

Council of Australian
Postgraduate Associations
(CAPA)

Research Paper

**The social and economic
impact of student debt**

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Executive Summary

By 30 June 2003 Australian students and graduates will owe more than \$9 billion to the Commonwealth Government for the cost of their Higher Education Contribution Scheme (HECS) fees. The higher education reform package, to be released this year by the Federal Minister for Education, Dr Brendan Nelson, is predicted to increase student debt considerably by:

- allowing universities to charge 'top-up' fees in addition to HECS fees, increasing student fees by up to 25%;
- doubling the number of full fee paying places at Australian universities; and
- introducing new student loans for 'top-up' fees and full fee paying places which will accrue interest at close to market rates.

Student debt affects the capacity of graduates to own a home, have a family, and access private finance such as mortgages, personal loans and credit cards.

In Australia, compulsory student debt repayments delay the capacity of graduates to save a first home deposit and make mortgage repayments. This has influenced the following trends.

- The proportion of 20-24 year olds living at home increased from 42% in 1986 to 47% in 1999, while the proportion of 25-29 year olds living at home increased from 12% to 17% over the same period.
- The median age of first home buyers had risen from 30.2 years in 1988 to 31.8 years in 1996-97.
- The current national level of home ownership is beginning to fall after three decades of remaining stable at 70%.
- Home ownership is predicted to fall to under 60% over the next 30 years, and to become closer to 50% in Sydney over the same period.

Student debt has also meant that Australians are delaying having their first child, and choosing to have fewer children.

- Australia's fertility rate reached a record low in 2001 with women having an average of 1.73 children, and men an average of 1.67 children. This is significantly lower than the average of 2.1 children per couple needed to replace our current population.
- The median age of Australian mothers at the birth of their first child rose from 24 in 1975 to 29 in 2000.

The proposed changes to student loan schemes in Australia - in particular the decision to charge interest on student loans - will make the Australian loan system more like the New Zealand system. Both countries have an income-contingent repayment scheme, however student loans in New Zealand accrue interest while Australian student debt is adjusted for CPI but is currently interest-free.

The New Zealand student loan scheme has been the subject of intense domestic and international criticism.

- In 1999, economic modelling in New Zealand revealed that it would take the average male university student 17 years to repay a loan of \$20,000, while it would take the average female student 51 years to repay a loan of the same size.
- A survey of New Zealand bank managers and loans officers in 2002 found that 51% of those who had received applications from clients with student loans had cited student loans as a contributing factor in declining finance and, of these respondents, mortgages were the most likely to be declined (34%).
- The New Zealand Government has acknowledged that student debt is a "push factor" for increasing emigration, as people with student debt move overseas to avoid repaying their debt, or to earn higher salaries with which to make their debt repayments. Between 1997-1998 and 1999-2000, nearly 4 per cent of the total New Zealand professional workforce emigrated to Australia alone.

In 2000, the number of Australian-born people emigrating from Australia was the highest ever recorded, having doubled since 1995. These people were more likely to be aged 25-34 years, and more likely to be moving to the USA, Singapore and Canada - destinations which indicate that employment was a major motivator for emigration.

Student debt is not just an issue that affects students and their families. As doctors, lawyers, dentists and vets accrue increasing amounts of debt for their degrees, compulsory debt repayments will compel them to increase the fees they charge their clients.

All Australian taxpayers will have to pay the costs associated with an ageing population, as student debt restricts the number of children that families can afford to raise and contributes to more graduates leaving Australia. An ageing population will mean that public spending on health, housing, aged care and superannuation will increase at the same time as the working-age population funding this spending through taxation decreases.

Before student debt is considered as a policy solution for inadequate public investment in higher education, the wider social and economic impact of this debt should be researched and monitored.

CAPA believes that increasing student debt is not an appropriate substitute for public investment in higher education.

Introduction

By 30 June 2003 Australian students and graduates will owe more than \$9 billion to the Commonwealth Government for the cost of their Higher Education Contribution Scheme (HECS) fees. The higher education reform package, to be released this year by the Commonwealth Minister for Education, Dr Brendan Nelson, is predicted to increase student debt considerably by:

- allowing universities to charge 'top-up' fees in addition to HECS fees, increasing student fees by up to 25%;
- doubling the number of full fee paying places at Australian universities; and
- introducing new student loans for 'top-up' fees and full fee paying places which will accrue interest at close to market rates.¹

Several social and economic consequences of student debt have been identified. These include the impact of student debt on:

- individual life choices, such as the decision to have children, become self-employed or open a new business;
- the ability to accrue additional debt, such as a home mortgage;
- the capacity of the individual to save, either for their own children's education or for their retirement;
- the size of the labour market as graduates choose to work overseas to avoid repaying their debt;
- fees for professional services as dentists, doctors, lawyers and accountants accrue larger student debts.²

There is a small but growing amount of research in Australia examining the broader social and economic impact of student debt. The aim of this paper is to collate the available Australian research in one study. In order to supplement the small amount of Australian research, research on student debt from New Zealand, the United Kingdom and the United States is also examined. As with all research from other countries, caution must be exercised in extrapolating their results to the situation in Australia, due to the significant differences between the higher education contexts of these countries.

Of these three systems, the New Zealand Student Loan Scheme is the most similar to the current Australian system. Both are income contingent repayment schemes, although debt is repaid through the taxation system in New Zealand at a flat repayment rate of 10 per cent, rather than the incremental repayment rates of 3-6 per cent in Australia. The most significant difference between the two

¹ G. Noonan and A. Contractor, 'Nelson's university plan faces tough test in Senate', *Sydney Morning Herald*, 21 February 2003 and A. Contractor, 'Uni students face funding Big Brother', *Sydney Morning Herald*, 25 February 2003.

² Report of the Education and Science Committee, *Inquiry into student fees, loans, allowances and the overall resourcing of tertiary education*, House of Representatives, New Zealand, October 2001, p 24-25.

schemes is that NZ student debt accrues interest, while student debt in Australia is currently adjusted in accord with the Consumer Price Index but is interest-free. However, in the context of recent proposals to charge interest on Australian student debt, the New Zealand experience is particularly relevant.

Since the demise of the Higher Education Council there has been little publicly disseminated information on student debt. Publicly available information provided in on HECS, such as the selected higher education student statistics released annually by the Commonwealth Department of Education Science and Training (DEST), does not reveal how long it takes students to repay their debt, compare debt repayment for different demographic groups, or make any attempt to assess the impact of student debt on graduates life choices, such as when to have children. Given that higher education funding policy in this country is increasingly reliant on the capacity of students to accrue debt in order to pay for their education, this lack of research or monitoring of the wider social and economic impact of this debt is of great concern.

Student debt in Australia

DEST has estimated that students' accumulated Higher Education Contribution Scheme (HECS) debt will total \$9,057,000,000 by 30 June 2003. This total is estimated to reach \$11,519,000,000 by 30 June 2006.³ Between 1989 and 2002, 1,077,675 people accrued a HECS debt (see Table One).⁴

The Higher Education Contribution Scheme (HECS) was introduced in 1989 and at that time required students to pay a fee of \$1800 per year as a contribution to the cost of their degree. The original HECS rate was intended to reflect 20 per cent of the cost of a students' education.⁵ The proportion of the cost of the course borne by students has increased since 1989, and in particular since 1997 when three HECS 'bands' were introduced. Prior to 1997, students paid the same fee regardless of their choice of discipline. Since 1997, disciplines have been allocated one of three tiers of fee, on the basis of the cost of course delivery and the expected income of a graduate from that discipline. The National Tertiary Education Union has used DEST data to calculate that "on average, the share of the costs borne by students [enrolled in HECS-liable courses] rose from 19.6% in 1996 to 34.5% in 2001".⁶

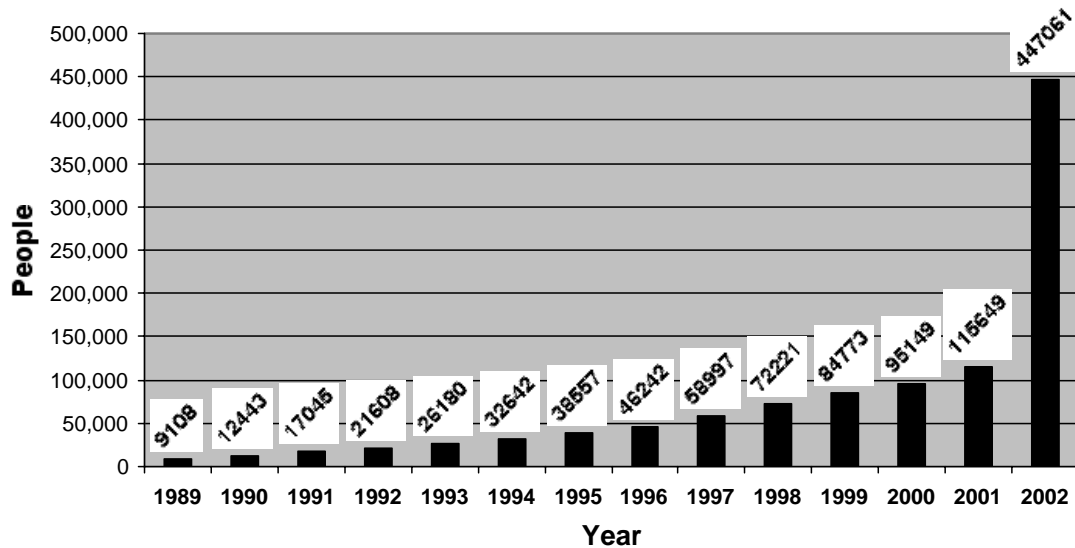
³ Department of Education, Science and Training (DEST), *Higher Education Report for the 2003 to 2005 Triennium*, Table 3.5: HECS liabilities, payments and accumulated debt, 1989-1990 to 2005-2006, p 64.

⁴ B. Nelson, *HECS helps millions to access university*, Media Release Attachment, 5 March 2003, MIN 296b/ 03.

⁵ K. Jackson, *Tuition Fees and University Funding*, Department of the Parliamentary Library, Research Note 54, 1996-1997.

⁶ National Tertiary Education Union (NTEU), *Students pay more, universities get less, the government pockets the difference: a study on student subsidised place funding from 1996 to 2001*, Policy Research Paper No. 1 2003, p 5-6. (See Table 4: Student contribution to the cost of their education, p 6.)

**Total number of people with a HECS debt,
1989-2002**



NB: The 2002 figure includes both commencing and continuing students, whereas 1989-2001 figures only include students who incurred no further HECS debt after that year, having completed or withdrawn from their course.

Source: B. Nelson, *HECS helps millions to access university*, Media Release Attachment, 5 March 2003, MIN 296b/ 03.

In 2003, HECS fees are set at:

Band One (Arts, Humanities, Social and Behavioural Sciences, Nursing and Education): \$3,680 per year;

Band Two (Sciences, Engineering, Business and Commerce, Agriculture and Architecture): \$5,242 per year;

Band Three (Law, Medicine, Dentistry and Veterinary Science) : \$6,136 per year.

Students have the choice of paying their HECS fee up-front, with a 25 per cent discount, or by borrowing the cost of their HECS fee from the Commonwealth Government. HECS is an income-contingent loan scheme, which means that students who choose this second option defer payment of the fee until their income reaches the repayment threshold, at which time they pay back their debt to the Commonwealth Government via the taxation system at a rate of between three and six per cent, depending on their income. HECS debts do not accrue interest, but are annually adjusted according to the Consumer Price Index (CPI), as are the three HECS bands and the income repayment thresholds.

In the 2003-2004 financial year, the HECS repayment thresholds and repayment rates will be set at the following levels.

HECS Repayment Thresholds and Rates for 2003-2004⁷

Income	Repayment Rate
\$25,348-\$26,731	3%
\$26,732-\$28,805	3.5%
\$28,806-\$33,414	4%
\$33,415-\$40,328	4.5%
\$40,329-\$42,447	5%
\$42,448-\$45,628	5.5%
\$45,629 +	6%

These thresholds were lowered significantly in 1997. Prior to this time, the initial threshold had been set to reflect the average wage. The initial repayment threshold was lowered from \$28,495 in 1996 to \$20,701 in 1997.⁸

In 2002, the average HECS debt was \$7,817.⁹ This average includes debts that have been incurred since 1989, when the HECS fee was \$1800 compared to \$6,136 for a band three course in 2003. It also includes debts that have been substantially reduced by compulsory repayments from graduates who have been earning above the income repayment threshold during the fifteen years that the scheme has been in place. A more revealing representation of the size of current students' HECS debts can be seen in the graph on the following page, which shows the size of HECS debts of students commencing and continuing study in 2002.

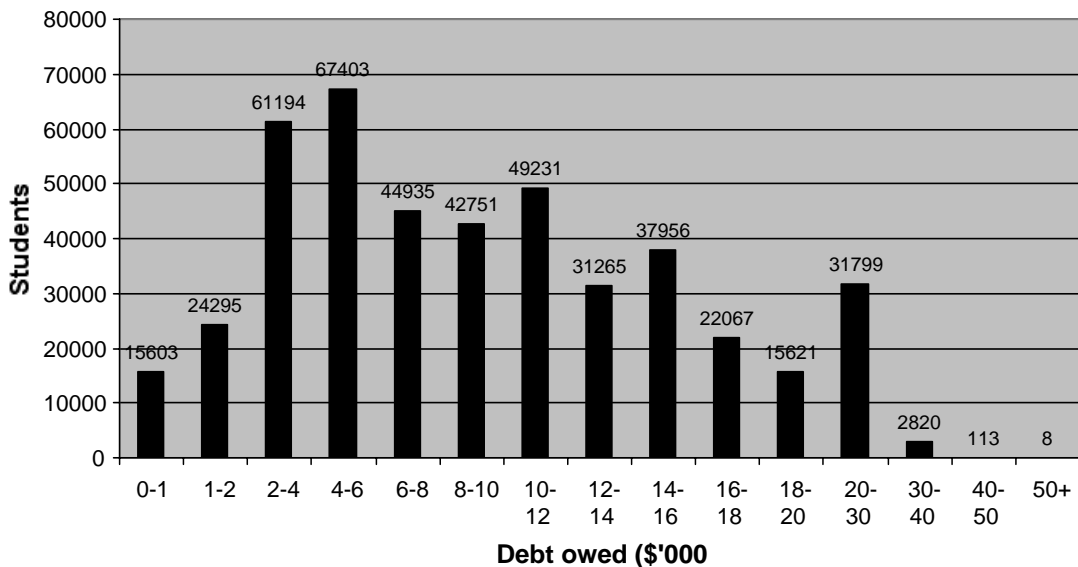
Not all degrees have a HECS fee. HECS-liable places are concentrated in undergraduate degree courses, where the vast majority of students pay HECS while a small (but increasing) number of domestic undergraduate students and overseas students pay the full cost of their course up front. There are also decreasing number of HECS-liable places available for postgraduate coursework degrees leading to an initial qualification in nursing or teaching or to provisional registration as a medical practitioner. The majority of postgraduate coursework degree students pay substantially larger fees for their degree, which are set at the discretion of the university.

⁷ Higher Education Contribution Scheme website: <http://www.hecs.gov.au/threshold03_04.htm>

⁸ K. Jackson, *The Higher Education Contribution Scheme*, Department of the Parliamentary Library, E-brief issued December 2000, Table 3.

⁹ Department of Education, Science and Training (DEST), *Setting Firm Foundations: Financing Australian Higher Education*, Paper prepared for the Government Review 'Higher Education at the Crossroads', Commonwealth of Australia, July 2002, p 6 (section 30).

Size of HECS debt for commencing and continuing students in 2002



Source: B. Nelson, *HECS helps millions to access university*, Media Release Attachment, 5 March 2003, MIN 296b/ 03.

For the first time in 2002 postgraduate coursework students were also able to defer payment of the fees for their course through the Postgraduate Education Loan Scheme. During the first semester of 2002, 16,537 postgraduate coursework students (5,059 equivalent full time student units or EFTSU) borrowed a total of \$49,000,000.¹⁰ The average PELS debt for that semester was \$9,686 per EFTSU.¹¹ PELS is also an income-contingent loan scheme, with PELS debts repaid in the same way as HECS debts, and with the same income repayment rates and thresholds. The schemes differ in that the debt incurred each year through PELS can be considerably larger than through HECS, as postgraduate coursework fees are not regulated by the government.

Students enrolled in full-time undergraduate level courses through Open Learning Australia (OLA) may also defer payment of a proportion of their student fees by taking out a loan from the Commonwealth Government via the Open Learning Deferred Payment Scheme (OLDPS). In 2002, 2885 students (1189

¹⁰ DEST, *Higher Education Report for the 2003 to 2005 Triennium*, Table 3.9: PELS liability data and take-up rates for first semester 2002, p 68.

¹¹ Ibid.

EFTSU) accumulated a total OLDPS debt of \$3,403,352, an average of \$2862 per EFTSU.¹² This debt is repaid in the same way as a HECS or PELS debt.

Australian students who meet the income and asset test requirements for financial assistance through the Youth Allowance, Austudy and Abstudy income support schemes can also borrow money to support the cost of living while they study through the Student Loan Supplement Scheme.¹³ The scheme requires students to 'trade in' (give up) all or part of their allowance in return for double that amount as a Financial Supplement Loan. For example, a student can trade in \$3000 of income support payments in return for a Financial Supplement Loan of \$6000. The maximum available loan is \$7000 per year. Students who take out a loan enter into a formal loan contract with the Commonwealth Bank. The Commonwealth Government pays the interest on the loan payments made by the bank. This contract lasts until 31 May of the fifth year after the loan year, at which time the Commonwealth Government buys back the outstanding loan balance from the bank. At this time, students must begin to make compulsory loan repayments through the taxation system if their income exceeds the \$34,494 threshold. For the 2002–03 financial year, the Financial Supplement Loan repayment rates and income thresholds are as follows.

Financial Supplement Loan Repayment Thresholds and Rates for 2002-2003¹⁴

Income	Repayment Rate
\$34,494–\$39,199	2%
\$39,200–\$54,881	3%
\$54,882 and above	4%

In 2002-2003, the maximum compulsory rate of debt repayment for a student with both a HECS debt and a Financial Supplement loan debt is 10 per cent at an income threshold of \$54,882.

Home ownership

Compulsory HECS repayments reduce the capacity of graduates to save a sufficient portion of their income for the deposit required to purchase a first home. In 1999, the Australian Bureau of Statistics found that the median age of first home buyers had risen from 30.2 years in 1988 to 31.8 years in 1996-97.¹⁵ In

¹² DEST, *Higher Education Report for the 2003 to 2005 Triennium*, Table 3.10: OLA students and places, 1994 to 2002, p 69 and Table 3.11: Total fees charged by OLA and fees deferred under OLDPS, 1994 to 2002, p 70.

¹³ See Centrelink, *Student Financial Supplement Scheme*, for more information: <<http://www.centrelink.gov.au/internet/internet.nsf/payments/sfss.htm>>

¹⁴ Australian Taxation Office, *Repaying your Financial Supplement Loan, 2002-2003*, <<http://www.ato.gov.au/content.asp?doc=/content/Individuals/26562.htm&page=2#H7>>

¹⁵ Australian Bureau of Statistics, *Housing and Lifestyle: First home buyers*, Australian Social Trends 1999.

particular, the ABS noted that home ownership rates had declined for the 25-34 year age group. "Between 1988 and 1996-97, home ownership rates among income units in which the age of the reference person was 25-34 declined from 42% to 32%."¹⁶

Hillman and Marks' comparison of home ownership among four cohorts of young Australians, born in 1961, 1965, 1970 and 1975, demonstrates that young people are living in rental properties for longer periods of time.¹⁷ By the age of 25, only 30 per cent of the 1961 cohort were renting their home, whereas 41 per cent of 25 year olds born in 1975 were renting. In contrast, 42 per cent of the 1961 cohort had taken out a mortgage by the age of 25, while this was the case for only 28 per cent of the 1975 cohort.¹⁸ Hillman and Marks cite Stone's 1998 survey, which found that " forty per cent of 25-to-29 year-olds surveyed indicated that their main reason for renting rather than buying their home was financial - they couldn't afford to buy a house."¹⁹

Declining home ownership levels and the increasing age of first home ownership have been directly linked to HECS debt. In 2002, the ABS's analysis of renter households made the following conclusion.

Young people are now likely to start their housing career later in life and to remain renting for a longer period than in the past. This can be attributed to factors such as the delay in family formation as well as longer periods spent studying, compulsory Higher Education Contribution Scheme (HECS) repayments, increased superannuation payments and reduced job stability, all of which result in lower incomes and a reduced ability to save towards a home deposit.²⁰

Baum and Wulff identify a number of social, demographic and economic factors affecting home ownership aspirations, and conclude that "the introduction of HECS and the requirement for repayment may have inhibited the ability of university graduates to save for a deposit."²¹ The Department of Family and Community Services also agrees that entering the workforce with a HECS debt "could retard [tertiary graduates'] initial capacity to save the equity required to buy a first home."²²

¹⁶ Ibid.

¹⁷ Kylie J. Hillman and Gary N. Marks, *Becoming an Adult: Leaving Home, Relationships and Home Ownership Among Australian Youth*, Longitudinal Studies of Australian Youth, Research Report Number 28, Australian Council for Educational Research, September 2002, p v.

¹⁸ Ibid, Table 5: Weighted Percentage of Young People Paying for Housing (Rent and Mortgage) Over Time, p 36.

¹⁹ Ibid, p 3.

²⁰ Australian Bureau of Statistics, *Housing Arrangements: Renter Households*, Australian Social Trends 2002.

²¹ S. Baum and M. Wulff, *Housing aspirations of Australian households: positioning paper*, Australian Housing and Urban Research Institute, Queensland and Monash-Swinburne Research Centres, 2001, p 26.

²² W. Mudd, H. Tesfaghioris and J.R. Bray, *Some issues in home ownership*, Policy Research Paper No. 17, Department of Family and Community Services, Commonwealth of Australia, Canberra, October 2001, p 26.

The impact of HECS debt on the ability of young Australians to purchase their first home does not only have consequences for the Australian property market, or the satisfaction of a generation's personal home ownership aspirations. Declining levels of home ownership also place increasing demand on the private rental sector. The National Shelter argues that this triggers a rise in rental housing costs and decreasing vacancy levels, which then displaces renters at the lower end of the private rental market and increases the pressure on public housing.²³

In time, decreasing levels of home ownership will also affect the capacity of retired Australians to support themselves on a retirement pension or to live in a retirement village. Kupke and Marano explain that,

Australia's welfare and housing policies have been predicated for fifty years on the perceived merits of home ownership. Welfare benefits both during employment and on retirement have been based on household investment being extended over time through home ownership. Retirement pension levels and retirement village arrangements anticipate the majority of Australians entering retirement as outright homeowners.²⁴

While public policy assumes that home ownership is the norm in Australia, levels of home ownership in Australia have fallen over the last 10 years, and are predicted to continue to fall. Having remained stable at over 70 per cent for the last thirty years, the current national level of home ownership is beginning to fall.²⁵ In 2000, Badcock and Beer predicted that the rate of home ownership will continue to fall to "just under 60 per cent by 2031".²⁶ This fall is not predicted to be uniform across all regions of Australia. Badcock and Beer estimate that by 2031 the home ownership rate in Sydney will be only 52 per cent, and that Sydney's private rental sector will have expanded to 40 per cent.²⁷ Given the constraining effect of compulsory HECS repayments on the capacity to save a deposit for a first home, student debt will contribute to this decrease in levels of home ownership, potentially causing further pressure on the private and public rental markets, and even limiting the future capacity of non-home owners to pay for their retirement.

Capacity to borrow

Directly related to first home ownership is the capacity of people with student debt to access additional finance, such as a mortgage. In 2002, the New

²³ National Shelter, *The links between housing, employment and income support: implications for housing policy*, discussion paper delivered at the Shelter SA Seminar, Adelaide, 2000, cited by V. Kupke, and W. Marano, *The implications of changes in the labour market for the ownership aspirations, housing opportunities and characteristics of first home buyers*, Australian Housing and Urban Research Institute, Southern Research Centre, June 2002, p xi.

²⁴ Kupke and Marano, 2002, p xi.

²⁵ Ibid.

²⁶ B.A. Badcock and A. Beer, *Home truths: property ownership and housing wealth in Australia*, Melbourne University Press, Melbourne, 2000, p 152.

²⁷ Ibid., p 153-154.

Zealand University Students' Association (NZUSA) surveyed a random sample of bank managers and loans officers at financial institutions in order to discover whether student debt affected the capacity of New Zealanders to be approved for mortgages, personal loans and credit cards. The findings report that "51% of those who had received applications from clients with student loans had cited student loans as a contributing factor in declining finance and of these respondents, mortgages were the most likely to be declined (34%)."²⁸ Responses from the financial institutions included the following comments.

- "As time goes on, more and more mortgages will be declined, as student loan debt will push the application outside the criteria"...
- "Student loans are now becoming more important as the burden of servicing student debt in addition to say a mortgage loan has a very real weighting on any approval" ...
- "If clients have a range of other debts then student loan payments can become the deciding factor in a decline"...
- "In many respects the whole student loan scheme is having a negative impact on the borrowing potential of graduates" ...²⁹

In addition, the survey confirmed earlier observations made by the New Zealand Banking Ombudsman that at least two financial institutions were declining mortgage applications on the basis of the total size of the borrower's student debt, despite the borrowers earning sufficient income to afford the mortgage repayments after their compulsory student debt repayments had been deducted. As discussed above, the New Zealand Student Loan Scheme is, like the Australian model, an income-contingent repayment scheme. Thus, while it is legitimate for a financial institution to take into account the effect of compulsory student debt repayments on the disposable income of a borrower and their consequent capacity to service a mortgage, the New Zealand Government and the New Zealand Banking Ombudsman agree that it is not legitimate for a financial institution to consider the total size of a borrower's student debt in its calculation of the borrower's assets and liabilities. Nevertheless, the NZUSA survey revealed evidence that this principle is neither understood nor applied consistently within the New Zealand banking industry. Despite the fact that a person's student debt repayments are calculated according to the size of that person's income, not the total size of the debt, responses to the survey included comments from financial institutions such as, "If their student loan is a small amount it's not too bad, but once the student loan is over \$10,000 their repayments may not be able to be met."³⁰

Whether or not Australian financial institutions consider a person's total student debt as a liability, compulsory debt repayments, which can represent up to a 10 per cent loss of income if a person has both a HECS debt and a Student

²⁸ New Zealand University Students' Association (NZUSA), *Student Loans Effect on Graduates' Borrowing: A survey of bank managers and loans officers*, Wellington, September 2002, p 2.

²⁹ Ibid, p 6-8.

³⁰ Ibid, p 9.

Financial Supplement Loan, inhibit the capacity of Australians to save for a home deposit, or to meet mortgage, personal loan or credit card repayments. As is already the case in New Zealand, escalating student debt may make it increasingly difficult for Australian graduates to access private finance. This will not only reduce the capacity of graduates to purchase a house, or even a car, and therefore reduce the flow of graduate income into the Australian economy, it may also pose future challenges for the Australian financial industry as the proportion of loan applicants who fail to qualify for lending approval increases.

Leaving home

In addition to its impact on home ownership, student debt also affects the age at which young Australians enter the private rental market. The decision to undertake higher education and the subsequent financial costs - student fees, the cost of living, and the opportunity cost of foregone full time income while studying - can delay young Australians from attaining an important 'marker of adulthood': moving out of the parental home. The desire of some graduates to pay off their student debt as quickly as possible may also influence their decision to remain living in the parental home after graduation in order to substantially reduce their cost of living. The Australian Bureau of Statistics records that the proportion of 20-24 year olds living at home increased from 42% in 1986 to 47% in 1999, while the proportion of 25-29 year olds living at home increased from 12% to 17% over the same period.³¹ The ABS data show that students are more likely to be living at home than non-students.

Of particular interest is the fact that the proportion of 20-24 year olds living at home, who were *not* full-time students, increased from 40 per cent in 1986 to 46 per cent in 1999. The ABS data records increases in the proportion of full-time employed 20-24 year olds and 25-29 year olds living at home, which is contrary to the expectation "that young adults in full-time employment would be the least likely to be living at home."³² In contrast, these figures are compatible with the scenario of students graduating in their early 20s and remaining at home after entering full-time employment in order to reduce their cost of living and pay back their student debt. This is consistent with US research into the impact of student debt on early labour force experiences, which concludes that the likelihood of degree recipients still living at home was related to "age, income and debt burden."³³ Younger, lower income graduates were more likely to be living with parents, as were those paying more than 15 percent of their monthly salary in loan repayments.³⁴

³¹ Australian Bureau of Statistics, *Family Formation: Young adults living in the parental home*, Australian Social Trends, 2000.

³² Ibid.

³³ Choy, S. and Geis, S., *Early Labor Force Experiences and Debt Burden*, National Center for Education Statistics/ Office of Educational Research and Improvement, Report No. NCES 97-286, United States Department of Education, Washington, 1997, p 81

³⁴ Ibid.

Hillman and Marks' longitudinal study of Australian youth, entitled *Becoming an Adult*, argues that the traditional transition to adulthood, marked by the completion of education and entrance into full-time employment, leaving the parental home and purchasing a first property, then marrying and having children is no longer the norm for young Australians. They comment, "today, the achievement of many of these markers is being delayed, or indeed, not reached at all."³⁵ Hillman and Marks attribute this change to a number of factors, including increasing demand for post-secondary educational qualifications; increasing labour force instability and decreasing employment opportunities for young people, especially early school leavers; and social and cultural changes that have made alternatives to marriage, such as de facto relationships or lifelong single status, increasingly acceptable.³⁶

However, Hillman and Marks point to substantial research which demonstrates the strong relationship between the attainment of 'markers of adulthood', such as leaving the parental home, and the self-reported levels of well-being amongst young Australians.³⁷ For this reason, they argue that "[educational or employment] policies that delay the attainment of independence can affect the life satisfaction and wellbeing of young Australians at many points in their journey" and recommend that "these potential side effects be considered as part of the process of policy development."³⁸

Fertility

The Australian fertility rate has declined significantly since the 1970s. From a high of 3.6 in 1961³⁹, by 2000 the fertility rate had declined to 1.7 babies per woman, the lowest rate on record.⁴⁰ The 2001 Census revealed that the male fertility rate was even lower at 1.67 per cent.⁴¹ In addition, the median age of Australian mothers at first pregnancy resulting in a live birth rose from 24 years in 1975 to 29 years in 2000.⁴² The median age of acknowledged fathers has also increased from 29.4 in 1980 to 32.3 in 2000.⁴³

³⁵ K. J. Hillman and G. N. Marks, *Becoming an Adult: Leaving Home, Relationships and Home Ownership Among Australian Youth*, Longitudinal Studies of Australian Youth, Research Report Number 28, Australian Council for Educational Research, September 2002, p 1.

³⁶ Ibid, p 33.

³⁷ Ibid, p 34.

³⁸ Ibid.

³⁹ Department of Family and Community Services, *Australia's fertility rate: trends and issues*, Research FaCS Sheet, Number 9, February 2001, p 1.

⁴⁰ Australian Bureau of Statistics, *Population Projections: Fertility futures*, Australian Social Trends 2002.

⁴¹ J-A Davies, 'More men avoid parenthood', *The Age*, 6 January 2003.

⁴² Ibid.

⁴³ E. Gray, *What do we know about men's fertility levels in Australia?*, Negotiating the Life Course Discussion Paper Series, Discussion Paper DP-008, Australian National University, Canberra, September 2002, p 4.

While there has not been any research in Australia testing the impact of HECS on the reproductive choices of Australians, Jackson has established 'the case' that HECS has "antinatal elements, and through them the potential to exacerbate structural ageing."⁴⁴ Jackson examines factors affecting fertility for women with a HECS debt, such as the inverse relationship between university qualifications and fertility, and the rate at which tertiary-qualified women choose tertiary-qualified men as their partners (50%) thereby forming couples with twice the debt of the individual. She argues that,

Current theoretical understandings of the inverse association between fertility and qualifications -- for example, the *opportunity costs*, *role incompatibility*, *institutional incoherence*, and *relative income* hypotheses -- all lead one to postulate a similar inverse association between ex-student *indebtedness* and fertility.⁴⁵

Jackson also draws comparisons between the Australian HECS and the New Zealand Student Loan Scheme and demonstrates that the New Zealand scheme is considerably less equitable due to its lower income threshold for compulsory debt repayment, single repayment rate of 10 per cent, and the interest charged on student loans. She stresses that "at all costs, Australia should avoid introducing interest-bearing loans along the line followed by New Zealand."⁴⁶

Hillman and Marks' longitudinal study of Australian youth reveals the importance of financial circumstances on decisions about parenthood. Young Australians consistently question "how they are meant to raise their children the way they want to when both parents need to be working full-time to be able to afford a mortgage."⁴⁷ In this context, increasing student debt is to exacerbate the trend of declining fertility.

Low fertility causes the age distribution of the population to become increasingly dominated by older age groups, a phenomenon known as 'population ageing'. This is already occurring in Australia and is not ameliorated by immigration, which would need to be considerably higher than previously experienced in Australia in order to eventually alter the age distribution of the population.⁴⁸ An ageing population will have a significant impact on the Australian economy. The Australian Bureau of Statistics lists a number of economic implications for its projections of an ageing population.

⁴⁴ N. Jackson, 'The Higher Education Contribution Scheme - A HECS on the family?', in G.A. Carmichael with A. Dharmalingham (eds), *Populations of New Zealand and Australia at the Millennium*, a joint special issue of the Journal of Population Research and the New Zealand Population Review, Australian Population Association, Canberra, 2002, p 105.

⁴⁵ *Ibid*, p 117.

⁴⁶ *Ibid*.

⁴⁷ K.J. Hillman and G.N. Marks, *Becoming an Adult: Leaving Home, Relationships and Home Ownership Among Australian Youth*, Longitudinal Studies of Australian Youth, Research Report Number 28, Australian Council for Educational Research, September 2002, p 2.

⁴⁸ Australian Bureau of Statistics, *Population Projections: Fertility futures*, Australian Social Trends 2002.

- Public expenditure on services for older people (e.g. health, housing and aged care) is greater than that spent on services for children (principally education and health) ...
- While most children are dependent on their parents' income, most older people are eligible for government income support.
- Concern has been expressed that the predicted increase in public expenditure necessitated by population ageing will occur in conjunction with a decrease in the size of the working-age population who may be expected to support such expenditure through taxation revenue ...
- Australia's economic growth and position in the Asia-Pacific region [could] be severely weakened by a smaller and declining population.⁴⁹

Thus, further jeopardising population growth by increasing student debt will carry serious economic consequences in the current climate of declining fertility.

Migration

Student debt has been linked to emigration in New Zealand, where graduates have left the country either in pursuit of higher salaries overseas with which to pay back their student loan or in order to avoid repaying their debt.⁵⁰ New Zealanders with a student debt are legally required to register with the Inland Revenue Department (IRD) if they intend to be resident overseas for longer than three months. Between 1995 and 2000 the number of New Zealanders with student debt who registered with the IRD as being permanently resident overseas increased from 600 to 10,926. As a proportion of total New Zealanders with a student debt, those registered as resident overseas increased from 0.5 per cent in 1995 to 4.0 per cent in 2000.⁵¹ The Education and Science Committee of the New Zealand House of Representatives cautions that it is likely that these figures are significantly understated, given that New Zealanders leaving the country in order to avoid repaying their debt are unlikely to have fulfilled their legal obligation to register with the IRD.⁵²

New Zealanders registered as resident overseas have larger student debts, on average, than those who remain in New Zealand. In 2000, student loan holders living overseas owed on average \$6,900 more than those remaining in New Zealand.⁵³ In the course of the parliamentary inquiry into student fees, loans, allowances and the overall resourcing of tertiary education in New Zealand in 2001, the Education and Science Committee concluded that "student loan debt is an emerging 'push factor' in the growth of overseas departures."⁵⁴

⁴⁹ Ibid.

⁵⁰ Report of the Education and Science Committee, *Inquiry into student fees, loans, allowances and the overall resourcing of tertiary education*, House of Representatives, New Zealand, October 2001, p 39.

⁵¹ Ibid, Table 7: Numbers of student loan borrowers registered with IRD as being permanently resident overseas, p 41.

⁵² Ibid, p 40.

⁵³ Statistics New Zealand, *Integrated data on student loan borrowers 1997-2000*, December 2002.

⁵⁴ Ibid, p 40.

This has been of particular benefit to Australia. Birrell *et al.* demonstrate that 22.6 per cent of Australia's net gain of professionals during the three years between 1997-98 to 1999-2000 were New Zealanders, representing nearly a 4 per cent loss of the total professional workforce in New Zealand.⁵⁵ Birrell *et al.* consider that this loss for New Zealand warrants being labelled as a 'brain drain'. In contrast, their study shows that during the five years between 1995-6 and 1999-2000, Australia has registered a net 'brain gain' of 155,279 persons who hold an occupation.⁵⁶

However, Birrell *et al.* do acknowledge that their data provide "no information about the relative educational level, experience, English language capacity or other relevant skills of movers" and that "in this case it may well be that the apparent 'brain gain' may be somewhat illusory."⁵⁷ In addition, they note that recent changes to immigration requirements in Europe and North America have provided new immigration opportunities for Australians, who may decide to move in order to benefit from the considerably higher salaries in those regions. Birrell *et al.* agree that more recent increases in both the outflow and net loss of Australian residents support this view.⁵⁸

In 2001, the Australian Bureau of Statistics recorded that the number of Australian-born people leaving Australia permanently had doubled over the last five years.⁵⁹ The ABS analysis of emigration from Australia reveals that:

- In 1999-2000, the number of Australian-born emigrants was the highest ever recorded. This represented a 17% increase on the previous year and a 58% increase on the year before that ...;
- Australian-born emigrants were more likely than overseas-born emigrants to be adults aged 25 to 34 years ...;
- Australian-born emigrants chose destinations which indicated employment was a major motivator for leaving in 1999-2000. In particular, Australian-born emigrants were more likely than their overseas born counterparts to have been bound for the United States of America. The Australian born were also comparatively more likely to have been moving to Singapore and Canada.⁶⁰

While a link between student debt and emigration is not as clearly established in Australia as it is in New Zealand, recent increases in the number of educated, young Australians leaving the country bound for the USA, UK, Singapore and Canada demonstrate that there is no time for complacency about the effect of student debt on the migration decisions of Australians. Increasing HECS debt will increase the disincentive for Australian professionals to remain in the country

⁵⁵ B. Birrell, I. R. Dobson, V. Rapson and T. F. Smith, *Skilled Labour: Gains and Losses*, Centre for Population and Urban Research, Monash University, July 2001, p 20.

⁵⁶ *Ibid*, p 11.

⁵⁷ *Ibid*, pp 31-32.

⁵⁸ *Ibid*, p 20.

⁵⁹ Australian Bureau of Statistics, *Population Growth: Leaving Australia*, Australian Social Trends 2001.

⁶⁰ *Ibid*.

The New Zealand experience has demonstrated that qualified doctors and vets, who, like Australian students of medicine and veterinary science in the most expensive HECS band, incur the largest student debts, are particularly likely to emigrate. The New Zealand Veterinary Association states that an increasing number of new graduates are heading overseas immediately upon completion. In 1999, approximately 25% of all graduating vets in that year moved overseas, creating a shortage of vets, particularly in rural areas, that will eventually jeopardise New Zealand agriculture, a major component of the New Zealand economy.⁶¹ The New Zealand Medical Association reports that at least 350 junior doctors left New Zealand in 1999, creating a significant number of unfilled vacancies for junior doctors in hospitals as well as a decline in the number of doctors practicing in the less well remunerated areas of medicine such as general practice, geriatric and community medicine.⁶²

Debt aversion

Student debt not only affects the life of graduates after their higher education, it may also prevent potential students from even enrolling in universities. The extent to which debt aversion is a barrier to higher education entry for equity groups in Australia is the subject of some debate. The ability to defer payment of up-front fees undoubtedly enables people who would otherwise not be able to afford fees access to higher education. However, the Minister for Education has recently acknowledged that "older students who have not previously participated in higher education may be reconsidering study because of the impact of HECS."⁶³ International research has conclusively demonstrated that debt aversion deters entry to higher education and that equity groups are among the most debt averse.

In February 2003, Universities UK, the British equivalent of the Australian Vice-Chancellors' Committee, released a study entitled *Attitudes to Debt* which examined levels of debt aversion among a large sample of school leavers and further education students and the impact of debt aversion on their participation in higher education. The study concludes that debt aversion does deter entry to higher education, particularly for equity groups.

⁶¹ New Zealand Veterinary Association, *Submission to the Education and Sciences Select Committee Inquiry into Student Fees, Loans Allowances and the Overall Resourcing of Tertiary Education*, Wellington, July 2000, p 1.

⁶² New Zealand Medical Association, *Submission to the Education and Sciences Select Committee Inquiry into Student Fees, Loans Allowances and the Overall Resourcing of Tertiary Education*, Wellington, July 2000, p 1.

⁶³ B. Nelson, *Higher Education at the Crossroads: an overview paper*, Ministerial Discussion Paper, Commonwealth Department of Education, Science and Training, Commonwealth of Australia, Canberra, April 2002, p 22, paragraph 107.

Prospective students with tolerant attitudes towards debt were one and quarter times more likely to go to university than those who were debt averse, all other things being equal. Debt aversion deterred entry into HE [higher education] but was also a social class issue. The most anti-debt are the focus of widening participation policies and include:

- those from the lowest social classes;
- lone parents;
- Muslims, especially Pakistanis; and
- black and minority ethnic groups.

The least anti-debt were:

- attending independent schools;
- from the highest social classes; and
- men.⁶⁴

The study demonstrates that a lack of money and concerns about accumulating debt contribute to the uncertainty of students who are undecided as to whether to enter higher education. Half of all undecided students identify a fear of accumulating debt as a reason for being unsure about higher education entry, and fear of debt was a factor for over three quarters of students from the poorest households.⁶⁵ The study finds that the choice of university and degree course for students from low income families is limited by the desire to minimise higher education costs and debt.⁶⁶

This concurs with an earlier study of trends of participation and financing in US higher education undertaken by McPherson and Schapiro in 2000. The increasing cost of higher education in the US and the reduction in government financial aid for students has contributed to "increasing stratification of post-secondary opportunity by income."⁶⁷ Low-income students whose higher education options are limited by a desire to minimise the cost of their study and the amount of debt they incur are concentrated in public, low-status community colleges. In contrast, the enrolment of middle and upper-income students in low-status community colleges has declined between 1981 and 1997, with enrolment of these groups increasing at higher-status public and private universities increasing during the same period.⁶⁸

McPherson and Schapiro use this evidence to resolve the apparent paradox of higher education of increasing participation despite the increasing cost to students. They argue that low-income students are more price sensitive than their middle-income and upper-income counterparts.⁶⁹ While participation has

⁶⁴ Universities UK, *Attitudes to Debt: School leavers and further education students' attitudes to debt and their impact on participation in higher education*, Executive Summary, 2003, p 3.

⁶⁵ Ibid.

⁶⁶ Ibid., p 4.

⁶⁷ McPherson, M. and Schapiro, M.O., 'Financing Lifelong Learning: Trends and Patterns of Participation and Financing in US Higher Education', *Higher Education Management*, 12/2, 2000, p 154.

⁶⁸ Ibid., pp 147-148 .

⁶⁹ Ibid., p141.

increased, low-income students are increasingly restricted to lower-cost, lower-status and potentially lower-quality higher education options.

Both the Universities UK study discussed above, and Connor and Dewson's 2001 study of issues affecting the participation in higher education of lower social class groups in the UK, *Social Class and Higher Education*, show that the decision to enter higher education is far more complex for potential students from lower-income groups. Connor and Dewson find that "students from lower class backgrounds tend to put more emphasis on expected beneficial outcomes of higher education than do students from higher social class groups", for whom the decision to enter higher education is often an unquestioned assumption.⁷⁰ Lower income students consider a number of financial issues when making the decision to enter higher education, including concerns about debt, the ability to earn income while studying, concerns about the future financial benefits of higher education, and concerns about lack of information on the costs of higher education and financial support options.⁷¹ The cost of higher fees for degrees is more likely to outweigh the perceived benefits of higher education for potential students for low-income groups than for students from middle and upper income groups.

Low-income students continue to evaluate whether the financial costs of higher education are justified by the benefits throughout the course of their degree. In 2001, the US Institute for Higher Education Policy's analysed the student experience of low-income and ethnic minority students in New England, the state with the highest average student fees in the US. The study's data demonstrate that one of the factors directly associated with improving completion rates for students from these groups is "the availability of non-repayable grants and scholarships to lower dependence on loans".⁷² Financial aid in the form of student loans increase the likelihood of 'drop-out' for black, Hispanic and low-income students, whereas non-repayable grant aid significantly lowers the probability of non-completion.⁷³

The debt aversion of equity groups is not unfounded. An income-contingent repayment scheme necessitates that those groups in society who earn less will take longer to pay back their debt. For this reason, women will take longer on average to repay their HECS debt than men, and Indigenous graduates will take longer on average to repay their HECS debt than non-Indigenous graduates. In 1999, economic modelling in New Zealand revealed that it would take the

⁷⁰ H. Connor and S. Dewson with C. Tyes, J. Eccles, J. Regan and J. Aston, *Social Class and Higher Education: Issues Affecting Decisions on Participation by Lower Social Class Groups*, Institute for Employment Studies/Department for Education and Employment, Research Report No. RR267, UK, March 2001, p vi.

⁷¹ *Ibid.*, p 107.

⁷² Institute for Higher Education Policy, *Getting Through College: Voices of Low-income and Minority Students in New England*, Report prepared for the Nellie Mae Foundation, Washington, February 2001.

⁷³ *Ibid.*

average male university student 17 years to repay a loan of \$20,000, while it would take the average female student 51 years to repay a loan of the same size.⁷⁴ Recent changes to the interest charged on New Zealand student loans⁷⁵ have reduced the projected repayment time to 15 years for the average male university student and 29 years for the average female student.⁷⁶ In 2001, the New Zealand Ministry of Education calculated that even under these new conditions it would still take the average Maori university student 12 per cent longer to repay a student debt than the average European student, while it would take other ethnic groups (predominantly of Asian and Pacific Island origin) 43 per cent longer to repay a student debt than the average European student.⁷⁷

The price-sensitivity and debt aversion of people from equity groups will mean that entry into higher education will eventually be limited by increasing university fees and the consequent need for students to accrue more debt in order to study. The social and economic implications of limited access to higher education for students from equity groups have been well-documented. Access to higher education is associated with increased income upon graduation, access to professional employment, improved health and life expectancy, better housing, decreased rates of incarceration, and reduced dependence on government income support. For these reasons, the increasing cost of higher education for students and the increased debt burden borne by graduates will have direct social and economic consequences for all of Australian society.

Conclusion

There is an urgent need for more extensive research into the wider social and economic impact of student debt in Australia. In 2001, the New Zealand inquiry into student loans found that "in spite of increasing public concern, ... there is very little research available that examines the effects of tuition fees and student indebtedness in New Zealand."⁷⁸ For this reason, the inquiry declared it "vital that a programme of research be undertaken to ascertain the effects of loan debt on enrolment and on life choices after graduation".⁷⁹ This recommendation is just as relevant for Australia, particularly in light of an imminent reform package

⁷⁴ Report of the Education and Science Committee, *Inquiry into student fees, loans, allowances and the overall resourcing of tertiary education*, House of Representatives, New Zealand, October 2001, p 43.

⁷⁵ These include not charging interest on student debt until after the student has graduated and ensuring that a proportion of compulsory debt repayments are directed to the loan principal rather than solely to repaying the interest.

⁷⁶ *Ibid.*

⁷⁷ *Ibid.*, Table 8: Student Loan Scheme repayments periods in years, by ethnicity and gender, p 43. These figures are calculated using the average New Zealand student debt of \$12,413. In 2001, European students took an average of 11.9 years to repay a debt of this size, while Maori and 'other' ethnic groups took an average of 13.3 and 17 years respectively.

⁷⁸ Report of the Education and Science Committee, *Inquiry into student fees, loans, allowances and the overall resourcing of tertiary education*, House of Representatives, New Zealand, October 2001, p 5.

⁷⁹ *Ibid.*, p 57.

that is predicted to increase the amount that students must borrow in order to study, and to charge interest for at least part of this debt.

When the *Higher Education Legislation Amendment Bill* was passed in 1996, introducing the three HECS bands to replace the flat HECS fee, the Senate Employment, Workplace Relations, Small Business and Education Committee issued a caveat to its support for the Bill.

In view of the uncertainty surrounding the impact of the new HECS, the Committee believes it is crucial that the effects of the measure are monitored and analysed closely by relevant bodies. This analysis needs to take into account not only the overall impact of the new measures but also the effect on different socio-economic groups. Such disaggregated data analysis is performed by the Higher Education Council which, under its statutory obligation to report on the impact of HECS, monitors and evaluates data on participation by equity groups.⁸⁰

Unfortunately, the Higher Education Council was subsequently disbanded, effectively removing the only body monitoring the impact of HECS. Australian universities now receive a greater share of their revenue from students than universities in other countries,⁸¹ most of which requires students to borrow funding for their education from the Commonwealth Government. However, at the same time as the Australian higher education system is increasingly reliant on student debt for funding, the Government has disestablished the only body monitoring the impact of this debt.

The research documented in this paper demonstrates that the social and economic impact of student debt affects home ownership, fertility, and migration. For this reason CAPA advocates further research into the impact of student debt and the re-establishment of a politically independent body to monitor and publicly disseminate reports on the impact of student debt. CAPA does not support any policy reform which will increase student debt, or entrench student debt as a source of funding for Australian universities. CAPA believes that increasing student debt is not an appropriate substitute for public investment in higher education.

⁸⁰ Senate Employment, Workplace Relations, Small Business and Education Committee, *Report on the Higher Education Legislation Amendment Bill 1996*, <http://www.aph.gov.au/senate/committee/eet_cte/high_ed/report/c02.htm#overview>.

⁸¹ Productivity Commission, *University Resourcing: Australia in an International Context*, Research Report, Commonwealth of Australia, Melbourne, December 2002, p xiv.

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