Opinion:

A Critical Appraisal of the New Higher Education Charges for Students

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Introduction and Summary

The legislation concerning the financing of Australian higher education passed the Senate in the last Parliamentary sitting week of 2003. The changes introduced will begin in 2005, and after this time the system will start to move away from its current settings. It is argued in what follows that these reforms[i] have the strong potential to change radically the policy landscape with respect to student charges.

A premise of the paper is that the transformation of Australian higher education funding after 2005 is likely to be more profound than was the case with all other financing changes over the last 30 years or so. As background, the discussion offers a brief historic overview of university funding reforms: the abolition of fees by Labor in 1973; the introduction of the Higher Education Administration Charge in 1987; the major extension of user pays through the Higher Education Contribution Scheme which began in 1989; and the considerable changes to HECS implemented in 1997.

While some reforms are considered to have been fundamental with respect to the incidence and nature of higher education charges for students, it is argued that the new policy arrangements are very likely to have a much greater impact. To this end, the analysis includes an explanation of the critical role played by the indexation of government grants to Australian universities. While this might seem like a strange place to start given the lack of attention to the issue in public debate, it should become clear that the indexation rules in place since 1995 are a key to understanding the likely effects of the 2005 student financing policy transformations.

This analysis is followed with a description and evaluation of the two major 2005 policy changes to student financing, known as 'HECS-HELP' and 'FEE-HELP'. It is argued that the essence of 'HECS-HELP' is sound economic and social reform, particularly given that there is to be a substantial increase in the first income threshold of repayment of students' debt. HECS-HELP has the potential to improve the functioning of Australian universities without harming access for the less well-off.

'FEE-HELP', on the other hand, can be seen to be a poor reform. The policy offers income related loans for all domestic students charged full fees, and this is certainly an improvement over current arrangements allowing full fees to be charged without an income related loan system. Even so, it is argued that Australian universities should not be allowed this level of price discretion, given long histories of taxpayer subsidy and the considerable advantages for some institutions of their (rent-free) prime locations. By continuing to restrict the number of places that can be offered to domestic students, the price flexibility allowed through FEE-HELP will thus provide very substantial economic advantages to well placed institutions with no important benefits with respect to competition.

There are other problems with FEE-HELP: inequities associated with similarly qualified students incurring different charges, and the proposed capping of loans, which has the real prospect of damaging the access of the poor. Overall, there are compelling reasons for the abolition of FEE-HELP and replacing it with greater flexibility with respect to universities deciding the number of places to be offered in the context of a continued capping of charges. This can be achieved without adding to government outlays.

In the context of both the indexation arrangements and the suggested changes to student charges, it is possible to offer some predictions of Australian university reactions with respect to their new capacity to influence student charges. For an economist to make forecasts of this nature might be considered courageous – indeed, it is sometimes suggested that economists have trouble predicting even the past – but all the current indicators strongly suggest what the future will look like in this area. In short, there will be rapid increases in charges through HECS-HELP, and eventually a significant increase in the take-up of FEE-HELP: the overall increase in the proportion of costs financed by students will be very large.

A preferred reform model for Australian higher education financing is then offered. The approach suggested should be seen to be an implicit endorsement of some aspects of the government's new arrangements, specifically those associated with HECS-HELP. In important other respects the promotion of the alternative outlined is consistent with two significant criticisms of current directions. One, the essence of FEE-HELP is misplaced; and two, arguments are offered for extensions of HECS in ways that are ultimately costless to the Budget but which could improve the economic circumstances of a large number of prospective tertiary students.

A Brief History of Australian Student Charging

(a) Introduction

The financing of Australian higher education has undergone radical change since the early 1970s. At that time the Federal government provided practically all funding, and until the late 1980s there was little political support for change. However, over the last decade and a half there has been a very significant move towards greater private contributions, particularly with respect to student tuition charges. The current arrangements are unrecognisable compared with those in place under the Whitlam Government.

(b) Fees abolished in 1974

Up-front fees used to be paid by some students, but were abolished by the Federal Labor government, in 1974. The policy change had two key motives. First, fees were believed to erect barriers to participation in higher education by the poor. Thus their abolition was seen to be important in improving the access of the disadvantaged to better lifetime opportunities. Second, fee abolition was symbolically important as a reflection of the Labor Government's social democratic credentials.

The abolition of university fees at this time had no discernible effects on the socio-economic composition of higher education students[ii], for two reasons. First, only a small proportion of students (25-30 per cent) paid fees, since the great majority had either Teachers' College or Commonwealth Scholarships. Second, because secondary schooling retention rates to the equivalent of Year 12 were very low at the time (less than 30 per cent), most prospective students from poor families had left the education system well before university entrance became an option.

(c) The Higher Education Administration Charge

The Coalition Government of 1975-83 made no important changes to university financing. In what was arguably a landmark decision, the Labor Government introduced the so-called Higher Education Administration Charge (HEAC) in 1986.

HEAC was a watershed since it introduced universal user-pays. The charge was small - $250 (in 1986 terms) - and did not vary with respect to course load. There is some evidence that it had a small negative effect on mature-aged part-time enrolments.[iii]

HEAC was symbolically important in that 'user pays' had previously been rejected by different Australian governments, for over a decade. HEAC showed the intention of several Cabinet Ministers (notably Peter Walsh and John Dawkins) to address what they thought was a critical equity issue: not charging for higher education is regressive because the subsidy from all taxpayers – including the poor – goes mainly to those from advantaged families. The pejorative labelling of 'free education' as 'middle class welfare' was a major theme at the time.

(d) Higher Education Contribution Scheme

The Higher Education Contribution Scheme (HECS), recommended by the Wran Committee set up by John Dawkins in 1988[iv], was adopted in 1989. This was a universal charge to undergraduate students of $1,800 (in 1989 terms), with a unique feature: students could defer payment until their future incomes reached a particular threshold, with no real rate of interest being charged on the debt. This was the world's first income-contingent charge for higher education[v], a policy arrangement that has since been adopted or recommended in many other countries[vi].

HECS came about because the government wanted to increase higher education enrolments but was not prepared to pay for the increased expenditure through taxation. Most importantly, 'free education' was seen to be regressive and unfair[vii].

While many critics of HECS alleged at the time that the new system would have major adverse consequences for the access of the disadvantaged, this has not been the case. Some part of HECS' success on this level relates to the significant advantages of the nature of income related repayment.[viii]

(e) The 1996/97 Budget changes

In its first Budget the Coalition government announced four significant higher education financing modifications[ix]:

(i) all charges were increased, by around 40 per cent on average;

(ii) the income thresholds for repayment of the debt were reduced considerably, from about $30,000 to about $21,000 (in 1996 terms);

(iii) the uniform charge was replaced with three levels; and

(iv) universities were allowed to set whatever level of fee they wanted for undergraduates not accepted under existing HECS quotas for up to 25 per cent of students covered by HECS.

The most significant direct change to HECS related to the repayment thresholds. Because the whole structure was moved down, all people repaying HECS – most of whom had graduated before 1997 – would now pay more in present value terms, because they would have less of the subsidy implicit in an interest-free loan. This meant an average increase in effective repayment obligations of about 10 per cent.[x]

The final 1997 reform, allowing universities price discretion for additional students was a radical departure from centralised fee control.[xi] While there has been little student take-up, it has been argued to represent the beginnings of a very significant movement towards institutional pricing autonomy. The 2005 reforms build very importantly on this notion.

(f) Summary

Since 1973 Australian higher education funding arrangements for undergraduates have undergone significant changes. The most obvious change is that student financial contributions have increased from around zero to about 40 per cent or more of course costs. As well, at least since 1997, there has been a clear move towards allowing some price flexibility for universities. What now follows considers the likely impact on student charges of the current reforms.

Understanding the 2005 Reforms: The Roles of Indexation and Enterprise Bargaining

(a) Why enterprise bargaining matters

For the last decade or so of Australian higher education financing concerns, it is important to understand the rule used by government for the indexation of recurrent grants to universities. The arrangement was instituted in 1995, in the context of the practice of enterprise bargaining, the incidence of which was growing strongly in the university sector at the time.

Enterprise bargaining is now the most commonplace industrial arrangement in private firms, and has been a growing practice in Australia since the demise of centralised wage determination, which began in the early 1990s. However, enterprise bargaining is less well suited to public sector universities than it is to the private sector because of the absence of an instrument to adjust in response to wage bargaining outcomes. Universities, for example, have not had the capacity to vary their prices or output mix as can private firms in response to a bargaining outcome.

As might have been predicted, the movement to enterprise bargaining in universities has been associated with unions gaining wage increases roughly commensurate with wage increases typically experienced economy-wide; that is, around 4 to 5 per cent per annum, and sometimes more.

(b) The importance of the government's indexation rule

With wages and related benefits making up around two thirds of university costs it is clear that for the sector to maintain the quality and quantity of its output there would need to be a commensurate change in revenue when wages increase. The most important component continues to be government recurrent grants, including HECS revenues. Herein lies the essence of the issue: the indexation rule under which government grants are adjusted does not reflect wage increases in the sector or average wage increases in the community. The government's annual adjustment is made with a Cost Adjustment Factor (CAF). [xii]

The CAF is not a measure of cost increases in universities: as the Department of Education, Science and Training (DEST) says, quite clearly, each year in the triennial report:

> The Higher Education Cost Adjustment Factor (CAF) is an index reflecting the contribution the Commonwealth makes towards increases in the operating costs of higher education institutions. The CAF does not measure actual price rises but the Commonwealth's contribution towards annual increases in salary and non-salary costs.[xiii]

This means that every year that a university's enterprise bargaining agreement delivers an increase in average remuneration roughly in line with professional or other earnings in the community is also a year that a university experiences an effective cut in real government support.

Burke and White have analysed the significance of the indexation arrangements, and have recalculated government grant levels on the basis of alternative hypothetical scenarios.[xiv] For example, under the assumption that the grants were indexed to changes in what is known as the Education Cost Index – which is indexed in part to wages, but still results in lower adjustments than changes in average weekly earnings - in 2002, universities would have had received around an additional $466 million more per annum, or about 9 per cent of the total DEST base operating grant[xv].

Before the current reforms, universities had little scope to reduce the impact of the effective and on-going fall in government revenue[xvi]. One of the critical points concerning the likely consequences of HECS-HELP is that, effectively for the first time, the universities will in 2005 have a pricing instrument, explained below. In the context of the juxtaposition of the enterprise bargaining outcomes and the indexation rule explained above, these changes will necessarily mean significant increases in student contributions. The basis for this claim is revisited below.

HECS-HELP

(a) HECS-HELP described

The new instrument is that from 2005 universities will be able to set their own prices for all HECS students, up to a ceiling. With the exception of nursing and education (where no real changes will be allowed) the ceilings will be 25 per cent higher than the projected 'standard' HECS levels in that year. The revenue will flow directly to the universities, implying the beneficial prospect of some additional flexibility, which could take the form of salary top-ups in areas of shortage.

The second important feature of the new HECS arrangements is that the first income threshold of repayment has been raised, from about $26,000 in 2004 to just over $36,000 per annum in 2005 (and there are some additional steps, including higher repayment rates for incomes above $50,000). In combination the pricing and threshold reforms have the potential to change significantly the true HECS prices faced by students, but understanding this is a complex process.

(b) What the changes to HECS will mean for student demand and access

In public and political discussion over the last few months it has sometimes been argued that HECS-HELP will result in higher charges for students and thus has the potential to diminish the access of some prospective students. The reason typically offered for this prediction is that a significant number of institutions are likely to take advantage of their new capacity to raise the charge.

However, the (apparently) higher charges resulting from HECS-HELP do not necessarily mean that the effective prices faced by students after 2005 will also increase. The reason is that HECS-

HELP will be instituted with a very different repayment regime of the associated debt; the first income repayment threshold of repayment is to be raised in 2005 to just over $36,000 per annum, almost $10,000 per annum higher than is the case in 2004. For some students this change in the first repayment threshold will significantly reduce the true cost of tuition, even given an apparent 25 per cent increase in the charge.

Basically, once a HECS debt is incurred, there is no real rate of interest with respect to on-going debt obligations: thus there is a subsidy for each period in which the debt remains (that is, the size of the subsidy depends on a student's future income)[1]. This matters, since it is not possible to generalise what the suggested changes of HECS-HELP will mean for students, given that there are opposing forces at work: a higher charge on paper will be offset for some by a greater period of subsidy from the new higher repayment threshold.

In an analysis of the expected changes to the true cost of HECS-HELP, a large number of hypothetical graduate incomes were constructed, including for those earning in the bottom third of the distribution of graduates incomes by sex.[xvii] For low income graduates increases in HECS debts of 25 per cent were found to be associated with *lower* effective charges because of the much higher first income threshold of repayment. Specifically A striking example concerns female graduates who work full-time and experience low incomes, with the extent of the decrease in the true cost of the charge being of the order of 66 per cent.

We also explored the implications of HECS-HELP for graduates expecting to spend several years both out of the labour force, and working half time. For female graduates expecting this experience, the true cost of HECS-HELP decreases very substantially, even when the apparent charge goes up by 25 per cent. On the other hand, for graduates earning typical incomes and above, increases in the charge result in high additional tuition imposts.

(c) HECS-HELP in prospect

HECS-HELP arrangements have the prospect of increasing to some extent university autonomy, essentially because there will be less centralised control over the resources being delivered to particular universities. This aspect of change is consistent with decisions being made with reference to the needs of individual institutions rather than the more centralised decisions that have so far characterised policy. It is important that the extent of charge flexibility has been limited through a cap on price discretion, a point explained in detail elsewhere.[xviii]

Since the introduction of HECS and the considerable 1997 HECS changes do not appear to have affected the socio-economic mix of enrolments[xix], HECS-HELP is very unlikely to have adverse consequences with respect to either aggregate demand for places or the socio economic mix of enrolments. If universities understand that 25 per cent increases in HECS charges in the context of a much higher income threshold of repayment will not affect student access, in the continuing financial environment of the indexation rules, there are powerful forces at work which will ensure that HECS-HELP will result in widespread price increases, and quite soon after the end of 2004. At the time of writing this prediction seems very robust.

FEE-HELP

(a) FEE-HELP described

FEE-HELP has several dimensions. One, it represents an extension of student loans to cover full-fee paying undergraduate domestic courses, with repayments to be made according to the new HECS parameters. Two, universities will be allowed full-fee paying domestic student quotas of 35 per cent of enrolments per course. Three, loans of this type will be capped at a level of $50,000.

Analysing FEE-HELP needs policy context. As noted, the current government allowed universities to charge full fees for up to 25 per cent of domestic students in 1997. But this policy reform showed no recognition of the importance of the need for student loans given up-front charges.[xx] Without a loans system it was inevitable that the take-up of this option has been extremely low,

[1] For a lucid and accessible explanation of this issue, see Ross Gittens 'Time takes its toll on value of HECS discount', *Sydney Morning Herald*, 13 March.

and there are no surprises that currently only about 6,000 students per year are enrolled under this arrangement.

(b) Price discretion in the context of economic theory

It is important to stress that unfettered price discretion without an income contingent loan, the policy introduced in 1997, constitutes combinations of the worst that Australian higher education financing policy could offer.[xxi] Thus while making a HECS-type loan available to full-fee paying students in 2005 is an improvement over the reform of seven years ago, the change, in policy desirability terms, is only from very poor to poor.

The basic problem with allowing full price discretion is that such an approach gives no weight to substantial historic public sector subsidies to institutions, which have contributed considerably to the reputations of privileged universities. As well, universities do not pay rent, and this means that those in prime locations will be able to charge 'full fees' unrelated to competition.

In the circumstances of the government maintaining supply quotas on universities, it is particularly contentious to allow price-setting institutions to charge what they want, because the institutions are then able to take advantage of the supply restriction with respect to the price set. Consequently, the price asked of students cannot reflect the interaction of market forces (since these are not able to operate), but will instead deliver student charges that are necessarily higher than would be the case without quotas; there will then be considerable non-market rents delivered to the price setter, the universities. Thus it might well turn out to be that some universities are able to charge students far in excess of the costs of provision of the course, a situation a long way from the ideal of course charges reflecting course costs, student demand and government subsidies.

These arguments suggest a case made in Chapman (2003) for the government capping fees. Indeed, the force of this point seems to underlie the Government's decision to set the limit of 25 per cent on the extent to which universities are able to increase HECS-HELP charges. It is notable that the same understandings, apparently, have not influenced the policy approach to so-called 'full-fee paying' students.

There are several possible alternatives with respect to price capping. Perhaps the most persuasive has been argued by Phillips[xxii], in which the cap could be set at a level slightly higher than the maximum allowed with HECS-HELP. Then there is the major equity advantage involving the removal of price distinctions between students, since all domestic students in the same course would pay the same charge. In this model, the government subsidises a given number of places, but leaves the institutions to decide the number of offers with capped prices; this seems to be a feasible alternative to quota restrictions.

(c) The important problem of the capping of the loan

In 2005 universities will be able to charge full-fee paying undergraduate and postgraduate students whatever they choose, to a maximum of a total debt of $50,000. Presumably this arrangement has been chosen to minimise the likely costs to the Commonwealth of non-repayment of the debt, and also to limit the extent to which institutions choose to increase charges.

However, it is difficult to believe that universities will significantly limit charge increases because of the existence of a maximum student debt. For this to be the case those in charge of setting course fees would need to have an informed view of the extent to which the charge for their particular course would limit student demand. However, the number of students likely to be faced with the prospect of non-enrolment due to a specific course charge won't be known with any certainty. For example, a course administrator in the area of post-graduate studies will not know how many prospective students already have a FEE-HELP debt, and what its level is. The response of the charge to the loan limit will necessarily be limited.

The critical issue for debt capping is the very real possibility that some students will have exhausted their loan limit before graduation. Then a proportion of unfinished students must face the possibility of paying for the completion of their course with up-front fees. Because the private capital market will not provide finance to cover this possibility, it could well mean that some -

perhaps many - students will not easily be able to complete. This is a waste of resources, and is inequitable.[xxiii]

(d) FEE-HELP in prospect

The introduction of a deferred, income-contingent loan facility for full fee paying domestic undergraduate students is likely to increase significantly the demand for such places, as was seen with postgraduates in the case of the Postgraduate Education Loan Scheme. The scale of the demand response is very difficult to predict, but it is possible to consider some plausible scenarios.

In 2002 there were 6,536 undergraduate full fee paying students, representing 1.6 per cent of the total domestic undergraduate load. In 2008, if the ratio of undergraduate fee-payers to funded load increased to only 2 per 100, there would be around 8,560 EFTSU of fee-paying students. While this doesn't seem to be very many, there are powerful reasons to believe that the numbers will be much greater.

There are several reasons:[xxiv]

(i) There will be little growth in HECS-liable places, and could even be a net decline relative to 2002 if the reduction in marginally-funded places exceeds the growth in fully-subsidised places. So the competition for high demand courses will remain intense;

(ii) The differential between full fees and HECS will be reduced as institutions choose to increase their HECS levels. Indeed in some courses it is conceivable that the difference could be very small indeed;

(iii) The availability of income related loans will remove the up-front payment barrier;

(iv) The availability of deferred, income-contingent loans will mean that potential students will tend to discount the size of the fee in their decision-making;

(v) Institutions may be more inclined to offer full fee places in a more de-regulated environment and because the availability of loans will diminish equity concerns; and

(vi) The increase in the cap on the proportion of fee paying domestic students from 25 per cent to 35 per cent will increase the capacity of courses to enrol fee paying students.

An increase in the ratio of fee-paying to fully subsidised students to 5 per cent and more is therefore entirely credible. At this level, there would be around 21,400 full fee paying places (EFTSU) in 2008, which represents an increase of about 14,900 EFTSU over 2002. It would not be surprising if the increase turns out to be considerably higher than this.

Towards a Preferred Model

(a) Introduction

A constructive way to proceed is to offer a suggested preferred model of Australian higher education financing. Some desirable elements are now outlined.

(b) Price capping

Particularly in the light of continuing restrictions of the number of places, there is a case for the government imposing a cap on the fee allowed to be charged. In this respect a sensible design feature of HECS-HELP is the charge limit placed on institutions. FEE-HELP does not have this advantage.

There are several possible alternatives involving price capping. For example, as has been argued by Phillips[xxv] the cap on fees could be set at the same level as the maximum allowed under a modified HECS system, which could be interpreted to be HECS-HELP. In this instance the price distinction between full-fee and HECS-liable students would disappear so all domestic students in the same course would pay the same charge set by the institution, and there would be far less potential for unfair rent-seeking behaviour by institutions.

(c) Vocational Education and Training (VET) fees

The 2005 reform proposals do not include consideration of vocational education and training. From a policy and equity perspective this is an unfortunate omission, since VET up-front charges could be seen to be an impediment to access. The fact that these up-front fees have recently been increased considerably in NSW is pertinent food for thought in this area. There is nothing unique about students attending universities to suggest that income contingent loan coverage should stop there. After all, the capital market failure motivating policies such as HECS applies generally to all educational investments.

Some part of the reason for this omission lies with the State governments, which are responsible for VET, and which have opposed the introduction of income related mechanisms for VET students. The resulting anomalies and inequities are most clearly seen in those courses from which there are credit transfer arrangements to Bachelor degrees, but remain a significant issue across the board. A possible future step toward greater equity and policy consistency could be to extend HECS-type loans to all tertiary students who face substantial tuition fees.

Reform of financing VET towards consistency with higher education need not be radical. One way would be to apply a HECS-type option only to courses with strict accreditation to universities, under current fee regimes. Students could be allowed to pay the current charge up-front, or to take a HECS loan and repay through the tax system an additional 25 per cent. This is precisely how university HECS operates, and takes the form of a discount for up-front payments. Maintaining current VET charge levels can thus be achieved concurrently as the system is made fairer and more consistent with university financing.

(c) Assistance to remove all up-front costs

Income related loans such as HECS are designed to remove up-front financial barriers for the participation of students in post-compulsory education. But while the scheme removes compulsory up-front tuition costs, this doesn’t mean that there are then no financial barriers. For example, undergraduate students currently have to find money for textbooks and other materials (for many these will be as high as $400-500), compulsory union fees, and small enrolment charges (currently around $100-200 per annum).

A very obvious response to this problem would be for the government to offer all students an annual sum of money, say $1,000, to defray these costs. This could be done in a way that is costless for the Budget over time, by requiring the student to repay the sum in the same way that HECS is currently handled (but with the new HECS-HELP parameters). That is, students choosing to take advantage of the offer would contract to have their HECS debt increased, but by more than the $1,000 borrowed in order to compensate the government for the real interest rate subsidy implicit in HECS arrangements. For consistency with the proposed 2005 arrangements this would mean that a student borrowing $1,000 would commit to repaying $1,250 in addition to other HECS debts.

Conclusion

The 2005 reforms to Australian higher education have the potential to change profoundly the university financing landscape. The main point is that there are fundamental forces at work implying that, over time, student contributions will increase very significantly. This will be the result of two forces: the government’s indexation rule with respect to recurrent grants; and the combination of universities soon being allowed to both increase HECS charges by up to 25 per cent and the more generous arrangements associated with charging full fees for domestic students.

Some of the reforms have been argued to be propitious from the perspective of economic and social policy. For example, the increase in the first income threshold of repayment of HECS debts by students to around $36,000 per annum is consistent with the basic principles underlying the concept of income related loans. As well, having extra potential resources delivered directly to universities - instead of constituting an additional tax-type inflow to the Commonwealth budget - has some capacity to improve resource allocation in the sector. In summary, HECS-HELP should be seen to be a productive evolution of the original HECS arrangements,[xxvi] particularly when considered in the light of the significant increase in the first threshold of repayment of the debt.

However, the above positive assessment of HECS-HELP is not true with respect to FEE-HELP, which is poorly designed. The first problem is that there is no case for allowing universities complete price flexibility; over time the policy will result in a significant minority of students accumulating large, and arguably inequitable, debts reflecting prices set in a way that is unrelated to the fostering of competition. Second, because a student’s total debt level is to be restricted to $50,000, some individuals will very likely face the prospect of having to find money to pay up-front fees in order to complete their degrees. This must restrict the access of the poor and represents a major regressive step in Australian higher education financing policy.

The latter point comes to the heart of Australian higher education financing policy. The critical issue is that if students need to find resources to finance university participation by having to pay up-front fees, this will diminish the access of relatively poor prospective students. This was an important motivational factor behind the design of HECS, with the evidence suggesting that the policy has had no deleterious effects on the access of students from relatively poor backgrounds over the last 15 years. FEE-HELP has the important potential to undo this positive feature of current Australian policy.[xxvii]

References

Gittens, Ross (2004). 'Time takes its toll on value of HECS discount', *Sydney Morning Herald*, 13 March.

*The author wishes to thank Gerald Burke and David Phillips for assistance. The author alone is responsible for errors and omissions.

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[i] However, a change in the Federal government in the 2004 election would very likely mean that the new higher education financing policies will not proceed.

[ii] See Wran, Neville (1988). *Report of the Committee on Higher Education Funding,* Department of Employment, Education and Training, AGPS: Canberra.

[iii] See National Institute for Labour Studies (1988). 'The Effect of HEAC on Higher Education Equity and Access', Flinders University of South Australia.

[iv] Wran (1988) *op cit*..

[v] For analysis of the background to HECS, see Edwards, Meredith (2001). *Social Policy, Public Policy,* Allen & Unwin: Sydney.

[vi] Income-contingent loan schemes for higher education are now in place in New Zealand, the UK, South Africa, Chile and the US, and have been recommended by the World Bank, or are currently being implemented, in Ethiopia, Rwanda, Hungary and Thailand.

[vii] For further analysis of the background to the policy, see Chapman, Bruce (2003). 'Submission to the *Crossroads* Inquiry', Australian Parliament, *Centre for Economic Policy Research Discussion Paper*. 456, Research School of Social Sciences, Australian National University.

[viii] , An issue analysed in Chapman, Bruce and Ryan Chris (2002). 'Income-contingent Financing of Student Charges for Higher Education: Assessing the Australian Innovation', *The Welsh Journal of Education*, 11, 1: 64-81.

[ix] For analysis of the effects of these changes, see Chapman, Bruce and Salvage, Tony (1988). 'The Effects of the 1996/97 Budget Changes for Students', in *Australia's Future Universities,* University of New England Press.

[x] Chapman and Salvage (1997) *ibid*.

[xi] Chapman and Salvage (1998) *op cit*.

[xii] Since 1995 the annual operating grants for universities have been adjusted by the Higher Education Cost Adjustment Factor (CAF). Salary costs were notionally seen by DEST to constitute 75 per cent of grants (the actual share is smaller than this). This component of the CAF is based on the Safety Net Adjustment (SNA) as determined by the Australian Industrial Relations Commission. Non-salary costs notionally constitute 25 per cent of grants and are indexed using the Consumer Price Index (CPI).

[xiii] Department of Education, Science and Training (2004): 116). FULL DETAILS PLEASE HIGHER EDUCATION
REPORT FOR THE 2004 TO 2006 TRIENNIUM

[xiv] Gerald Burke and Paul White (2003) FULL DETAILS PLEASE see reference following

[xv] Calculation based on analysis in Burke, Gerald and White, Paul (2003). 'Price Measures in Education and Training', *CEET Working Paper*, 53, Monash University and data from the AVCC.

[xvi] However, some universities have been able to offset the consequences through expansions in full-fee paying international students.

[xvii] Beer, Gillian and Chapman, Bruce (2004 forthcoming). 'The Effects of the 2005 Changes in HECS on Students', *Centre for Economic Policy Research Discussion Paper*, 474, Australian National University.

[xviii] In Chapman (2003) *op cit*.

[xix] Chapman and Ryan (2002) *op cit*.

[xx] Chapman (2003) *op cit*.

[xxi] *ibid*.

[xxii] David Phillips made public this suggestion on 13 December 2001.

[xxiii] Chapman (2003) *op cit*.

[xxiv] Phillips, David and Chapman, Bruce (2003). 'Our Universities: *Backing Australia's Future*. Issues and Analysis', mimeo, Australian National University, Canberra, July.

[xxv] Phillips, David (2001). Proposal to the Go8 Board FULL REFERENCE? This is all I can get here – David Phillips has confirmed that this is best.

[xxvi] It is of interest to note that the proposed extensions were canvassed and, with qualifications, generally supported by the committee which recommended HECS in 1988 (see Wran (1988) *op cit*.

[xxvii] For a summary of the research, see Chapman, Bruce and Ryan Chris (2002). 'Income-contingent Financing of Student Charges for Higher Education: Assessing the Australian Innovation', *The Welsh Journal of Education*, 11, 1: 64-81. 2002