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Letters from Academia

One of the most controversial issues in higher education today is its cost, particularly for the students who end up carrying the burden of heavy college loan debt.

According to the Federal Reserve Bank of New York, the total U.S student loan debt was $1.26 trillion in 2016, which is more than the total credit card debt in the country.

That debt is shared by 43.3 million Americans who pay on average $351 a month. And the student loan delinquency rate is 11.6 percent, partly because many students do not complete college and don't go on to well-paying jobs. Given these figures, it is no wonder that student debt has become a major issue this political season.

Although many countries have approached this issue differently, there is one that has attracted a particular level of attention: Australia.

The way Australians have been funding higher education is unique in many ways. Unlike some countries where higher education is virtually free, the Aussies have sought to make the system more equitable, with costs based on the ability of the student to pay over their lifetimes.

Students pay nothing while in college, which lessens the pressure to work while studying. In turn, this ability to concentrate on their studies without worrying about working allows students to concentrate on their studies. The theory is that if they spend more time on their coursework, then they will be able to graduate on time and get better jobs. Graduates pay back their college costs based on their income, in other words, based on their ability to pay. They don't have to pay back loans on a rigid timetable like most U.S. students must.

This model translates into an income-driven repayment plan that acts as an insurance policy for borrowers, protecting those whose salaries are low, even for those whose incomes never allow them to repay their full debt.

Borrowers don't have to begin repayments until their yearly incomes hit about $54,000 Australian (about $40,000 U.S.). The U.S. system doesn't require repayment from borrowers with incomes falling below a certain amount either, but it is determined by payments based on a percentage of borrowers' discretionary income (the difference between what they earn and 150 percent of the poverty rate) and are also tied to family size, making the whole system much more complex.

In the U.S. a borrower without a spouse or child must start making payments when their earnings reach around $20,000, which can be pretty hard to do.

Created in 1989 under the name Higher Education Contribution Scheme, the Australian system has broad political support. It was introduced after higher education ceased to be free for all in that country. This program made Australia the first country to build a fully income-contingent national student loan program. New Zealand and Britain have since adopted similar systems.

The United States has a much more complex and rigid system when it comes to repayments for borrowers with federal student loans. The Australian system is very simple because it offers one repayment option, in contrast to the myriad choices in the U.S. Unlike American student borrowers, Australians don't have to jump through hoops to get into the right repayment plan or to document their income. Under the Australian system the size of payments is directly linked to borrowers' incomes, and payments are made through the tax system. Thus, payments are essentially compulsory and easy to administer.

Another feature of this program is that Australia doesn't charge real interest on its student loans, which are instead indexed each year to the inflation rate. Also, Australian students can borrow money only for their direct educational costs, not to cover their living expenses, which is to help avoid abuses to the system. Additionally, Australia does not have a forgiveness provision. What that means is that even if their income is so low that they don't have to make payments, borrowers carry the debt until death. Although that sounds gloomy, since interest isn't added to the loan amount the total loan burden doesn't grow for low-income borrowers.

To be sure, this system costs the Australian taxpayer. About 20 percent of the outstanding debt is never repaid, but in the U.S. the public system of higher education is also subsidized by taxpayers. The advantage for the Aussies is not only in their plan's simplicity, but also in its fairness.

The Australian system has been very successful by financing expanded access to higher education, containing tuition subsidy costs to taxpayers and managing risk for students and graduates.

Some states, including Oregon, have been looking to Australia in order to find a model for their own higher education finance system. Oregon is planning a very similar program, but with some differences such as that repayments would last for a specified time. In Australia the debt lasts only until the original amount borrowed is repaid, which is nine years on average. In Oregon the system would make profits on financially successful graduates to help offset losses from low-income earners.

Yet, the Oregon plan has a major weakness. How will the state enforce repayment from out-of-state residents? That is why such a system is most effective if it is implemented on a national scope.

Higher education will never be free for all. Educators and college staff cost money. Facilities cost money. Innovation costs money. As we pay taxes to contribute to the building of infrastructure, public schools, and our health system, we should also pay taxes to cover one of the most important investments in society: higher education.

A highly educated population means a more prosperous country with higher overall income, better living standards and more social and political stability.

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