Submission to the Education and Employment Legislation Committee of the Australian Senate

Inquiry: Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022

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Summary

Amends the: Higher Education Support Act 2003, Social Security Act 1991, Student Assistance Act 1973, Trade Support Loans Act 2014 and VET Student Loans Act 2016 to remove indexation on certain education and training loans; and Higher Education Support Act 2003, Social Security Act 1991 and Student Assistance Act 1973 to: define and raise the minimum repayment income and amend the percentage of income a person is liable to repay the Commonwealth for certain education and training loans.

Recommendations

1. For the indexation of student higher education debts to be abandoned.
2. Also, the minimum repayment income amount lifted to alleviate cost-of-living pressures on students and graduates.

Preamble

The Higher Education Contribution Scheme – Higher Education Loan Program (HECS-HELP) is a Commonwealth Government loan scheme that helps eligible students to pay all or part of their student contribution amount. The loan is repaid through the Australian personal taxation system.

Previous governments have reshaped the post-1980s public university model as a corporate enterprise (Parker et al., 2022), emerging from market mechanisms that reflect neoliberal higher education policies focussed on generating university income and reducing the ratio of federal government higher education funding compared to the increases in local student contributions.

Comprising 37 public system universities and over 150 private higher education providers, the AHES is an economically and socially critical part of Australian society. On average, the AHES educates a diverse mix of 1.4 million national and international students yearly. Total outlays by the Australian government in higher education spending (including research) have almost tripled over the past three decades, from $6.9 billion in 1989 to $20.4 billion in 2020–21 (in 2020 dollars). However, this growth is primarily due to HELP loans, which domestic students repay in the future. Direct teaching and learning grants (i.e., the Commonwealth Grant Scheme) have only increased by 36 per cent over the same period. Hence, total government outlays for higher education have plateaued between 2019–20 and 2020–21.

In addition, in 2020, the Federal Government Minister for Education, Dan Tehan, announced a range of measures falling under the government's 'Job-ready' Graduates Package[1]. Chief among the changes announced was the continued shifting of the financial burden of higher education onto local students. The changes will result in a 15% cut in actual public funding per student, a 7% increase in average student contributions, and a 6% decline in overall student-related income per EFTSL (equivalent full-time student load) going to universities (NTEU, 2020). Also, the Federal Government introduced an overhaul of university funding arrangements. The proposals include an escalation of fees for those who wish to undertake studies in particular disciplines. For example, the fees for students in management, commerce, law, and economics will rise by 27.7%, in creative arts by 66.1%, and in communications and humanities by an astonishing 113.1% (Guthrie et al., 2020). At the same time, there was a 10% funding cut to universities and a 24% cut to TAFE over three years in the 2021 Federal Budget.

[1] Under the Job-ready Graduates Package (the package) of reforms to higher education, Government university funding of $18 billion in 2020 will grow to $20 billion by 2024. The package will create up to 30,000 new university places, and 50,000 new short course places by 2021 and provide additional support for students in regional and remote Australia.

Higher Education Contribution Scheme indexation

The premise of introducing income-contingent debt repayments under the Higher Education Contribution Scheme (HECS, now HELP) was that graduates would only pay off their debts when they began earning a comfortable income. The indefinite debt deferment applies annual indexation aligned to the Consumer Price Index (CPI). We argue that significant changes in government policies over the years regarding student debt have changed the system so that it no longer functions in the manner originally intended.

Concerning the alignment of indexation to the Consumer Price Index (CPI), inflation in 2022 was around 8%. If this policy were implemented, student debts could be indexed at around 8% would mean that CPI-indexed increases would blow out the Australian student debt.

The finance argument for tying debt to CPI is fatally flawed because it is a timing issue, and the government pays the public universities in cash in period one and raises a student debt. The monetary value is one hundred dollars, and the government would use taxation receipts or government bonds to finance the payments. However, the student may take a decade after graduating to earn enough to pay some of their debt. The debt in 10 years given Australia's current inflation rate could significantly increase, and the student burden of debt means they cannot borrow or have a high cost of living impacts. **Therefore what is the reason for applying CPI indexation?**

A financial concept is the time value of money whereby money is worth more in the present than in the future due to its potential earning capacity or to inflation. If you invest $100 today, that money can earn interest or dividends, which should not apply to government cash raising or funding or student debt.

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