Centre for New Industry

A Per Capita initiative

Submission to the Education and Employment Legislation Committee: Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022

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FIGHTING INEQUALITY IN AUSTRALIA

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About the Centre for New Industry

The Centre for New Industry is an applied research centre at Per Capita that aims to propose policy solutions that support a mission-oriented approach to industrial policy, and advocate for economic diversification, decarbonisation and democratisation. We believe that Australia needs a vision of the future that provides greater skilled employment opportunities for workers and their families, greater stability and security for regional communities, and better equips Australia to respond and adapt to economic and industrial change.

About the Author

Shirley Jackson is the Director of the Centre for New Industry and a renowned policy expert in the fields of industry policy, employment, and skills formation. His work has helped shape new approaches to industrial development and is widely cited by government and media sources.

Shirley has extensive experience in not only thought leadership and public policy, but has spent a decade working in government engagement, political campaigning, and stakeholder relations. This expertise is grounded in years of lived experience relating to the issues that he is so passionate about.

Prior to his public facing work, Shirley spent years working in warehousing and logistics, hospitality, retail, academia, the print industry and being unemployed. These experiences have guided Shirley's research and policy work, and shaped his approach to inclusive, participatory methodologies.

His areas of interest and expertise are young workers, employment, labour market policy, industrial relations, and industry policy. Shirley undertook undergraduate and postgraduate studies in history, economics and political economy, and has an unfinished doctorate on young workers.

Executive Summary

The Centre for New Industry (CNI) welcomes the opportunity to make a submission to the Senate Standing Committee on Education and Employment's inquiry into *Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022*.

As Australia emerges from the long tail of the COVID-19 pandemic and its associated economic crisis, the hidden fault lines in our economy have been exposed. However, long after the lockdowns ended and the economy has 'snapped back' to life, the enduring scarring effects of the labour market contraction are still being intensely felt,[1] especially by young workers and other recent entrants to the labour market. In particular, the complications of a labour market with generations of slack in the system have been exacerbated by a crisis that pushed our economy to breaking point.[2]

Central to these complications is the way that Australia's higher education is funded, and unfortunately the current scheme is no longer fit for purpose. At the time of writing, despite Australia's young people being the most highly educated generation in the history of the nation, numerous factors have created a scenario where this educated generation is experiencing reduced employment outcomes.

Firstly, the proportion of the cost of their education that students are expected to cover, and the indexation they are required to pay, has increased substantially since the introduction of the current funding model. Secondly, the threshold amount of earnings at which they are expected to repay has been reduced to just $6,000 above the annualised minimum wage. Thirdly, and most crucially, young workers employment outcomes have become disconnected from educational experience.

This experience is crucial, as the core rationale behind Australia's income contingent loan (ICL) scheme, known as the Higher Education Contribution Scheme-Higher Education Loan Program (HECS-HELP), remains: as students increase their education level they receive an associated increase in income, and as such should contribute to the societal cost incurred in providing this benefit.

In the following sections, we argue that the rationale on which HECS-HELP is founded is no longer applicable as a universal rule, and show how the correlation between education levels and employment outcomes is no longer a universal benefit. CNI supports the passage of this Bill and commends the committee on its work to explore the evidentiary basis necessary for its passing.

In this submission, we argue in favour of the Bill, agreeing with its stated aims of improving the fairness of the funding schemes for post-secondary education and the two proposed solutions, namely to increase the repayment threshold to the median wage and abolish indexation of the loans.[3]

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[1] Jeff Borland, 'Scarring Effects: A Review of Australian and International Literature' (2020) 23(2) *Australian Journal of Labour Economics* 174; Hernan Cuervo and Johanna Wyn, 'An Unspoken Crisis: The "Scarring Effects" of the Complex Nexus between Education and Work on Two Generations of Young Australians' (2016) 35(2) *https://doi.org/10.1080/02601370.2016.1164467* 122 <https://www.tandfonline.com/doi/abs/10.1080/02601370.2016.1164467>; Hanan Morsy, 'Generation Scarred' (2012) (March) *Finance & Develpoment* 15; Dan Andrews et al, *The Career Effects of Labour Market Conditions at Entry* (2020); Nicole Adams et al, *Preventing Scarring in the Post-Pandemic Youth Labour Market* (2022).

[2] Matthew Lloyd-Cape, *Slack In The System: The Economic Cost of Underemployment* (2020).

[3] *Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022 2022.*

Income Contingent Loans: A Brief Overview

The implementation of a system of ICLs in exchange for education was first implemented in Australia in 1989, following an options paper that proposed the scheme was commissioned by then Minister for Employment, Education and Training in the Hawke Government, John Dawkins, the previous year.[4] Embedded within this document was the assumption that by engaging in higher education, young people will receive considerable financial benefit from their studies in the future, and therefore should share the societal cost associated with their studies.

Indeed, when introducing the Bill, Dawkins described how the bill would ensure that "…people who benefit from participation in higher education will be required to make a small contribution towards the cost of their study…[and] increase the fairness of funding arrangements for higher education, ensuring that the total burden of funding does not fall entirely on the taxpayer".[5]

Leaving aside for the moment that the young people who are participating in higher education are and will remain taxpayers, the benefit that young people are receiving from their education is being delayed and, in an alarming number of cases, denied. The reasons for this have already been outlined by the author of the original options paper commissioned by Minister Dawkins, Bruce Chapman, who acknowledges that the design and implementation of ICLs contains inherent risks. Most importantly, he describes the uncertainty that surrounds the future value of educational investment, and notes that "…what looked like a good investment at the time it began might turn out to be a poor choice when the process is finished…many prospective students, particularly those from disadvantaged backgrounds, may not have much information concerning graduate incomes".[6]

Therefore, under the current regime, people entering university at the age of 17 or 18 are not just learning about a subject area that interests them but are also entering into a financial arrangement – one that expects them to shoulder the responsibility for an investment they might not fully comprehend.

Yet despite the recessions of the past 12 years being caused by factors outside young workers control, coupled with an ongoing breakdown of the relationship between education and employment, the previous government choose to decrease the threshold for repayments of these debts, lowering the repayment threshold from $52,000 to the current level of $48,361 – just $6,105 above an annualised minimum wage income.[7]

Repeated reductions in the HECS repayment threshold, which successive governments have justified in the pursuit of budget sustainability and eventual surplus, have effectively destroyed the underlying principle of the design of HECS; namely that people should contribute to the cost of higher education when they realised an economic benefit from their tertiary qualifications. It was never intended that university graduates would be required to pay back HECS debts from lower-than-average wages earned in jobs they could have obtained without their qualifications.

Rather than ensuring fairness within the system, as was the original intention of the scheme, these changes, in conjunction with declining labour market security, effectively punish young workers for being reliant on non-career industries that don't deliver the financial security that their education was supposed to provide.

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[4] Bruce J Chapman, 'Australian Higher Education Financing: Issues for Reform' (2001) 34(2) *Australian Economic Review* 195.

[5] John Dawkins, 'Higher Education Funding Bill 1988: Second Reading', *Hansard* (1988) <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F1988-11-03%2F0113%22>.

[6] Bruce J Chapman, Timothy Higgins and Joseph E Stiglitz, *Income Contingent Loans: Theory, Practice and Prospects* (2007) 15.

[7] Naaman Zhou, 'Hecs Debt Repayment Changes: Why More People Will Be Forced to Pay off Student Loans | Australian Education | The Guardian', *The Guardian (Australia)* (online, 2019) <https://www.theguardian.com/australia-news/2019/jul/02/hecs-debt-repayment-changes-why-more-people-will-be-forced-to-pay-off-student-loans>.

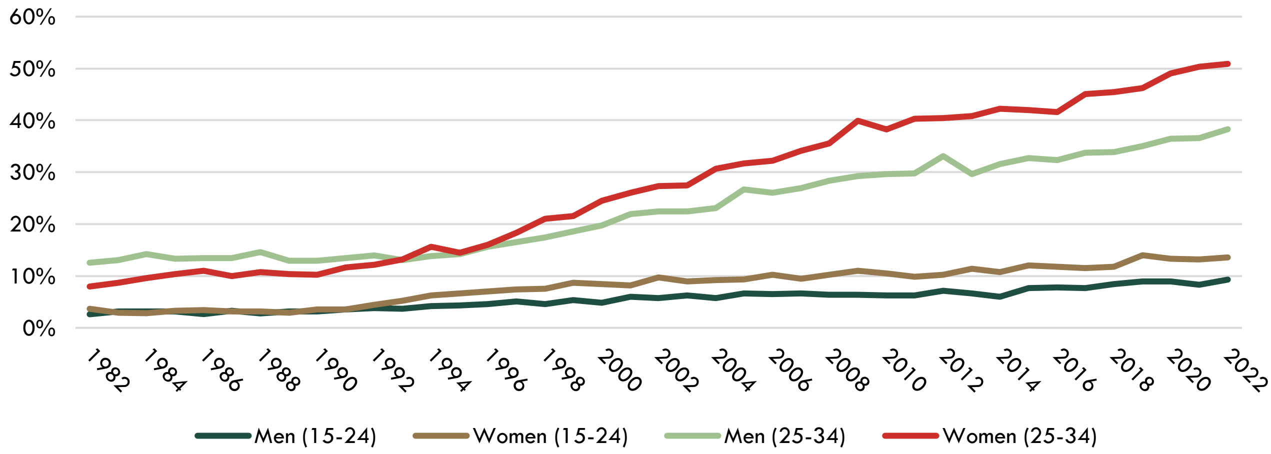
Exploring the education and employment nexus

Australians are more educated than ever. This is unquestionably a good thing: education creates a range of benefits, both public and private, and is associated with higher quality of life measures, encourages greater political stability and allows us to participate fully as citizens.[8]

However, since the opening up of higher education under the Whitlam Government, university-level education has been held up as the best protection against unemployment, and that an investment in education is the best way to increase income potential across the working life of the participant. Unfortunately, this claim is no longer supported by the evidence.

For young people in Australia, the transition from school to work is increasingly defined by insecurity. In some sense, this transition has always been characterised by periods of instability, as new entrants to the labour market have always been expected to learn skills, earn respect, and prove their value before achieving security. However, the wide-ranging deregulation policies of the 1980s and 1990s have contributed to young people in the 21st century remaining in precarious positions well into their late 20s and even into their 30s.[9] Firstly, successive reforms have led to a rapid expansion of university education, particularly amongst young women (see Figure 1). In 1982 less than 12% of young women held a bachelor's degrees, but after 40 years of expanding access to higher education, approximately two in three young women aged 15-35 will have completed undergraduate education in 2022.

Figure 1.
Bachelor Degree Attainment.



Source: Author's calculations, based on ABS 6227.0 Table 28.[10]

As mentioned previously, this has been a great success in terms of equity in access, allowing successive generations of young people to enrol in university and explore previously unavailable futures. However, the relationship between increased education levels and employment outcomes has been slowly eroded over this time and there is no longer an equity in outcomes.

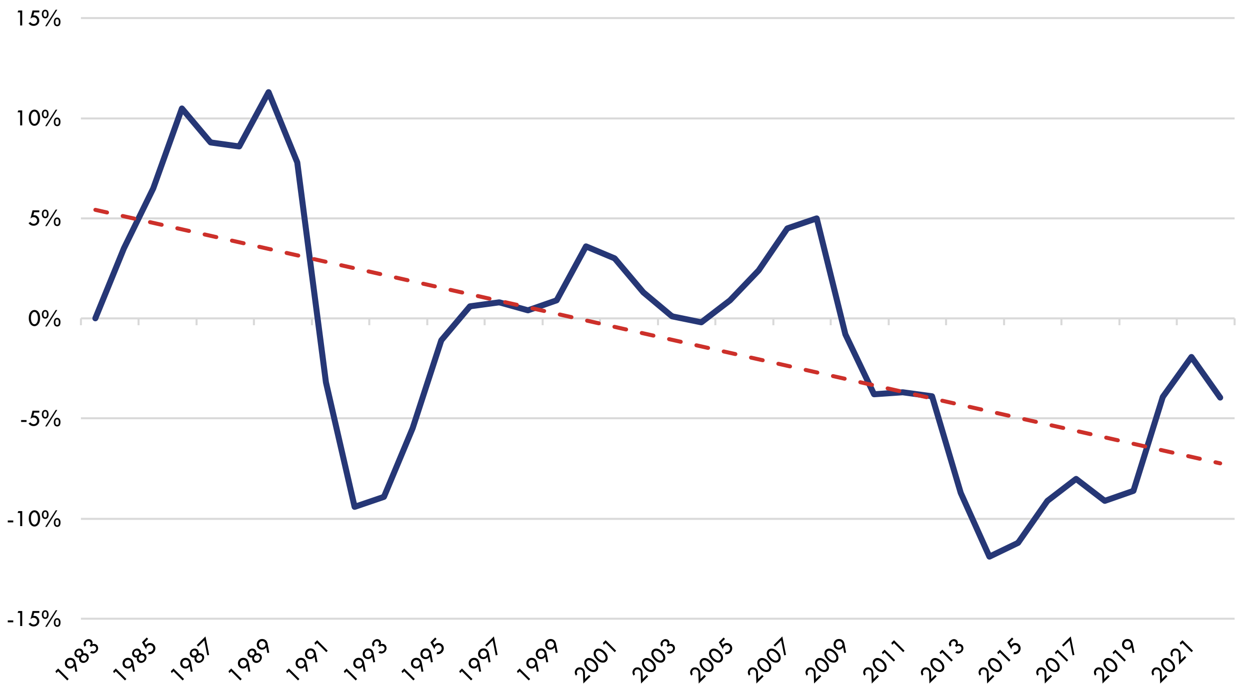
[8] Deloitte, 'Estimating the Public and Private Benefits of Higher Education' (November) 133, 7–9.

[9] Dan Woodman and Johanna Wyn, *Youth and Generation: Rethinking Change and Inequality in the Lives of Young People* (Sage, 2015) <https://books.google.com.au/books/about/Youth_and_Generation.html?id=FMClCwAAQBAJ&printsec=frontcover&source=kp_read_button&redir_esc=y#v=onepage&q&f=false>; Jessica Crofts et al, 'Life Patterns Ten Years Following Generation Y'.

[10] Australian Bureau of Statistics, 'Education and Work, Australia' (10 November 2022) <https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest-release>.

Crucially, the external economic context into which graduates have been transitioning has had significant impact on their prospects. While there is a correlation between recessions and declines in graduate employment, the most recent generations of young people are experiencing a much longer crisis than previous generations (Figure 2).

Figure 2.
Graduate Employment Growth, aged 15-24.



Source: Author's calculations, based on ABS 6291.0.55.003 LM1.[11]

Across the previous four decades since the reference year of 1983, there have been three significant crises, the "Recession we had to have" in 1990, the GFC in 2007 and the COVID-19 Crisis in 2019. For Gen X, the associated graduate employment recession began in 1990, dropping from a growth rate of 11.3% in 1989 to -9.4% in 1992, a drop of over 20%. Employment growth didn't hit positive digits until 1996, demonstrating a recovery time of approximately six years.

For Gen Y, the GFC saw the graduate employment rate drop from 4.95% in 2008 to -11.9% in 2014, for an overall decline of 16.85%. Unfortunately for Gen Y, the recovery was much slower, and six years after the trough, graduate employment growth is still at -8.6% of 1982 employment levels, a similar level to the depth of the 1990s recession.

The COVID-19 crisis has created another decline, one which will be much deeper and longer again, without government intervention. While Gen Z are entering the labour market in this crisis and are at risk of economic scarring, it should be noted that Gen Y have experienced two labour market crises approximately a decade apart. Crucially, unlike their Gen X counterparts, graduate employment never entered positive growth between the crises.

Furthermore, concerns about job security have increased across the generations. A recent report by the Youth Research Collective at the University of Melbourne, which runs the world class longitudinal *Life Patterns* study of Australian youth, highlights the prominence of this issue amongst the younger generations. While approximately 68% of both the Gen X

[11] Australian Bureau of Statistics, 'Labour Force, Australia, Detailed' (23 February 2023) <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release#industry-occupation-and-sector>.

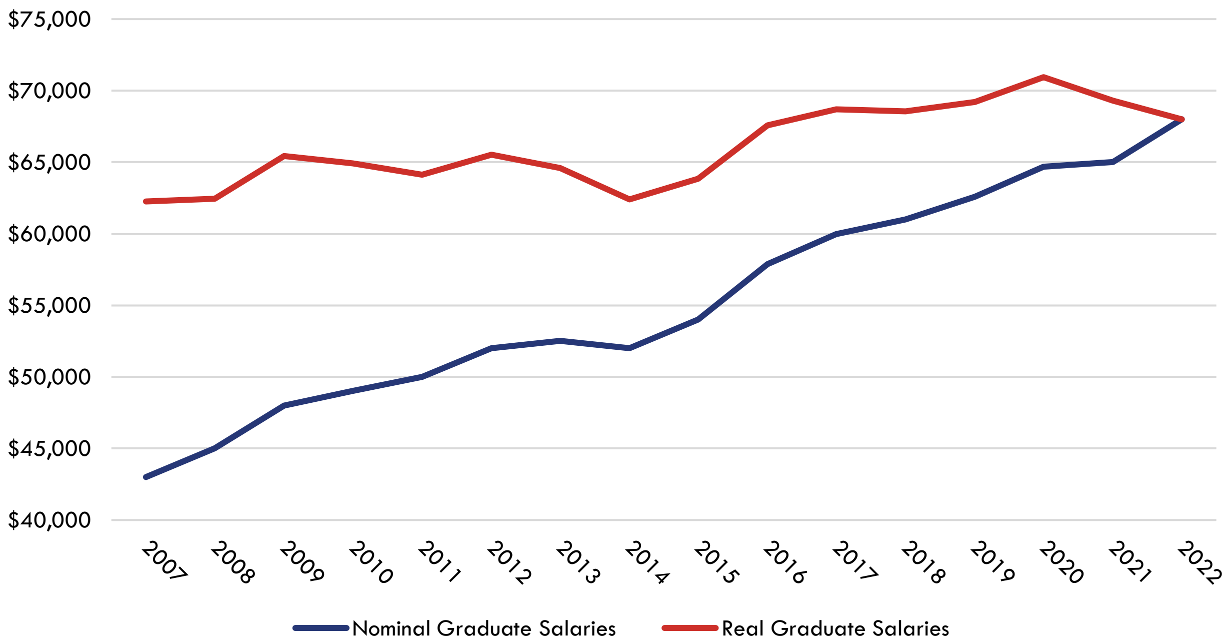
and Gen Y cohorts were employed on permanent contracts, only one in ten Gen X participants saw job security as an important issue compared with one in three Gen Y participants.[12]

However, the myth still persists that education is the best predictor of future employment outcomes, despite recent research shows that the causal relationship between education and employment has been eroded over time.[13]

Detailed data from the Graduate Outcomes Survey, which canvasses graduates four months after they finish their studies, offers some insight. Apart from providing essential employment information, this survey covers more complex issues, such as skills utilisation, demographic inequalities and how well study prepares graduates for work. While the overall number of undergraduates in full-time employment in 2022 has risen to 78.5% from 68.1% in 2014, this is still well below the pre-GFC employment level of 85.2% in 2008.[14]

Worse still, the latest survey data shows graduate wages are shrinking over time (
Figure **3**). While nominal wages have been growing overtime, with brief periods of stagnation following external shocks to the labour market, the picture becomes less positive when we account for inflation. In terms of purchasing power, graduates have seen their wages stagnate for most of the previous 15 years, including a substantial decline over the course of the recent pandemic.

Figure 3.
Longitudinal Graduate Wages.



Source: Author's calculations based on QILT.[15]

Arguably the declining rate of wages and employment opportunities amongst young workers has been driven by a skills underutilisation within the Australian economy (Figure 4). Nearly 40% of employed graduates said they were working in a job that did not fully utilise their skills or education because there were no appropriate jobs available.[16]

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[12] Dr Jenny Chesters et al, *Examining the Most Important Issues in Australia : Similarities and Differences across Two Generations* (2018) <https://minerva-access.unimelb.edu.au/bitstream/handle/11343/216274/Most important issues report final Sept 2018.pdf?sequence=1&isAllowed=y>.

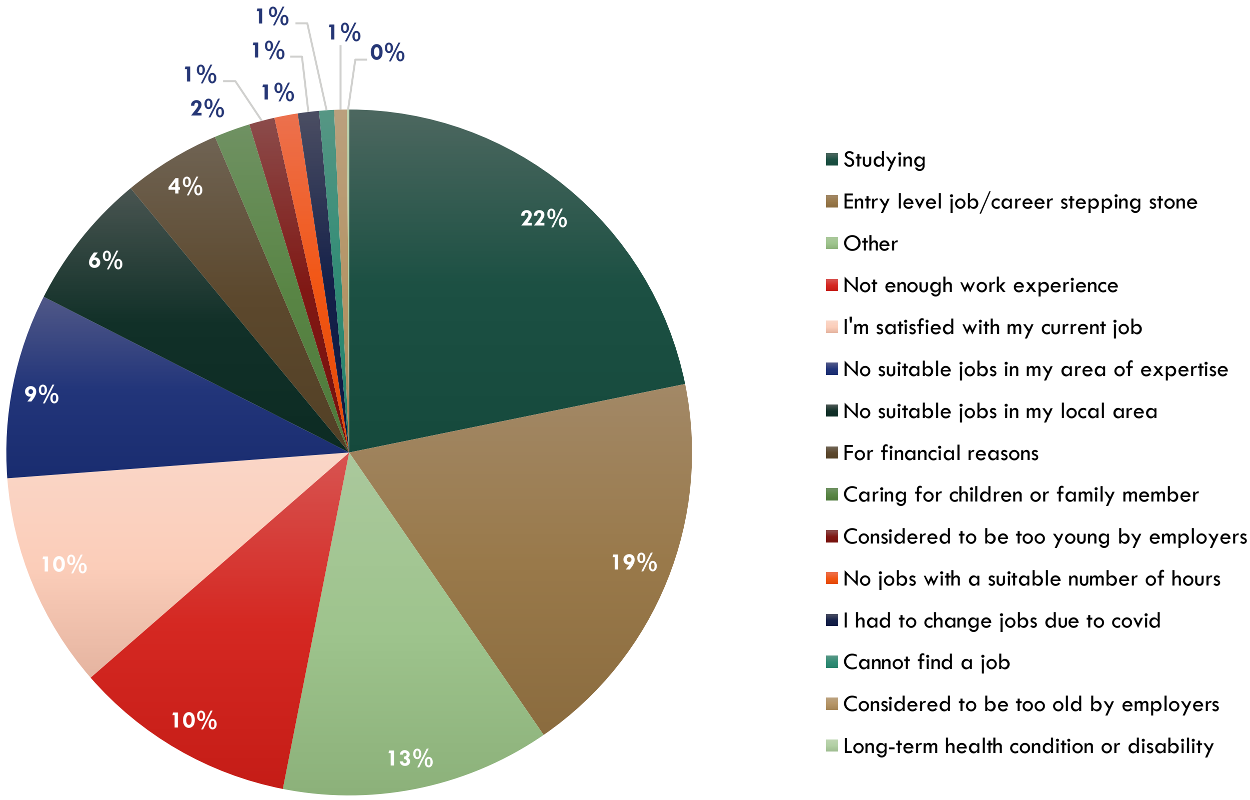
[13] Cuervo and Wyn (n 1).

[14] Graham Challice et al, *Graduate Outcomes Survey 2022* (2022) 2.

[15] Data taken from *Graduate Outcomes Survey* and adjusted to 2022 dollars using the RBA's calculation method.

[16] Challice et al (n 14) 24.

Figure 4.
Reasons for not working in a degree-related job.



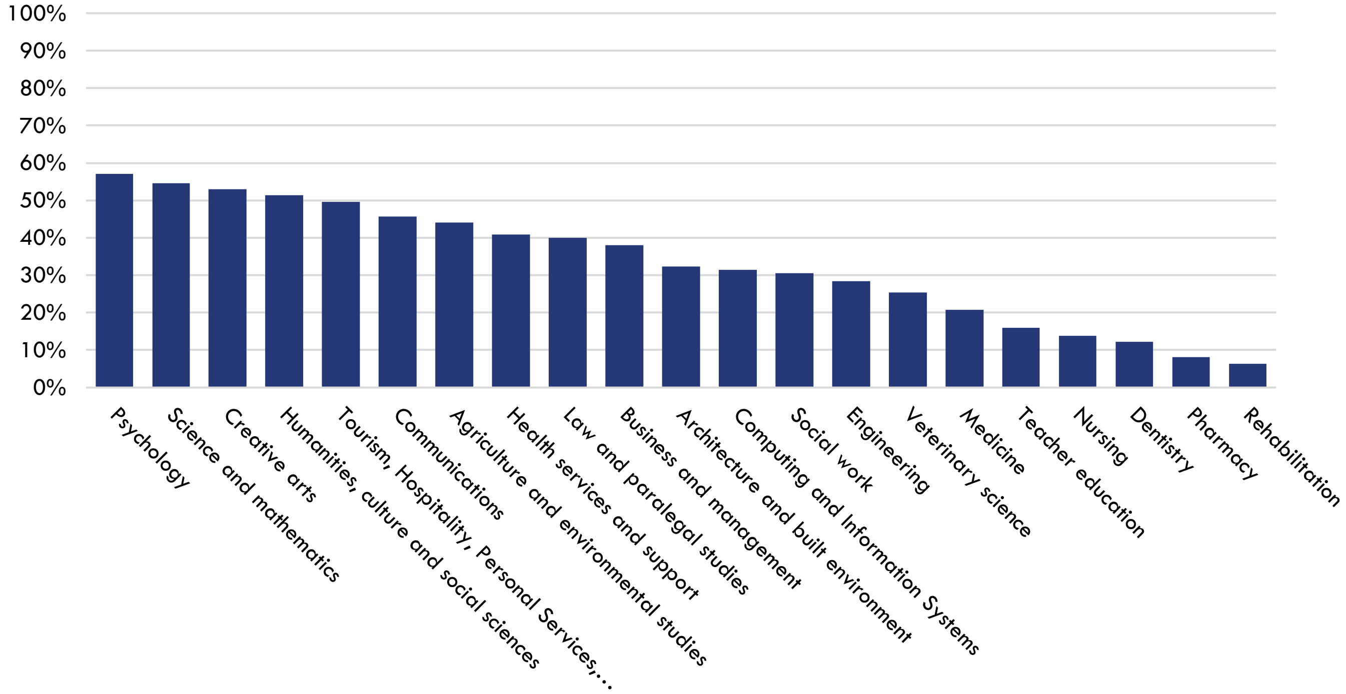
Source: *Author's calculations based on QILT.*[17]

Underutilisation is more pronounced when graduate employment figures are broken down by occupational grouping and study area (see Figure 5). Graduates with health-related professional degrees in Medicine, Nursing, Pharmacy, Rehabilitation were overwhelmingly employed in professional roles that utilised their skills, as are graduates with Information System, Engineering and Education degrees.

However, half or more of those with Psychology, Science and Maths, Legal Studies, Humanities, or Communication degrees were working in non-professional occupations that did not utilise their skillset or education.

[17] Data taken from *Graduate Outcomes Survey* and adjusted to 2022 dollars using the RBA's calculation method.

Figure 5.
Skills underutilisation by Study Area.



Source: Author's calculations based on QILT.[18]

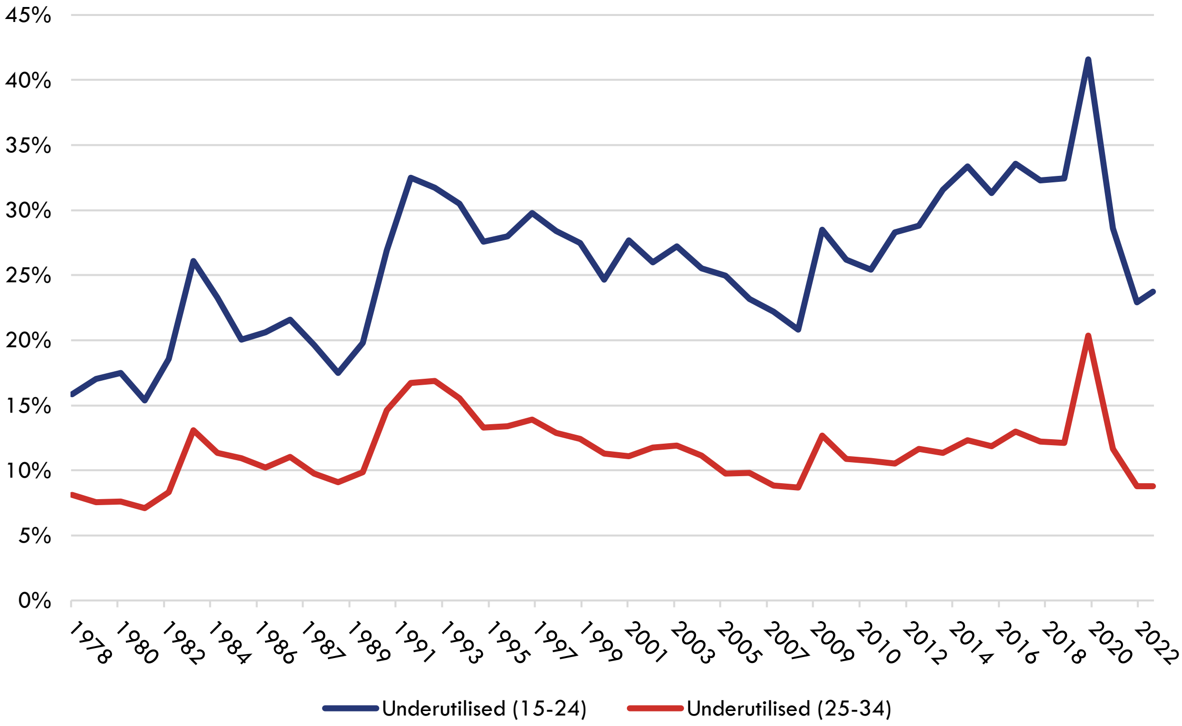
Similarly, while youth employment underutilisation has thankfully come down from the heights seen in the midst of the pandemic, and has returned to a pre-Global Financial Crisis (GFC) level, the latest data shows that underutilisation has begun to creep back up and approximately 1 in 4 young workers is either under- or unemployed (see Figure 6).

In particular, while unemployment is currently low, underemployment remains a structural feature of the youth labour market, with recent research showing that the cycle of underemployment following tertiary education is a kind of "trap…[where] graduate employment is no longer guaranteed despite the exceedingly high expectations of graduates and signalling from the (massified) higher education sector".[19]

[18] Challice et al (n 14).

[19] Brendan Churchill and Chabel Khan, 'Youth Underemployment: A Review of Research on Young People and the Problems of Less(Er) Employment in an Era of Mass Education' (2021) 15(10) *Sociology Compass* 1, 4.

Figure 6. Youth Underutilisation



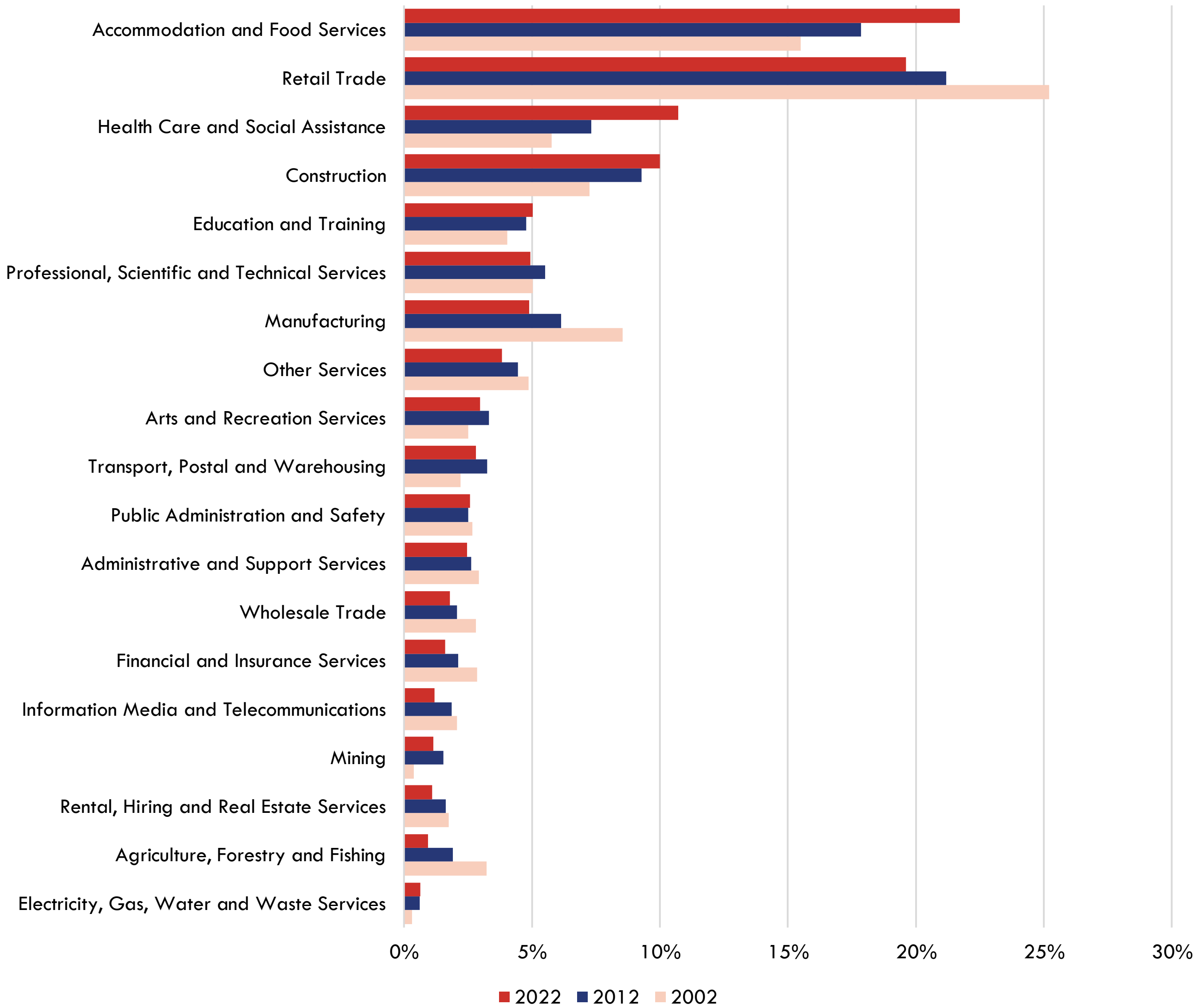
Source: Author's calculations, based on ABS 6202.0 Table 22.[20]

Not only does this combination skill and employment underutilisation saddle young workers with debt for degrees that have not improved their labour market outcomes, it also creates a reliance on non-career industries that are plagued by insecurity, low wages and exploitation (see Figure 7).

While there has been some growth in the number of young workers employed in better renumerated and more secure careers in Health Care, Construction, and Education, the largest growth has come in Accommodation and Food Services, driven largely by hospitality. At the time of writing, more than 1 in 3 young workers are employed in hospitality, retail or fast food. Worse still, this growth in insecure industries of employment has come at the expense of employment in higher wage jobs in Manufacturing, Telecommunications and Financial Services.

[20] Australian Bureau of Statistics, *Labour Force, Australia, Detailed* (n 11).

Figure 7.
Youth Employment by Industry



. *Source: Author's calculations based on ABS 6291.0.55.001 EQ12*

Yet, despite these compounding and complicated economic conditions, young people are still being asked to pay more and more for the price of their education – regardless of whether they are receiving an increase in income or not.

Conclusion

As it stands, the Australia economy is failing to provide for the young people who participates in it. The economic management of successive governments since the 1980s has seen the erosion of secure work in middle skill industries and the growth of insecure work in the service economy, and the promise of higher education to provide a brighter future has been slowly extinguished.

As a result, we have hundreds of thousands of young workers with degrees who are either un- or under-employed,[21] while the economy is experiencing nationwide skills shortages in midwifery, nursing, metal trades and technology related occupations.[22] Crucially, we must recognise that this mismatch is a failure of policy makers, not the young people themselves.

While the impacts of this once in a generation pandemic have upended many aspects of our economic and social lives, and we may never return to the same kind of 'normal' we had before, we must also realise that this is not an absolute negative.

We must view the crisis and its aftermath as an opportunity to challenge the orthodoxies and shibboleths of our political economy, and seek to interrogate them anew. There are lessons to be learned from every big disruption, and we have an opportunity to rethink some entrenched ideas and practices that may once have seemed unchangeable, but have long since stopped being fit for purpose in a modern, innovative and inclusive economy.

As such, we welcome the government's current inquiry into the abolition on indexation relating to income contingent loans in the higher education system and raising the minimum repayment threshold. This submissions has shown that the correlation between education levels and employment outcomes has become decoupled, leaving thousands of young workers paying down debt on costly degrees that have not improved their labour market position.

Within this context, we support the Bill's supported aims including the abolition of indexation for ICLs in Australia and a substantial increase of the minimum repayment income threshold to the median wage.

[21] Australian Bureau of Statistics, 'Labour Force, Australia, September 2022' (September 2022) <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release#data-downloads>.

[22] National Skills Commission, *National Skills Priority List: Key Findings Report* (2022).

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