

A Critique of Public Sector Post-Graduate Study Pricing Arrangements in the HELP System: Towards productive reform

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Abstract and Conclusions

There are important reasons for the government to do something to reduce the very high prices associated with the current post-graduate domestic full-fee PGDFF arrangements. The case for reform is made on the bases that the prices set (and thus the debts incurred) are excessive and unwarranted, and it is argued that this an extremely questionable use of FEE-HELP. The PGDFF also results in substantial and invisible taxpayer costs from interest rate and debt-not-expected-to-be-repaid subsidies. The present arrangements can be described legitimately as the most inequitable, unfair, and (non-transparently) costly aspect of Australian university financing.

There are two possible solutions: price caps, and the adoption of a progressive levy (PL) system. It is argued that price caps are not the way to go because they: remove all prospects for the institutions to engage in any price competition; could result in even higher average prices; and, have no prospects to raise revenue for taxpayers to support and compensate the higher education sector. A PL system, on the other hand necessarily reduces prices and thus hidden FEE-HELP subsidies and has significant potential to raise taxpayer revenue. A detailed illustration clarifies what a PL system would look like in operational terms.

Reform to a PL system would still allow price competition in the sector, but with clear financial incentives for universities to reduce student charges as the level of the prices set per EFTSL increases. Unreasonably high student debts will fall, and the process provides a major new revenue stream for government to assist in the financing of productive change in other areas of Australian higher education.

It is critical to understand what PL reforms could deliver in terms of both reductions of non-visible taxpayer subsidies and a new revenue stream, and some speculative demonstrations are provided to motivate the modelling of a new arrangement. While these are hypothetical, the suggested PL reforms imply that improvements to the overall higher education budget can be delivered in conjunction with significant enhancements to higher education financing operational transparency.

In undertaking the kind of change required, it is critical to understand that for some universities the removal of the PGDFF will have marked consequences for research funding, and there is potential for a PL to change radically some universities' financial circumstances. Consequently, with respect to the new set of circumstances confronting universities currently benefitting substantially from the PGDFF system reforms, alternative financing policy approaches must actively take into account research financing in order to not put in jeopardy Australian universities' respected research outputs and reputations.

Recommendations

It is recommended that the government:

- (i) Removes the financing arrangements of the current PGDFF sector and puts in its place detailed and considered PL reform;
- (ii) Undertakes substantive modelling of the implications of a range of PLs for prices, student debts, reduced invisible taxpayer subsidies, and the raising of government revenue. This should cover both low- and high-cost fields of study, and involve analyses of revenue effects of different PL parameters;
- (iii) Eliminates or substantially increases the HELP loan cap for domestic students in public universities to ensure that no prospective student is required to pay any up-front fees on course enrolment;
- (iv) Undertakes careful analysis with respect to the extent to which the PL reform adversely affects the resources available to universities with respect to the financing of research; and
- (v) Puts in place mechanisms to help ensure that the overall level of funding of research is not put in jeopardy through the institution of PL reforms given that these have the potential to reduce importantly research funding streams for some currently very strong research universities.

1 Introduction

Many areas of Australian post-graduate study are very important for government higher education financing policy, including: Commonwealth Supported Places (CSP) in the public sector universities; post-graduate degrees in the private sector using the FEE-HELP system; and the post-graduate international student market. While all of these areas require considerable examination and critique, they are not the subject of the paper.¹ The topic addressed concerns instead a key issue for policy debate and reform, the post-graduate so-called “full fee” domestic courses in which public sector universities have full price discretion (now referred to as PGDFF), with student financing being assisted through the provision of FEE-HELP student loans, repayable through the tax system depending on debtors’ future incomes.

In what follows it will be explained that the PGDFF sector is the most inequitable, unfair, and (non-transparently) costly aspect of the Australian university financing system. These are very serious criticisms, explained and justified in Section 2. The essential problem can be traced to the fact that allowing universities to charge whatever they choose, in a context in which FEE-HELP is available to cover just about all student debts, results in prices and student debts which are unacceptably high, from an ethical perspective and with respect to the importance of the visibility of taxpayer subsidies.

The problem certainly needs fixing, and there are two obvious ways that the issue could be addressed. One is the use of price controls, which would mean that the entire Australian public university system would have capped prices for all domestic students. While this has the superficial attraction of policy consistency, such a reform would then take away from the public universities the limited, yet perhaps desirable, capacity to engage in some partial price competition with the potential associated delivery of individual institutions’ comparative advantages in teaching and supervision.

However, there is a road to reform which allows the maintenance of the market efficiencies associated with the PGDFF, which is the use of a so-called “progressive levy” (PL), motivated and explained in Section 3. Section 4 illustrates through a simple example how a PL would work using the sorts of possible parameters of such schemes.

It will be explained that a reform to a PL system has the unambiguous potential to:

- (i) reduce the charges imposed on students and therefore;
- (ii) to reduce and make more visible the interest rate and debt-not-expected-to-be-repaid (DNER) government subsidies associated with using FEE-HELP in PGDFF sector;
and

¹ These are the subject of a paper Chapman (in progress).

- (iii) raise considerable revenue to facilitate other reforms to higher education, such as research funding, or the replacement of the Jobs-ready Graduate package (JRG) with much fairer and more sensible undergraduate pricing arrangements.

In undertaking the kind of change required, it is critical to understand that for some universities the removal of the PGDFF will have marked consequences for research funding, and there is potential for a PL to change radically some universities' financial circumstances. Consequently, with respect to the new set of circumstances confronting those universities currently benefitting substantially from the PGDFF system, alternative financing policy approaches must actively consider research financing outcomes to not put in jeopardy Australian universities' respected research outputs and reputations.

No attempt is made to estimate or model the potential benefits to the Commonwealth Budget of the adoption of a PL system in terms of both the reduction in FEE-HELP subsidies and the likely substantial revenue implications. While these are essential issues for policy consideration, an individual academic does not have the resources to undertake this essential modelling.

2 Problems with the public sector post-graduate “full fee” sector

2 (i) Background

For a variety of *ad hoc* reasons since 1987 Australian governments have allowed universities to charge fees to a subset of domestic students, involving those undertaking post-graduate coursework degrees. After the 1987-88 budget the government announced that institutions would be allowed to charge fees but only for some post-graduate courses, the rationale being “to provide incentives for the provision of a wider variety of employment-related courses” (Dawkins (1988), page 96). In 1989 an income-contingent loan was introduced for undergraduates, known as HECS, and this financing mechanism eventually spread to all post-graduates under the name of FEE-HELP.

There are now two different pricing approaches in this sector: one is for those securing so-called Commonwealth Supported Places (CSP) and the other continues the pre-1989 strategy of allowing universities to set prices. This has created an arbitrary distinction between two groups of domestic public sector students, which are as follows:

- (a) Undergraduate and some post-graduate students undertaking courses involving maximum charges set by the government; and
- (b) Other post-graduate coursework students, and for this group the institutions can set fees at whatever level they think the market will bear.

The original intention of price discretion to allow institutions to set fees at levels that generate net revenue (that is, which exceed the cost of delivery) and provide a surplus beyond teaching costs. These can be labelled “profits” and remain an integral part of the system. It is very likely

in many institutions that the revenues raised constitute an important stream of finances that under-write research, a process known as cross-subsidisation. What follows describes the system, explains its shortcomings, and motivates the case for a different financing approach to the PGDFF sector.

2 (ii) *Student numbers and charges*

In recent years there have been roughly 75,000 students enrolled in the PGDFF sector and, as noted above, are eligible for student loan assistance through FEE-HELP. A significant proportion of these students are studying on a part-time basis which means that the effective full-time study load is unlikely to exceed 60,000.²

Full price discretion is allowed with respect to the PGDFF sector, and this has the clear implication that in many cases the ensuing charges and debts might be very much higher than is desirable or warranted, even in a context in which the governments' aim in this area, as stated above, has been to generate "profits" to the institutions. The possibility of prices being a lot higher than might have been expected is informed through a comparison between what the government provides for CSP post-graduate places compared to the actual prices charged in different areas, and these are shown with some selected examples in Appendix 1.

The field of study price illustrations from the appendix reveal that in many cases the prices charged are at least 20 to 40 per cent higher than the CSP prices set by the government, and several are more than double. There are many examples of very high post-graduate prices, with a spectacular illustration for the potential for there being extremely high charges in the PGDFF sector is with respect to the *Juris Doctorate* at a leading university, which has a total charge of \$134,876, or around \$44,960 per year; these sorts of extraordinary prices are also charged for the Doctor of Medicine and for Masters of Business Administration degrees at more than a few universities. A reasonable conclusion is that there is clear evidence that PGDFF sector prices result in very considerable financial rents being delivered through some, likely many, university courses.

We need now to enquire if these prices outcomes are a result of appropriate higher education policy and, if not, what if anything should be done about this?

2 (iii) *The problem of high prices in the presence of a loan cap*

An important starting point is that the government has imposed a HELP loan cap limit which in 2023 was \$113,000 for most students.³ This cap might have some justification to restrict frivolous or unproductive enrolment behaviour in the public sector and makes more sense with respect to restricting FEE-HELP taxpayer subsidies for private providers. However, a HELP loan cap has the critical implication that some domestic students with already high HELP debts, when faced with high post-graduate charges, then find themselves with debts exceeding the arbitrarily imposed loan cap limit. As a result, students will then need to find money up-front

² Estimates calculated from data provided by the Department of Education (DoE).

³ For a small minority of students in the very high-cost courses of medicine, dentistry, veterinary science and aviation, the cap is around 40 per cent higher.

to enrol in these courses, a result with profoundly deleterious consequences for equity and access; this must be fixed.

Thus, in combination with some high post-graduate prices, the loan cap means that a continuation of some people's education plans will be thwarted unless they have personal access to finances to allow them to enrol by paying the charge up-front. This is a very ignoble outcome, with a big conceptual point being as follows. The HELP system was designed to resolve the basic credit market problem associated with university financing by making available an instrument which by its very nature removes the possibility of domestic public sector students enrolling in university needing to find financial resources to do so. In marked contradistinction the loan cap does the opposite.

The case for eliminating this policy mistake is both obvious and urgent, as is also the need to mitigate these inequities through processes which reduce excessively high post-graduate prices in the first place. The error inherent in having excessive post-graduate prices, reinforced by the inequity and economic inefficiencies resulting from the HELP loan cap, are now examined.

2 (iv) *Ethical implications*

As well as for reasons explained above concerning the loan cap, the PGDFF needs important reform because full price discretion in the presence of FEE-HELP results in extreme charges for a significant number of students associated with additional problems. One of these concerns the issue of the social justice of having domestic students contribute very substantially to the cross-subsidies for the financing of the non-teaching areas of university activities.

My submission to the Senate Enquiry into Higher Education Financing (2015) explains the issue and is now quoted in some detail (Chapman, 2015, page 4):

“...the “right” price to charge students for public sector university teaching services can be clarified with allusion to a principle concerning the role of government. It is not an argument that can be made easily with reference to economic theory or compelling evidence related to allocative efficiency. It is instead basically an ethical issue.

My view is that there is no clear economic justification for public sector universities to be allowed the use of a government instrument, HECS, to raise very substantial revenue, in a situation in which this can lead to unjustifiably very high fees ... the issue for me concerns the extent to which this can be considered a "proper" use of the HECS instrument”.

This is complicated when considered in the context of the original justification for allowing price discretion in the PGDFF sector, because *any* prices set higher than the true costs of teaching allow universities financial advantages which are in part because HELP assists them to do so⁴. However, it can be argued that having prices somewhat above teaching costs has some justification given that the implied cross-subsidies will result in more substantive than otherwise research outputs at that university and thus deliver reputational benefits which are then shared with their graduates' institutional identification. Thus, it is clearly a matter of

⁴ An explanation of how HELP facilitates the setting of high prices is provided in Chapman (2015).

degree, the argument being that the resulting “profits” accruing to the universities because of the price discretion from PGDFF seem clearly to be more than is justified and reasonable.

2 (iv) *Substantial and non-transparent costs to the government’s budget*

There is a further and less obvious point to be made concerning the social welfare costs of universities having full price discretion. This is that when HELP debt levels are very high, as they certainly are for many PGDFF students, there must also be high costs for taxpayers which take the hidden form of both interest rate and DNER subsidies, and these are illustrated further below. These could be labelled a “negative externality” from the process, invisible costs to taxpayers which are apparently considerable.

Calculations of these non-visible costs to government is critical in a consideration of the relative merits of different policy options. But it is difficult to be confident of the extent of the subsidies because as well as the total FEE-HELP debt incurred through the PGDFF system, an estimate is also needed as to the taxpayer subsidies involved in policy alternatives. The issue is taken up further below.

2 (v) *Conclusion*

The motivations for the price setting discretion of the current PGDFF arrangements can be traced to the desire of the Australian government over 35 years ago to find and encourage a way for Australian universities to have both some financial autonomy the capacity to raise their own revenue. Arguably this was well motivated at that time, but in the context of the major institutional changes associated with both the extraordinary expansion of higher education and the implementation of the HELP system, it is now a misplaced and, for the government, an expensive policy. It has resulted in excessively high prices, which can be seen to be an unjustifiable impost on both post-graduate students and taxpayers.

The case for policy reform in this area is indisputable: the PGDFF prices are unreasonably high because they mean that significant cross-subsidies to the non-teaching activities of the most well-placed universities are being financed by domestic public sector post-graduate students when this financial responsibility clearly lies instead with the government. For example, research funding, because of its social welfare benefits, is a responsibility for government generally, and there is no justification for requiring a particular group of students to be main financiers instead.

The need for reform of the PGDFF system is crystal clear, because the current system is not based on informed analysis and is both seriously misplaced and inequitable. But in this context there needs to be recognition by government that removing the misguided PGDFF will necessarily have critical research revenue implications for those universities best placed currently to set very high post-graduate prices; this has to be firmly in mind when decisions are being made with respect to the sorts of changes needed to research funding overall in a reformed system. It would be a poor outcome for the sector if abolition of the PGDFF system involved putting in jeopardy the generally accepted research excellence of Australian higher education.

With this said, there are two candidates for change to the poor Australian contemporary policy environment in the PGDFF space, with quite disparate implications for students, the government, and universities. These are now examined in conceptual terms.

3 Policy options for the reform of PGDFF

3 (i) Introduction

There is clearly a case to reform policies to mitigate the effects of the excessive prices currently being charged in the PGDFF system, with the next question being: what instruments are available to resolve the issue most productively? There are two policy candidates for the government: price controls; and the use of financial incentives to encourage more social productive price setting outcomes. Let's now compare the costs and benefits of these alternatives.

3 (ii) Price caps

In this scenario the government would set maximum prices levels by field of study, with the caps being set with reference to the evidence concerning what the teaching costs are, a point stressed importantly in Chapman (2024a). It is important for the efficient operation of the sector that the methods explained in HERG (2024a, 2024b) are the basis for the setting of all HELP prices instead of the use of the flawed information provided by surveys. With this approach the government would set maximum prices for all post-graduate courses in the public sector. There would be several benefits from this reform, which are that such an approach:

- (a) Fits comfortably with government higher education pricing policy in both the undergraduate and CSP parts of the post-graduate arena; and
- (b) *If it results in significant overall post-graduate price reductions*, it follows that the subsidy costs are importantly reduced.

However, the benefits of imposing price caps rely on the presumption that setting maximum post-graduate prices will result in overall price decreases but, perhaps strangely, these caps could lead to aggregate *increases* in average prices. This could happen via some institutions already providing PGDFF at prices lower than the price caps increasing their charges potentially leading to higher average prices that is the current situation. This possibility has been addressed in many internationally based analyses over the last 30 years or so concerning price-setting behaviour in the context of ICLs and concerns what economists refer to as the "Veblen" effect; it is worth looking at.

The basic idea is that in markets with poor information, such as with respect to the relative quality of universities, institutions will want to have the same prices as their close competitors since having lower prices can be taken as an indicator of poor quality or, in this case, as not having the required teaching resources to profitably participate in the new regime. This so-called "Veblen effect" is well known and documented in higher education experience world-wide. For example, when the UK government allowed price caps to increase from £3000 per

full-time student year to £9000 in 2011, with 95 per cent of institutions increasing their prices to the highest level, with some of their leaders citing the reputational factors noted above.

The other issue related to the imposition of caps on all post-graduate courses is that this would take away the only part of the public university system that currently allows actual price competition. While there is no doubt that price controls are warranted for the vast majority of all domestic public sector courses (Chapman, 2015), there is some justification for having a small proportion of programs at least partly open to market forces. This perspective has most credibility in areas in which students might be very interested in specialised study and willing to pay extra for the most informed academics in their given domain; and it is a reasonable presumption that it is in the post-graduate area that spheres of educational excellence through comparative advantage are most likely to emerge.

3 (iii) A progressive levy

A levy approach to higher education pricing is a mechanism in which institutions can set their own prices but one in which the price set requires the payment of a levy to the government, a conditional tax, and the size of the obligation depends on the extent to which the price chosen exceeds a given base amount. Such a method can be designed to be “progressive” (with the payment details being illustrated with an example in Section 4). A progressive design is important because there is small possibility that a simple proportionate levy arrangement could in some circumstances result in higher prices compared to not having any levy. But with sensible rules a progressive scheme has the unambiguous implication of reducing the prices charged.⁵

The idea of a PL with respect higher education financing⁶ is not new and can be traced to the UK Browne Review in 2009. In the Australian context it first appeared through David Phillips in 2014 and has been taken up by others since.⁷ Related to this is that in the Australian context there are several clear examples in which the government provides financial incentives to change institutional and personal behaviour, so-called Pigouvian taxes. For example, the government imposes high sales taxes on both alcohol and cigarettes, with part of the motivation being to decrease the consumption of both commodities due to the negative spillovers involved in their consumption.

In summary, a PL is a policy mechanism designed to put downward pressure on fees within the current system allowing price flexibility. The key twist is that the institutions are required to pay a levy to the government that increases proportionately the higher they set their fees above given thresholds which will differ by field of study. Accordingly, the situation facing the student is unchanged, although the charges will be lower, but the government raises revenue

⁵ See Dawkins and Dixon (2015), Chapman, Dawkins, Dixon and Houghton (2023), and Dixon and Chapman (2023).

⁶ The idea is not limited to higher education policy with King (2004) suggesting a progressive levy to be imposed on Australian private schools charging excessive prices.

⁷ Again, see Dawkins and Dixon (2015), Chapman, Dawkins, Dixon and Houghton (2023), and Dixon and Chapman (2023).

in a progressive way. There are different ways in which the levy could be collected, but that's a second-order issue.⁸

A PL system, as well as exerting clear downward pressure on post-graduate student debt levels, has two additional attractive properties. It also has the clear potential to:

- (a) Diminish the implicit and invisible subsidies provided by the government through FEE-HELP (because there is not a real interest rate on student debts and some debts are not expected to be repaid) which can become high when debts become substantial; and
- (b) Raise revenue that could be used for other university purposes (eg funding for research or equity objectives).

This can all be achieved but still within the market-based, student funded system in which the institutions set the fees and are thus able to take advantage of institutional-specific advantages and efficiencies.

4 Explaining the operation and effects of a PL

4 (i) The operational features of a PL

Accordingly, before a PL can be designed the “efficient price” for a course⁹ needs to be determined which includes the cost of teaching time and related infrastructure as argued in Chapman, Dawkins, Dixon and Houghton (2023). In setting the parameters for different PLs by field of study, alternatives need to be canvassed, modelled, and costed by government. To assist in this process what now follows illustrates the basic features of viable PL arrangements.

4 (ii) PL design in principle

For a government to apply PLs, there are critical decisions to be made to ensure that the policy is best able to achieve its objectives. The most important of these include: the course unit chosen for which given price and subsidy parameters apply; the price charged under which no levy would be imposed; and the levy rates of the system, which must increase progressively with respect to prices. Specifically:

- (a) There is a "base" charge (B) set by the government, and this differs by field of study, but not by university;

⁸ The simplest approach would be for the government to invoice the institutions for the money owing which would then leave it up to a university how best to pay.

⁹ Again, see HERG (2024a, 2024b).

- (b) B reflects the cost of delivery of post-graduate teaching services and is determined with respect to the best estimate of the average cost with respect to commensurate HECS-HELP estimates of the delivery of teaching services;¹⁰
- (c) These costs need to be determined in an objective way at a whole-of-sector level, with reference to HERG (2024a, 2024b).
- (d) Levy rates are set by the government, with the proviso that they have to be progressive, that is at an increasingly higher marginal rate as the charge set by the university increases;
- (e) Just like the current situation, the universities are provided with funds per EFTSL, determined by the charge they set for the course. For example, if they charge B, they get B, but as the charge increases there will be diminished outlays to the university for each EFTSL in the course, and the rate of decrease of these outlays becomes larger as the price set increases due to the progressive design of the levy; and
- (f) As is the case now, students enrolling in PL courses can pay up-front, or they can incur more HELP obligations with the same features as the current debt option for PGDFF students.

4 (iii) An illustrative example

To help in an understanding what a PL might look like and mean for post-graduate pricing outcomes, Dixon and Chapman (2023) present a simple illustrative example of a hypothetical PL, a close variant of which is now described. As required, the suggested scheme would set B for a subject cluster, and in this example, this is \$22,000 per EFTSL and, as stressed, in practice requires the methods as explained and documented in HERG (2024a and 2024b).

The example assumes that for the first \$2000 increase in the fee above the base level, the university would receive 90% of the additional fee charged, which means that an increase of \$2000 would be worth \$1800 to the university. The additional assumptions of hypothetical levy rate collection parameters and their implications for both the universities and government revenue per EFTSL are shown in Table 1.

¹⁰ Perhaps plus a small extra proportion of say 20% if the evidence reveals somewhat higher costs for post-graduate teaching.

Table 1
The Financial Arithmetic of an Example of a Progressive Levy (annual)

Price (\$ per FTSL)	Charge to students (\$)¹¹	Marginal Progressive Levy threshold (per cent)	Revenue to the University per EFTSL	Revenue to Government per EFTSL
<22,000		0	Price charged	0
22,000	22,000	10	22,000	0
24,000	24,000	30	23,800	200
26,000	26,000	50	25,200	800
28,000	28,000	90	26,200	1,800
30,000	30,000	100	26,400	3,600

Because the concept of a PL is not familiar to most, it is useful to provide several clarifying illustrations with reference to the Table. This particular design of a PL would mean, for example, that at a charge set of \$26,000 the university would receive from the government a net amount of \$25,200 (thus from the \$26,000 tuition charge the government would be paid a levy of \$800, which is made up from \$200 for the \$2000 between \$22,000 and 24,000, and \$600 for the \$2000 between \$24,000 and \$26,000), and at a charge set of \$30,000 the university would receive from a net amount of \$26,400 (and the government would be reimbursed \$3,600). The critical point from the example is that because of the progressive nature of the levy design there is an increasingly lower revenue stream accruing to a university at the margin as it sets higher and higher prices, and thus an increasingly higher levy revenue stream accruing to the government as a university sets higher and higher prices.

Thus, because there are diminishing financial rewards for higher prices set, at some point the net benefits from higher prices will become negative to a university. Even if the marginal costs are small per student, the university will have to decide on its price knowing that the associated number of students involved must be more than a handful; and once the price is set with the PL reaching 100% it is obviously the case that university prices won't exceed this last threshold. The progressive structure of the PL thus ensures that universities will set lower post-graduate tuition prices compared to the current PGDFF charges, a point explained based on economic theory in Dixon and Chapman (2023).

The above example provides clarification of how such a system would work and is illustrative only. A government interested in exploring the beneficial possibilities associated with a PL obviously needs to explore, model, and cost a plethora of possible scheme designs, with the base price and levy rates being designed separately by course clusters to maximise the likelihood of different PL templates being influenced in part by teaching costs. This last aspect

¹¹ The government could impose a small charge on the student to help cover the taxpayer subsidies implicit in the use of FEE-HELP, which is what happens with the use of FEE-HELP for students enrolling in the private sector. The issue requires consideration but is not fundamental to the adoption of a PL system.

of PL design highlights again the importance of the use of the most accurate information available concerning the sector-wide measurement of teaching costs(HERG, 2024a; HERG, 2024b).

5 Estimating the potential benefits of a PL for the Commonwealth Budget

5 (i) Introduction

There are two obvious ways in which a PL system improves the Budget situation: through a diminution of FEE-HELP taxpayer subsidies, and through the raising of levy revenues. Let's take them in turn.

5 (ii) Diminishing taxpayer subsidies

As has been noted, there are significant taxpayer subsidies associated with high FEE-HELP debts, for two reasons: there is no real interest rate on student debts, and some debts will not be repaid in full. Understanding the size of potential FEE-HELP subsidy savings through a PL system requires estimates of both what the current levels of taxpayer subsidies are, and what the new subsidies would be with the debt mitigation associated with the lower prices which will be delivered from the application of PLs. The first is now explained.

Here are some basic data with respect to some key aggregate characteristics of the contemporary PGDFF situation:

- (a) There are around 50-70,000 domestic EFTSL enrolled in PGDFF courses per annum in Australian public universities (let's assume 50,000)¹²; and
- (b) A rough weighted average of the FEE-HELP debts carried out by the Higher Education and Research Group suggests that the figure is around \$25-35,000 annually per full-time student (let's assume \$28,000)¹³.

With this information we are now able to estimate the total FEE-HELP subsidies involved for the PGDFF sector, but to do also requires an estimate of the per dollar amounts of the subsidies in present value terms. The closest we can get to this is to use a range of estimates consistent with the Australian Government Actuaries (AGA) method, which in 2020/21 assumes per annum a long run nominal cost of borrowing, price inflation and wage inflation of 5, 2.5 and 4 per cent respectively per annum. With this approach a reasonable discounted present value of

¹² The lower figures will be used for two reasons: there are likely to be quite a lot on people in the PGDFF market who pay up-front and are thus not relevant to FEE-HELP subsidy calculations; and a relatively high proportion of post-graduate students will be enrolled on a part-time basis.

¹³ Recent communication from HERG reveals for example that of about the 80 courses they examined around 50 of these charged prices which in 2024 are more than \$30,000 per annum.

HELP subsidies would be around 25% per dollar of PGDFF charges, but close consultation with the AGA is clearly necessary to validate the use of this parameter.

In combination with the information shown in (a) and (b) above, and with the use of the AGA subsidy estimate suggested above, allows a rough approximation of the aggregate taxpayer subsidies currently involved in PGDFF as being around:

$$\$28,000 \times 50,000 \times 0.25 = \$350 \text{ mil. pa}$$

Of course, there is bound to be a range of estimates; if for example the number of EFTSLs is not 50,000 but only 44,000 and the average current price is instead \$26,000, the resulting taxpayer subsidies would then be:

$$\$26,000 \times 40,000 \times 0.25 = \$260 \text{ mil. pa}$$

Because we are interested in the *change* to taxpayer subsidies from a prospective PL reform, estimates are required of the subsidies associated with a new PL system, which of course have not yet been accurately modelled. But as an indicative exercise, imagine that the aggregate effect of a PL reform to PGDFF has no effect on the number of students (assumed to be as in the first example of 50,000), only a small effect on the AGA subsidy parameter, but reduces the average price to \$23,000. Under these assumptions the resulting PL taxpayer subsidy costs are then given by:

$$\$23,000 \times 50,000 \times 0.25 = \$287.5 \text{ mil. pa}$$

These indicative illustrations suggest that a PL reform might provide taxpayer subsidy reductions of the order of $\$350 - 287.5 = \62.5 mil. pa.

In addition to the above, we need to understand the effect of the FEE-HELP subsidy parameter being different to that imposed above of 0.25, which would then have implications for calculations of the subsidies from change to a PL system. There is a lot to do in this space, and it is useful to emphasise that the examples here are speculative only, motivated to promote more informed government analyses. More informed modelled from the DoE with assistance from AGA is required.

5 (iii) The revenue raising potential of a PL system

With respect to likely revenue raised, again we can only conjecture at this stage. A critical point in understanding the PL reform revenue potential relates to the response of universities to the financial implications of PLs and, specifically, what the new arrangements would mean for the new prices forthcoming in the PGDFF sector. To help with this, what are needed are calculations of: the average new prices in the PGDFF system compared to the current prices; and the effects of the price change, if any, on the number of EFTSLs.

Only informed government modelling can provide a semblance of accuracy with respect to these outcomes, but here we can at least provide some food for thought concerning what a new set of prices could potentially deliver. As an illustration, imagine that that the PL system delivers somewhere between \$2,000 and \$3,000 per EFTSL (let's assume \$2500), and that the

number of students is unchanged at about 40,000 EFTSL.¹⁴ In revenue terms such a PL system would then deliver to the government around:

$$\$2,500 \times 45,000^{15} = \$112.5 \text{ mil. pa}$$

However, if the revenue raised was instead \$3000 per EFTSL, this estimate would then be \$135 mil. pa. Until the modelling is done in detail, we just don't know; but the orders of magnitude are such as to warrant very serious consideration of the introduction of a PL system because of taxpayer savings and revenue raised. And all while the PGDFF sector would be much improved with respect to both social equity and aggregate FEE-HELP debt considerations.

5 (iv) Summary

Adding the illustrations concerning subsidy savings to those involving potential increases in revenue to the government provides an extremely rough range of the benefits to the higher education budget of a PL reform perhaps somewhere around \$160 and \$300 mil. pa. To reiterate, these data do not provide an evidence base for the likely effects of such a PL reform, but they should at least offer considerable food for thought and a concomitant encouragement for the best possible modelling to be undertaken.

Outcomes such as these would be seriously propitious for a government interested in progressive reforms of the higher education system, the taxpayer subsidy savings and the levy raised being available to help finance many other reforms necessary for improvements in both the efficient and equitable operation of Australian higher education reform. One such reform with considerable merit involves increases to research funding to offset the potentially damaging implications for universities of the removal of the lucrative but very poorly designed current PGDFF set-up.

¹⁴ This is ambiguous in theory. Universities might be interested in less students because the financial benefits per student are diminished, but there would presumably be higher student demand because of lower prices. As well, the simultaneous removal of the HELP loan cap is bound to increase some prospective students' financial capacity to enrol.

¹⁵ Taking the mid-point of the student number of estimates used in the other calculations.

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Appendix 1

Indicative annual fees (2023)

	Western Sydney University	CQUniversity	University of Melbourne	CSP base funding
Master of Business Administration	\$31,752	\$24,432	\$53,000 (2024)	\$16,289
Master of Information Technology	\$33,864	\$24,432	\$38,688	\$22,137
Master of Engineering	\$32,176	\$28,860	\$38,688	\$25,270
Master of Science	\$29,744	n/a	\$35,072	\$25,270
Master of Teaching	n/a	\$22,284	\$30,976	\$17,960
Master of Social Science	\$23,936	n/a	\$31,008	\$16,289