

Inflation angst not HELPing 'student debt crisis' situation

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By Bruce Chapman, Madeline Dunk

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The "student debt crisis" alarm has been sounded but that angst is more than a little misplaced.

A recent headline drew attention to the fact that HELP debt will soon be adjusted to take into account the Consumer Price Index.

It is pointed out that for somebody with the average HELP debt of \$27,771 the adjustment will result in an increase of their debt by \$1700. For the 585,000 people with debts in excess of \$40,000 the debt goes up by at least \$2876.

These large changes in liabilities might strike many people as shocking, inequitable or unfair, or even all three. This is the reaction of NSW Greens senator Mehreen Faruqi, who has described the issue as a "student debt crisis" and has called on the government to abolish HELP indexation and, ultimately, all university charges.

What follows clarifies the basis for and consequences of the indexation arrangement, it being explained that the adjustment is not disturbing, nor is it unjust, and it is certainly not a crisis.

Not covered is the dubious basis for the call to reintroduce so-called "free" university education.

Abandoning HELP would be highly regressive because the costs of graduates not paying anything will have to be covered by all taxpayers, including from all the millions of disadvantaged without the financial privilege of a degree.

On indexation it is useful to start with the history. When HELP - then known as HECS - was introduced in 1989 by the Hawke government it was seen to be fair to require a direct contribution from graduates to the cost of their university education. This takes the form of a charge that is paid not on enrolment but later and only when the former student earns over a set amount, which is currently about \$49,000 per annum.

Repayments start at 1 per cent of annual income and continue until the loan is repaid or death intervenes.

HELP then is both a charge and a loan and, as is the case with all loans, involves an interest rate.

If the loan was provided by a bank the rate would reflect the purchasing power of the outstanding money plus an extra bit of around two per cent each year. This is the return to the lender. Without this extra bit, known as the real rate of interest, a bank would be losing money on the debt.

The government in 1989 chose a rate of interest on HECS equal only to the rate of inflation, which means that the debt is subsidised by the budget given since there is nothing extra owed by students. In other words, indexing HELP to the rate of price inflation ensures that the government is recovering the true purchasing power of the money owed, but nothing on top of that.

Implicitly, then, and to the benefit of the debtors, taxpayers are covering the true interest costs of HELP.

With this as background, is the price indexation in 2023 going to cause financial and repayment problems for the almost 3 million Australians with outstanding HELP debt? The answer is no, which can be illustrated with an example.

The example is someone with a HELP debt earning \$50,000 per annum and repaying \$9.62 a week with the present inflation rate of eight per cent per annum. But, and this is the key point, if something very odd happened and the current price inflation rate was not 8 but was instead 18, or 28, or even 38 per cent per annum, this debtor's repayments will still be \$9.62 a week.

The reason is that the HELP repayment schedule is set as a given proportion of annual income meaning, critically, that no matter how big the amount of someone's debt is, there are no repayment consequences from inflation.

The indexation adjustment has been going on for the whole period since the policy began 34 years ago, so why is there concern and alarm about the CPI indexation now, and for probably the first time?

The answer is that price inflation is the highest it has been for the last 30 years. With inflation at extraordinary levels for the last 30 years, this is the time when we might expect the biggest indexation concerns to be raised, and that is exactly what is happening no matter how unimportant the issue is.

From the figure, the price inflation rate is unusually high, particularly in the context of the last decade.

But for the reasons explained, while the nominal level of debt will be adjusted upwards now more than has happened before, because of the design of the system former students are protected and won't be repaying more in real terms.

It would be a great shame if the bell tolling being undertaken by Senator Faruqi is increasing the anxiety levels of the many out there with HELP debts.

Certainly, and as always, there is much to worry about in Australia today, but the indexation adjustments to HELP don't go close to qualifying in the angst stakes.

- Bruce Chapman is an emeritus professor of economics at the Australian National University. He is widely considered to be the architect of the Higher Education Contribution Scheme. Madeline Dunk is a practising economist and a research and teaching assistant at ANU.