Who will pay for their free education?

21 October 2013

Many of its MPs received a free education but the Abbott government is now considering selling off HECS debt. They'll get a bad price for it, and young people will pay the difference, writes Ian McAuley

When a newly-elected government of the right promises to establish a commission of audit, it's an open invitation for interest groups to make their bids for ways to cut the size or scope of government. Some bids stem from an ideological hatred of government, without regard to the sound economic reasons why certain functions are best kept in public hands. Others are simply opportunistic. There's a lot of money to be made from privatisation, particularly when public assets are sold at too low a price.

It's not clear which of these motivations has given rise to the idea to sell the Commonwealth's accumulation of HECS fees owed by former students. Both could apply: some on the far right believe that education is purely a private matter, and there are those who would see this as an opportunity for the finance sector.

At present there is somewhere in excess of $26 billion in HECS fees owing to the Commonwealth. Some will be written off, because many beneficiaries will never reach the $51,000 threshold before they have to start repaying HECS – some graduates become aged-care workers, religious ministers or journalists for online journals – and there are graduates who move overseas outside the reach of our tax authorities. The best estimates of the amount not likely to be collected is $6 billion

Does this mean that the government could sell this expected amount to the private sector for $20 billion? In fact it would go for far less, because accruing HECS debt attracts no real interest (it incurs only nominal interest at the consumer price index), and, because of our low level of government debt and low sovereign risk, the cost of funds to the government is much less than it is to the private sector.

As a back-of-the-envelope calculation, assuming a conservative 5 per cent difference between the government's and the private sector's interest rates, and a nine year average repayment period, I have estimated that this $20 billion government asset would be discounted down to around $13 billion in private financial markets.

For a government that has made such a fuss about government debt, which stands at $178 billion, a $13 billion reduction may have cosmetic appeal, particularly as the outstanding HECS amount owing is not recorded as an asset on the government's balance sheet (presumably because of its contingent nature). Regardless of accounting presentation, it is an asset, and its sale would leave the Commonwealth no better off. In fact it would be worse off by around $7 billion because of the discount referred to above. A well-run business does not sell a productive asset just because it has a low book value – only a business managed by naive and ignorant accountants would consider such a sale to be profitable.

There is a general issue with asset sales. They do nothing to improve the government's financial situation. Only in the extremely unlikely event that the government could trick the market into paying too much for a public asset do asset sales leave the government better off.

Unfortunately, the Coalition, in its harping about debt, has conditioned us to ignore public assets – to forget that the public balance sheet, like the balance sheet of private companies, has two sides – and the mainstream media, either through partisan bias or ignorance, has gone along with this deception. Journalists for the West Australian, for example, claim that the sale of HECS debt sale could boost the Budget bottom line by "up to $23 billion". Any first year accounting student would know that to be plain wrong.

Treasurer Joe Hockey has stated that selling HECS debt is "not current Coalition policy", but that does not rule it out from consideration by the commission of audit, and it would not be difficult for the Commonwealth, on receipt of the commission's report, to make some part of university funding conditional on a HECS sale. The Rudd-Gillard government, in its response to the Gonski recommendations for school funding, sent the strong message that the education budget is fixed, and that therefore funds for new programs could come only from cuts within the education budget. The Coalition could easily call on that precedent.

It's notable that there has not been a strong protest from the university sector. Bruce Chapman, the original architect of HECS and Glenn Withers, former CEO of Universities Australia, have suggested that privatisation of HECS would present no difficulties provided there are no changes to its terms and conditions.

Perhaps we have forgotten that until the Hawke government introduced HECS in 1989, university education was free for most Australians. The Menzies government had a scheme of Commonwealth scholarships with a fairly low academic hurdle, supported by a means-tested living allowance. In 1974 the Whitlam government made university education free.

In developed countries universities are generally free, the main exceptions being the English-speaking countries. Among OECD countries Australia has particularly low public funding for tertiary education. In 2008 just 45 per cent of our tertiary funding came from government, compared with an average of 69 per cent in all OECD countries, and 78 per cent in the EU countries. The Rudd-Gillard government did boost tertiary education funding, but we have been coming from a long way back.

Here in Australia, however, we have allowed university education to take on many of the aspects of a market good, consumed for private benefit. Some may say this is reasonable, because university graduates generally enjoy higher earnings than others, but this is to misunderstand the nature of the social contract upon which free university education rests.

That contract is about the obligations older people discharge to younger people, in repayment for the benefits they themselves enjoyed when they were younger. In many tribal societies the elders have specific obligations to teach the young. In industrialised societies that obligation is generally discharged through paying taxes, particularly progressive income tax which collects more from those who have been more successful economically.

An accountant, oblivious to the cultural context of exchange, may say that there is no difference between paying taxes and paying HECS, particularly seeing they are both collected through the tax office, but there is a big difference. Taxes are paid as a collective social obligation, while HECS is discharge of a personal debt. Similarly, those whose parents pay for their children's HECS upfront make an exchange within a family, presumably to be requited when those children pay HECS or other fees for their own children. It's a family transaction, not a social transaction.

Politicians, particularly those on the Labor side, often express annoyance at the way younger people have become politically disconnected. They look with frustration at the huge number of Australians aged 18 to 24 who are not enrolled to vote (400,000 in 2010) and many others who were enrolled and did not vote, and, as Phil Doyle points out, Labor strategists realise that just 30,000 votes would have returned them to government. So long as Labor neglects their interests the young will remain politically disconnected, and cynical about democracy.

Most of the decision-makers who brought in HECS and other tertiary education fees would have enjoyed the benefit of free tertiary education themselves. The generation of "baby boomers", far from discharging their side of the social contract, have helped themselves to fiscal privileges, particularly in superannuation and subsidies for financial speculation and more generally in policies which have locked young people out of the housing market.

While many of these privileges date to the Howard government, the Rudd-Gillard government did little to reverse them. It seems that Labor and the Coalition are united in their vision of Australia as a country for old men (and women).