

8 HECS

A Hybrid Model for Higher-Education Financing

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Introduction

There is a quiet, yet radical, revolution going on internationally with respect to higher education financing policy that arguably had its beginnings in Australia in 1989. In that year, the government introduced both university tuition and an income contingent loan (ICL) to be made available to facilitate tuition payment. Introducing fees was unremarkable as even at that time a large number of countries charged students for the provision of university services. These included the US, Canada and Japan. This was, however, the beginning of a trend, as a significant number of countries have introduced tuition since, including England, New Zealand and the Netherlands.

In contrast, the introduction of a national ICL was path-breaking.¹ Australia's ICL was known as the Higher Education Contribution Scheme (HECS) and is arguably a landmark in the history of international higher-education financing. The HECS story is the topic of this chapter. Several important messages can be drawn from it that are related to the role of government and markets and these go well beyond ideology, as evidenced by the post-1989 adoption of ICLs in countries that differ markedly with respect to governmental organisation, public institutions and political history. Indeed, we can ask what do Australia, New Zealand, England, Ethiopia, Namibia, Thailand, Hungary, South Korea and the Netherlands have in common? These countries have all adopted various forms of ICL for higher-education financing,² but there is no common thread between them in terms of the usual characterisations made to distinguish national governments, such as left or right wing, or progressive/conservative. And, within these countries, the ICL systems have not been abandoned but have instead been expanded and developed further following electoral changes in political make-up.

Not only has HECS (now known as HECS-HELP) been introduced in eight other countries and strengthened there over time, ICL is also currently under close review at the highest levels of three other national governments. The prospect of ICL being implemented there in the next few years is quite real. As well, there is research underway in many other national jurisdictions motivated by the benefits of the adoption of HECS-type student loan systems.

Even in the US, a country that rarely appears to follow world trends in student loan terms, there is active research and political debate related to higher education financing and the use of ICL. While Bernie Sanders engaged in the conversation by advocating the abolition of tuition in public-sector community colleges, two Republican presidential candidates – Jebb Bush and Donald Trump – actually promoted the move to ICL, with now-President Trump saying in October 2016 that he would simplify the confusing maze of student loans by replacing it with ‘a single income-based repayment plan’.³

Thus the story of HECS is a narrative of interest to the international policy community. It has become apparent that a very large number of countries have wanted to, or are in the throes of, reforming their higher-education financing arrangements. And the reasons for these experiences are basically the same as those that Australia and many other countries faced in the late 1980s and beyond: to provide in a fair and sustainable way a source of revenue to facilitate the expansion or improvement of higher education.

HECS and ICL more generally is an example of the application of economic reasoning related to the role of government as a risk manager. And critically with respect to this book, this understanding of the role of government is based on many decades of research and analysis from several areas of the social sciences. That governments have a uniquely defined identity and function because of institutional and legal realities is essential to the logic of ICL, and in this sense ICL can be seen to lie beyond ideology

The local policy background for the HECS story begins as follows. In Australia in the late 1980s there were no university fees and, for reasons examined below, the Australian Labor Party (ALP) government was intent on re-introducing tuition charges for public sector undergraduates. In September 1987, the Minister for Employment, Education and Training, John Dawkins, invited the author to prepare an options paper which would set the scene for the reform. This was the beginning of the journey which resulted in HECS.

This chapter examines the political environment and the conceptual rationale associated with the introduction of HECS in academic year 1989. As noted above, it should be emphasised that HECS has two separate dimensions that are often conflated in public discussion. One is a charge on university students. The other is the provision of a particular and quite different kind of loan to cover this charge in which debt is repaid if and only when a debtor’s income exceeds a certain level. That is, HECS is both a charge and a student loan.

Decomposing HECS into these components is important to the clarity of the analysis because it facilitates a separation of issues between the politics and the economics of the policy reform. The first part of HECS – the re-introduction of tuition into Australian higher education – can be understood as primarily a political issue related in part to judgements concerning distributional equity. Neither economic theory nor empirical evidence can be used to justify a particular level of government subsidy for higher education, which implies that the other side of the coin – tuition charges – can’t be set purely with reference to the economics of the matter either. Chapman and Lounkaew (2015) highlight the

major conceptual and statistical complexities in this area. ICL provision for higher-education financing, on the other hand, is a more strictly economic matter.

The second section of this chapter presents a brief history of Australian higher-education financing from the early 1970s to 1989, with an emphasis on the political-economy factors associated with the reintroduction of university fees. It is argued that there were two motivations for this reform: to help finance an expansion in the number of university places, and to decrease public subsidies away from those considered to be socially advantaged.

The ICL aspect of HECS is examined in detail in the third section. It begins by explaining why government intervention in the form of a student loans system is necessary for the higher-education market to function effectively and equitably. An issue of complete and rare agreement in the economics profession is that there exists market failure with respect to the financing of educational investments (Friedman 1955).

Given that some form of student loan is required, the next question is: what are the characteristics of different loan design options? To this end, the third section addresses the critical issue of the form that a student loan system might take. There are two quite different approaches. The first is time-based repayment loans (TBRL), in which a constant amount of debt is to be repaid over a set time period⁴ (and in which loans provided to students by banks are typically guaranteed by the government). The second is ICL, in which the timing and extent of repayments depend on debtors' incomes. The conceptual bases for both TBRL and ICL, and the implications for both the lender and borrowers, are examined in detail.

The discussion is broadened in the fourth section of the chapter to examine ICL as a template for social and economic reform in a wide range of disparate potential policy innovations. While intervention of this type might seem to be a radically different way of understanding the role of the public sector, there is a way of thinking about the function of government in which ICL sits comfortably, which is the public sector as risk manager.

Australian Higher-Education Financing 1974–89: Where Did HECS Come From?⁵

1974 to 1986

Australian universities required students to pay fees until 1974. Even so, the vast majority were exempt from fee obligations through the receipt of scholarships awarded on the basis of academic merit. These took two forms – Commonwealth and Teachers' College Scholarships – and covered together around 75–80 per cent of those enrolled. Fees were abolished in 1974, meaning that from the early 1970s until the end of 1986, Australian universities were financed without any direct contribution from students.

This policy stance changed in 1987 with the institution of the Higher Education Administration Charge (HEAC), a small up-front fee on all university

students of \$250 in 1987 terms, a charge which did not vary with respect to either discipline or course load. In symbolic terms, the institution of HEAC was significant in that it represented government endorsement of the charging of fees, and thus set the scene for more radical reforms involving user-pays.

The revenue raised from HEAC was trivial in comparison to the total costs of higher education, amounting to only around 3 per cent of teaching costs. So in 1987 and 1988 it remained the case that taxpayers provided practically all of the finances for higher education. At this time, a conjunction of forces made it inevitable that the government would move financing arrangements towards increased contributions from students. These were as follows.

First, over the 1980s there was a significant increase in Year 12 (the final year of high school) completion rates, but there was no commensurate expansion in higher-education places. This resulted in the political problem of large and growing queues of qualified prospective students. The issue also posed a budgetary challenge for the government, because considerable resources would be needed to accommodate the required increase in the number of higher-education places.

Second, while this problem could have been solved with increased Commonwealth budget outlays, the Labor government was intent on fiscal parsimony and was not prepared to spend the increased taxpayer resources necessary to finance additional university places. It is very likely the case that this stance was heavily influenced by the government's concern to differentiate itself from the previous Labor government of 1972–75, which was broadly, and perhaps unfairly, considered to be a high tax and spend government with a poor record with respect to economic management.

Finally, and perhaps most importantly with respect to the political process, at least two Cabinet ministers, John Dawkins and Peter Walsh, were strongly in favour of student fees on grounds of equity: their view was that a system that did not charge higher-education students was regressive. With a no charge system, universities were paid for by all taxpayers yet students on average both came from relatively privileged backgrounds and as graduates they received relatively high personal economic benefits.⁶ It is important to record that Peter Walsh and John Dawkins were then respectively in charge of the critical Ministries of Finance and Higher Education.

The Beginnings of HECS in 1987

In 1987, John Dawkins invited the author to prepare a report outlining the costs and benefits of different approaches to the introduction of a user-pays higher education system for Australia (Chapman 1987). Presented to the minister in December 1987, the report examined several financing mechanisms including up-front fees with scholarships, up-front fees with government-subsidised bank loans and an income-contingent charge system. The paper recommended the last of these, with repayments to be made via the income tax system and collected by employers.

Support for an income-contingent arrangement boiled down to equity and access considerations. In this regard, the ICL approach was superior in terms of the likely implications than the other options. However, Chapman (1987) did not provide unqualified support for an ICL – there was a caveat concerning the issue of administrative complexity. The concern was that the collection agency needed to be aware of debtors' incomes over their lifetimes, and this would seem to necessitate the support and involvement of the income tax authority, the Australian Tax Office (ATO).⁷ Since the ATO had not been consulted to this point it was not clear how, or if, an ICL might be made to work.

Dawkins expected the paper to have a difficult reception for three reasons. First, the abolition of university fees in 1974 had happened under the larger-than-life Labor icon, former Prime Minister Gough Whitlam, who remained very influential and widely regarded within the ALP. Second, the ALP platform at the time included a statement to the effect that 'all education should be free of charge'. Third, as noted above, the recommended ICL was both radical and untested: there was no similar scheme internationally and thus no precedent or evidence base to assess its likely economic, social and administrative implications.

The Wran Committee: 1988

Dawkins' concerns with the political and policy difficulties associated with including the author's report as part of the government's Green Paper on reforms to higher education led him to rethink the tuition-fees strategy. He decided to set up a committee chaired by a popular former NSW Labor premier, Neville Wran, with committee members Professor Bob Gregory, Dr Meredith Edwards and Mr Michael Gallagher, to examine the relative merits of the options as presented in Chapman (1987). The author served as a consultant to the committee.

It was clear from the Terms of Reference, written by the author and David Phillips,⁸ that the job of the Wran Committee was to assess the relative merits of different ways to design a student-loans system, with there being no doubt that the government would be reintroducing university fees:

- 1 The Government is committed to expanding the capacity and effectiveness of the higher education sector and to improving access to higher education for those that are currently under represented. This goal has significant funding implications, as outlined in the Policy Discussion Paper on higher education. Given current and likely future budgetary circumstances, the Government believes that it is necessary to consider sources of funding involving the direct beneficiaries of higher education.
- 2 The Committee should develop options and make recommendations for possible schemes of funding which involve contributions from higher education students, their parents and employers. In developing options, the Committee should have regard to the social and educational consequences of the schemes under consideration.

(Chapman 1987, p. 87)

Over around five months of meetings, the Wran committee decided that ICL was the preferred student-loans system and in May 1988 released its report. It recommended that all Australian public university undergraduates should be required to pay a charge, with the amount in three bands determined by course costs. While the fee could be paid up-front, it was expected instead to be deferred⁹ through payments being made dependent on a debtor's income. Collection was to be made a legal requirement of employers, and also made compulsory for the self-employed.

The government accepted the basis of the policy recommendation, except that the charge was made uniform for all students. It was set at \$1800 per full-time year in 1989 dollars and HECS became policy in 1989. The first repayment threshold was set at the average weekly earnings of all employees – around \$62,000 per annum in 2017 terms.¹⁰

Labor lost power in 1996, but the new (Liberal-National) government maintained the essence of HECS. However, in 1997, charge levels were increased by about 40 per cent on average, differential charges by course were introduced¹¹ and the first income threshold at which graduates began to repay their loans was decreased considerably, breaking the link with average weekly earnings. This decision was partially reversed in 2005, at which time the government also allowed some (very limited) price discretion and extended HECS to cover full-fee-paying domestic students.

The Australian Income Contingent Student Loan System: Comparing Options

The Australian Student Loan Innovation Described

The defining characteristic of HECS is that instead of paying for tuition up-front, all students are provided with the option of a loan which is to be repaid if and only when a debtor's personal income exceeds a specified level, which at the time of writing is about \$57,000 per annum in 2017 dollars. Above this first income threshold, repayments begin at 4 per cent and reach a maximum of 8 per cent of annual personal income at about \$80,000. If a debtor never receives personal annual income in excess of this first repayment threshold, no repayments over a lifetime are required. All HECS debts are forgiven at death.

*Why Do We Need Student Loans?*¹²

A significant financing issue for higher education is that there is generally seen to be a case for both a contribution from students and a taxpayer subsidy (Barr 2003; Chapman 2006). The agreement on the appropriateness of so-called cost-sharing comes from two related features of higher education: the high private rates of return and the existence of positive externalities. In combination, these justify part-payments from both graduates and students. An important question is whether there is a role for government beyond the provision of the subsidy.

The complexity and importance of this issue can be illustrated by considering what would happen if there was no higher-education public sector financing assistance apart from a subsidy. That is, a government could simply provide the appropriate level of taxpayer support to higher-education institutions and then leave market mechanisms to take their course. Presumably this would result in institutions charging students up-front at enrolment for the provision of teaching services.

There are major problems with such an arrangement, traceable in most instances to the potent presence of risk and uncertainty. The essential point is that educational investments are risky, with the main areas of uncertainty being as follows (Barr 2003; Palacios 2004; Chapman *et al.* 2014):

- Enrolling students do not know fully their capacities for (and perhaps even true interest in) the higher-education discipline of their choice. This means that they cannot be sure what they will graduate with or even, in extreme cases, whether they will graduate at all. In Australia, for example, around 20–25 per cent of students end up without a qualification.
- Even assuming university completion, students will not be aware of their likely relative success in the area of study. This will depend not just on their own abilities, but also on the skills of others competing for jobs in the area.
- There is uncertainty concerning the future value of educational investments because the labour market is undergoing constant change. What looked like a good investment at the time study began might turn out to be a poor choice when the process is finished.
- Many prospective students, particularly those from disadvantaged backgrounds, may not have much information concerning graduate incomes, due in part to a lack of contact with graduates.

These uncertainties are associated with important risks for both borrowers and lenders. Importantly, if the future incomes of students turn out to be lower than expected, the individual is unable to sell part of the investment to re-finance a different educational path. For a prospective lender like a bank, the risk is compounded by the reality that in the event of a student borrower defaulting on the loan obligation there is no available collateral to be sold. And, even if it was possible for a third party to own and sell human capital, its future value might turn out to be quite low taking into account the above-noted uncertainties associated with higher-education investments.

It follows that, left to itself and even with subsidies from the government to cover the presumed value of externalities, the market will not deliver propitious higher-education outcomes. Prospective students judged to be relatively risky and/or those without loan repayment guarantors will not be able to access the financial resources required for both the payment of tuition and to cover income support.

These capital market failures were first recognised by Friedman (1955) who suggested as a possible solution the use of a graduate tax or, more generally, the

adoption of approaches to the financing of higher education involving graduates using their human capital as equity. The notion of ‘human capital contracts’ developed from there. These are best explained and analysed by Palacios (2004). A critical point for policy is that without some form of intervention, higher-education financing will not deliver efficient outcomes in aggregate, nor can such markets left alone deliver equality of educational opportunity because those without collateral, notably the poor, will be unable to participate.

Thus governments typically intervene with student loans. Until HECS, the usual form this took was a TBRL in which a guarantee was provided to lenders that in the event that a borrower defaulted, the loan obligation would be paid by the government. TBRL remain commonplace internationally and exist *inter alia* in the US, Canada, Thailand, Colombia and Germany.

It is clear that TBRLs solve the risk problem for lenders because even if students/graduates have no collateral in the event of default, all unpaid debts are covered by the government. But TBRLs also have significant downsides.

Problems with TBRL

To understand the problems associated with TBRLs it is critical to emphasise that all forms of non-income-contingent loans have repayment obligations that are fixed with respect to time and are thus not sensitive to a debtor’s financial circumstances. This raises the prospect of default for some borrowers, which damages their credit reputation and thus eligibility for other loans, such as a home mortgage.

The problem of default for student borrowers also has an equity dimension, which is that strong evidence based on the National Post-Secondary Student Aid Study for the US shows that experiencing low earnings after leaving formal education is a critical determinant of default (Dynarski 1994). Furthermore, borrowers from low-income households and minorities were more likely to default, as were those who did not complete their studies. This then raises the possibility that some poor prospective students might be reluctant to enrol in such a system in the first place because of concerns with default.¹³

Associated with the prospect of defaulting on a TBRL is the major problem for debtors known as ‘consumption hardship’, which can be understood as follows. If the expected path of future incomes is variable, then a fixed level of debt repayment increases the spread of disposable income (that is, income available after debt repayment). If a fixed level of debt repayment leaves very little income left over during some periods of the life-course, then it can lead to significant hardship. The issue essentially comes down to what are known as ‘repayment burdens’ (RBs): the proportion of graduate income per period that needs to be allocated to repay mortgage-type student loans. The repayment burden in a given period is equivalent to the loan repayment required that period as a proportion of the individual’s income at that time.

TBRL increases exposure to RBs and thus consumption hardship, and lower student–debtor disposable incomes are associated with the two problems

discussed previously: repayment difficulties and higher probabilities of default. There is considerable empirical evidence that illustrates comprehensively that this feature of TBRLs can be extremely problematic in all countries in which RBs have been modelled. These include (alphabetically): Brazil (Nascimento 2016); China (Cai *et al.* 2016); Colombia (Serna 2016); Germany (Chapman and Sinning 2014); Indonesia (Chapman and Suryadarma 2013); Ireland (Flannery *et al.* 2017); Malaysia (Hock-Eam *et al.* 2014); Thailand (Chapman *et al.* 2010); the US (Barr *et al.* 2016); and Vietnam (Chapman and Lui 2013). This is compelling evidence for the proposition that TBRLs are deeply problematic. The next section explores how ICL avoids these problems.

The Advantages of ICL

The essential difference between a TBRL and an ICL is that debt repayments are not a constant amount required per period for a set amount of time, but depend instead on a debtor's capacity to repay. And with the exception of the Hungarian ICL system in which a flat 6 per cent of income is required to be paid per annum, all existing national ICLs have a first income threshold of repayment. In these countries, the ICL design has the fundamental implication that no loan repayments are required if a debtor experiences low personal income, for example as a result of unemployment, having a poorly paid or part-time job, or caring full-time for an infant or aged parent. An ICL provides insurance to debtors against the consumption hardships of debt repayment that would normally be associated with experiencing low income. With an ICL there is thus no prospect of loan default or the experience of financial hardship due to a debtor not being able to keep up repayments in hard times. This security cannot be achieved with a TBRL.

With an ICL, even if debtors are receiving incomes in excess of the first repayment threshold, there is a maximum proportion of income that they are required to pay. These limits are set at fairly reasonable levels. In Australia, England and New Zealand for example, they are 8, 9 and 10 per cent respectively. This further ensures that ICL debtors won't face the prospect of repayment hardships, nor is there any chance that they will formally default and experience the major cost of a loss of credit reputation.

As well as these benefits for borrowers, ICL have important pluses for the government. These include: the avoidance of administration and court costs in the event of bankruptcy or default by a borrower; the fact that more loan outlays can be recovered by not writing off the debts of debtors who are experiencing a temporary low level of income (which can recover later); and the receipt of quick loan repayments from those debtors with high initial incomes (in Australia, for example, a significant number of high-income graduates repay their debts in five to eight years after graduating, Norton 2016).

There is another side to the ICL story, which is that so long as debts are collected through employer-withholding, the administration side of the loans is extremely simple. In Australia, England and New Zealand, debt collection is

automatic and requires no action from the borrower. In contradistinction, while there is the possibility that debtors can transfer into a form of income-contingent repayment in US, the design of the system takes on a very clumsy and complicated form and is mostly ignored by debtors. The administrative simplicity of a universal ICL system, collected through employer-withholding, is emphasised as a key advantage of the Australian arrangement in Stiglitz (2014), in which this feature of ICLs is labelled as ‘transactional efficiency’. To understand how unnecessarily complicated the poorly designed US approach is, see Chapman and Shavit (2010).

All this does not necessarily mean that the Australian ICL is the right template for the reform of every country’s higher-education financing system. Notably, the policy requires public-sector administrative efficiency and there are some countries, for example, in sub-Saharan Africa, which would struggle to set up the collection mechanism. For these countries, ICL is not yet likely to be a solution to problems of higher-education financing.

The effects of HECS have been widely studied, as summarised in Chapman and Nicholls (2013). The deferred tuition fees in Australia are now an important mechanism to supplement government higher-education spending, and cover around 35 per cent of public sector annual expenditure. Importantly, the available empirical evidence suggests that the introduction of tuition with an ICL had no adverse relative effects on the participation of students from poorer backgrounds. Additionally, undergraduate domestic enrolments have increased considerably since 1989 for people from all socio-economic backgrounds (Chapman and Nicholls 2013), although this is essentially because HECS revenue allowed governments to increase the number of places.

ICL Beyond Student Loans

ICL as a Risk Management Instrument¹⁴

A major recognised role for government involves the management and distribution of risks. The notion of risk plays a central and unifying role in current analyses of a wide range of social and political issues, perhaps similar to that performed by the concept of globalisation in the 1990s. As noted in the introduction, the role of government, and particularly of the welfare state, can and has been reinterpreted with an increasing emphasis on risk, uncertainty and related issues. There are different analytical approaches to these issues across the social sciences. Neoclassical economists have stressed the extent to which risk can be rationally managed using the tools of expected utility theory. Psychologists, sociologists and various groups of other economists have stressed the limitations of this approach.

When government is expected to be a risk manager, new aspects of both existing policies and future policy options are revealed. In *When All Else Fails* for example, Moss (2003) offers a fine historical analysis of the role of the state as the ultimate risk manager. Through analysis of US government legislative

reforms over the last 200 years, Moss promotes an understanding of the risk management role of the public sector. This role can take many diverse forms, such as laws associated with limited liability, the application of speed limits for automobiles, national health insurance, occupational health and safety legislation, disaster relief and social security.

Professor Nicholas Barr (2003) provides a similar treatment of the welfare state in which the potential role of government is analysed in the context of insurance failure, which is conventionally seen in the economics literature to be a consequence of asymmetric information. In the absence of markets providing accessible and affordable insurance, Barr argues that the government has a unique role to play as a ‘piggy bank’: an efficient institution to manage and decrease the costs to citizens of the unavoidable uncertainties associated with human events.

What helps define ICL as a risk-management instrument is the notion that there are two critical benefits of government intervention that will not be forthcoming from commercial markets, namely consumption smoothing and insurance against default. The simple and essential point concerning the advantages of an ICL is that if those who have been assisted find themselves in difficult circumstances in the future, the government defers their repayments until their situation improves. ICL is thus a classic risk-management instrument because costs associated with unforeseen adverse outcomes are transferred away from debtors to government.

ICL as a General Policy Instrument

Over about the last 20 years there has been considerable research done in the use of ICL as a general risk-management instrument. This research has been encouraged and motivated by the apparent policy success of HECS, with researchers exploring how ICL can be used to address non-student financing issues in social and economic policy. Because HECS is an Australian innovation, it should be no surprise that all of this work has originated there and has been concerned with areas of policy encouraged by Australian social science issues and problems. The Australian case studies include ICL of a particular form for the financing of:

- Drought relief (Botterill and Chapman 2009);
- The payment of low-level criminal fines (Chapman *et al.* 2004);
- Extensions to paid parental leave (Chapman and Higgins 2009);
- Housing credits for low-income households (Gans and King 2006);
- Legal aid services (Denniss 2014);
- Payments of white collar crime (Chapman and Denniss 2005);
- Brain drain reparations for low-income countries (Chapman *et al.* 2015);
- The purchase of solar energy devices for low-income households (Chapman *et al.* 2014);
- Health care (Vaithianathan 2014);
- Business innovation (Gupta and Withers 2014);

- Unemployment insurance (Stiglitz and Yun 2014);
- Social and community investments (Chapman and Simes 2006).

However, while the data and case studies above have Australian identity and origin, the lessons are universal with the principles applying generically. Indeed, Chapman and Dearden (2016) apply ICL reasoning to issues of imprisonment and social care financing in the UK.

The approach taken with these ICL research projects has been to first define a funding problem, meaning a concern associated with either an inequitable policy area (such as with respect to grants being provided to farmers during drought), inadequate levels of financial assistance (such as with respect to low levels of financial support for parental leave) or significant administrative inefficiencies (such as with respect to the payment of criminal fines). In all examples, ICL research documents the policy concern, derives a potential solution conditioned by the institutional realities of the policy area and provides budgetary costings associated with the application of an ICL with illustrations derived from different design parameters.

Conclusion

Higher-education financing changed radically for Australia in 1989 in two respects: student fees were reintroduced – in fact, tuition was made comprehensive for arguably the first time – and a national ICL was instituted to facilitate the payment of this tuition. The second aspect of these reforms, the introduction of ICL, is of considerable importance for understanding major reforms to higher-education financing policies that have since taken place internationally. Specifically, ICLs have now been adopted in many countries, and others seem to be on the verge of implementing similar policies.

The principal attraction of ICLs is that they overcome the weaknesses of TBRL, which used to be the preferred student-loan system. Notably, TBRLs gave no weight to the capacity of a borrower to repay without hardship. ICLs, on the other hand, are motivated by the goal of minimising repayment hardships for borrowers and consequently offer insurance against default. These are the critical reasons why ICL systems have been the dominant higher-education reform option internationally since HECS began. ICL systems achieve bipartisan policy goals of efficiency and equity in higher-education financing by combining market and government strengths. This explains their initial political success in Australia and their increasing popularity internationally, and makes them meaningfully beyond ideology.

ICLs are basically insurance systems, and this raises the possibility of the use of an ICL template for a large number of potential social and economic reforms unrelated to student loans. Some of these were canvassed in this chapter. Such reforms fit easily into the concept of government as risk manager, an emerging theme in recent political economy analytical scholarship, but fit uneasily into conventional, polarised paradigms regarding the role of governments and markets. This reflects the hybrid nature of ICL designs.

Notes

- 1 Yale University introduced an ICL in the 1970s and at the time Sweden had a loan system in which unemployed debtors were not required to repay (Chapman and Ryan 2005).
- 2 However, the Thai system lasted for only 2006 because of the strong association between the ICL policy and Prime Minister Taksin who was deposed at the time.
- 3 Trump campaign rally, Columbus, OH, 14 October 2016.
- 4 For example, in the US and Thai TBRLs the time periods of repayment are respectively 10 and 15 years after graduation.
- 5 The first part of the discussion in this section draws on Chapman and Nicholls (2013).
- 6 This is a common theme in policy debates surrounding the introduction of higher-education tuition. With respect to the UK, for example, see Barr (1989).
- 7 We are now aware that having the income tax authorities involved in the collection of an ICL is not essential; what is necessary is employer-withholding on the basis of income (Barr *et al.* 2016).
- 8 Then a senior adviser, and later Chief of Staff, to John Dawkins.
- 9 The deferral option is taken by around 90 per cent of enrolling students.
- 10 This is higher than it is today by about 10 per cent.
- 11 However, the differential prices did not reflect course costs as recommended by Chapman (1987), the Wran Committee report. Instead the new charges were set as to reflect both course costs and expected future incomes by discipline. This remains the case in 2017.
- 12 This subsection follows closely parts of Chapman 2005.
- 13 Even so, it would be an exaggeration to suggest that the only alternative available to student debtors if they can't repay is to default. In some cases in the US, for example, borrowers have the option to defer loan repayments if they are able to demonstrate that their financial situation is unduly difficult, and this might lead to loan forgiveness. However, the administrative process is complicated, arduous and difficult to understand, and take-up is very low (Dynarski 2014, 2016).
- 14 This subsection follows in part Chapman 2005.

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