# Alternative finance for tertiary teaching

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The cost of tertiary education may be divided into the cost of teaching, the cost of research conducted as an adjunct to teaching, and the cost of wages forgone as students give up their time to study when they might otherwise have been gainfully employed. In Australia most of the costs of teaching and research are borne by the Commonwealth Government, while some of the costs in terms of wages forgone are also borne by the Commonwealth by its provision of substitute incomes through the Tertiary Education Allowance Scheme. In the 1986-87 budget the direct costs of tertiary education absorbed 3.52 per cent of projected outlays, and the costs of student assistance a further 0.52 per cent.[1] These were major items, comparable with spending on all economic services combined.

In many quarters at present there is a great deal of concern at the size of the Commonwealth budget deficit, which is currently running at approximately 5 per cent of budget outlays. This is leading people to ask whether non-tax financing can be substituted for present sources of funds for any major area of expenditure. Tertiary education is an obvious candidate. It is argued that universities and colleges should find their own funds, with government intervention limited to the provision of assistance for students who would otherwise be unable to afford tertiary education.

Though the need to reduce government expenditure to the level taxpayers can be required to finance provides the major reason for urgency in seeking to shift tertiary education out of government budgets, various other arguments are commonly heard which support the move. True believers in the virtues of competitive markets argue that the present system gives established institutions a quasi-monopoly position. If they were forced to find their own funds they would be more responsive to market demands, if only because they would become vulnerable to competition from new institutions which better served the market. By contrast, believers in scholarly autonomy fear that dependence on government funds risks subjecting scholars to the political needs of the government of the day. They would be glad of more diversified sources of funds, but rightly regard the private market as potentially a harsher taskmaster than governments.

The demand that tertiary education become self-financing is complex, therefore, in that it comes from three quite different directions: concern for government budgets, belief in free markets, and belief in scholarly autonomy. The complexity is increased by the fact that the demand is opposed for two main reasons: the argument from equality of opportunity, and arguments concerning the supply of educated people to the workforce. These two arguments are both concerned that ability and talent should not be wasted, but reflect different fundamental values. Supporters of equality of opportunity regard it as unfair that participation in tertiary education should be related to the social and economic standing of students' parents, and oppose any measures which might further reduce the participation rates of students from poorer backgrounds. Those who wish to maximise the supply of educated potential workers, on the other hand, regard education as an engine of economic growth and as an investment with considerable potential returns. They oppose measures which reduce participation rates, whatever their distributional effects.[2]

The question therefore arises whether tertiary education can become self-financing without reducing the participation rates of students from poor backgrounds. This question is somewhat easier to answer if the research side of tertiary institutions is financed separately, rather than treated (as the Commonwealth Tertiary Education Commission is wont to do) as a charge on teaching costs. In this paper, I will not consider the finance of research further, but will concentrate on teaching.

## Sources of finance for tertiary teaching

Given that very little can be expected from endowments, there are three major possible sources of non-government finance for tertiary teaching: prospective employers, students and their parents.

### a) Employers

It is sometimes argued that employers are the major beneficiaries of the training which tertiary institutions provide. Without trained people they would not be able to profit from investments in technologically sophisticated industry. It is claimed that they have succeeded in foisting the costs of reproduction of trained workers onto the state and onto a tax system which profit-earners can avoid and evade. The contrary argument is that the higher rates of pay commanded by trained employees by and large exhaust any economic surplus they may generate, which exonerates employers from any liability to pay for the training which their employees receive.

Whatever the merits of the argument at this abstract level, the actual contribution of employers to the finance of tertiary education has been small. Sometimes major employers facing a shortage of trained workers have been willing to pay the educational expenses of trainees, including a wage-like living allowance which is generally subject to an actual or implied bond. The major recent example was the studentship schemes run by the various state education authorities.[3] Again, employers are often willing to pay for the upgrading and updating of the skills of established employees, though here the universities and CAEs face strong competition from in-house training programs — competition which is likely to intensify if tertiary institutions attempt to offload more of their costs onto employers. However, the long tradition of employer contributions towards the costs of apprenticeship training indicates that employers may not be completely uninterested in contributing towards training costs. Such interest is particularly likely to be generated if the contributing employers have a guarantee that they will benefit from their investment. (Investments in people can easily misfire when the graduating trainee defects to another employer.) This indicates that employer contributions are most likely to be available for training in skills which are specific to their particular industries, and to depend on the setting-up of traineeship schemes financed by levies on all employers in each industry. Such schemes will take time to implement, and will probably work best if coordinated with the investment program of the industry. The lack of traineeship programs at present indicates that employers are unlikely to set them up of their own accord. Government intervention is probably required at least at the setting-up stage, even though it would not be welcome by adherents of the free market school. Despite this, traineeship programs should be explored as a source of funds for education finance.



### b) Parents

Students' parents are in many ways a most attractive source of finance for tertiary education. Quite often they exhibit a willingness to pay which contrasts markedly with their grudging attitude to taxation. This willingness may derive partly from ambition for their children's success, and partly from the fact that typically students' parents are at a high point in their life cycle pattern of incomes. Their children's age constitutes no barrier to the labour force participation of either parent, and if the parents are in professional or managerial employment (as often they are), their rates of pay are also probably at a peak. Again, their house mortgage has perhaps been depreciated by inflation to the point where it constitutes no burden, and they are unlikely to need to spend much on consumer durables. In such cases paying for the further education of children is hardly a sacrifice, even if it competes with saving for retirement as a use for the parents' income.

The arguments against requiring parents to pay are well known:

1. Not all parents can afford to pay. Even when they are at the relative peak of their cycle of earnings, parents of low earning capacity have little to spare to finance the considerable costs of tertiary education. This is particularly likely to be the case for long-term single parent families. In 1982 the average income of married couple families with the father aged 45-49 was $493 a week; that of single fathers of the same age was $284, and of single mothers $186. Single father families comprised 1 per cent of the total, and single mother families 8 per cent.[4] Again, the parents of large families have relatively little surplus available to finance the education of each of their children.

2. Some parents refuse to pay. Some parents have but limited ambitions for their children (particularly their daughters) while others quarrel with their children and refuse to support them, or simply regard their own consumption or saving as more urgent.

3. Until recently, most children became financially independent in their mid-teens. The extension of financial dependence until people are in their early twenties is contrary to the trend towards individualism in other areas of human behaviour, and can easily be resented by both parent and near-adult child.

The first two of these arguments constitute transgressions, different in degree, against the principle of equality of opportunity: the principle that one's career chances should not depend on birth. They also transgress the principle that a country should make the highest and best use of the inherited abilities of its people. The third argument constitutes a principle in itself, and directs attention to the contribution that students themselves may be able to make to their educational expenses.

### c) Students

The main argument for requiring students to pay is that upon graduation (if they graduate) they will generally (but with much variation) earn incomes which are considerably higher than those of untrained workers. Further, those students who successfully complete the costliest courses tend to achieve the highest subsequent incomes.[5] This prospect of future increases in income differentiates students from social security recipients and so reduces the significance of the argument that students should be assisted with their education costs simply because in terms of current incomes in the future, whereas social security recipients by and large suffer from disabilities which hinder their earning of a living now, and often will continue to do so into the future. Even if it is right to assist social security recipients because of the hindrances they suffer in earning a living, it need not be right to help students gain high future incomes.

Students may meet the costs of their own education in four ways:

1. By tightening their belts, and going without some of the consumer durables and entertainments available to their contemporaries in the workforce. Such tightening can apply to some of the costs in terms of earnings forgone, but it does not provide a source of cash for fees or for subsistence expenses.

2. By vacation and part-time work. Where the work is complementary to the student's course such work can be a valuable adjunct to learning, but there are limits to the amount that can be earned without interfering with study.

3. By drawing on assets. Some students may be able to finance their studies by running down savings, but it is likely that only mature age students who have had past earnings will be able to do this.

4. By taking loans.

Because of the limitations of the first three sources of funds, discussion of student self-finance has concentrated on loan schemes. In normal commercial arithmetic it is very sensible for a businessman to finance investments from loans when he believes that the return will be greater than the cost of the loan; why not apply the same principle to education?

## Loan schemes

The business analogy of a student as an investor in human capital makes student loan proposals very appealing to believers in free markets. Loan schemes also partly meet the egalitarian concern that the taxpayer should not be obliged to subsidise people who are going to be rich.

Unfortunately such schemes run counter to equality of opportunity and are also likely to reduce overall educational participation. The egalitarian objection arises because there is a considerable difference between graduating with a debt comparable to the price of a suburban house and graduating debt-free. Therefore, even if loan schemes are available to students whose parents are not able or willing to finance their children's education, they still leave such students disadvantaged compared to students whose parents have provided finance.

The likelihood of reduced participation rates arises basically from the discouragement to study caused by prospective debt, and is exacerbated by several features of the commercial loan schemes presently available.

One reason why the prospect of debt is offputting lies in the riskiness of career choice. Those who choose to read geology, for example, may graduate during an unanticipated mining boom, or during a slump, which affects their ability to repay loans. Loan schemes load the risks of career choice on to students at a time in life when they are often not very well informed as to the alternatives open to them, and not very inclined to shoulder large risks. For a student from a working class home, the costs of tertiary education may well accumulate into a debt equal to several years of his father's earnings. This being the case, loan schemes are likely to frighten off many of those who could most profit by higher education, and will tend to make the rest more cautious in their choices than is socially desirable.

If loan schemes are provided on a commercial basis, there are reasons to believe that they will impose particularly heavy burdens on new graduates. The loans are made without collateral and are therefore subject to insurance charges to cover default, in addition to normal market rates of interest. Further, private financial institutions are only beginning to find ways to cope with the effects of inflation on such lending instruments as house mortgages, and there is no reason to believe that their administration of student loans would be any more enlightened. This means that, with inflation, it is likely that the heaviest repayments will oc-

cur early in the life of the loan, when the graduate can least afford to meet them.

Though there are economists who would welcome a rise in graduate indebtedness, on the ground that it would compel graduates to seek the highest paid and therefore (in their opinion) the most socially useful jobs, such beliefs are confined to those with great faith in the virtues of competitive labour markets, and a contra-factual belief in their existence. The dark side of an increase in graduate indebtedness is likely to be pressure for increased professional rates of pay, which in turn would result both in general inflation and in a less egalitarian distribution of earnings. At a more personal level, the burden of debt may prevent graduates from undertaking activities which are otherwise desirable, such as postgraduate training or the poorly paid but culturally important jobs that abound in the arts and social welfare services.

The harshness of commercial student loan schemes could be ameliorated if the financial institutions operating them were willing to wait longer for the return of their funds than is usual at present. Repayments could then be tied to actual income received rather than to a fixed time schedule, and the parents' responsibility to make provision for their children could perhaps be emphasised by giving the lender the right to recoup from parental estates and bequests. The main problem with such recoupment, apart from the political unpopularity of anything that remotely resembles a death tax, is that for the average student, it is not likely to take place till long after graduation.

Student loan schemes which postpone repayment till the graduate can afford it run an increased risk that some graduates will never repay their debts, and are hence likely to be possible only under a system of state guarantee. They have the further drawback that funds do not start to return to the lending institution till the scheme has been running for many years, which means that the institution will have to finance most of its loans from new funds for perhaps the first decade of its operation. One possible means of overcoming this financing problem would be to combine the operations of student loan schemes with occupational superannuation funds, which have the opposite cash flow pattern: considerable funds are accumulated before payouts begin (always assuming that the funds are not raided to the benefit of the present generation of retirees). This would bring the current loan schemes into an established system of income-related employer and employee contributions and tax concessions.

Though such provisions might increase the attractiveness of student loan schemes, they still do not equalise educational costs for students who are obliged to take loans as against those whose parents pay for them. Hence they do not provide equality of opportunity, and also run the risk that ability will be wasted. Are there any alternatives which would meet these conditions while still shifting the burden of financing tertiary education from the taxpayer in general to the beneficiaries — graduates and employers?

One possibility is to generalise the loan schemes, in much the same way as a national superannuation scheme generalises occupational superannuation schemes. Thus all students would receive assistance with their education costs, and all would be liable to repay these costs through an income tax levy on all graduates.[6] Such a scheme would shift income from later life to finance education, just as in a loan scheme, but without the accumulation of frightening personal indebtedness and without disadvantaging those students whose parents cannot or will not pay. Just as individual loan schemes could be integrated with occupational superannuation schemes, so this generalised version could be integrated with a national superannuation scheme, were that ever introduced. These are formidable virtues, but because this option implies continued central financing of higher education it would not be acceptable to those whose only concern is to reduce the overall size of 'the public sector' or to those who want tertiary institutions independently financed in the interests of market competition. Again, such a scheme would not exploit parental willingness to pay.

## An expanded educational allowance scheme

An alternative possibility — full cost fees coupled with a considerable expansion of the present TEAS grants to cover fees as well as living costs, and including a test against parental means as well as against the student's own means, would exert maximum pressure on parents to pay, but recoup nothing from graduates. However, given that TEAS is already in place; given that incremental change is relatively easy for governments to manage, and given that they are anxious to offload tertiary education costs, this possibility must be reckoned the most likely direction which will be taken should attempts be made to take the finance of universities and colleges out of the Commonwealth Budget. It has the special merit that TEAS grants can be targeted on students rather than institutions, which goes a long way towards satisfying those who want to see the institutions become financially independent. The government has already moved in this direction with the 'administration charge' in the 1986-87 Budget.

A decision to shift the financing of tertiary education back onto fees with the aims of equality of opportunity and the nurture of ability met by a student grant scheme would raise in an acute form all the problems of rate setting and means testing which arise with the present TEAS grants, and in addition might stir some sleeping dogs — as, for example, whether it is fair to assist tertiary students when other young people of less academic ability but otherwise similar backgrounds receive much less assistance. In this context grant schemes look much less fair than those which recoup from graduates.

Apart from such difficulties of underlying philosophy, the major problems in designing means-tested grant schemes lie in the arithmetic of the schemes. If the amount of funds to be distributed is fixed, then the more generous the eligibility conditions the more claimants will qualify for the grant, and the less the average rate of payment will be. Further, the tighter the eligibility conditions in any particular respect, the more generous they can be in others. The cruelty of this arithmetic can be illustrated from the present TEAS.

## Tests of ability

The eligibility conditions for TEAS can be divided into those which identify the eligible types of student, and those associated with the means test. If the student-associated definitions were tightened, it would be possible at constant expenditure to be more generous with the means test, or with rates of payment. Currently virtually all fulltime tertiary students are eligible for TEAS, means test apart, but under the former Commonwealth Scholarships scheme only those tertiary students assessed as having above a certain level of ability were eligible. Such tests of ability are defended on the grounds that it is especially important not to waste the talents of the most able students, and also that government money should not be 'wasted' on students who are likely to fail. The contrary arguments are that university entrance examination scores are not a good predictor of subsequent progress; that rewarding high scores encourages cramming at schools, and that confining assistance to students with 'ability' is contrary to the encouragement of students from poor backgrounds, in that these students are less likely to have gone to academically-oriented schools and therefore often have school leaving exam results which understate their ability. Again, the underlying value judgement that tertiary education should be confined to students with 'ability' may be challenged on the ground that both society and students can benefit considerably when individuals of moderate 'ability' receive tertiary education.

For these reasons it is unlikely that an expanded TEAS would resort to tests of ability that exclude less able students. However, eligible students would still have to be defined, presumably by their attendance at approved institutions and courses. This aspect of the expanded scheme would worry those who wish to return tertiary education to the marketplace, for course approval for TEAS purposes would continue as a powerful method of government control, and might be used to protect existing institutions against competition.

## The student allowance means test

However, the main points of difficulty in designing an expanded TEAS arise in the means test. There are four major components to the means test in the present scheme:

1. A test of independence.
2. A means test applied to the parents of dependent students.
3. A means test applied to dependent students themselves.
4. A means test applied to independent students.[7]

The key to the whole system, and that which puts pressure on parents to pay, is the test against parental means. This test necessarily disadvantages those potential students whose parents are assessed as able to pay but are not willing to do so. The more rigid advocates of making the student body more representative of the population at large are not troubled by this aspect of the test, since it reduces the proportion of students coming from high income backgrounds and leaves more room for the encouragement of students from low income backgrounds, but others are concerned that the test excludes students of ability, and also that it is likely to lead to vociferous political objection if too many prospective students are excluded.

## Independent students

In the present TEAS an attempt is made to get round this difficulty without relaxing the pressure on parents to support their student children by providing that, after a waiting period, students' parents' means no longer count towards their eligibility for grants. This waiting period, which can be avoided if the student marries, is set at two years in the full-time workforce, or failing this at age 25. Students who thus qualify as 'independent' automatically receive the higher, 'living away from home' rate of TEAS grant, in addition to being means tested on their own earnings without regard for their parents' incomes. The result is an incentive for families to avoid the parental means test by delaying their children's entry into tertiary education. This incentive, with its cost in terms of career delays or (perhaps) precipitate marriage, probably has some effect already — 38 per cent of all TEAS recipients, and 48 per cent of those paid at full rate, qualify as independent. Some of these would be late starters for other reasons, but many have doubtless responded to TEAS rules. Such responses are likely to become more common if the amounts at stake come to include fees as well as living allowances.

One government response to increases in the proportion of independent students would further postpone or even abandon the gaining of independent status. After all, the parents of potential students aged between 25 and 30 are likely to be in their fifties and enjoying high incomes and low expenses. The problem is that social expectations have already been seriously stretched in persuading parents to consider themselves responsible for students aged between 15 and 25.

A contrary response would be to abandon dependent status, and make all students wait. This would, however, disadvantage young students whose parents have low incomes, and would be contrary to the aim of equal opportunity.

An alternative suggested by Beswick would be to phase in the degree of independence by age.[8] This would mean that potential students with rich but miserly parents would be eligible for part-rate TEAS at ages younger than 25, and also that the present provision for gaining independence by spending two years in the workforce, which is difficult to administer, could be abandoned. Part-rate TEAS payments are often helpful in extracting matching grants from parents and other sources, and can also help students who otherwise support themselves from vacation and part-time jobs.

## The definition of means

Basic to any means test is the definition of means. The present TEAS definition is very similar to the definition of income for income tax purposes, and to the definition of means used for social security purposes before the reintroduction of the assets test in 1984. In the tax and social security context this definition had been much criticised for the alleged ease with which the self-employed and people with asset incomes could understate their incomes. This raises the question as to whether a broader definition of means should be used for TEAS. At the very least it might be expected that students with assets should be obliged to finance their own education. The question here, however, is whether enough students have personal assets to make the imposition of such a test worthwhile.[9]

A test might be also imposed on parental assets on the ground that parents should be obliged to run down their assets to finance their children's education, or on the ground that it would help to identify cases where incomes have been understated. A case for a test against parental assets could be made if education were regarded as a capital payment, and so an inter vivos bequest which brings forward the bequests usually made after the parents' death, and now untaxed at that point. However, many parents are at a time of life when saving for retirement has taken on a new urgency, and are likely to resent an assets test levied against their retirement nest-egg. Again, if as is politically likely the test exempts owner-occupied housing, farmland and superannuation accumulations there will not be much left to test against, and the attempts to impose an assets test would create much more annoyance than it is worth.

The argument than an assets test should be imposed to detect undeclared income can be countered by making greater efforts to detect such income directly. However, it may be difficult for the authorities administering TEAS to adopt such a definition in advance of the Income Tax Commissioner — there is great administrative convenience in being able to accept the Tax Commissioner's income calculations. A supplementary assets test, social security style, would complicate already complex assessments, and would be politically very sensitive, since it would adversely affect families with high assets from which they earn low incomes, particularly farmers. On the other hand, it would not catch business people whose incomes are understated through the overstatement of expenses.

A rather more significant question of equity in the assessment of means arises in the treatment of housing costs. Currently TEAS grants recognise differences in student housing costs, in that students who are obliged to live away from home receive payments at a higher rate, but no allowance is made for the effect of housing costs on their parents' ability to contribute to education costs. Thus the housing expenses of parents who own their houses outright are limited to rates and maintenance costs, while those who are still purchasing have to pay off a mortgage as well. In 1982 the average mortgage for home buyers aged 45-49 was $58 a week. Similarly tenants, particularly in the private market, tend to have high housing costs: those aged 45-49 were in 1982 on average paying $59 a week rent.[10] It would be possible to allow such housing costs as deductions from parental income for TEAS means test purposes. This would, however, complicate the test. From the point of view of general economic policy, it is also doubtful

whether any further encouragement should be given to the taking out of mortage loans.

Income taxes, like housing costs, make an unavoidable call on family incomes, and it is arguable that the TEAS means test should allow them to be deducted. The reason for not making the deduction is that the income tax and the means test are assessed on income defined in very similar terms, so that the deduction of income taxes would not make much difference to the distribution of means for TEAS purposes, except that it would favour students with one parent working as against those both of whose parents work.

Though the TEAS means test does not permit deductions for housing costs or income tax, it does allow for the cost of living off the student's brothers and sisters. The problem is that the deductions for dependent siblings are a good deal smaller than the likely costs of housing, feeding and clothing them, as assessed, for example, in the literature on poverty line equivalence scales.[11]

A matter of some concern to those who see TEAS as an engine of social mobility is the treatment of the earnings of mothers. Currently the income of both parents is totalled in assessing means. This can result in the denial of TEAS to students of working class background if both their parents work, even though neither parent commands more than an ordinary wage. The hard-hearted reply is to argue that it is in just such families that the parents are most likely to be willing to assist their children.

In the present TEAS means test as applied to students, income from scholarships is treated differently from other sources, there being a limit beyond which the grant is reduced dollar for dollar. This differential treatment perhaps encourages the donors of student assistance to spread their benefactions to students who miss out on TEAS, but perhaps simply discourages scholarships from private sources. It also raises the question as to whether social security incomes should be treated in the same way. Until 1986 it was possible for recipients of invalid and widows' pension and supporting parents benefit to gain TEAS in addition. Prima facie the granting of two needs-based allowances to one person was anomalous, but it was defended on the grounds of that single parent and invalids are so depressed economically that they should be given extra incentives to study, particularly if in doing so they have to meet extra costs, for example for transport or child care. When double benefits were withdrawn in the 1986-87 budget some recognition was given to these costs by the provision of an education allowance of $15 a week paid through the social security system.

Once means have been defined, the question arises as to the period over which they should be assessed. Since payments to meet student expenses are intended to cover current outgoings, it is appropriate to assess alternative incomes at their current level. The present TEAS practice is to do this, as far as possible, for the student, but to assess parental incomes a year in arrears, with provision for updating the assessment if income falls. Assessing parental incomes in arrears eases the administrative burden considerably, and also in inflationary times make the means test a little less harsh than it appears.

Having defined and assessed means, the next step is to calculate the claimant's entitlements. These depend on the basic table of rates payable to those not affected by the means test; the level of means at which entitlements begin to be reduced (known in social security parlance as the free income allowance, and in TEAS as the Marginal Family Adjusted Income or MAFI); and on the abatement rate by which grant is reduced as means increase.

## The free income allowance (MAFI)

Currently a program is under way to align education allowance rates with unemployment benefit rates, and in the process to introduce different rates of payment for people aged under 18, those aged 18 and under 21, and those aged 21 and over.[12] The change from the previously flat-rate TEAS allowance will remove some of the previous anomalous relationships between education allowances and unemployment benefit, but raises the question as to whether costs of living really are so much less for the younger students. The defence of lower rates for younger students involves the claim that parents are generally more willing to pay for them (though whether this is relevant given the means test on parental income may be doubted) and also the observation that juvenile wages are generally paid at low rates, so that the opportunity cost of young students' time is less. One effect of the introduction of age-related rates of allowance will be to strengthen the incentive to work for a couple of years before going on to tertiary education.

Though education allowance rates are to be equated with unemployment benefit rates, it remains that they will be more generously means tested than unemployment benefits, so allowing students to supplement their incomes by part-time and vacation work. At present students whose parents' income is below the MAFI can earn up to $2000 a year before their grant is reduced, as against the free income allowance for single unemployment beneficiaries of $20 a week ($1010 a year if earned in constant weekly amounts).

The value of both these free income allowances is being eroded by inflation; the effective value of the students' allowance to students who are earning the full amount of the allowance (and no more) was also reduced in the 1986-87 budget by $312 as a result of TEAS payments becoming taxable.

The means test on students' own income is intended to exclude from education allowances students who have outside sources of income, such as employer-provided training allowances. It also discourages part-time and vacation work beyond the level of the allowance by reducing grants, which in effect imposes a marginal income tax rate of 62 per cent on earnings.

The factors affecting the design of the means test on parental incomes are more complicated. There are strong arguments for generosity in setting both the free allowance (or MAFI) and the abatement rate.

In setting the free income allowance, it is desirable to allow parents a reasonable amount for their own expenses and for those of children not receiving education allowances before beginning to taper away the allowances for their student children. Secondly, a high free income allowance will minimise the waste of ability among students denied help by their parents. The problem is that, with given funds, generosity in setting the free income allowance erodes the rate of assistance for students from very poor families whose income would place them under the free income allowance whatever its level. The 1986 level of $14,995 inevitably represented a compromise. Remembering that the test is calculated in arrears, this allowance may be compared to the 1984-85 annual income of a pensioner couple with no other income source of slightly under $8000; annual earnings at the minimum adult full-time wage under New South Wales awards of $8450, and average annual earnings per employee (average weekly earnings over 52 weeks) of a little under $20,000.[13]

## The abatement rate

The argument for generosity in setting the abatement rate arises from questions of earnings incentive. Already as parents' earnings increase they lose some of them in income tax. The effect of the TEAS means test is that, on a family basis, they lose even more, since increased earnings diminish their child's allowance. Though it is common for means tests to impose steeper marginal effective tax rates than are generally regarded as acceptable in the income tax itself, most people are willing to call a halt when the marginal effective rate rises above 70 or perhaps 80 per cent.

Given the MAFI and the tax schedule announced in the 1986-87 budget, parents



affected by the TEAS means test are likely to be earning incomes subject to the 29.42 or the 44.25 per cent marginal tax rates.[14] The addition of a 25 per cent TEAS reduction converts these rates to 54.42 and 69.25 per cent respectively.

If higher marginal effective tax rates than these were acceptable, it would be possible to divert funds from students presently eligible for part-rate TEAS payments to students eligible for full-rate payments. In favour of this it can be argued that the needs of the poorest students have first claim, and also that the means-testing of student allowances has only an indirect effect on parental incomes and hence is unlikely to affect the parents' incentive to work — an argument which would be contested by those who note that mothers' incentive to work is often associated with their children's education expenses. Again, students' parents are a potentially articulate group, and may not take kindly to a steep means test.

## Coverage of students allowances

The extent to which the imposition of fees relieved by an expanded student allowance system would shift the cost of tertiary eduction from the Commonwealth on to students and their parents would depend on the fees imposed and on the cost of the expanded allowance system. This latter would in turn depend on whether present allowance rates were maintained, on any changes in the means test, on students' response to the revised conditions, and on the distribution of incomes against which the means test was levied.

Some idea of the likely response can be gained by considering the likely income distribution of students' parents as it was in 1981-82. The precise income distribution is not available, since the parents of students living away from home are not identified in the income survey, and the parents of students living at home can only be identified with difficulty, so the calculations have been carried out using the income distribution for all income units with head aged 45-49, excluding single pensioners. It could be argued that since students' parents tend to be drawn from the upper socio-economic status group, and since students' mothers sometimes work to assist with education expenses, this understates the income of students' parents; on the other hand, if there were equality of opportunity students would be drawn impartially from all income groups, in which case the estimates of eligibility for allowances based on Table 1 would be realistic.

The table suggests that up to 60 per cent of all students who were not independent (i.e. who were income tested against their parents' income) could have been eligible for TEAS living allowances in 1983, most of them at part rate. The actual distribution of allowances paid included rather more at full rate, and many less at part rate, than would have been expected from the distribution of parental incomes. The small proportion receiving part-rate payments solely because they were obliged to live away from home was to be expected — relatively few students have to do so — but the lack of part-rate payments to students who live at home is harder to explain. In some cases it would have been because the students concerned supported themselves through part-time and vacation work, even though this involved forgoing their part-rate TEAS grants through the income test on their own earnings. In other cases we may suspect that eligible students simply failed to apply. Whether they would continue to refrain from applying were fees imposed and the TEAS grant increased is one of the unknowns in costing an expanded scheme.

TEAS grant would rise to approximately $9000 a year.[15] Even at this rate the consequences for the education allowance system would be a considerable increase in the number of students eligible for part-rate grants.

Table 1 includes an estimate of the effect on eligibility for allowances had a fee of $3000 been imposed in 1983, compensated by an equal increase in allowance rates, with the free income allowance, the abatement rate and other aspects of the means test remaining constant. Such a fee would have been much less than the cost of tuition estimated by the CTEC, which in 1983 was approximately $7000 per student, but, after assuming a generous allowance for the separate funding of research, would have covered the marginal costs of teaching. These changes would have extended eligibility for allowances to approximately 80 per cent of the dependent student population, with three-quarters of these eligible at part rates.

**Table 1**
**Estimates of the proportion of dependent students eligible for TEAS grants, 1983.**

| Rate of eligibility | Estimated eligibility, 1983 TEAS rates | Actual distribution of dependent students, 1983 | Estimated eligibility, 1983 TEAS rates plus $3000 |
|---|---|---|---|
| Full rate | 20 | 18 | 20 |
| Part rate | 27 | 12 | 60 |
| Part rate, only if living away from home | 12 | 1 | 8 |
| Not eligible | 14 | 69 | 12 |

Source: A.B.S. Income Survey 1981-82, unit record tapes, C.T.E.C. Report on student assistance 1983.

If an expanded education allowance system, intended to cover the reintroduction of fees, were not to worsen the position of the poorest students, the rate of grant would have to be increased to cover the fees imposed. If full cost fees were imposed on the costings calculated by CTEC, which load all tertiary education costs on to students without any separate allowance for the value of research carried out in tertiary institutions, this would result in the maximum grant for university students living away from home increasing from $3581 in 1985 dollars to $13,400. Such a considerable jump is frightening to contemplate, and would be unlikely to occur in one step. Again, CTEC costings may be challenged: if means were found to finance the cost of research undertaken by teaching academics separately, and student fees thus had to meet only the cost of time devoted to teaching, the maximum rate of

Herein lies the Achilles heel of the proposal to take tertiary education out of government budgets by imposing fees made palatable by an expanded allowance scheme. The proposal involves assessing nearly all students for grants, as against approximately one third now, and would impose high marginal effective tax rates on a majority of students' parents.

The net effect of these proposals on government budgets is hard to assess. Had fees of $3000 been raised from each full-time student in universities and colleges of advanced education in 1983, and $1500 from each part-time student, approximately $800 million would have been generated in revenue, which would have covered 45 per cent of the Commonwealth budget allocation to these institutions. The net effect on the Commonwealth budget, however, can only be calculated after estimating the cost of the expanded TEAS, which is difficult since the takeup

rate for part-rate payments would probably increase, and also because some students would either have to forgo higher education (so reducing TEAS payments) or wait till they qualified as independent (so increasing outgoings after a few years). A rough estimate is that TEAS payments to full-time students would have increased by between $250 and $300 million.

In addition, the question would arise as to what assistance should be extended to part-time and external students, many of whom adopt these modes of study because they cannot afford the costs of full-time education. This might well involve making TEAS allowances available, up to the cost of fees, on a more generous income test than is currently applied to independent full-time students. Altogether the fee proposal could easily end up with a net saving to the Commonwealth of only $300 million or so. In addition, tertiary institutions would suffer some reduction in demand for their services, though this would probably be made good as potential students qualified for independent status, and as they became accustomed to paying fees.

This is probably not what the proponents of financial independence for tertiary institutions have in mind, which is rather that institutions should recoup their full costs from fees, with educational allowances limited to a small minority of the 'truly poor'. While such a system may have been satisfactory in an idealist past, when higher education was limited to a moneyed minority plus a few scholarship boys, it will scarcely do as a method of supplying trained workers to a technological economy. Again, imposing fees without a considerable offsetting increase in TEAS payments would disadvantage a great many students from low-income backgrounds, and so offend against the principle of equality of opportunity. Given therefore, that tertiary education fees cannot be reimposed at significant levels without a considerable expansion in TEAS payments, the proposal has more attraction as a means of distancing higher education from Commonwealth control than as a means of easing the burden on the Commonwealth budget. If so, the Commonwealth may reject it, on the ground that whoever provides the funds should control their use more directly than would be possible through conditions attached to TEAS allowances. The Commonwealth's lack of control over Medicare costs should give it pause before it moves to an open-ended system of student allowances to finance tertiary education.

## Conclusions

None of the alternative sources of finance for tertiary teaching canvassed in this paper offers an easy way out of the difficulties of the present system. Industry traineeships are likely to be difficult to organise, and to be limited to specialised rather than general education. Loan schemes necessarily discriminate against students whose parents are unable or unwilling to assist them, except when they are repaid through a tax levy, in which case they will not satisfy the advocates of private markets and scholarly independence. The present student grant system, if expanded to cover significant fees, would impose high effective marginal tax rates on a great many parents, and may not reduce budgetary expenditure significantly unless participation rates are reduced and equality of opportunity is sacrificed.

Does this mean that tertiary teaching should be left in its present uncomfortable position of financial dependence on the Commonwealth budget, with academic institutions increasingly subject to cost control in the interests of reducing the deficit? This frying pan may turn out to be worse than the fire, with cost-paring measures reducing both the throughput of students and the quality of teaching. Accordingly there is every cause to search for alternatives to the present system beyond those considered in this paper, and also to ask whether the alternatives which have been canvassed could be combined in a way which minimises their weaknesses. Again, two of the more attractive options, industry traineeships and loan schemes dovetailed with superannuation arrangements, cannot be implemented quickly, so the sooner a start is made with pilot schemes the better. If work on these alternatives is not begun soon, it is likely that desperate measures will be taken which will land Australia with the worst rather than the best practicable combination of the different methods of financing tertiary teaching.

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# The charge of the fees brigade

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What is the difference between a higher education tuition fee and a Higher Education Administrative Charge (HEAC)?

The answer depends on your motives and your ability from either perspective to rationalise your motives. There is not one complete answer to the question. The answers are somewhat like the points of the eternal triangle. In one direction you have those who would contend that the 'administrative charge' is purely a denial of the Australian Labor Party's education platform on the point of free tertiary education and another 'broken promise'. This position contends that it is the beginning of the softening up process leading inexorably to full-blown tuition fees for higher education.

At the other extremity, there are those who argue that the HEAC is what it says it is — simply a measure to recoup a part of the non-tuition component of the cost of provision of higher education. They further argue that there is no truth in the assertion that the 'administrative charge' is an ominous precursor to greater cost recovery of higher education budget expenditure.

The shape of the triangle, with the third point being reality, is difficult to pin down. Only time will show where it will end up — either moving toward the tuition fee point or the administrative charge point. The argument's development will therefore depend upon political, economic and community activity as an ongoing process. The Federal Government's decision has however raised the scepticism, cynicism and uncertainty among those concerned about the possible re-introduction of tertiary fees and will therefore distract attention and absorb energy that should be more productively directed to the problem of higher education in Australia.

It will also distract attention and recognition from the significant benefits which have flowed through the higher education and education systems generally as a result of the Hawke Government's budget support of education over the past 3½ years — a positive record of achievement which is generally ignored.

It is no secret that until the last week or so of the Budget process, the HEAC was perhaps only a nascent gleam in the eye of the Minister for Finance, Senator Peter Walsh. Earlier attempts to reintroduce tuition fees had failed because of Caucus opposition and an acceptance by the key Government Minister and Party officials that such a move would be quite electorally damaging for the Government. However a drastic fall in the Australian dollar led to a last minute round of renewed budget cuts in order to give the message to the world's finance markets that the Hawke Labor Government was AAA-rated when it came to being fiscally tough. Another ALP platform victim of fiscal opportunism was, of course, the sale of uranium to France.

**"... the perception of the higher education constituency was quite simply that the Hawke Government had broken its commitment to the community and the Party."**

Those who tried to defuse the damage of the tertiary fees debate, had the rug pulled out from under their feet by the decision for despite the Government's assurances and demarcation between tuition fees and administrative charge, the perception of the higher education constituency was quite simply that the Hawke Government had broken its commitment to the community and the Party.

All that is essentially an historical background. What concerns the higher education constituency of today and tomorrow, those against the introduction of further government imposts on higher education, is that the HEAC is indeed the forerunner of full-on tuition fees. The Government is going to great lengths to assure the higher education community that the HEAC is a stable cost, to be indexed annually in accordance with movements in the General Salaries (non-academic) Index maintained by CTEC. For an administrative charge this would be a reasonable mechanism and in this way, while the prohibition against tuition fees in the States Grants (Tertiary Education Assistance) Act remains, the door to the thin edge argument remains shut. Nonetheless, a simple Cabinet decision could reverse that provision with the stroke of a pen, therefore the 'fees debate' is on the front burner.

Those in the Government who support fees are closely watching the response of the higher education community to the HEAC. It must be remembered that the factor which eventually blocked tuition fees was the concern of electoral backlash. The return pressure from the higher education community, the ALP and the electorate generally will be the eventual limiting factor to the introduction of tuition fees. It is a game of push and shove.

This does not mean simply demonstrations of anti-government rhetoric or placard art. The anti-fees lobby inside and outside the Government needs to re-organise and re-evaluate its campaign of communication and education of fees proponents. Those who support the re-introduction of fees within the Australian Labor Party genuinely believe that they are supporting equity in higher education. This position must be recognised as genuinely distinct from the motives which drive the Liberal Party's desire to reintroduce tuition fees. In fact, an examination of the debate on the States Grants (Tertiary Education Assistance) Amendment Bill debate in the House of Representatives on 21 October 1986, exposes the political duplicity and deceitful opportunism of the Liberal Party on the matter. The Liberal Party is camouflaging its intent behind protective indignation and concern, while hoping to move toward their tuition fee position on the basis of 'well the ALP started it' — coat-tail change.

Those opposed to the re-introduction of fees must realise that the pro-fees camp is driven at the top by the amorality of the Department of Finance whose only objectives are simply to cut government expenditure as far as they can and to raise government revenue as much as they can. The Department of Finance's cold analysis of the annual balance sheet ignores concepts such as equity, educational development, 'invisibles', spin-offs, and the need for a cohesive education, social and economic plan for the future. That is not their job. As the economic rationalists see it, it is the job of the 'bleeding hearts' to fight for their own objectives — 'if they kick up enough of a stink, they'll get their way'. It's all part of the checks and balances in the community — 'what the market will bear' approach.

In the policy and philosophy areas of Government and Party decision-making, the fees proponents see equity in a narrow present time view. Their argument is simple. Those whose parents can afford to pay are over-represented in higher education, therefore they should pay now at the gate to higher education. No considera-