Introduction and Summary

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In 1989 the Australian government introduced the first university tuition-loan program in which debts would be collected through the income tax system depending on the participant's income.[1] The policy, known as the Higher Education Contribution Scheme (HECS) is an arrangement known as an income contingent loan (ICL), a debt that differs critically from 'normal' loans in that repayments occur if and only when debtors' incomes reach a given level. Eight other countries have since adopted similar student loan schemes and, at the time of writing, there is a Bill (the Earnings Contingent Education Loans (ExCEL) Act) under bi-partisan consideration in the US Congress which, if passed, would have the effect of introducing a broadly-based ICL. It is generally agreed that ICL policies for higher education financing have worked effectively from the perspective of equity and efficiency, and from a transactional perspective.

While HECS was considered to be a creative innovation, applauded in the main for its political sophistication, no-one at the time foresaw the potential of ICL to transform the debate concerning the economic and social policy landscape. There was no appreciation of the possibility that contingent loan financing could provide a model for far-reaching renovations to the nature and form of public policy; yet in the eyes of some contemporary social scientists such a possibility is close to being realised. The ICL potential, and the intellectual, conceptual and empirical bases of contingent financing, are the subjects of our book.

Over about the last 25 years economists and other social scientists have taken the basic template of Australia's education ICL and applied it to a plethora of different social and economic arenas. It is this policy and research experience that provided the idea of holding an International Economics Association workshop on the broad topic of ICL, and this came to fruition at

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Dhurakij Pundit University (DPU) in Bangkok in April 2013. The convenors were Professors Joseph E. Stiglitz and Bruce Chapman, with critical funding support provided by DPU, the Australian Research Council and Ausaid, the Australian government aid agency at the time.

The two-day workshop covered: the conceptual and theoretical underpinnings of ICL; the costs and benefits of different types of higher education student loans; and potential contingent loan policy applications beyond higher education. A number of participants presented commentary during and after the workshop, summarising their thoughts on the discussion, and examining, among other things, advantages and disadvantages of particular features of different ICL programs, lessons learned, unresolved questions, and future prospects and challenges.

This volume contains revised versions of the presentations and commentaries presented at the workshop.

In the first chapter following this introduction, Chapman sets the scene by traversing the major theoretical and policy issues in historical, conceptual and empirical contexts. The chapter is intended to introduce ICL to readers unfamiliar both with loans of this form and with the literature analysing these programs.

The remainder of the book consists of four sections. Section 1 examines the theoretical underpinnings of ICL. Section 2 describes and considers critically the application of ICL in higher education, and includes an overview of the motivation, design, and lessons learned from the implementation of ICL schemes for higher education. Various case studies (Chile, Colombia, Malaysia, Thailand and Germany) illustrate a variety of issues that higher education financing programs face, and the possibility for solutions through ICL.

Section 3 provides an examination of several disparate potential applications of ICL in financing areas well beyond student loans, including: paid parental leave; legal aid; business innovation; health care; sustaining consumption during a period of unemployment; and providing for aged care. It also contains a discussion of the internationalisation of ICL debt payments for human capital trade imbalances. Section 4 concludes with commentaries on aspects of ICL theory, design and application, ranging from a reassessment of the costs and benefits of ICL in higher education, to reflections on contingent loans as a new paradigm for the welfare state and as a lower cost alternative to private financial markets in certain critical realms.

Following are brief summaries of the chapters, and what we consider to be the key findings from the workshop.

In Chapter 1, Chapman highlights the critical advantages of ICL over conventional loans: it provides for better consumption smoothing, since with ICL repayment obligations are a fixed proportion of income; the administrative and compliance costs with ICL have been low; government has