CHAPTER 2

The inequity of fee deregulation

2.1 Fee deregulation is unfair and unpopular. The underlying contentions of this reform package are that students who wish to attend a high prestige university should expect to pay high fees and that graduates should pay more for tertiary education because of the private benefit they receive. The committee rejects this notion, and insists that equity must remain at the heart of higher education policy.

> We are in a global economy and a global market… Every other developed country is increasing its investment in public education with public funds for capital upgrades, new research programs and new research institutes. It is somewhat astonishing to many people and to many students that we are the only country that is seeking to reduce its investment in public education and research at a postsecondary level.[1]

Fees will sky-rocket

2.2 It is clear that even under the revised higher education package, for the vast majority of students and prospective students, the cost of higher education will rise significantly. The scale of price increases facing students was first signalled by the University of Western Australia's release of a proposal, under a flat deregulated fee structure, to charge $16 000 per year for base undergraduate degrees.[2]

2.3 The Queensland University of Technology (QUT) has subsequently published scenarios for its fees, should the bill pass.[3] Assuming a 20 per cent reduction in the Commonwealth Grant, QUT forecasts that course fees will rise by an average of $11 186 across 22 undergraduate degrees. The cost of a Bachelor of Creative Industries degree would increase by 55 per cent, from $21 100 to $32 800, while students undertaking a combined Bachelor of Fine Arts and Bachelor of Laws degree would pay $19 800 more than the current price.[4]

2.4 In discussing the information available at this stage regarding price increases, policy expert and economic modeller Mr Ben Phillips provided evidence before the committee that increases are expected to vary from university to university:

> a university like the University of WA, one of the Go8 universities, is looking at prices of $16,000 and that would indicate a price increase on their current fees of around 90 per cent. That is quite substantial. QUT has

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1 Mr Steve Brown, Spokesperson, Australia Needs a Brighter Future, *Proof Committee Hansard*, 6 March 2015, p. 46.

2 University of Western Australia, *Submission 54*, to the HERR Bill 2014 inquiry, p. 4.

3 The Queensland University of Technology, *Submission 42*, to the HERR Bill 2014 inquiry, p. 4.

4 The Queensland University of Technology, *Submission 42*, to the HERR Bill 2014 inquiry, p. 4.

> gone for a lower increase of around 42 per cent, so they are well and truly covering their losses from the 20 per cent reduction. It will probably fall somewhere in there. You would say Uni of WA would be at the higher end; QUT is more towards the lower end. In 2016, somewhere between 40 per cent and 90 per cent, perhaps a bit more for some unis and a bit less for some others—broadly speaking, 50 or 60 per cent on average would not be surprising.[5]

2.5 The committee is concerned that beyond 2016, it is unknown where price increases could end. In evaluating the revised package, Professor Bruce Chapman, an academic economist with extensive policy and research experience in the area of contingent loans, noted:

> .. there is a remaining and in my view a very important further change needed [to this reform package], and this involves the notion that institutions be able to set their own prices without government involvement. To me this is highly contentious and requires further thought and input…There are several important reasons for believing that full fee deregulation in the Australian institutional and policy context would potential[ly] lead, eventually, to very high course prices (and thus debts) for students in some - perhaps many- areas of higher education.[6]

2.6 The committee heard evidence from the National Union of Students (NUS) about discussions that occurred with many students across the country concerning fee deregulation. NUS explained that:

> Students have the highest awareness that I have seen around fee deregulation and the quality of their education as well. When we were talking to new students, mature-aged students, single mums and other parents, students could articulately tell me what deregulation was and why they were concerned… Students are saying that they are really concerned, because they have no idea how much they could be paying by the end of their degree. They are not sure if they will need to drop out, because they are not sure how much their degree could be costing them.[7]

2.7 In its submission, La Trobe Student Union (LTSU) cautioned that with fee deregulation, 'even Universities with a lower standard of teaching and resources will price their fees as highly as possible'.[8] The University of South Australia Student Association also noted that '[universities] will be setting fees in an environment where the effect of price on the consumer may not react as other markets.'[9]

2.8 Including the possibility of unrestrained student fees, considerable concerns about the funding sustainability of the Government's higher education package.

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5 Mr Ben Phillips, *Proof Committee Hansard*, 6 March 2015, pp 4–5.

6 Professor Bruce Chapman, *Submission 1*, pp 1–2.

7 Ms Rose Steele, President, National Union of Students, *Proof Committee Hansard*, 6 March 2015, p. 42.

8 La Trobe Student Union Incorporated, *Submission 63*, p. 2.

9 University of South Australia Student Association, *Submission 51*, p. 2.

Professor Louise Watson, an education policy analyst and member of the *Base Funding Review 2011*, made the point that the proposed reforms would result in the government relinquishing control of the cost of higher education while at the same time retaining full responsibility for it through Commonwealth Supported Places (CSP) and funding HECS:

> University Vice-Chancellors would henceforth decide how much public money they wanted to receive. Whatever graduates cannot repay due to price increases and declining graduate earnings, will be sheeted home to the federal budget. As the ballooning HECS debt in the VET sector has demonstrated, fee deregulation would simply make Australian higher education less predictable, less affordable and less sustainable in the future.[10]

"Unsustainable" HELP DEBT will increase

2.9 Australia has a higher education system in which the contributions of students to the cost of their university education are capped. The Higher Education Contribution Scheme (HECS) was envisaged as a national insurance system where the student paid a proportion of the cost of the course if - and only if - they gained private benefits in the form of an above-average salary. The proportion of the course that students would repay was initially set at around 20 per cent. It was broadly supported by the public, in large part because repayments commenced only when income rose to above-average levels and thus, it could be argued, graduates were benefitting financially from their higher education qualification. Later research showed that, within its modest parameters, HECS did not deter students from enrolling in higher education.

2.10 The current government says its policy will increase students' share of the costs of higher education to 50 per cent, but this goal does not require removing the cap on fees. Indeed, it is likely that degree inflation will see that proportion increase significantly.

2.11 It is unclear how the current government arrived at the proposition that setting the student contribution to the cost of their higher education at 50 per cent is fair, reasonable or appropriate. Evidence received by the committee from the National Tertiary Education Union (NTEU) demonstrates that the Department of Education and Training:

> will not release departmental modelling on fee deregulation due to it having '…serious adverse consequences for the operation of the higher education marker and the success of the Government's proposed reforms in this area'.[11]

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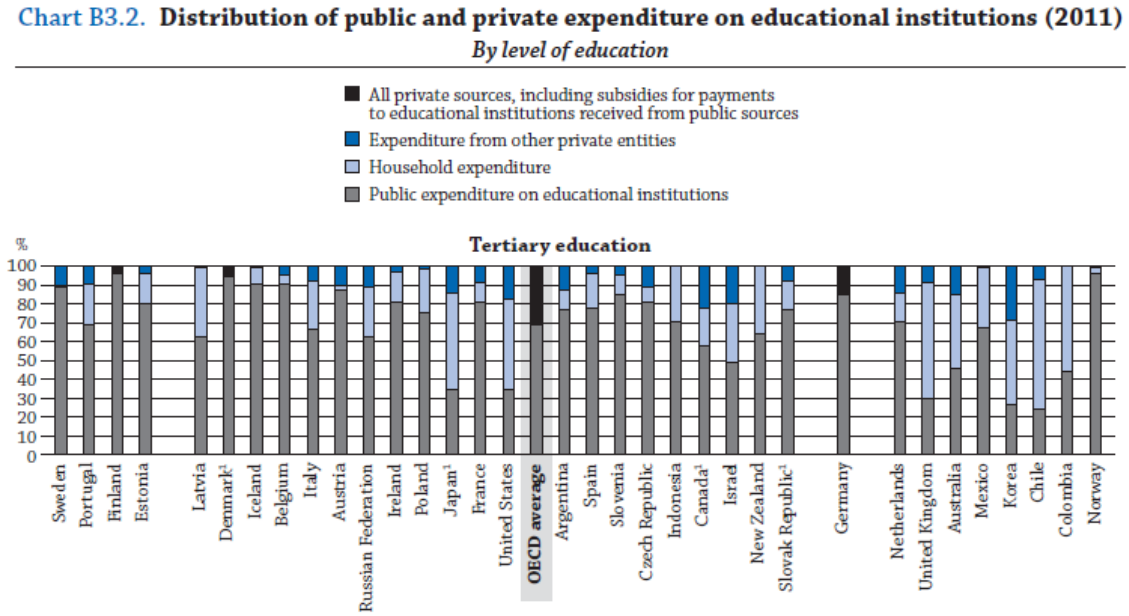
10 Professor Louise Watson, *Submission 15*, p. 1.

11 National Tertiary Education Union, *Submission 11*, p. 23 quoting Witness Statement, NTEU FOI to Department of Education and Training, 18 February 2015.

2.12 Australian students are already contributing a considerably higher amount to their tertiary education than the majority of OECD countries. Figure 1 illustrates the private expenditure in tertiary education in OECD countries in 2011.

Figure 1: Distribution of public and private expenditure on tertiary education[12]



Even participants in this debate who support fee deregulation argue that higher education and research require increased public funding.[13]

2.13 It is uncontested that any increase in the private contribution to higher education in Australia will result in an increase in outstanding HELP debt, something the Australian government already views as a problem. In discussing unsustainable and rising costs in the 2014–15 Budget Higher Education Reforms, the Department of Education noted that:

> The value of student HELP debt is also estimated to rise to around $29.9 billion at 30 June 2015, which is $5.4 billion higher than projected for the same year at the 2011-12 Budget.[14]

2.14 Under these proposals it is inevitable that the amount of HELP debt that will not be repaid will increase and that the system will become increasingly unsustainable. As the Australia Institute has said:

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12 OECD, *Education at a Glance 2014*, Indicator B3: How much public and private investment in education is there? http://www.oecd.org/edu/EAG2014-Indicator%20B3%20(eng).pdf (accessed 10 March 2015).

13 See Universities Australia, *Submission 30*, pp 4–5; Group of Eight Australia, *Submission 32*, pp 2–3 ; Regional Universities Network, *Submission 23*, pp 3–4.

14 Australian Government, Department of Education, *Regulation Impact Statement*, 2014-15 Budget Higher Education Reforms, p. 28.

> Already, there are concerns about increasing HELP debt under our current system. Facing increasingly large volumes of accumulated doubtful HELP debt, future governments may be tempted to drop the repayment thresholds, increase repayment amounts or introduce upfront. That would increase inequity for the graduates and undermine HELP's policy purpose. One could argue that makes the changes unsustainable for the HELP system.[15]

2.15 Mr Ben Phillips also raised concerns about the likely increase in the share of bad debt to beyond 23 per cent and where that could lead:

> The current HELP debt in the long term is around $2 billion per year, as the cost to government. If there was a doubling of fees and an increase in the share of bad debt, you would expect that to at least double, if not go beyond doubling. So I do not think $2 billion to $5 billion would be out of the question.[16]

Unfair debt will result in social inequity

2.16 In addition to public policy consequences, the increased level of HELP debt that will not be repaid will have a grave impact on individuals. Graduates who are under-employed or unemployed or who take time out of the workforce will be hardest hit by these reforms. Those with disabilities and those with qualifications in particular low-earning disciplines such as the arts will be especially disadvantaged. For the one in four university students who drop out of their courses and leave university without a qualification, the prospect of an income that hovers around $50 000 to $60 000 could mean a lifetime of debt, as mandatory payments barely keep up with the interest on their loans.

2.17 There is no clear economic justification for public sector universities to be allowed to use HECS, a government instrument, to raise substantial revenue by unjustifiably increasing fees. Professor Chapman submitted that under the proposed package:

> An informed guess is that if Australian universities were to charge the sort of prices that I believe many of them could under the planned fee deregulation, the revenues received would in many cases far exceed the costs of teaching. While there is little doubt that in many cases these sorts of cross-subsidies already occur (particularly from the revenues received from international students), the issue for me concerns the extent to which this can be considered a "proper" use of the HECS instrument... That is, if it is the case that fee revenues from price deregulation exceed considerably the costs of teaching, it is arguable that this is an improper use of a government instrument; basically put, it can be considered to be unfair.[17]

2.18 This may result in serious implications for graduates' life choices and for the economy more generally. These include, for example, the capacity of graduates to

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15 The Australia Institute, *Submission 66*, p. 43.

16 Mr Ben Phillips, *Proof Committee Hansard*, 6 March 2015, p. 2.

17 Professor Bruce Chapman, *Submission 1*, p. 4.

purchase a home or raise a family. A significant HELP debt would be a factor taken into account by lending agencies and also, naturally, by graduates themselves in deciding whether they are in a financial position to take out a housing mortgage.

2.19 The impacts of the reform package are not limited to undergraduate students. The Council of Australian Postgraduate Associations (CAPA) observed that while discussion of the impacts of university fee deregulation has focused on undergraduate students, it will also adversely affect higher degree students. As CAPA explained:

> where a fee of up to $3,900 per year is also charged for a research degree as proposed by the [bill], the total debt will be compounded over the 6 years as a postgraduate student. A science graduate starting with a $33,300 Fee-HELP debt under the fee would end up with a final debt over $63,000 - almost double the amount they started with. [18]

2.20 NUS predicts that fee deregulation will impose 'unreasonable levels of debt burden on millions of future students and graduates'.[19]

2.21 Many submissions were particularly concerned by the disproportionate effect that higher debt is likely to have on female students, mature age students, regional and rural students and students from lower socioeconomic backgrounds.[20] Tertiary student campaign group Australia Needs a Brighter Future argued that the deregulation of fees will lay the foundation for the end of equity in Australia's higher education sector[21] resulting in 'unreasonable barriers for students whose parents cannot financially support them into their mid-twenties and beyond.'[22] LTSU also found it 'difficult to see how students from disadvantaged backgrounds will be able to access a tertiary education in such a market'.[23]

The US system is not the way to go

2.22 Some participants in this debate have identified the United States system as one that Australia should learn from and even replicate. Proponents say that deregulating student fees will lead to US-like diversity, downplaying the negative impacts of US-style higher education, particularly those relating to inequality. While the US is home to some of the best universities in the world, it also houses many of the worst. The US experience should be regarded as a cautionary tale. In comparing the Australian and US systems, University of Technology Sydney noted:

> Australia graduates a similar percentage of young people as the US college system, yet we have on average much higher quality. The US has more than

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18 Council of Australian Postgraduate Associations, *Submission 17*, p. 3.

19 National Union of Students, *Submission 16*, p. 15.

20 Australia Needs a Brighter Future, *Submission 19*, p. 6; La Trobe Student Union Incorporated, *Submission 63*, p. 2; National Union of Students, *Submission 16*, p. 3, pp 7–8; The Australia Institute, *Submission 66*, p. 44.

21 Australia Needs a Brighter Future, *Submission 19*, p. 6.

22 Australia Needs a Brighter Future, *Submission 19*, p. 3.

23 La Trobe Student Union Incorporated, *Submission 63*, p. 2.

> 10,000 colleges and universities, whose quality varies dramatically from quite low standard schools to the small number of world leading institutions such as Harvard and Yale. And further, in the fully deregulated US market, fee levels have been rising at twice the rate of inflation for the past decade and student debt is spiralling out of control.[24]

2.23 Student loan debt and fee inflation are significant social, economic and political problems in the US. Student debt has quadrupled in the last ten years and 38.8 million Americans have debts totalling more than $960 billion.[25] Student debt is now greater than credit card and automotive loan debt. The National Centre for Education Statistics has found that:

> Between 2001–02 and 2011–12, prices for undergraduate tuition, room, and board at public institutions rose 40 per cent, and prices at private non-profit institutions rose 28 per cent, after adjustment for inflation.[26]

2.24 In its submission, the Australia Institute warns:

> [t]he Minister wants to take our system… in the direction of the US system. The evidence shows this would risk increasing social inequality. It would also risk very large and wasteful fee inflation.[27]

The revised package does not come close to undoing the inequity

2.25 The revised package includes some welcome amendments, specifically the retention of the current measure for HELP debt indexation, the Consumer Price Indexation (CPI), however, the revisions do not come close to undoing the inequity of fee deregulation.

2.26 The introduction of a HELP indexation pause for primary carers of children under the age of five who are under the minimum repayment threshold is relatively minor in the context of the overall increase in costs that would be incurred under the proposed reforms.

2.27 The government's introduction of the Structural Adjustment Fund is an admission of failure and highlights the fundamental inequity that is at the heart of this bill. The NTEU argued that:

> The Structural Adjustment Fund has been introduced in recognition that deregulation is likely to have a severely adverse impact on regional and rural universities and those serving students that are highly sensitive to the cost of attending university. The change is intended to provide funding to assist providers in a transition to a post-deregulation environment… However, the $100 million allocated falls well short of the $500 million

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24 University of Technology Sydney, *Submission 70*, p. 9.

25 Federal Reserve Bank of New York, *Student Loan Debt by Age Group*, 29 March 2013, http://www.newyorkfed.org/studentloandebt/index.html (accessed 6 March 2015).

26 Institute of Education Services, National Centre for Education Statistics, *Fast Facts: Tuition costs of colleges and universities*, http://nces.ed.gov/fastfacts/display.asp?id=76 (accessed 6 March 2015).

27 The Australia Institute, *Submission 66*, p. 32.

> which Universities Australia has calculated as the actual transitional costs associated with such a radical change to the funding and regulation of higher education.[28]

2.28 NUS submitted that the inclusion of $100 million over 3 years from 2015–16 for the Structural Adjustment Fund is simply an off-set of the government's decision to not extend eligibility for Youth Allowance and Austudy.[29]

2.29 Regardless of where the allocated funds may be found to support the government's decision to introduce the Structural Adjustment Fund, concerns remain about the impact of the reform package on students from disadvantaged backgrounds or those who are first-in-family university students who may be deterred from higher education as a result of this package. In this context, Professor Andrew Parfiit of the University of Newcastle discussed the impact on communities to contribute to economies.

> it is not necessarily the education we are providing for people just to go into particular professions that is important; it is the capacity that we have within our communities to innovate, have entrepreneurs, have people with the skill levels that can provide the opportunities for growth for the future where perhaps traditional industries are in decline and new industries are emerging. I think we will do ourselves a disservice if we deter people from taking up those opportunities that broadly higher education provides rather than just specifically a discipline-based or a profession-based approach.[30]

2.30 The Higher Education Participation (Access and Participation) Programme (HEPAPP) that will replace the existing Higher Education Participation Programme (HEPP) alters the assessment for a scholarship, such that grants will no longer be based solely on low SES enrolments but the wider category of, students from disadvantaged backgrounds. However, as NTEU aptly pointed out:

> These new Scholarships are aimed at postgraduate and undergraduate students from 'disadvantaged' backgrounds. While funding for well-targeted equity programs and initiatives is always welcome, it should be noted that this is not new funding as inferred by the Minister, but a redirection of existing funding that inevitably will be spread more thinly.[31]

Who stands to benefit

2.31 Professor Louise Watson provided evidence to the committee that the package would essentially result in offering universities a blank cheque:

> It is unprecedented in public policy to invite a recipient of public money to dictate how much they want to receive. I do not give pocket money to my children on the basis of how much they want to receive; I give it to them on

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28 The National Tertiary Education Union, *Submission 11*, pp 4 –5.

29 The National Union of Students, *Submission 16*, p. 5.

30 Professor Andrew Parfitt, Deputy Vice-Chancellor (Academic), The University of Newcastle, *Proof Committee Hansard*, 6 March 2015, p. 66.

31 The National Tertiary Education Union, *Submission 11*, p. 5.

> the basis of how much I think they need and how much I can afford. I think that those principles generally govern government financing and they should be applied in the case of higher education.[32]

2.32 Mr Ben Phillips concurred with Professor Watson and highlighted to the committee that one of his biggest concerns about the package was around the 'blank-cheque' nature of deregulating fees.

> With the uncapped fees, even though there is a supposed cap at international fees, there is no reason is why they cannot be increased. I see that there is a moral hazard here in that the universities effectively can charge largely whatever they want. They will still get paid regardless, guaranteed by the government. Who gets left holding the baby? Effectively, it will be the government down the track. Many students of course will not pay it back and some students will be aware of that. So really the fiscal consequence that I am concerned about is the impact now on the government.[33]

2.33 Professor Bruce Chapman argued that under the package a student's debt would far exceed the cost of teaching them.

> So if it is true that in the presence of HECS institutions could charge prices that are well beyond the costs of the teaching, and I think that is possible. Even though we are not sure exactly what the costs of teaching are, I would think it is very possible that in some parts of this so-called market—it is kind of a combination market/public sector arrangement—you would end up with students having HECS debts that cover much more than the actual cost of teaching them. So the notion of unfairness comes into it.[34]

2.34 Graduate employment numbers three months after graduation are dismal at the moment and graduate salaries are declining in real terms.[35] As such, it is critical that any higher education reforms be focussed toward student benefit and not higher education provider profit.

Committee view

2.35 The committee notes that fee deregulation as proposed in the HERR bill is deeply unpopular among the Australian people. The committee heard extensive evidence about the negative effects of the reform package: how high student fees will go, how outstanding HELP debt will be increased, and how unfair debt will lead to high and unfair levels on inequality.

2.36 The previous government had a clear commitment to increasing the participation of a range of equity groups, including low-SES, regional and remote students and Indigenous Australians. The committee is not convinced that the

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32 Professor Louise Watson, *Proof Committee Hansard*, 6 March 2015, p. 3.

33 Mr Ben Phillips, *Proof Committee Hansard*, 6 March 2015, p. 4.

34 Professor Bruce Chapman, *Proof Committee Hansard*, 6 March 2015, p. 13.

35 Mr Andrew Norton, *Proof Committee Hansard*, 6 March 2015, p. 28.

Structural Adjustment Package and HEPP will go anywhere near maintaining current levels of participation of equity groups, let alone increasing them.

2.37 The committee believes the HERR bill will continue to propel Australian society down the low road of increasing inequality of access, opportunity and outcomes that the Australian people neither need nor want. The committee is particularly concerned that there is little doubt that the reforms will accelerate wealth inequality in Australia – which would not only be socially criminal but economically retrograde.

2.38 The committee is deeply concerned that the HERR bill does not stand to benefit students in any way and is persuaded by evidence that the package is unfair, unethical and unnecessary.

2.39 The committee notes that HERR bill is currently before the Senate.

Recommendation 1

2.40 The committee recommends that the HERR bill be rejected by the Senate.