Understanding HECS Charges: Theory, Historical and International Experience and Reflections on the Future

Bruce Chapman
Crawford School of Public Policy
ANU
Outline

1 The Impact of HECS on Students: Theory

2 The Impact of HECS on Students: Evidence

3 Reflections on the Future
1 HECS in Theory: Insurance and Subsidies

(i) Capacity to pay is the fundamental issue
(ii) No default risk
(iii) Consumption smoothing
(iv) Implicit subsidies explained
(v) Not a real price: want a Porsche through HECS?
2 The Impact of HECS on Students: Evidence

(i) Australia (intro, 1997, 25% increase): nothing (IRRs slide)

(ii) NZ: 1992-97: 300%, no effects

(iii) England: 1000-3000 (nothing), 2011 3000-9000 (95% increase, small effects only)
One reason HECS doesn’t matter: IRRs

<table>
<thead>
<tr>
<th>IRR (%)</th>
<th>Male Graduate</th>
<th>Female Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.5%</td>
<td>18.3%</td>
<td></td>
</tr>
<tr>
<td>16.3%</td>
<td>17.1%</td>
<td></td>
</tr>
<tr>
<td>15.7%</td>
<td>16.6%</td>
<td></td>
</tr>
<tr>
<td>14.7%</td>
<td>16.0%</td>
<td></td>
</tr>
<tr>
<td>13.9%</td>
<td>15.9%</td>
<td></td>
</tr>
</tbody>
</table>

Debts
3 Reflections on the Future

(i) If cap increased (by up to 50%?): most universities will increase prices;

(ii) Effects on student demand, small only;

(iii) Effects on revenue ambiguous (note increase in implicit subsidies)
Implicit Subsidy for Average Income
(Male + Female)

- Loan $20,000: 26.65%
- Loan $40,000: 34.09%