HECS: Not the Bad Hex It Was Made Out To Be

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WHEN the Higher Education Contribution Scheme (HECS) was introduced in 1989, opponents claimed that it would deter students—especially those from disadvantaged backgrounds—from pursuing higher education.

The *National Report on Higher Education in Australia (2001)*, released recently by the Department of Education, Science and Training (DEST), concludes that the introduction of HECS does not appear to have had this effect. In fact, the report, which provides a comprehensive overview of the higher education system in Australia, argues that students' increased private contribution toward the cost of their education actually *facilitated* the significant expansion of the higher education system during the 1990s.

The DEST report shows that the private share of total institutional revenues grew from 23 per cent to 32 per cent between 1992 and 1998. Fee-paying students formed the most important component of this. The report also shows that HECS repayments by students increased nearly eight-fold to $900 million during the 1990s (see Figure 1).

While tuition fees and HECS repayments went up, so did higher education participation. Higher education enrolments in Australia grew by 30 per cent—from 400,000 to 525,000—between the late 1980s and the year 2000. Of greater relevance to the debate over HECS is the fact that enrolments among students from socio-economically disadvantaged backgrounds increased steadily during the 1990s and the proportion of such students among the higher education population stayed constant at 16 per cent.

The DEST report shows that the benefits of increased private responsibility for higher education financing have not been limited to participation. The combination of an increased emphasis on market mechanisms, and the growing diversity of institutions, programmes and course delivery arrangements, led to more attention to quality assurance and performance monitoring in the higher education sector. Similarly, growth in fee-based courses and increased enrolments in private institutions produced increased pressures on universities to meet students' needs.

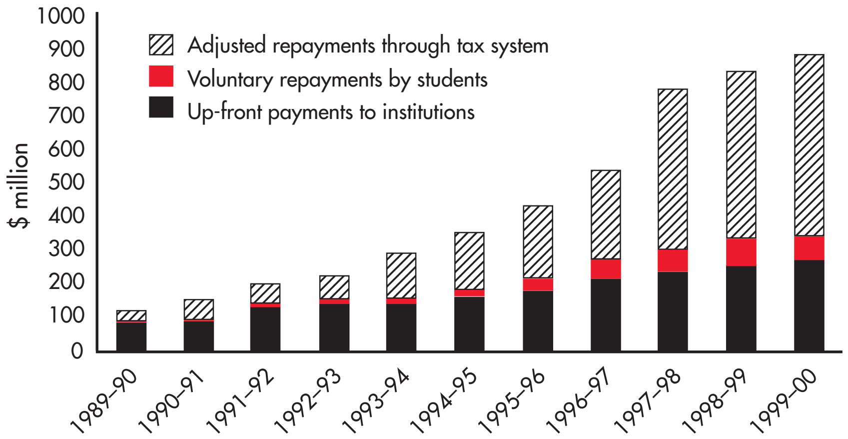
Consistent with these conclusions, there has been rising overall satisfaction with tertiary course quality in Australia since the mid-1990s (see Figure 2).

The DEST report's results on the effect of tuition fees on access are not surprising and are consistent with a range of research from both Australia and abroad.

A 2002 report by Bruce Chapman and Chris Ryan of the Australian National University found that the introduction of HECS was associated with 'aggregate increases in higher education participation' and that HECS had not resulted in decreases in the participation of prospective students from relatively poor families. Like the DEST report, Chapman and Ryan concluded that the mid-1990s HECS reforms were associated with increases in the participation of individuals irrespective of family wealth.[1]

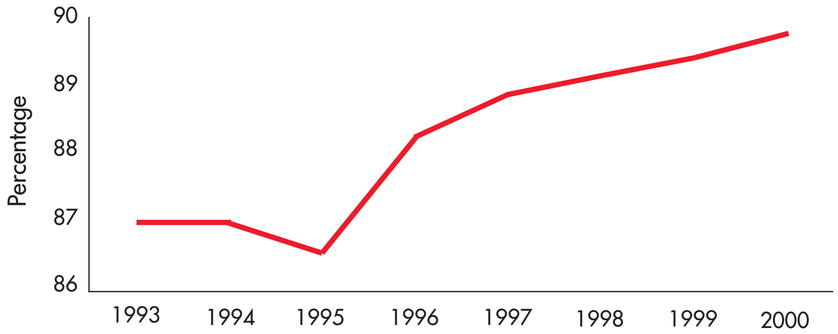
The Australian experience is consistent with that of New Zealand, which saw the number of Equivalent Full Time Students almost double at the same time as tuition fees increased from near zero to an average of around $NZ3,500. The same was true for disadvantaged groups. Between the mid-1990s and the year 2000, enrolments among Maori increased by nearly 50 per cent and the share of Maori among

Figure 1: Repayments Under the Higher Education Contribution Scheme, 1989–1999



Source: *National Report on Higher Education in Australia* (2001), figure 1.7

Figure 2: Overall Student Satisfaction levels, 1993–2000



Source: National Report on Higher Education in Australia (2001), figure 7.6

all tertiary students grew from 10.7 per cent to 13.9 per cent.[2] The most sophisticated analysis of the New Zealand experience, conducted in the mid-1990s by Auckland University researcher Sholeh Maani, found that participation had not been significantly affected by the introduction of tuition fees.[3]

Much international research suggests that higher education participation is relatively insensitive to fees.[4] Indeed, too much emphasis is placed on the role of fees as a barrier to higher education. While this may serve the interests of certain groups, it does little to address the real barriers that face students from disadvantaged backgrounds.

The decision about whether to pursue higher education clearly depends on more than just fees. Countries such as Korea and the United States have *both* high fees and high participation. Furthermore, OECD data show that countries with the lowest entry rates to higher level tertiary education in 1999 all had very low levels of private spending on education.

Parental expectations, student aspirations, culture and academic preparation are just as important, if not more important in determining higher education participation. A policy of lowering university fees would do little or nothing to address these factors and would benefit primarily students from relatively well-off families. This suggests that barriers to higher education participation are best addressed in other ways and at earlier levels of education.

Of course, market-based higher education reforms won't fix everything. As the DEST report notes, there was little progress over the 1990s in increasing the proportion of students from disadvantaged backgrounds in Australian higher education. And, as in other countries, students from disadvantaged backgrounds continue to have lower participation rates in higher education than those from higher income backgrounds.

A policy of higher tuition fees, coupled with appropriate student finance programmes, offers a better and more equitable means of ensuring both quality and access in higher education. Requiring students to pay tuition fees is fair given that students are, on average, from wealthier households than taxpayers generally, and given that graduates enjoy the bulk of the benefits, including higher lifetime earnings.

In moving toward greater student financing of higher education, Australia and New Zealand have not been alone. They are part of a global trend. Between 1995 and 1999, 10 out of 19 OECD countries reported an increase in private spending on tertiary education institutions of more than 30 per cent. During the 1990s, many Canadian provinces removed fee restrictions on professional programmes. Britain introduced a student fee in the late 1990s and has recently proposed a significant increase in its level, along with the introduction of a deferred payment scheme not dissimilar to HECS.

The release of the DEST report on higher education has unfortunately been dominated by discussion of what's supposedly missing from it. But this political sideshow should not diminish the report's important policy messages. Its conclusions provide further support for the Australian government's proposed higher education reforms announced in May 2003. One hopes that the report will help to insulate Australia against the politically-driven backsliding that has afflicted New Zealand tertiary education policy since late 1999.

Australian students, staff and institutions have much to gain from a less regulated, more market-driven higher education system. Australia has made good progress toward such a system since the late 1980s, but much more remains to be done. The message from the DEST report is that the focus over the coming years should be on moving higher education policy forward, not turning back.

NOTES

1. Chapman, Bruce and Chris Ryan (2002) *Income-Contingent Financing of Student Charges for Higher Education: Assessing the Australian Innovation*, Discussion Paper No 449, Centre for Economic Policy Research, Australian National University, Canberra, p 13.
2. For more detail, see LaRocque, Norman (2003) *Who Should Pay? Tuition Fees and Tertiary Education Financing in New Zealand*, Education Forum, Wellington.
3. Maani, Sholeh (1997) *Investing in Minds: The Economics of Higher Education in New Zealand*, Institute of Policy Studies, Wellington, p 189.
4. See for example Industry Commission (1997) *Industry Commission Submission to the Review of Higher Education Financing and Policy*, AGPS, Canberra, p 16.

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