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Bruce Chapman, Professor of Economics at ANU, Canberra. Photo: News Corp Australia

ANU professor recommends HECS-style loans to soften COVID-19 economic crash

By: Wade Zaglas in Funding, News, Top Stories, Workforce March 23, 2020 0

The architect of Australia's original Higher Education Contribution Scheme – known as HECS – is calling on the government to roll out income and revenue-based loans to soften a likely world recession.

Australia National University leading economist Professor Bruce Chapman says income-contingent loans (ICL) and revenue-contingent loans (RCL) are "the best way" to limit the economic impact of the COVID-19 impact on households and businesses.

HECS, which is now used in 10 countries, enables higher education providers to lend to students without them paying for up-front tuition. Instead, students repay the loans once they have reached a salary threshold, which is currently \$45,881 per annum.

"These are days of anxiety and fear – including for businesses and people bracing for the economic fallout of COVID-19," he said.

"It is very welcome news that the Australian Government might be considering 'HECS-style loans' as part of stimulus to help counteract the recession forces accompanying the global coronavirus crisis.

"Income-contingent loans can be applied in a variety of ways, including for drought relief, solar energy, business R&D or extended paid parental leave."

However, the ANU professor also recommended smaller loans for individuals in financial trouble, including anyone who has their hours cut or has been made redundant.

"This could be a loan of \$5000, enough to tide people over until their fraught employment situation becomes clearer. Repayments would be based on personal income and designed to minimise non-repayments of the debt," he said.

Chapman said loans for businesses affected by COVID-19 are ideally set up.

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"The elegance of RCL as a response to short-term business problems is that we have all pieces of the puzzle already in place. So we can act quickly and effectively," he said.

"This includes access to a firm's Business Activity Statement, which is used by employers to transfer GST revenue to the Government. The very same system, we are told by accountants, is ideally suited for the application of a RCL."

However, Chapman told *Campus Review* that there might have to be some caveats with RCL loans as many businesses shut down in their first few years, and staff turnaround rates can be high. On that basis, he recommended such loans should be offered to businesses that have been operating for three years or more.

Chapman asserted that income- and revenue-based loans would be "the fairest and most sensible form of economic stimulus at a government's disposal".

"Governments can provide very large sums of money in the form of grants or tax relief, but with enormous future costs to the state of the budget," he said.

"Or governments can extend normal concessional loans now in use, which have all the repayment risks and uncertainties associated with conventional borrowing.

"Instead, the insurance benefits of contingent debt have become very clear from our 30-year experience with HECS, and the simplicity and equity of comparable loans for business in the form of RCL are also compelling."

Chapman also told *Campus Review* that such a measure, while costly in the short term, "could save the budget a lot more money and help more people" as the government would ultimately be getting a lot of the money back.

In an interview with [ABC National Radio](#) late last week, the economics professor likened the scheme to progressive income tax whereby individuals pay a suitable amount based on their income.

"It's a temporary problem with finance. They [businesses and individuals] will be there to repay their loans when things start to recover".

He called the governments' current stimulus packages "spectacularly big" and could hit the budget bottom line hard.

Some of Chapman's detractors, however, have called the ICL and RCL strategies simple copies of HECS, but the professor takes no issue with this and believes it is perfectly placed to at least ameliorate the current and looming economic carnage.

He also said the HECS system affords a lot of flexibility in terms of repayments, for both taxpayers and businesses,

Currently, the Australian government has committed to \$189 billion in combined stimulus packages, including loans for small businesses, up-front payments for a range of individuals, and early access to superannuation.

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