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TITLE: **Student debt plan is a funny money scheme**

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Social policy and conservative debt management policy do not always go well together and a good example is the question of what to do with outstanding student debt.

Why would private interests want to buy it? It only increases by the CPI and would perform poorly as a financial investment. A term account with a bank will give an investor a better deal.

Repayments are managed by the Taxation Office, which can require former students to declare their income and impose penalties for false information.

Centrelink and other agencies have similar powers in some circumstances, but no private body has the power to seek that sort of information. So there is no way an income-contingent loan operation could be managed entirely by the private sector.

Advances paid by the government under HECS are included in the government's balance sheet. At the end of June, $22.3 billion of HECS debt was included as part of the government's financial assets. That financial asset had the effect of reducing the government net debt by the same amount. But, if the government sold the debt for an optimistic $15bn and used that to repay debt, the net impact would be to increase net debt by $7.3bn. Gross debt may come out looking $15bn better, but that hardly matters.

To ensure HECS debt was sold, the government would need to actually spend some money to give investors a return over and above inflation. Hence, privatisation would likely increase the government's budget deficit.

All in all this is a funny money scheme that is likely to increase both net debt and the budget deficit. In all of this, it has been assumed nothing is done to change the obligations facing the former students. But the worst-case scenario would be to charge an interest rate above inflation, introduce contractual repayment obligations and have students chased through bankruptcy courts by private lenders in the event of default.

The government should rule out those scenarios as soon as possible.

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