

## Student Loans

To the Revenue Minister Todd McClay. This is a submission from Kevin Broughan, a professor of mathematics at the University of Waikato. I am making this submission on our own personal behalf.

1. I want to take up issues, such as the proposal in 15 and why the government wants to use the criminal law, with the committee in an oral submission.
2. Why do we have student loans? NZ has one of the highest levels of youth unemployment in the OECD. Yet skill shortages in over one hundred areas have been identified by MBIE. To quote from the OECD:

*Skills have become the global currency of the 21<sup>st</sup> century. Without proper investment in skills, people languish on the margins of society, technological progress does not translate into economic growth, and countries can no longer compete in an increasingly knowledge-based global society.*

So according to the OECD and MBIE, the principal beneficiary of skills development is the economy.

3. Before the loans were introduced in 1992, student fees were very small. Tertiary education was part of the “free and public” system, which includes pre-school, primary and secondary education. It was determined by government, that it would be convenient for part of the cost of an individual’s tertiary education to be covered by fees, which would be a significant proportion of the real costs. The argument which was used, was that there was a proportion of individual benefit and therefore the “user should pay”. It was never suggested that there was any similar benefit, incurring costs for the individual, for public primary and secondary education for example.
4. The loans were introduced to sugar this bitter pill. Of course the measure was “copy-cat”: loans and fees had been common in the USA for many years. Parents would start saving for their child’s “college education” often from birth. Here, the loans were introduced, on the fly, with no lead time, and the burden was placed most frequently on the shoulders of the student, who often was in no position to deal with this. At the age they enter tertiary education they would have had no opportunity to accumulate savings or capital.
5. So a generation, well off, established, with houses and rental properties which were relatively cheap, having had in many cases a free tertiary education, weighed down new generations with debt, and we are sad to say, lots of unemployment. This is unfair, saddling the new generation with financial difficulties, so the older can buy their batches and boats and enjoy more overseas trips.
6. In 1991 the level of student indebtedness was of course zero. As time went on, with jobs hard to find it rapidly accumulated. Students of course were blamed, even though they in no way were responsible for the scheme being introduced, or for the lack of good jobs in an all-too-narrow and stagnant economy. Of course governments regarded their actions as clever.

7. So many headed overseas and formed part of a growing semi-permanent Kiwi diaspora. Living overseas for the few is economically advantageous, but for the many, expensive and insecure. Graduate students for example or those in the performing arts.
8. A lot changed too for students who did not leave NZ. Up until 1992 many would take more than the minimum period to finish a degree – deficiencies in secondary education, missing prerequisites, changes of course programme in mid-stream all are factors. A large and increasing number would go on to higher degrees, thus increasing their ability to contribute to the economy at a higher level. In other words they were leaning more and better at a deeper and better level than in earlier years. Living expenses were frequently covered by working long hours in the summer in seasonal work.
9. Now we find this work is not there – it has been casualised into oblivion. Students often need to take part time work during the teaching periods, sometimes more than one job, as well as taking a student loan. They have expenses – medical, food, clothing, power, accommodation, books, travel, computer, and as well additional course fees for materials. This work, worry and tiredness drives down their ability to learn. It results in student disengagement with learning. (Compare the recently revealed disengagement of the majority with employment – see my submission on the Employment Relations amendment bill.) At the end of a first qualification they are saddled with debt, and unlike previous generations, want to finish study and often never reach their true potential. Being a good student requires the commitment of personal energy beyond what many in full-time work would regard as sensible. It requires work of a high order to be successful, so we have the conundrum – students pay to work.
10. Tertiary institutions compete internationally and frequently complain that their funding is insufficient. They wish to raise student fee levels and increase the government subsidy in order that they can appoint more able staff and improve facilities. International students view institution rankings closely. A drop in ranking can result in a decline in international student enrolments, and thus a decline in institutional income. A reduction in fees for domestic students, with a corresponding increase in government subsidies, would result in a decrease in student loan requirements and on-going costs to the tax payer. Since there is a problem with non-repayment of loans, the deep seated unfairness and difficulty of the current system reaching equilibrium must be considered – it simply isn't working. Increasing the penalties for tardy repayment just masks the problems in a flawed system.
11. In 1860 NZ closed its last debtor's prison. Now we have the proposal to make loan default a criminal offence with a prison term as part of the potential penalty. To the student, the loan looks like an additional tax (more intergenerational inequality – see 5), since the repayments go through the PAYE system administered by IRD. The tax act has a large range of penalties, for defaulters and evaders. In discussion with IRD, it appears that the courts hand out a widely divergent set of penalties for tax evasion and fraud, and that the aphorism "let the punishment fit the crime" is very hard to verify or control. More details concerning this will be discussed with the committee as they become available.

12. Internationally, it appears write-offs and costs for student loan schemes are significant and unavoidable. At around 40% of government input, this shows in bold relief that the system is flawed and needs to be rethought. You might believe this has already been done – see the “Student Loan Scheme Annual Report 2012” of the Ministry of Education under the signature of Lesley Longstone. Please do not rely on this report. It indicates there are an increasing number of students going on to higher studies, and regards this as a benefit to the economy. However, with student loans to pay and uncertain levels of future income, the elimination of allowances for postgraduate students and the sinking lid of availability of other benefits, the government appears and is succeeding to be doing everything in its power to reduce the number of students going on to higher studies. In so many different ways they are constructing a system to get students to finish in the minimum time, and in many cases never to reach their true potential. For example, on page 15 of the report we see the statement “The government has given greater priority to enrolments by younger people in higher-level qualifications, because that is more effective in raising human capital”. How can you say that and remove allowances for post-graduate students ?
13. Students who go overseas when they have finished their studies, or who go overseas to continue their studies are of course an important part of the Kiwi OE experience. We hope most of them will return, a little older and wiser and more able to contribute to our export-led economy. Many of them find life difficult outside NZ, especially those who head for North America or Europe. Life is expensive. Visa requirements are stringent. The imagined norm of a typical NZ student doing their OE in the City of London, and getting a \$1 Million salary, is far from typical. With criminalizing student loan defaulters who are overseas when they attempt to return, the result will be many never returning, and many living illegally in foreign lands. Is this what we want for our children and grandchildren? What data was used on income levels in setting the repayment levels for overseas students?
14. And for students who don't go overseas, we see from a recent report they are earning less than “expected”. Again much of this is a result of government policy, of the fundamental generational inequity with student loans, of high-cost housing, of low youth wages and of high youth unemployment all adding this problem, which is rapidly becoming deep-seated.
15. Here is a possible solution to be discussed: first optimize the government responsibility in the student loan area by reducing fee levels and loan levels. The 40% shortfall comes from many quarters – low wage levels in NZ for example- as well as the overseas defaulters. Every dollar lost should be regarded, not as something to motivate punishment for the former student, but as a dollar badly placed. Please get the Treasury experts to write a mathematical model to do this. Then phase in a concept which would have parents taking a greater explicit responsibility for their children's tertiary education: i.e. the expectation is that parents would save and make investments in order that they could assist their children at that stage: they may have to forego that boat for snapper fishing or an overseas trip, but most would willingly do this. Being a parent does not stop just because a child turns 16,17 or 18! And remember, the child has no opportunity to save. Unlike the unsatisfactory way the scheme was first introduced, this new scheme should have a long phased in lead time, and be properly conceptualized. So shift the obligations from the child to the parent. Then the loan would become a normal contract with security so that the responsibility for pay- back,

when the child is overseas, falls on the parent. Having a child means paying for that child in so many ways – and most of us parents are happy to do this as best we can.

16. Then we need to consider how this proposal would apply to the important sector of our communities that come from disadvantaged backgrounds. I know something about this, having grown up in Naenae and gone to low decile schools.

**Kevin Broughan**

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