,000 in HECS-HELP debt. Students enrolling in cheaper subjects could incur lower maximum debts. For full-fee students, FEE-HELP replaced the unlimited loans available under PELS with a maximum of \$50,000, which will be \$50,950 in 2006 after indexation (with a special \$80,000 limit proposed for medicine<sup>24</sup>). This is a lifetime maximum loan; a FEE-HELP debtor cannot

repay one debt and then take out another. OS-HELP is restricted to \$10,180 in 2006 after indexation over a lifetime.

When Brendan Nelson, then Education Minister, announced the reform package that created FEE-HELP, he issued a booklet called *Our Universities: Backing Australia's Future*. It criticised the then absence of a loans scheme for full-fee undergraduate courses. 'This means', it argued, 'that a qualified student who is offered a full-fee paying place but who does not have the means to pay up-front or cannot take out a commercial loan cannot access a place. This is inequitable.'<sup>25</sup> Unfortunately, with a \$50,950 FEE-HELP loan cap this 'inequitable' situation still exists. For 2006, Australian universities are offering more than 300 full-fee undergraduate courses with total costs exceeding the maximum FEE-HELP loan, not counting double or combined degrees.<sup>26</sup> The proposed higher cap for medical students will make no difference to this statistic: all available courses cost more than \$80,000. In addition, there are around a dozen full-fee postgraduate courses with total costs greater than the FEE-HELP maximum.<sup>27</sup>

Setting the FEE-HELP limit at this amount biases the market against courses that are long or have high per year costs, or both. While the total costs of a wide variety of full-fee courses exceed the cap, engineering, veterinary science, dentistry, law and as noted medicine are unavailable to students who cannot pay at least some of their costs up-front. According to lists in the *Good Universities Guide* there are only three law courses below the FEE-HELP cap, one engineering course, and no courses in medicine, veterinary science or dentistry. Indeed, all three of these health-related courses have minimum total fees of well over \$90,000. With such a large gap between the price and the credit limit, in these disciplines FEE-HELP cannot fully achieve its stated objectives of reducing unmet demand or assisting students to 'access their preferred course'.<sup>28</sup>

Some of the undergraduate fields of study most in need of a market supplement to public supply are worst affected by the FEE-HELP cap. Veterinary science, medicine, dentistry and law, in that order, are the fields of study with the highest rates of unmet demand.<sup>29</sup> The three health-related courses have graduate un- or under-employment rates of 6% or below, compared to 19% overall, indicating strong labour-market demand for people with these qualifications.<sup>30</sup> National labour market data shows shortages or recruitment difficulties for medical professionals, engineers, and even lawyers in some areas of legal practice (despite an overall strong supply of law graduates).<sup>31</sup> Yet FEE-HELP will comfortably support qualifications which have relatively low labour market demand, such as the humanities. 30% of humanities graduates are still looking for full-time work four months after completing their degrees.<sup>32</sup>

Though the \$50,950 cap directly affects only a small proportion of all postgraduate courses, many more could suffer its flow-on consequences. Students completing undergraduate studies using FEE-HELP will leave little or nothing in reserve for further study. Though not an immediate problem, in three to four years' time undergraduates who began their courses with FEE-HELP will consider further study, and find their options limited unless they can afford to pay up-front. This issue will be most pressing for students who have taken generalist undergraduate degrees and need further study to improve their employment prospects. The Graduate Destination Survey indicates that between a third and a half of students completing non-vocational majors in arts or science degrees are still in full-time study the year after completing their degrees.<sup>33</sup> This percentage is likely to increase as graduate entry to professional degrees becomes more common. In these cases, the FEE-HELP cap could do more than just cause under-investment in human capital; it may undermine the capacity of those who have already taken out a HELP loan to repay that debt by closing off more remunerative jobs.

Students' efforts to maximise their postgraduate options may thrust further distortions back into the undergraduate market. A person who takes his or her first course using HECS-HELP has an effective lifetime maximum loan about twice that of a person who starts with a FEE-HELP loan, receiving two loans with separate caps rather than one (though the two loans are merged into a single HELP debt in Australian Taxation Office

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records). Consequently, it would make financial, though not necessarily academic, sense to start with a second-or-lower-preference Commonwealth-subsidised undergraduate course at a public university, rather than take a first-preference full-fee place at either a public or private institution. This is bad for student choice, bad for the private higher education sector, and bad for competition—but it is a rational response to the incentives the system creates.

### The purpose of the cap

The government has never officially given any reasons for the FEE-HELP cap. However, when *The Australian* reported in December 2004 that Brendan Nelson wanted to increase the cap to \$160,000, it said that Department of Finance and Treasury officials raised concerns that ‘thousands of students will find it impossible to repay the debt, or will get work overseas to avoid repayment through the tax system’.<sup>34</sup> The federal government always knew that its higher education loans would incur higher bad debts than other loans. It conducts no analysis of how likely a student is to repay; any Australian citizen accepted by a university can take out a loan. By making repayments income contingent, financial risks were further transferred from students to taxpayers. Any HELP debtor whose annual income never reaches the threshold at which repayment starts—\$36,185 for 2005–06—receives his or her education for free. The cost of running HELP is part of the Commonwealth’s overall financial contribution to higher education.

At this early stage of the higher education loans system, bad debts are low. In 2004–05 \$8.6 million was written off, or a tiny 0.08% of the money owing at the start of the financial year.<sup>35</sup> The main source of write-offs was HECS debtors who died, with a loss of \$5.2 million. However, doubtful debts are high. At the end of 2004–05, these were estimated to be nearly \$2.4 billion out of a total debt at 30 June 2005 of \$11 billion.<sup>36</sup> Over 20% of the total debt, the government’s actuaries believe, won’t be recovered. There is a huge difference between bad and doubtful debt because usually the debt can’t be written off until the debtor’s death. With most people acquiring higher education debts at young ages, we are decades away from the people who have attended university since 1989 dying in significant numbers. This does not mean that 20% of the debt taken out in any given year is not repaid. An analysis from the late 1990s put that at 12.8%.<sup>37</sup> Instead, it reflects the cumulative effect of debt not repaid in earlier years. If the eventual loss from lending to students is writing off around 13% of loans each year, then this is a significant additional subsidy to higher education. On HECS and PELS lending in 2004, it is equivalent to \$225 million.<sup>38</sup> With higher student charges and wider eligibility for loans, this subsidy will increase considerably even with the two borrowing limits.

As well as its long-term costs, the loans scheme affects the government’s cash position. In the short to medium term, it has to tax or borrow to lend to students. Though the gap between annual lending and annual receipts has narrowed as more debtors move into their years of repayment, there is still a significant gap between the two numbers. In 2003–04 the government lent nearly \$1.7 billion and received \$800 million in repayments.<sup>39</sup>

The FEE-HELP limit is a crude way of limiting the government’s outlays and exposure to bad debt. Because the university loans system does not use any actuarial assumptions in deciding who it will lend to or how much it will lend, controlling bad debt requires a blunter measure: the government can’t lose money it doesn’t lend in the first place. Even if the necessity of measures like this is accepted, there is not a consistent or policy-coherent cap. By including a Commonwealth-subsidised course in their total educational package, students can take out both HECS-HELP and FEE-HELP loans, roughly doubling the amount of money they can borrow and the government can lose. So some students miss out on their preferred courses, without the government necessarily reducing its risky lending. We need to find more efficient ways of managing the HELP scheme.

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## A radical solution—lending based on ability to repay

FEE-HELP's effectiveness is undermined by being modelled too closely on the old HECS loans scheme. When HECS was introduced, the government wanted to reduce modestly its costs in a still public and subsidy-based system, without affecting access. Consequently, it made the loans system very soft. Students could borrow money regardless of their earning prospects. The debts they incurred were indexed to inflation, but there was no interest charged on top of that. The debt would even be written off on death.

The underlying intentions behind FEE-HELP are different. Its stated purposes are market-based, the building of human capital and the reduction of unmet demand.<sup>40</sup> In permitting a full-fee market rather than expanding the number of directly subsidised student places, the government was minimising its higher education expenses, and the cap on lending is part of that. The issue is how to bring these two goals into as close an alignment as possible, both facilitating higher education markets and limiting taxpayer subsidies. The government's solution of a low loan cap (or soon two caps, when the special limit for medicine starts) achieves the latter goal, but by seriously undermining the first.

A radical solution to this problem is for FEE-HELP to mimic commercial loans rather than HECS. It is unable to do this entirely, as a key difference between commercial loans and income-contingent repayment schemes is in how they manage risk. While banks do lend for education, they typically charge high interest rates as a risk premium. Risk on education lending is high because, for a variety of reasons, banks may not get their money back soon or at all. Education debtors can become sick or die, have bad luck in the workforce, or go bankrupt. As it is impossible to repossess a credential, the loan's complete value can be lost. High interest rates to compensate for these losses, however, mean that for education borrowers' returns go down (because costs increase) and risk goes up, as they may be stuck with high set repayments without the income to finance them. The result is lower investment in higher education than would be optimal.<sup>41</sup> People who could benefit financially from studying do not do so, employers are deprived of skilled labour, and governments lose the taxes that well-remunerated university-educated workers would pay.

Income-contingent loans can bring higher education investment closer to its optimal level by redistributing the expense of risks—mainly, in the case of HECS-HELP, to the government. This is why doubtful debt is more than 20% of what students owe the Commonwealth. HECS-HELP, however, does far more than take on the normal risks inherent in this kind of lending. It makes no attempt to sort good repayment prospects from bad. Anyone admitted to a Commonwealth-subsidised place can go on borrowing for seven years. FEE-HELP could reduce the risk of non-repayment by copying commercial lenders' close attention to who their borrowers are and how they will spend the money. Instead of denying or limiting loans to people doing high cost courses, as now occurs, the government could deny loans to people who are unlikely to repay.

Because the current lending system was not designed to reduce the risk of non-payment, little work has been done to identify which students are likely to repay. The main factors in the government's modelling are sex and age. The assumed doubtful debt on completion of people aged over 55 was in the late 1990s above 70%.<sup>42</sup> On a more commercial lending scheme, older applicants are likely to be refused a loan. OECD analysis suggests that rates of return to tertiary education are poor for people beginning the university studies at age 40, especially for women.<sup>43</sup> Lending for undergraduate education would, therefore, be concentrated on younger people who have their entire careers ahead of them. The government's actuarial statistics put doubtful debt on completion at 10% for both sexes when aged less than 30 years.

Whether doubtful debt will be the same for both sexes under FEE-HELP is not clear. As FEE-HELP loans are likely to be on average larger than HECS-HELP debts (because they finance more expensive courses), repayment periods will be longer. For women

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particularly, their FEE-HELP debt is likely still to exist while they are not employed or work part-time to raise children. The effects of this are evident in figure 1, which shows that women with bachelor degrees are substantially less likely to work full-time than men. Fewer women than men, at any given point in time, will earn enough to put them over the \$36,185 a year threshold at which income-contingent repayments must be made. What Figure 1 does not show is movements in and out of full-time work. Provided enough time is spent full-time in the workforce before retirement all the debt may still be repaid, but it less of a certainty than for men.

There is, however, a way of reducing slow repayment expense without sex discrimination in lending, which would be politically and legally difficult. Undergraduate FEE-HELP debt already has such a mechanism, which is a debt surcharge of 20%: a \$10,000 fee becomes a \$12,000 debt, for example. The added \$2,000 compensates the Commonwealth for the cost of lending. 20% may be too low, but in principle a surcharge means that students rather than taxpayers pool the risk of not repaying. It is similar to insurance, with many people contributing to expenses that only some will incur. In this case, those who clear their debts quickly cross-subsidise those who do not.

A range of non-demographic factors may affect the likelihood or speed of repayment. We know from the Graduate Destination Survey (GDS) that people with degrees in some fields of study, mostly non-vocational, make slow transitions into the labour market. The GDS also shows that even students with qualifications to enter the professions do not necessarily do so in the short term. In 2004, the proportions of recent law and business graduates in clerical, sales and service jobs were nearly the same as for arts graduates.<sup>44</sup> These graduates are likely to be making no or low HECS repayments. Census data provides some guidance as to earnings by field of study, though there does not appear to be a comprehensive analysis of the 2001 census.<sup>45</sup> It would also be interesting to know if graduates of particular courses are over-represented among the 20% of graduates working in occupations that do not normally require a university credential.<sup>46</sup> American research examines the effects of personality factors on earnings; that too could possibly be used to analyse credit risk.<sup>47</sup>

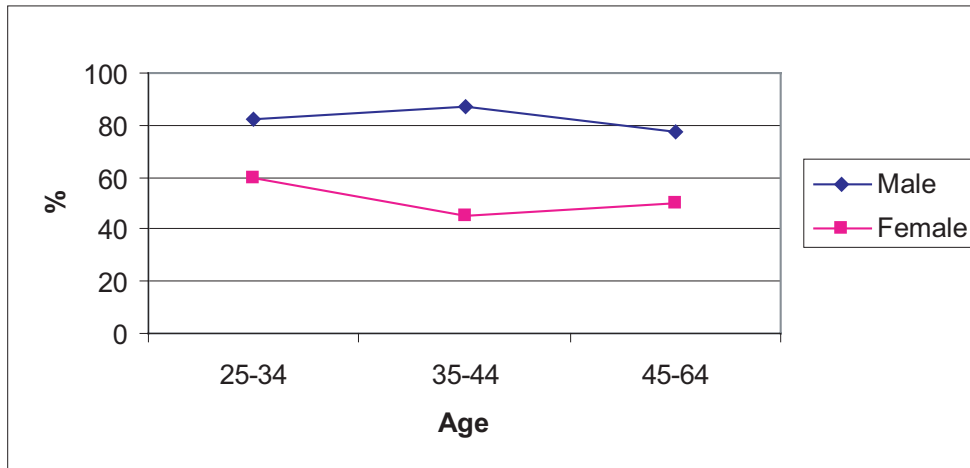
More intensive analysis of existing data sources could advance knowledge of who does best out of higher education. However, to better advise both lenders and borrowers, more specialised research is needed, and in particular longitudinal studies that track students from starting at university through to many years into the workforce. The American College and Beyond Survey is an example of what is needed, though it was restricted in the number and type of institutions covered.<sup>48</sup> This kind of research has been limited in Australia because there were few decisions it could inform. Governments controlled costs by keeping average subsidies down rather than by targeting spending carefully. When they paid at all, Commonwealth-subsidised students paid flat amounts set by the government (despite nominal student contribution amount flexibility, that's effectively still the situation today as almost all universities are forced by declining real subsidies to charge the maximum permitted price). As markets develop in educational services and prices become more varied, more information is needed to guide decision making.

### **A modified cap**

Under the radical solution above, there would be no set caps on lending. Rather, lending would be linked to capacity to re-pay. Some people could borrow much more than the existing \$50,950 cap (or the proposed \$80,000 for medicine). Others could borrow less or nothing at all. This solution fits most closely with the underlying logic of FEE-HELP, but it is a large bureaucratic leap from the status quo. Under the current system, all the complex decisions are delegated to universities and students. If simple criteria are satisfied—the student is enrolled in an approved institution, in a course leading to an award, and the proposed loan does not exceed the cap—the money is lent. Under the system proposed above, the federal education department would need to evaluate individual applicants' repayment prospects, a costly and time-consuming process relying at least initially on unsophisticated data.



**Figure 1: Full-time workforce participation**



Sources: Australian Bureau of Statistics, Survey of Education and Work 2003

A less radical solution, or an interim solution, would keep loan caps as a simple way of controlling lending, while increasing the amount of money that can be borrowed. This need not lead to large blow-outs in bad debts. Following are several suggested measures to minimise the additional expense attached to increased lending—measures applicable to the radical solution as well.

*Two caps*

To make FEE-HELP work, the cap needs to be higher, but it does not need to be unlimited. Lifting the general cap to \$95,000 would cover all but 4% of the full-fee courses, undergraduate and postgraduate, that currently exceed the \$50,950 limit. All but one of the remaining 4% of courses cover human or animal health. Though the government’s proposed \$80,000 cap for medicine is too low, the general principle of a special limit is sound, where course costs are unavoidably large and the repayment capacity of graduates is high. The most expensive medical degree is Bond University’s at \$225,000. However, a lower cap of \$160,000, the figure reportedly proposed by Brendan Nelson as a revised cap but twice the government’s current proposal, would cover most existing courses. A two-cap solution prevents perpetual students in cheaper courses from accumulating debts they have little prospect of repaying, while permitting legitimate expense in courses linked to high-remuneration professions. Another possibility is to divide courses into a larger number of bands, each with their own lending caps.

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*Combine HECS-HELP and FEE-HELP*

A \$95,000 FEE-HELP cap in combination with a HECS-HELP entitlement of seven years’ worth of loans would create a de facto loan cap of around \$152,000 for students enrolling in only the most expensive subjects possible under a HECS-HELP loan. As HECS-HELP loans will finance most undergraduate education for the foreseeable future, this is an obvious loophole in the capping system. The easiest solution is to merge the two loans schemes into a single \$95,000 HELP maximum, or \$160,000 for human and animal health courses. Usually this could finance a Commonwealth-subsidised undergraduate course followed by a postgraduate course, and in most cases would fund a full-fee undergraduate course followed by a shorter full-fee postgraduate course. Merged caps mean that the Commonwealth’s theoretical debt exposure per student is not radically different from now. Currently, students enrolling in only the cheapest HECS-HELP

courses can borrow up to \$78,390, including FEE-HELP. Students enrolling in only the most expensive HECS-HELP courses can borrow up to \$108,140, including FEE-HELP.<sup>49</sup> As the single cap is more flexible, however, students are likely to borrow more of their entitlement.

Dollar-based caps could replace two limiting systems with one. Controlling consumption by time is administratively complex, requiring detailed records of every unit of study a student has ever taken, along with a second record of HELP debt. There is little evidence that perpetual students are a large enough problem to warrant this huge bureaucratic exercise. A study of the undergraduate students who began university in 1992 found that by 1997 only 5.8% of them were still enrolled in an undergraduate course at that institution.<sup>50</sup> Many of these longer-term students would be completing medicine, a six-year degree, or adding honours to a five-year course. Dollar-based caps would catch the few perpetual students while simplifying the system for students, universities and the government.

#### *\$95,000 or \$160,000 at any one time*

The current \$50,950 FEE-HELP limit is a lifetime one. If a student uses it up by his or her early twenties, as is likely with a full-fee undergraduate course, this leaves a 40-year working life in which no additional FEE-HELP loans are available for postgraduate study, even if all previous debt has been repaid. PELS, the postgraduate loans scheme that operated between 2002 and 2004, was 'designed to encourage and support' people taking courses 'as a means of upgrading or acquiring new skills'.<sup>51</sup> Ironically, extending full-fee loans to undergraduates through FEE-HELP takes some of them back to the pre-PELS situation of no postgraduate loans being available.

Rather than increasing the cap, or re-creating a distinct postgraduate scheme, the cap should be \$95,000 or \$160,000 at any one time, rather than over a lifetime. This indirectly introduces a credit check. Previous repayment of a student loan indicates an earning capacity sufficient to take on further debt. A second loan would be much less risky for the federal government than the first, and much more likely to be repaid quickly: postgraduate courses are shorter and cheaper than undergraduate courses, and people holding postgraduate degrees on average earn more, making their annual repayments higher.<sup>52</sup>

#### **Controlling expense and increasing revenue**

The current income-contingent loans scheme is an odd mix of counter-productive penny pinching and unnecessary extravagances, money spent or forgone for little or no purpose. Cutting three extravagances—cheap loans for postgraduates, zero repayments for people living overseas, and writing off debt on death—as part of an overall reform package including a higher lending cap would keep total costs down.

#### *Extend the 20% debt surcharge to postgraduates*

As with FEE-HELP, the original income-contingent loans scheme for postgraduates, PELS, acquired a design flaw by copying a loans scheme, HECS, which was not precisely analogous. HECS had been cleverly designed so that a debt surcharge looked to students like a discount. Students were told that they would get a 25% 'discount' if they paid up-front. What this really meant was that the 'discounted' charge was the real price, and the difference between the real price and the deferred charge was a debt surcharge. If students didn't pay up-front, they paid extra to compensate the government for the cost of lending money, as with the explicit surcharge applying to undergraduate FEE-HELP borrowers. The surcharge was an incentive to pay up-front, if students had the cash available.

**Cutting three extravagances—cheap loans for postgraduates, zero repayments for people living overseas, and writing off debt on death... would keep total costs down.**

PELS had no discount, because the prices it lent on were set by universities. The government could not discount prices it did not set. To compensate itself for the cost of lending, it needed either real interest rates (debts were indexed to inflation, but no more) or an explicit surcharge. With neither of these in the existing policy toolbox, PELS was left looking superficially like HECS, but in fact quite different in having no incentive to pay up-front.

This omission was criticised early on. Bruce Chapman, one of the HECS scheme's original architects, noted that by deferring payment, PELS debtors secured themselves significant implicit subsidies through not paying real interest rates.<sup>53</sup> In fact, students could engineer themselves a more direct subsidy. If they made 'early' repayments of \$500 or more they could receive a 15% bonus (that is, the amount they repaid wiped out that much debt, plus 15%). Say a postgraduate course cost \$10,000, for which a student had the money needed to pay up-front. Instead, the student borrows the money through PELS, and then repays \$8,696, with the remaining \$1,304 in debt eliminated through the 15% bonus. In effect, the government was subsidising 'full-fee' students, and encouraging people who did not need loans to take them out.

By the time FEE-HELP was introduced, someone in the government had clearly worked out that there was a problem. The 'bonus' was reduced to 10%. A surcharge of 20% was introduced, so that the debt incurred was 20% larger than the stated fee. Bizarrely, however, this applied only to undergraduates. For postgraduates, the PELS policy remained in place. Correcting this anomaly would be an easy way of decreasing lending and spending.

#### *Collect from the Australian diaspora*

Since HELP debt is collected through the Australian taxation system, anyone not filing a tax return in Australia avoids compulsory repayment. Australians living overseas can make voluntary HELP repayments, but there is no requirement to pay anything. It's not possible to say precisely how significant a factor this is in long-term HELP doubtful debt, since no data on it is specifically collected. At best, we can estimate figures based on available information about people leaving Australia permanently or long term.

In 2001–02, about 40% of Australian-born people migrating permanently were aged 20–34, the group most likely to have a HELP debt. 58% of permanent departures (whether Australian-born or not) were in managerial or professional occupations, suggesting that they are likely to have university degrees.<sup>54</sup> On these assumptions, around 7,000 people who are likely to have incurred a HELP debt leave Australia permanently each year.<sup>55</sup> However, some of them would have paid up-front or already paid off all their debt, while some people in other age groups or occupations will have education debts.

The effects of long-term, though not permanent, departures are harder to assess. More of this group, around half, are in the 20–34 year old age group. With the same assumption about links between occupations and qualifications, around 27,000 potential HELP debtors departed Australia on a long-term basis in 2004–05. However, there are also very significant levels of return migration in these groups. By the time they reach their thirties, more are returning than leaving. Though some long-term departures will become permanent as circumstances change, in most cases periods overseas would delay rather than evade repayment, an expense to the government rather than a loss of capital.

These estimates do not suggest mass attempts to evade repaying education debts, but the numbers are large enough to have significant financial implications for the federal government. If HELP debtors overseas made repayments, it would reduce net outlays on the student loans scheme and lessen bad debt. Countries that copied Australia's income-contingent repayment system, like the United Kingdom or New Zealand, do attempt to recover debts held by people living in other countries. This is a particularly important issue for the UK, because of easy labour market movement around the European Union, and because students from other EU countries are entitled to UK loans.<sup>56</sup>

If people owing money on student loans leave the UK, they are required to declare

**...international cooperation may improve collection rates.**

their annual income to the Student Loan Company. Repayments will then mirror what would have been required through the tax-based repayment system applying to other debtors.<sup>57</sup> In New Zealand, overseas debtors are required to repay set amounts, based on the size of their outstanding borrowing.<sup>58</sup> Without access to the tax system and its powerful enforcement mechanisms, repayments are inevitably more difficult to collect from people overseas than from domestic debtors. In New Zealand, 48% of debtors living overseas were classified as having overdue payments at 30 June 2005. However, they made up only 2.7% of debtors overall.<sup>59</sup> While the proportion of expatriate New Zealanders not repaying is high, the fact that half do repay suggests that such a scheme in Australia would produce benefits.

If voluntary compliance is not high enough, international cooperation may improve collection rates. As the UK and New Zealand are the first and third-most common destinations for permanent and long-term departures from Australia, and the first and second most common source of residential arrivals in Australia, it may be possible for the three governments to come to agreements to help collect money owing to their respective student loans schemes.<sup>60</sup>

#### *Require repayment on death*

In another design feature inherited from HECS, HELP debts are extinguished when a debtor dies. This is unusual, as generally in Australia the estate has to repay any debts outstanding when a person dies. As explained earlier, most HECS/HELP debtors are relatively young and only \$5.2 million was written off in 2004–05 because of deaths. The scale of doubtful debt, however, owes much to this policy. Because repayment is linked to annual income rather than accumulated wealth, debtors whose personal income is not high enough to trigger repayment (or enough repayment) spend long periods as doubtful debtors, before their debt is finally written off on death, possibly 50 or 60 years after it was incurred.

Taking HELP debts from estates would break the exclusive link between annual income and repayment of education loans. Arguably, however, this policy change would better balance the original scheme's goals of preserving accessibility while reducing the cost of higher education to the Commonwealth. Deferred payment is retained and the potential hardship of set repayment schedules is still avoided. The money is only recovered when it can no longer cause the debtor financial difficulties. Provision could be made for where repayment would cause the deceased's dependants serious problems, similar to those that already exist permitting the Tax Commissioner not to collect HECS repayments where it would cause serious hardship.

Few 2006 politicians are likely to be much interested in chasing revenue that often won't be collected for decades. The case for changing the policy rests less on the impact on revenue in 2040 or 2050 than on its effect on expenses now, through using prices to affect behaviour. In 2004, for example, there were about 39,000 students aged over 40 enrolled in undergraduate degrees.<sup>61</sup> Older students are less likely than their younger peers to earn enough over their remaining careers to repay their debts, and so are more likely to become doubtful debtors. The knowledge that the cost of their education would come out of their estate should focus their minds on whether their course is a worthwhile investment. For those who decide it is not, the Commonwealth will save money in the short term. For those who decide that it is, the Commonwealth could recover its money from the student's estate in the medium term.

## Conclusion

Australia's higher education system is a product of evolution. It proceeds by ad hoc responses to perceived problems, adapting old institutions to new situations. Constraints on government funding for postgraduate university places led to a partial deregulation permitting privately-financed places. Growing numbers of such places highlighted anomalous treatment of full-fee students compared to students receiving tuition subsidies: why did one have income-contingent loans available, and not the other? PELS copied design features of HECS, and extended lending to postgraduates. PELS made stark the discrimination against students in private sector institutions: why did full-fee students at public institutions receive loans, but not full-fee students at private institutions? FEE-HELP took elements of HECS and PELS to become the answer to that question. Meanwhile, alarm was growing in the Departments of Treasury and Finance at the amount of money being lent and the scale of doubtful debts. Rather than re-designing the loans system to improve lending and reduce costs, the government imposed a crude limit on borrowing. Worse, the number it picked lacked any obvious relationship to the costs of courses FEE-HELP was intended to finance. Treasury and Finance solved their problem, but at the price of creating a new one in the education sector.

Each solution generates a new problem; the price of ad hoc reform rather than building a coherent system from first principles. FEE-HELP suffers from being caught between systems and eras. It was intended to facilitate a new period of market-based higher education, but it uses mechanisms carried over from the original system of subsidies and quantitative controls. It's an unworkable hybrid. It sends subsidies where they are not needed or justified, to postgraduates generally and to people unlikely to ever repay, while preventing the allocation of capital to high-value education, especially in the health-related professions. It's replicating the deficiencies of the old system in the new.

In the long term, sophisticated lending based on ability to repay would provide the capital necessary to finance high-cost degrees in areas of strong demand. Subsidies would be much more effective too, carefully targeting educational and social goals rather than following historic patterns of Commonwealth support, as happens now. In the meantime, however, modified caps and the associated savings proposals are important evolutionary steps, fixing FEE-HELP's immediate problem while putting lending on a more commercial basis.

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## Endnotes

- <sup>1</sup> The idea was innovative in a policy sense, but the idea had been around for decades: see Milton Friedman, *Capitalism and Freedom* (Chicago: The University of Chicago Press, 1962), pp. 100-107.
- <sup>2</sup> Technically, universities did receive money labeled as HECS, but as this was deducted from Commonwealth subsidies it did not affect university behaviour. Part of the government's rationale in imposing HECS was, however, to finance expanding the higher education system, and so indirectly HECS did improve access to university. In later years, growth in student places stopped and HECS revenue reduced total government expenditure on universities.
- <sup>3</sup> Though actual student numbers increased by 4.8% between 1988 and 1989: Department of Education, Science and Training, *Higher Education Students Time Series Tables 2000* (Canberra: DEST), Table 1.
- <sup>4</sup> The terminology here causes some difficulties. Technically, the Commonwealth government subsidises places and not students, though of course students are the ultimate beneficiaries. Until 2005, the official description of these places was 'Commonwealth-funded' – though the Commonwealth recovered some of their cost through HECS, in the interim it paid all the nominal cost of every place within a university's quota. From 2005, the official description is 'Commonwealth-supported', in recognition of the fact that the federal government no longer pays all the nominal cost of the place. For the purposes of this paper, the official 'Commonwealth-supported' description of subsidised places is unsatisfactory. Full-fee students who take out FEE-HELP loans are also in that sense 'Commonwealth-supported', creating an ambiguity. As will be explained later, students taking out FEE-HELP loans are able to engineer themselves a personal subsidy, though the student place is not itself subsidised.

A referee correctly pointed out that headline prices are not the only financial signals. In 1991, soon after HECS began, repayment rates were increased, and this has occurred a number of times through the history of income-contingent student loans. These changes are likely to have most impact on students combining work and study, as if they earn enough they will start repaying while studying. However, they may also influence other students as higher repayment rates increase the annual cash cost of holding a HECS debt.
- <sup>5</sup> Data on application by field of study to the state-based centralised applications agencies is collected by the Australian Vice-Chancellors' Committee and published in their annual unmet demand reports. Year-to-year variations tend to be very small, under 1.5% of the total. These variations also fail to move consistently in the directions a theory of price sensitivity would predict. For example, in both 1997 and 2005 the humanities acquired a price advantage but applications declined slightly. Veterinary science, by contrast, acquired a price disadvantage and a slight increase in applications. See: AVCC, *2005 Report on Applications for Undergraduate Places*, available at: <http://www.avcc.edu.au/content.asp?page=/publications/stats/unmet/>
- <sup>6</sup> Adrian Harvey-Beavis and Gerald R. Elsworth, *Individual Demand for Tertiary Education: Interests and Fields of Study* (Canberra: Department of Education, Training and Youth Affairs, 1998).
- <sup>7</sup> For law 36% of eligible applicants did not receive an offer, for dental studies 55%, for medicine 52%, and for veterinary studies 75%: AVCC, *Report on Applications*, Table A.6.
- <sup>8</sup> From 2005, the policy was changed to allow 35% in all courses except medicine, where it was 10%. At the February 2006 meeting of the Council of Australian Governments it was announced that this would be increased to 25%.
- <sup>9</sup> Though the 'dumb rich' tag was put by some on the full-fee students, many had high Year 12 scores but were aiming for very competitive courses. For example, full-fee law students at the University of Melbourne still need an ENTER of 96 for admission in 2005 See [www.vtac.edu.au](http://www.vtac.edu.au)
- <sup>10</sup> DEST, *Students 2004*, Table 43; *Students 2003*, Table 42.
- <sup>11</sup> One study found that the average graduate earns about \$300,000 more over his or her career than a non-graduate; the figure would significantly higher for students in lucrative professional degrees and with high labour-market commitment: Jeff Borland, Peter Dawkins, David Johnson and Ross Williams, *Returns to Investment in Higher Education* (Melbourne: Melbourne Institute, 2000), p.1.
- <sup>12</sup> AVCC, *2005 Report on Applications for Undergraduate Places*, Table A.7. The proportion varies significantly between states, from 92% in Tasmania to 58% in Victoria. A lower percentage of total applicants receives a first preference offer, but since many of these people would not receive an offer for any place due to their Year 12 results the total number of offers is the safer base figure.
- <sup>13</sup> Daniel Edwards, Bob Birrell, Fred T. Smith, *Unequal Access to University Places: Revisiting entry to tertiary education in Victoria* (Melbourne: Centre for Population and Urban Research, 2005), p.36.

- <sup>14</sup> Number of institutions: DEST, *Our Universities: Backing Australia's Future Newsletter*, No. 18, July 2005, p.7. Number of students: private communication from DEST.
- <sup>15</sup> David Rood, 'Private unis get big boost', *The Age*, 5 September 2005.
- <sup>16</sup> Higher education providers have to be approved by the Minister and then both houses of parliament are given an opportunity to disallow the Minister's approval. The 2004 election meant that this could not occur before 2005. No private higher education providers have been disallowed to date.
- <sup>17</sup> Brendan Nelson, *Higher Education Report 2004-05* (Canberra: DEST, 2005), pp.89, 92.
- <sup>18</sup> DEST, *Students 2004*, and previous years. Some data sourced from Australian Vice-Chancellors' Committee reports of DEST data.
- <sup>19</sup> In 1994 there were 4,250 postgraduate courses on offer: AVCC/Graduate Careers Council of Australia, *Directory of Postgraduate Study 1994 Australia* (AVCC/GCCA 1993). In 2006 there were 6,900: Richard Evered et al., *The Good Universities Guide to Postgraduate & Career Upgrade Courses, 2006 edition*, (Melbourne: Hobsons Australia, 2005), title page.
- <sup>20</sup> Glyn Davis, *Growing Esteem... The University of Melbourne*, pp.12-13. Available: [http://www.unimelb.edu.au/vc/consultation/growingesteem\\_councilapproved.pdf](http://www.unimelb.edu.au/vc/consultation/growingesteem_councilapproved.pdf)
- <sup>21</sup> For some background see David L. Kirp, *Shakespeare, Einstein and the Bottom Line: The Marketing of Higher Education* (Cambridge, Mass: Harvard University Press, 2003), esp. ch.13.
- <sup>22</sup> Robert L. Craig and Jerry R. Herman, 'Financial Overview—State of the Markets', paper delivered at The 2004 Education Industry Finance & Investment Summit, Washington DC, December 2004.
- <sup>23</sup> For an Australian Vice-Chancellor's concern, see Glyn Davis, 'The Rising Phoenix of Competition: What future for Australia's public universities?', *Griffith Review*, Autumn 2006, [www.griffith.edu.au/griffithreview](http://www.griffith.edu.au/griffithreview).
- <sup>24</sup> Council of Australian Governments' Meeting, Communique, 10 February 2006, p.12.
- <sup>25</sup> Department of Education, Science and Training, *Our Universities: Backing Australia's Future* (Canberra: DEST, 2003), p.22.
- <sup>26</sup> Calculated from Richard Evered et al., *The Good Universities Guide 2006* (Melbourne: Hobsons Australia, 2005).
- <sup>27</sup> Calculated from Richard Evered et al., *The Good Universities Guide to Postgraduate & Career Upgrade Courses, 2006 edition*, (Melbourne: Hobsons Australia, 2005).
- <sup>28</sup> DEST, *Our Universities*, p.22.
- <sup>29</sup> Australian Vice-Chancellors' Committee, *Unmet demand report 2005*, Table A.6, available: <http://www.avcc.edu.au/content.asp?page=/publications/stats/unmet/> The figures are, as a percentage of the eligible applicants not receiving an offer: veterinary science 75%, medicine 72%, dentistry 55%, and law 36%.
- <sup>30</sup> Graduate Careers Australia, *GradSats*, No. 10 December 2005, Table GS2.
- <sup>31</sup> Department of Employment and Workplace Relations, *Skills in Demand List – States and Territories 2005*. Available: <http://www.workplace.gov.au/workplace/Category/ResearchStats/LabourMarketAnalysis/SkillsDemand>
- <sup>32</sup> *GradSats*, No. 10, Table GS2.
- <sup>33</sup> GCA, *Graduate Destinations 2004*, p.26.
- <sup>34</sup> Samantha Maiden, 'Bigger loans to pay for dearer degrees', *The Australian*, 15 December 2004.
- <sup>35</sup> Department of Education, Science and Training, *Annual Report 2004-05* (Canberra: DEST, 2005), Table 4.14.
- <sup>36</sup> DEST, *Annual Report 2004-05*, Table 4.15.
- <sup>37</sup> Extract from Australian Government Actuary report, supplied by DEST.
- <sup>38</sup> Calculated from DEST, *Higher Education Report 2004-05*, pp. 88,92.
- <sup>39</sup> DEST, *Annual Report 2004-05*, Table 4.14.
- <sup>40</sup> DEST, *Our Universities*, p.22.
- <sup>41</sup> Milton Friedman argued that rates of return for education that were persistently well above those of other possible investments provided evidence that a market imperfection was leading to an under-supply of graduates: *Capitalism and Freedom*, pp.100-107.
- <sup>42</sup> Extract from Australian Government Actuary report, supplied by DEST.
- <sup>43</sup> OECD, *Education at a Glance: OECD Indicators 2004* (Paris: OECD, 2004), pp.181-182. It does not explain why women's returns are lower. A higher incidence of part-time work and choice of occupation are likely to be factors. See also Steven Schwartz, 'Is Life-Long Learning Worth the Effort', Policy Vol. 21 No. 1 (Autumn 2005).

- <sup>44</sup> Graduate Careers Australia, *Graduate Destinations 2004: The report of the Graduate Destination Survey* (Melbourne: GCA, 2005), pp.32-33, 54.
- <sup>45</sup> 1996 census results were reported: Graduate Careers Council of Australia, *1998 Graduate Starting Salaries* (Melbourne: GCCA, 1999), p.25. Some limited 2001 results can be found in two papers by Anne Daly, Philip Lewis, and Don Fleming: 'Why Study Economics: The Private Rate of Return to an Economics Degree' (2004) and 'Investing in a Legal Education: The Private Rate of Return to a Law Degree', both available from the Centre for Labour Market Research, University of Western Australia.
- <sup>46</sup> ABS, *Education and Work* Cat. 6227.0 (Canberra: ABS, various years). I classified professional, managerial, and associate professional as indicating occupations normally requiring degrees. This is a generous assumption in the case of some associate professional occupations. The true percentage of people receiving low returns on their educational investment is probably higher.
- <sup>47</sup> For an overview, see Samuel Bowles, Herbert Gintis and Melissa Osborne, 'The Determinants of Earnings: A Behavioral Approach', *Journal of Economic Literature* Vol XXXIX (December 2001).
- <sup>48</sup> For a description, see William G. Bowen and Derek Bok, *The Shape of the River: Long-term consequences of considering race in college and university admissions* (Princeton, NJ: Princeton University Press 1998), Appendix A.
- <sup>49</sup> Figures collated from 'What you pay', on the Department of Education, Science and Training 'Going to Uni' website, [www.goingtouni.gov.au](http://www.goingtouni.gov.au). The cheapest courses are education and nursing, on \$3,920 a year. The most expensive are law, dentistry, medicine and veterinary science on \$8,170 a year.
- <sup>50</sup> Mark Urban, et al, *Completions: Undergraduate academic outcomes for 1992 commencing students* (Canberra: DETYA, 1999), p.29. This understates the problem somewhat, as the research was unable to track people who moved to other universities.
- <sup>51</sup> Nelson, *Higher Education Report 2004-05*, p.91.
- <sup>52</sup> For example, in 2004 the median annual starting salary for someone with a bachelor degree aged less than 25 was \$38,000, requiring a repayment of \$1,710. For someone with a graduate certificate or diploma, the median starting salary was \$51,000, requiring a repayment of \$3,060. For someone with a masters by coursework degree, the median starting salary was \$62,000, requiring a repayment of \$3,720. Sources: Graduate Careers Australia, *Graduate Starting Salaries 2004* (Melbourne: GCA, 2005), pp.9, 38; Brendan Nelson, *Higher Education Report for the 2004 to 2006 Triennium* (Canberra: DEST, 2004), p.58.
- <sup>53</sup> Bruce Chapman, 'Positive and Negative Aspects of Australian Higher Education Financing', paper given at the Melbourne Institute/ *The Australian Towards Opportunity and Prosperity Conference*, 4-5 April 2002.
- <sup>54</sup> Graeme Hugo, Diane Rudd and Kevin Harris, *Australia's Diaspora: Its Size, Nature and Policy Implications* (Committee for the Economic Development of Australia, 2003), p.33.
- <sup>55</sup> Immigration numbers from: Department of Immigration and Multicultural and Indigenous Affairs, *Immigration Update 2004-05* (Canberra: DIMA, 2005), p.32.
- <sup>56</sup> Donald MacLeod, 'Tories question loan plans for overseas students', *Guardian Unlimited*, 9 August 2005.
- <sup>57</sup> 'Loans and repayments', Student Loan Company website: <http://www.slc.co.uk/noframe/lr/sss/repaydet.html#outside>
- <sup>58</sup> New Zealand Inland Revenue, 'Student loans', Inland Revenue website: <http://www.ird.govt.nz/studentloans/overseas/>
- <sup>59</sup> New Zealand Inland Revenue, 'Student loan quarterly report', June 2005, Inland Revenue website: <http://www.ird.govt.nz/studentloans/reports/>
- <sup>60</sup> Hugo et al, *Australia's Diaspora*, p.35; DIMA, *Immigration Update*, p.9.
- <sup>61</sup> DEST, *Students 2004*, Table 19.