



Australian
National
University

Financing Tertiary Education

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Upgrading Human Capital and Skills Development for Future
Asia

Crawford School

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Outline

Background: The need for university expansion in Asia; thus the critical role of financing

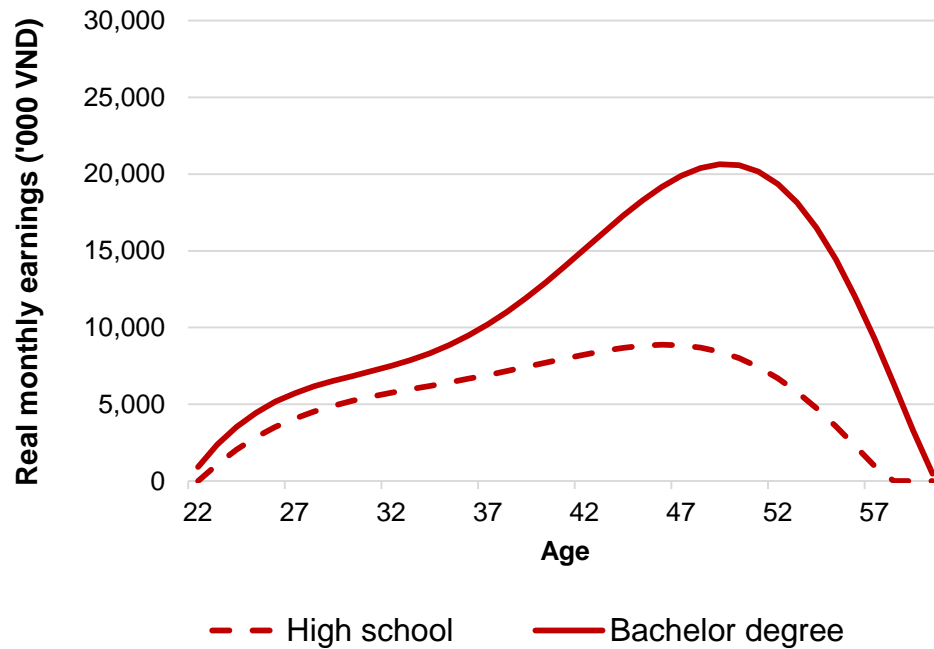
1. Is there a case for university tuition charges?
2. Why are student loans necessary?
3. The major difference between TBRLs and ICLs: Repayment
4. The effects of TBRL and ICL
5. Repayment burdens
6. Defaults
7. TBRLs and ICLs: Family formation and job choice
8. Images of Loan Systems
9. The critical role of administration for ICL
10. Conclusion

1 Is there a case for charging university tuition?

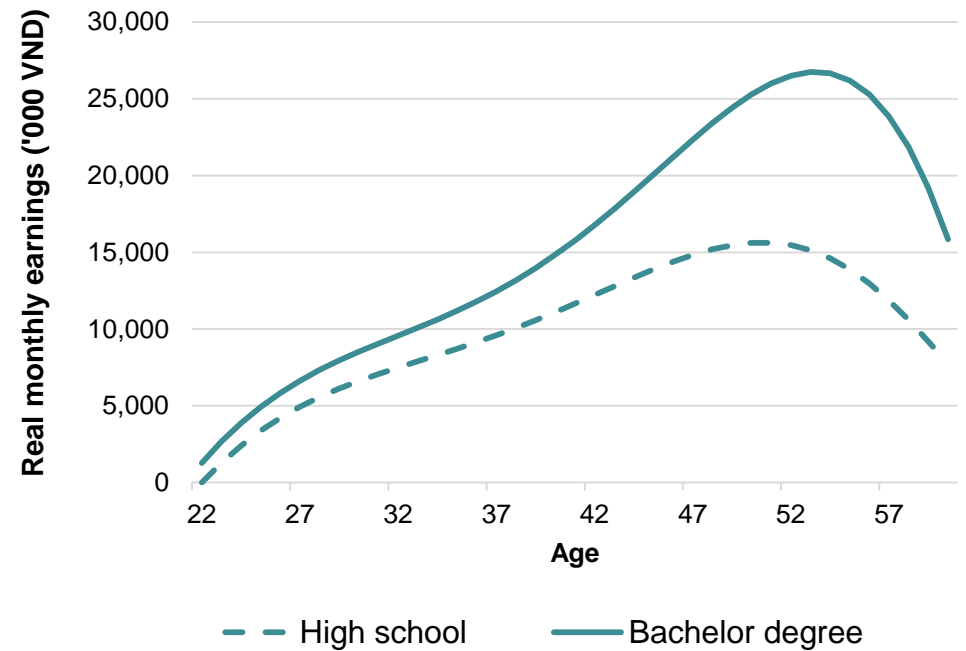
- (i) Everything has to be paid for: what does “free” higher education actually mean?
- (ii) Private rates of return to higher education are high: see age-earnings profiles
- (iii) Additional money can be used to grow the system (e.g. Australia and the UK)
- (iv) Not charging tuition fee is regressive and inequitable (see Karl Marx)

Age-Earnings Profiles: Vietnam

Females

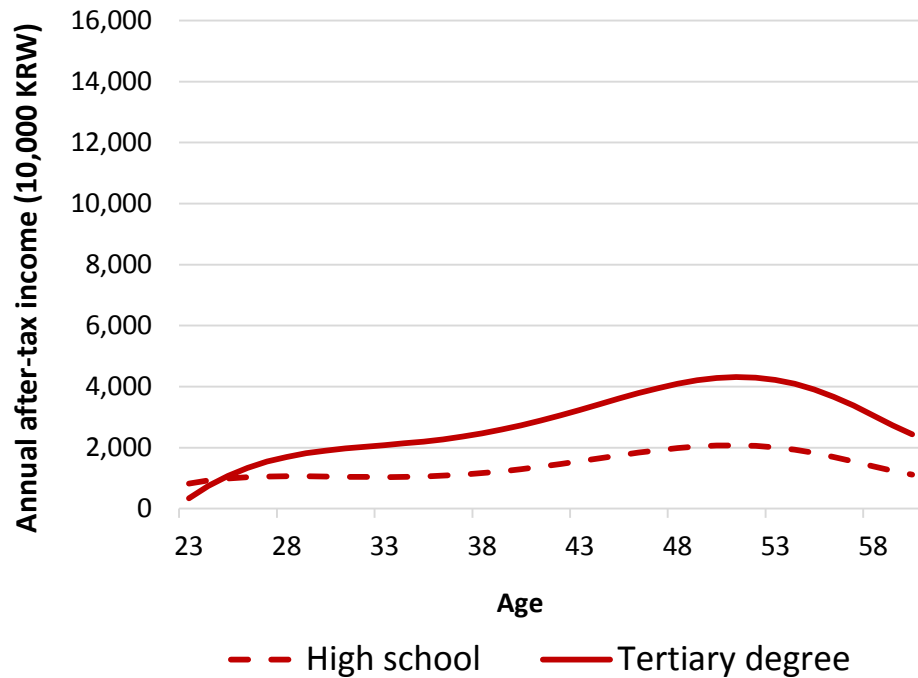


Males

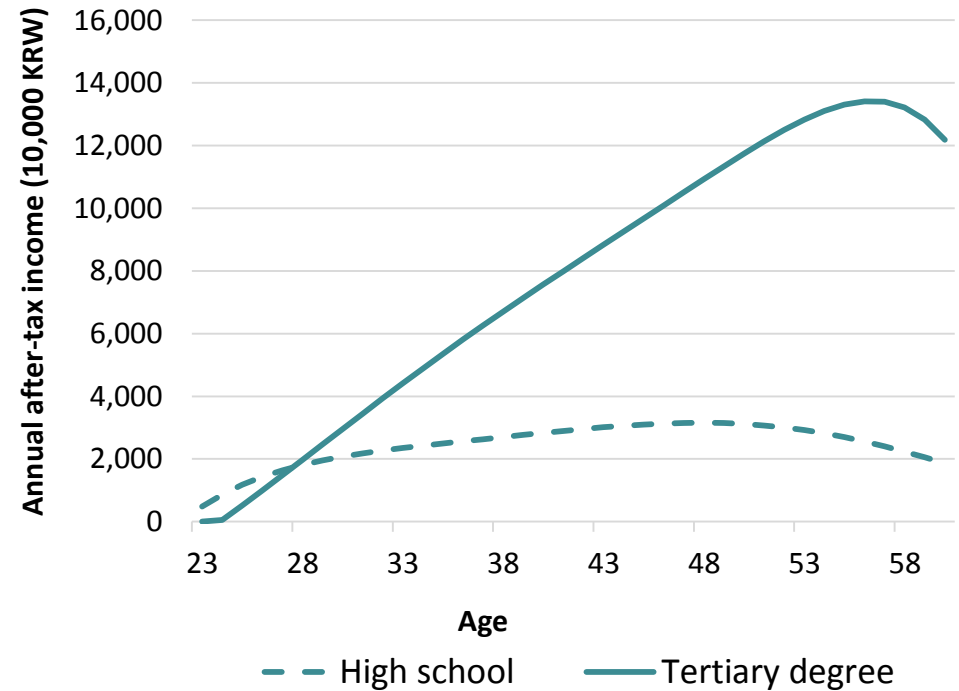


Age-Earnings Profiles: Korea

Females

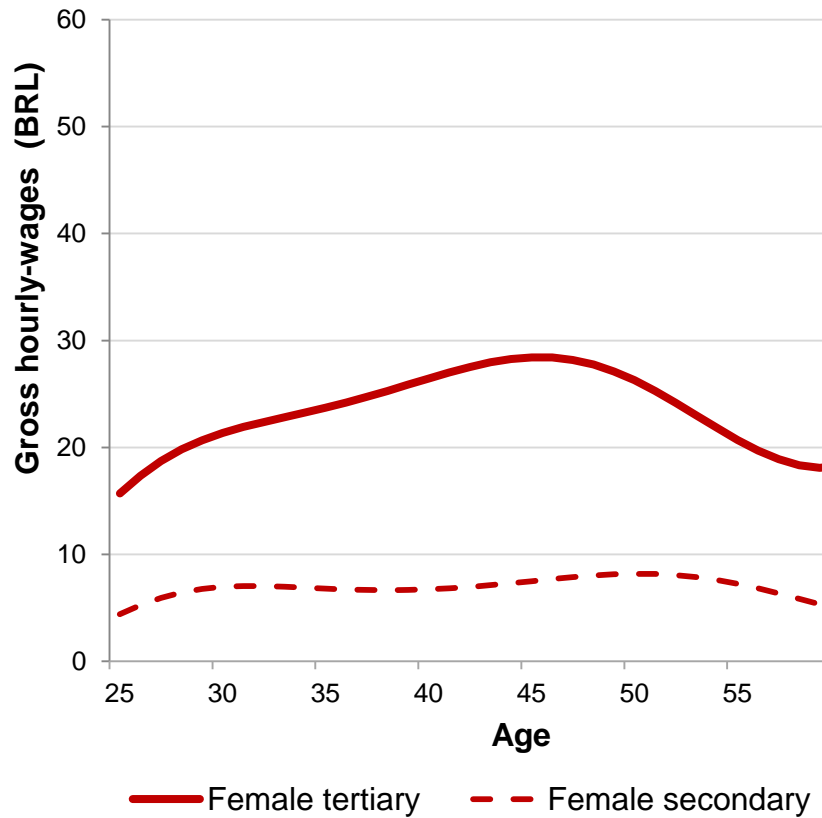


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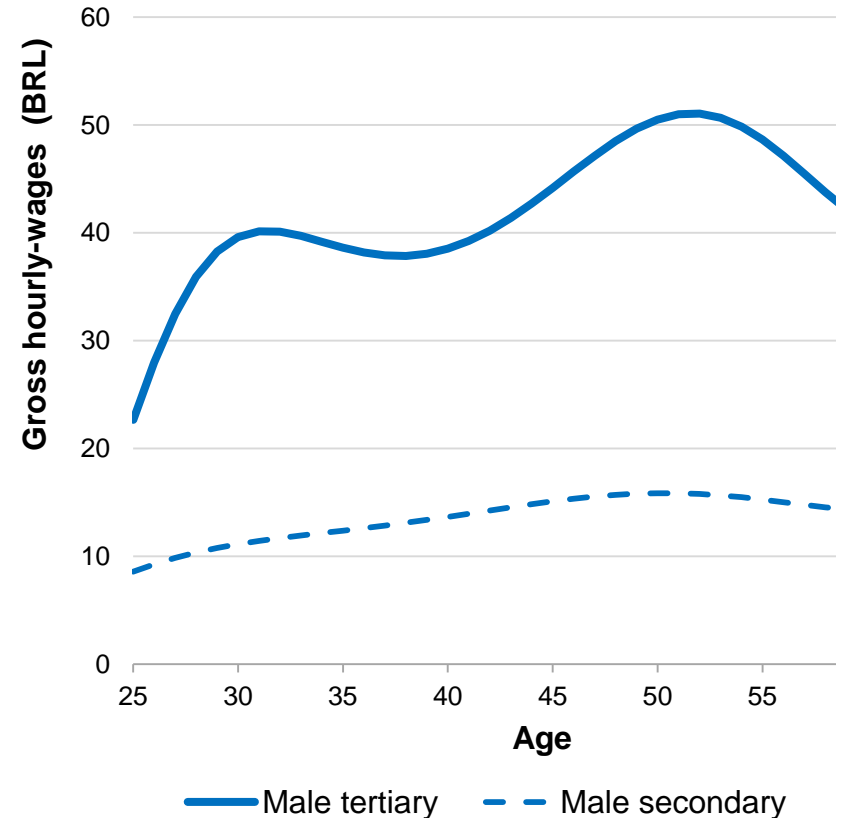


Age-Earnings Profiles: Brazil

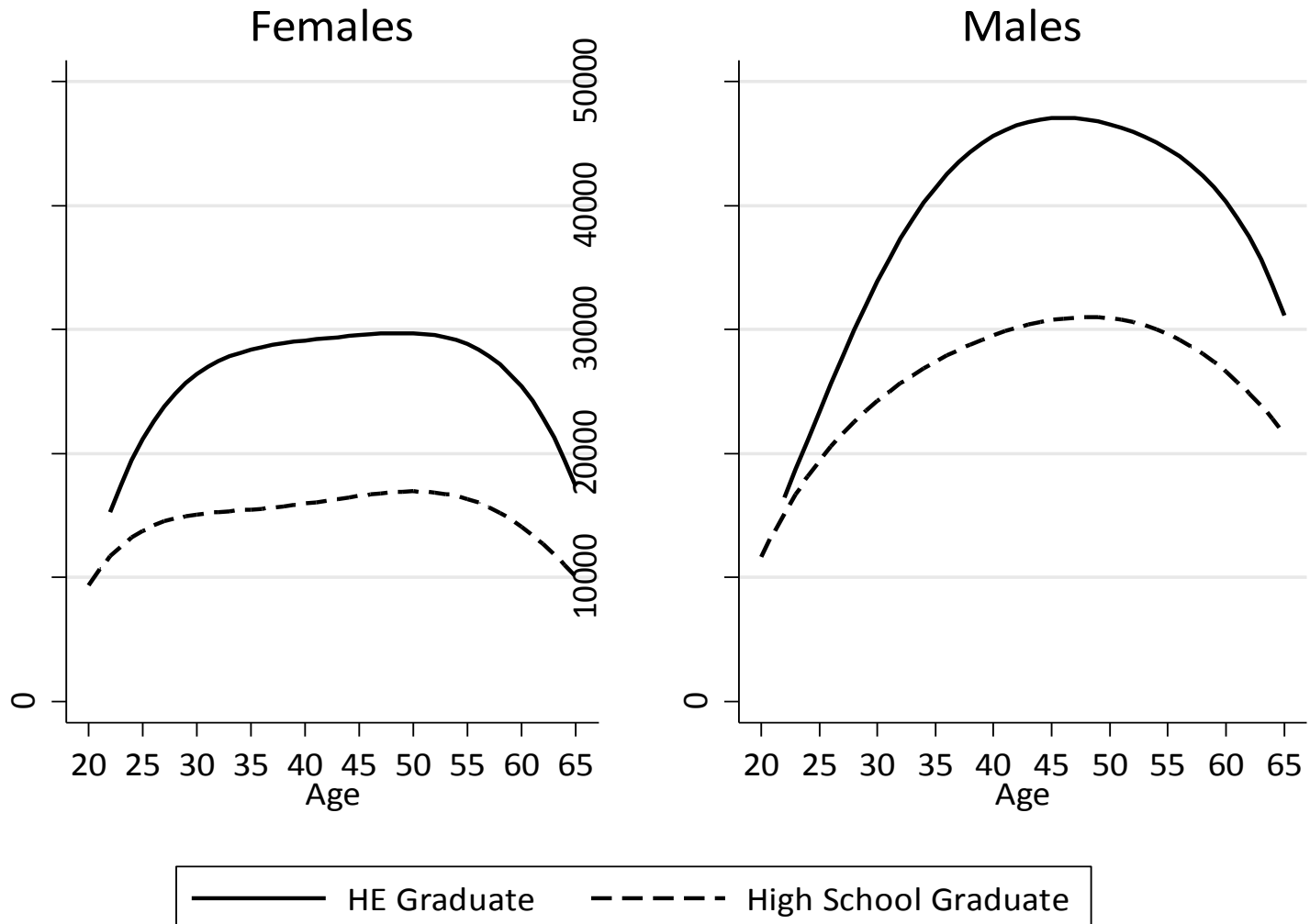
Females

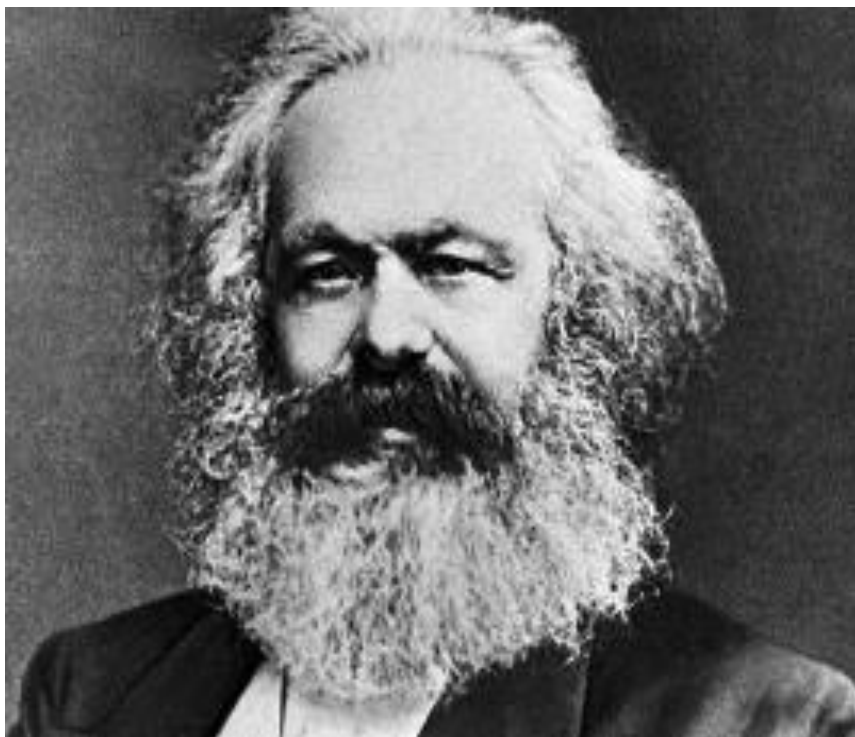


Males



Age-Earnings Profiles: England





“If ... higher education institutions are also “free”, that only means in fact defraying the cost of education of the bourgeoisie from the general tax receipts.”

Karl Marx, *Critique of the Gotha Program*, 1875

2 Why are Student Loans Necessary?

- i. Risky investments: non-graduation, poor jobs
- ii. Poor education/employment outcomes for students/graduates can lead to default
- iii. With no saleable collateral, banks/governments are unprotected
- iv. Two types of loans:

Time-Based Repayment Loans (TBRL): US, Canada, Colombia, China, Japan, Brazil

Income-Contingent Loans (ICL): Australia, New Zealand, England, Hungary, Korea

3 The Major Difference between TBRLs and ICLs: Repayment rules

- i. **TBRLs** have repayment obligations fixed over time
- ii. Explaining the US TBRL: requires all repayments in 10 years
- iii. **ICLs** have no repayment obligations unless the debtor's income is high
- iv. Explaining the Australian ICL

4 (i) The Effects of TBRL

Because capacity to pay is ignored, TBRLs can mean:

- ❖ Repayment hardship and anxiety
- ❖ Borrowing from loan sharks, or friends and family
- ❖ Defaults
- ❖ Low government revenue from deferment or default
- ❖ High collection inefficiencies and costs from governments chasing loans

RAPPEL

REMBOURSEZ VOTRE PRÊT D'ÉTUDES DU CANADA

POUR ÉVITER D'ÊTRE EN DÉFAUT DE PAIEMENT,
COMMUNIQUEZ AVEC VOTRE **BANQUE** :

- au début de chaque année scolaire;
- à la fin de vos études;
- si vous déménagez;
- si vous abandonnez vos études;
- si vous devenez étudiant à temps partiel.

SINON VOICI LES CONSÉQUENCES :

- votre réputation de solvabilité sera ternie;
- vous n'aurez plus droit à des prêts d'études;
- vous ferez l'objet de mesures de recouvrement;
- vos remboursements d'impôt seront retenus.

REMINDER

REPAY YOUR CANADA STUDENT LOAN

TO AVOID DEFAULTING, KEEP IN TOUCH WITH YOUR **BANK**:

- when you begin a new school year;
- at the end of your studies;
- if you move;
- if you drop out;
- if you become a part-time student.

CONSEQUENCES IF YOU DON'T:

- poor credit rating;
- no further Canada Student Loans;
- collection action;
- withholding of income tax refunds.

4 (ii) The Effects of ICL

Because ICLs have no repayment obligations when incomes are low:

- ❖ No repayment when unemployed
- ❖ No repayment when in low paying jobs
- ❖ No repayment if not in the labour force rearing a child

Therefore:

- No repayment hardships
- No struggle or anxiety
- No default and credit reputation loss
- No loss of future government revenue from default

Also:

- ❖ Highly efficient if collected by employers
- ❖ No need for a large and expensive government administration

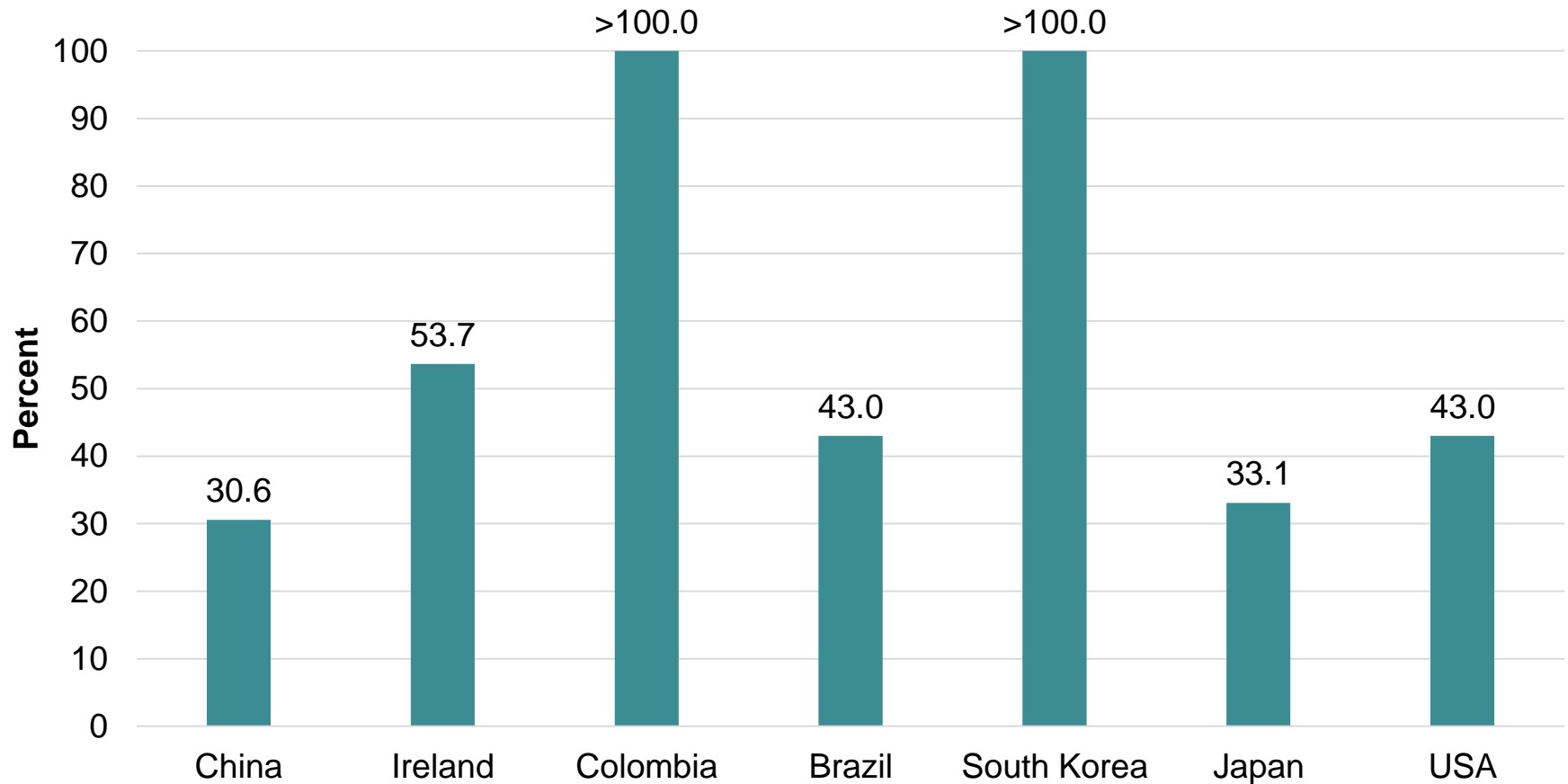
5 The Critical Role of Repayment Burdens in TBRLs

$$\text{Repayment burden}_t = \frac{\text{Loan repayment}_t}{\text{Income}_t}$$

- ❖ High RBs lead to hardship, anxiety borrowing from loan sharks and defaults
- ❖ Simply, TBRLs can't be repaid by many debtors without help from others (job choice and family formation issues must be affected)
- ❖ How high can RBs be?

International comparison of RBs with TBRLs

Repayment Burdens for Poorest 20 percent of Male Graduates



International comparison of RBs with ICLs (max percent of income)

- ❖ Australia: 8
- ❖ NZ: 10
- ❖ England: 9
- ❖ Hungary: 6

Thus, RB risks for borrowers are a zero concern for ICLs!

6 Defaults: International experience of defaults with TBRL (per cent)

TBRLs

Brazil: >30

Canada: 15

Colombia: 35-50

Malaysia: 35-50

Thailand: 45-70

US: 25-35

Default risks for borrowers is a major concern

ICLs

Australia: 0

England: 0

New Zealand: 0

Default risks for borrowers a zero concern

7 TBRLs and ICLs: Family formation and job choice

- (i) Major parts of TBRLs are being paid by family members so this must influence marriage and fertility decisions
- (ii) TBRL and occupational choice: the case of US lawyers
- (iii) Thus TBRLs are inefficient and distortionary from the perspective of economic choices
- (iv) All avoided with ICLs

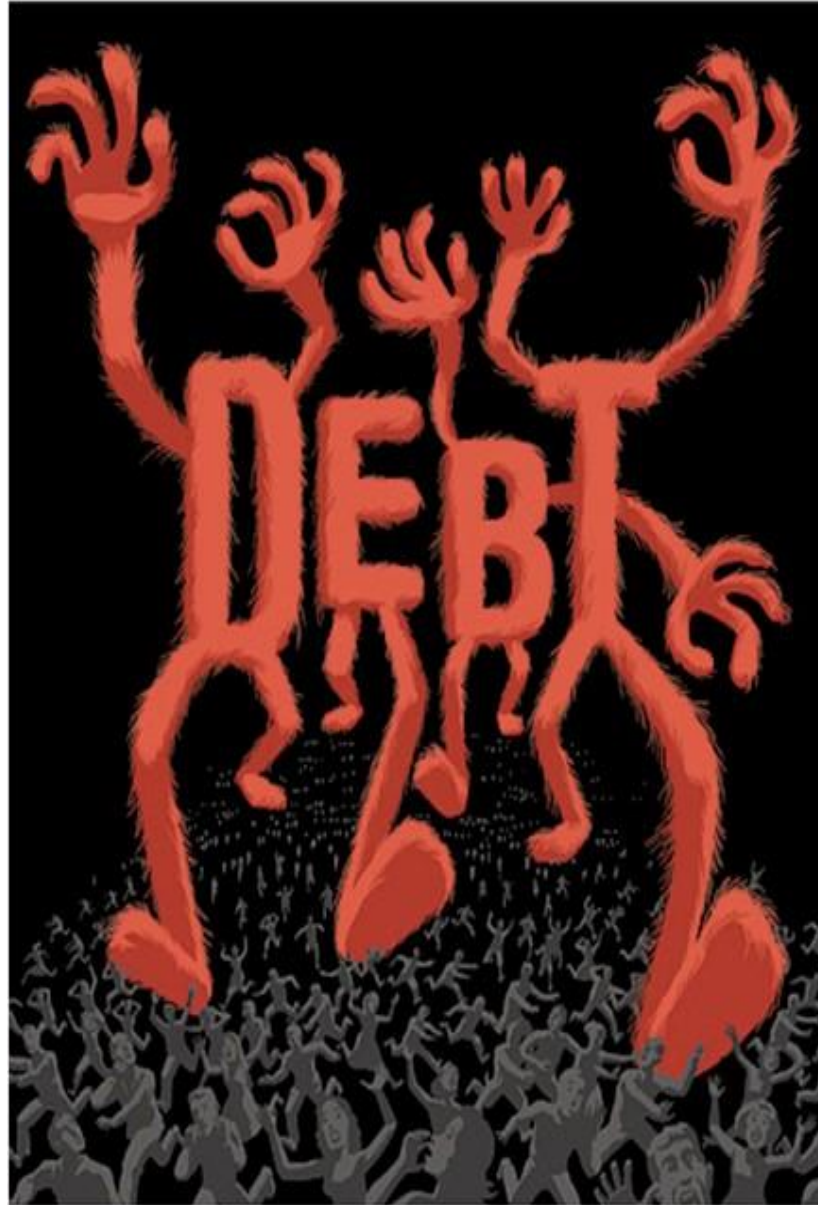


8 Images of TBRLs and ICLs:

The monster, the crocodile, and the kitten



TBRLs



TBRLs






ICLs



9 The critical role of ICL administration

- i. All countries are different: administrative issues are critical
- ii. The informal sector needs to be understood
- iii. Employer with-holding needs to work

For ICL: For the student/graduate debtor:

- ❖ no administration issues
- ❖ all automatic, no applications needed
- ❖ accurately reflects current circumstances
- ❖ zero default recording

10 Conclusion

- i. There is a strong case for tuition
- ii. Student loans are necessary
- iii. The two loan options differ radically: collection is everything
- iv. For borrowers TBRLs incur difficult repayments burdens, important default costs and are administratively expensive
- v. For borrowers ICLs provide insurance against repayment difficulties and default
- vi. For governments ICL likely maximise revenue
- vii. Administration/collection issues are critical for policy