

The changing value of a degree: Rebalancing Australia's tertiary pathways

Policy Brief

The Mitchell Institute, Victoria University

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Key points

- Over the past 40 years, university has become a dominant pathway following school, while vocational education and training (VET) enrolments have stagnated or declined.
- At the same time, the full-time wage premium for a university degree – how much more you can expect to earn with a university degree relative to everyone else – has fallen.
- With tertiary qualifications more common, higher levels of study are increasingly needed to achieve the premium once available with lower-level awards.
- Student loans are larger and taking longer to pay back. Of Australians who have a student loan, those aged 30 to 39 years now carry the highest average debt, exceeding \$30,000.
- The shifting landscape highlights the difficult problem facing the Australian Government deciding who pays for tertiary education and how much.
- The Albanese Government's election promise of a 20% reduction of student debt will help to reduce the burden, but it will only return average balances to 2022 levels.
- There is a pressing need to replace the Job-ready Graduates funding regime, especially its higher student contributions for humanities and business courses.
- Australia's tertiary education system lacks coherence, and there is evidence of a “missing middle” emerging, which is high-quality sub-degree qualifications that provide pathways into higher-level jobs.
- Reform should focus on diversifying post-secondary pathways, rebalancing costs so there are multiple options to solid labour market returns and ensuring the benefits of post-secondary education are shared equally.

The issue

The Australian Government has set high targets for increased tertiary education participation of young people to meet reported future job needs. The Australian Universities Accord (2024) – the large-scale review into higher education – recommended that Australia more than doubles the number of government-funded students from 860,000 to 1.8 million by 2050.

Our analysis of Australian census data over a 40-year period shows the bigger picture. We looked at changes in tertiary education participation and the ‘wage premium’, which is the amount someone could expect to earn with a qualification compared to others in the same age group.

Over the past four decades, higher education participation has expanded

dramatically, while participation in vocational education and training (VET) has stagnated or declined.

Where graduates once earned more than 50% above their peers, today's younger Australians completing higher education see a more modest advantage. University degrees still deliver an earnings premium, but that premium is smaller. Students without post-secondary study continue to earn the least.

The result is a system imbalance: University is increasingly perceived as the optimal pathway, even as the labour market advantage narrows. Meanwhile, VET struggles to maintain its status as a high-value option, and is becoming limited to a narrow group of occupations and trades.

The tertiary education landscape has changed

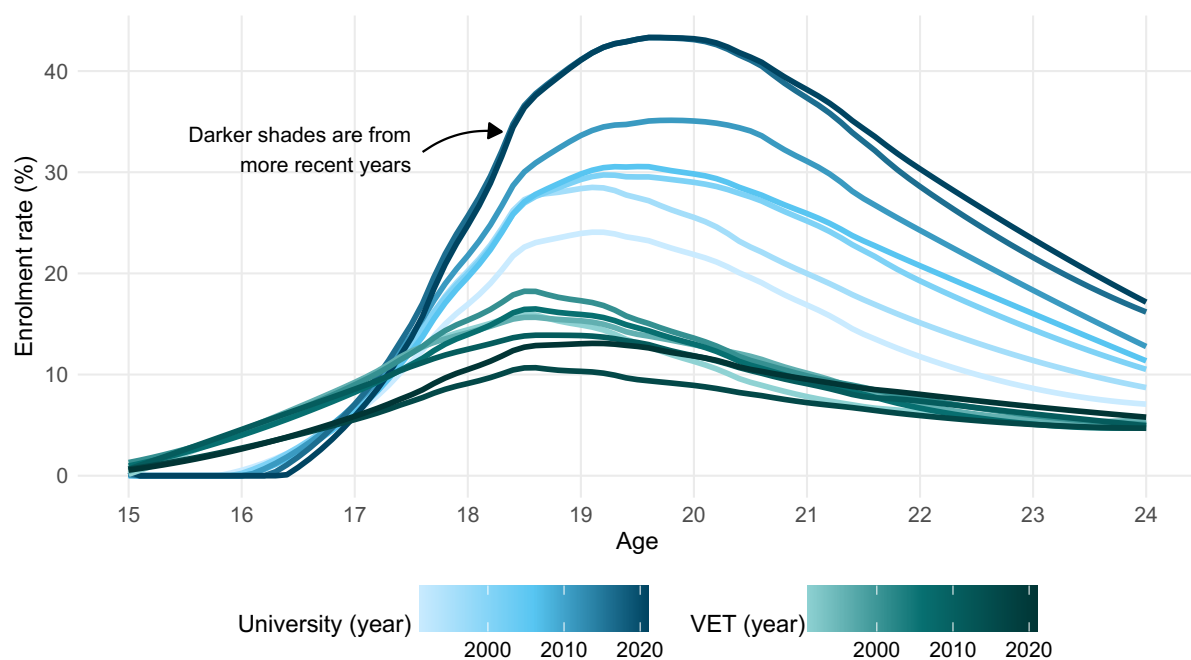
Census data shows that the educational landscape has expanded dramatically over the past forty years. This upward trend means more young people are finishing school, entering tertiary education, and completing a degree than at any point in Australia's history. As Figure 1 shows, this growth in participation has not been even. This figure uses census data from 1991 to 2021 to examine post-secondary participation for young people aged 15 to 24 years,

with darker shading representing more recent years. Higher education participation has almost doubled with 43% of 20-year-olds enrolled at a higher education institution in 2021.

The trend runs the other way with vocational education and training. Participation has declined over time, although it has increased slightly in the 2021 census.

University participation has increased while VET has declined

Figure 1: Enrolment rate (%) by institution type and age (ABS census, 1981 to 2021)



Source: Mitchell Institute analysis of Australian Bureau of Statistics (2023) data

A degree doesn't buy you what it used to

The long-standing promise of attaining a degree - access to higher-paying work - is under increasing pressure. The census data helps show this. Compared to other qualifications, university degrees retain their privileged position as a pathway to stronger market outcomes.

But the premium is shrinking.

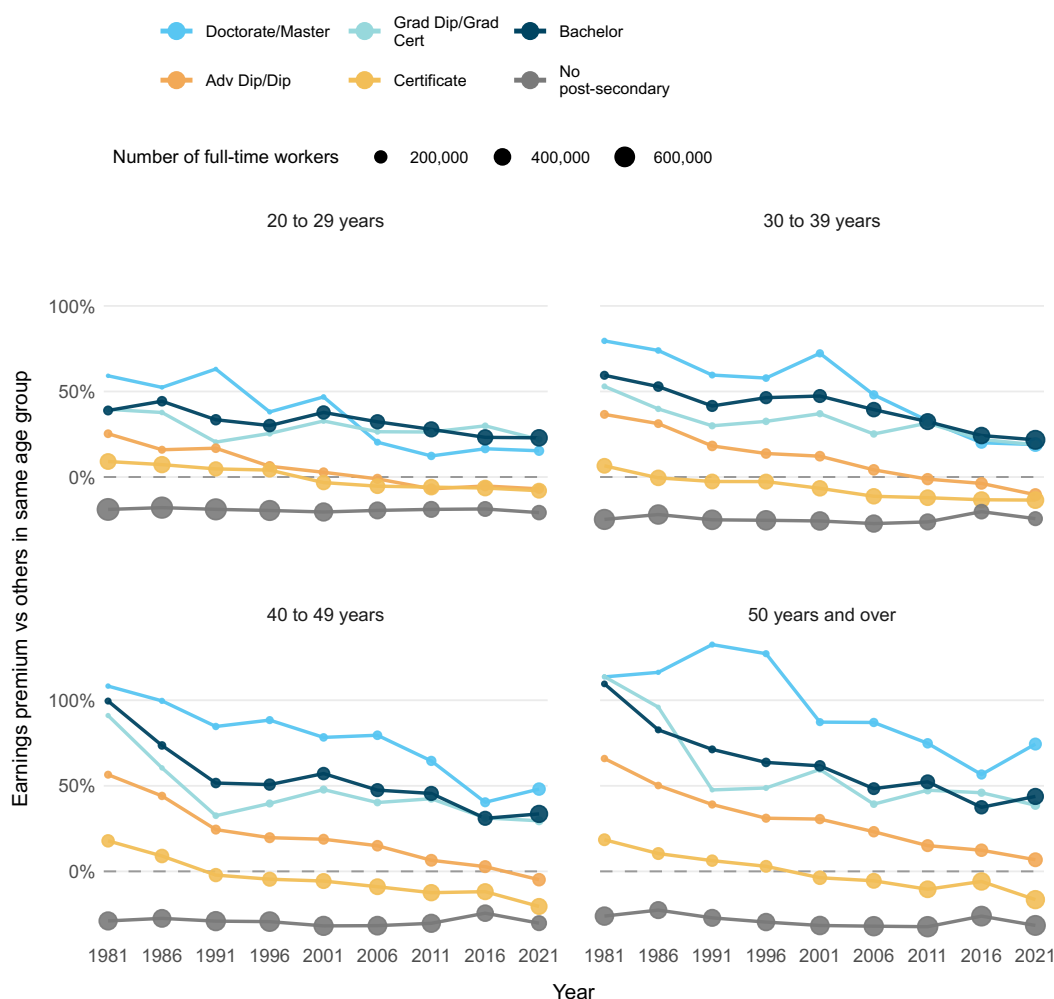
When looking at full-time workers, there is a downward trend in the wage premium associated with university degrees. Figure 2 uses census data from 1981 to 2021 and estimates of median

weekly full-time earnings by highest qualification level and age group. It shows the difference in median weekly earnings as a percentage that someone with a degree can expect relative to everyone else in their age group. The size of the circle indicates the number of full-time workers in each group.

As the proportion of full-time workers with post-secondary qualifications has increased, especially those who hold a bachelor's degree, their earnings premium has fallen.

The wage premium for post-secondary qualifications has fallen

Figure 2: Difference in median earnings (%) of highest post-secondary qualification for full-time workers



Source: Mitchell Institute analysis of Australian Bureau of Statistics (2023) data

The changing power of education qualifications

How much someone earns is just one measure of the labour market impact of educational attainment. Job satisfaction, employment participation and productivity are some other ways of exploring the impact of qualifications.

The nature of an earnings premium is that they are relative to other people. If there are more people in the labour market who hold post-secondary qualifications, the weaker the earnings premium becomes.

These changing dynamics have implications for who pays for education, and how much. Part of the rationale of income-contingent loans, commonly known as HECS or HELP, is that an

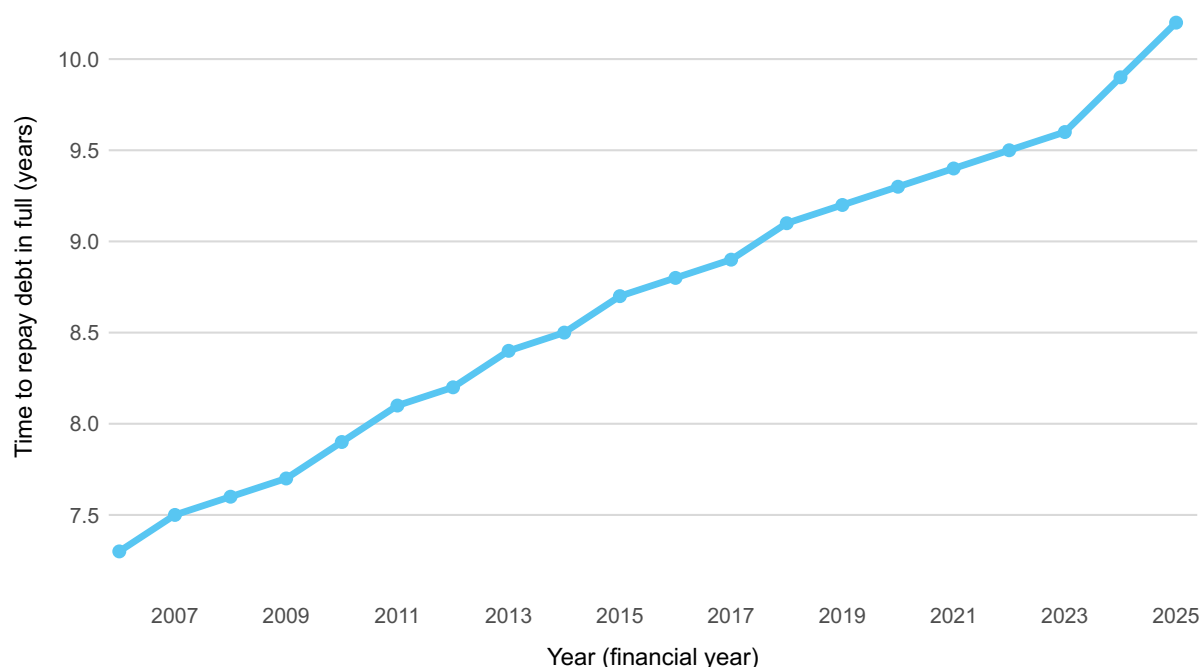
individual receives a “private” benefit from education through higher earnings. Therefore, an individual contributes to the costs of their education by paying a higher tax rate if their earnings exceed a certain threshold.

If the graduate premium for higher qualifications declines, then the rationale for that investment starts to break down.

The impact of this shift can be seen in the size of student loans and the time it is now taking to pay them off. Australian Taxation Office data show the median time it is taking to pay off a student loan has increased steadily. The average time to repay student debt is now 10.2 years, up from 7.3 years in 2006.

It is taking longer to repay student debt

Figure 3: Average number of years taken to repay student loan debt, 2006 to 2025



Source: ATO (2025)

The profile of those who hold student loan debts has also changed. The most recent published data shows that there are more people with student debts, and that more older people have student debts. In 2005-06, people aged 30 years and over made up 39 per cent of all individuals with a student debt. By 2024-25, the proportion of student debt holders aged over 30 years was over 50%.

Over the past 20 years, the average amount of debt held by individuals has also increased across all age groups, except for those aged under 20 years.

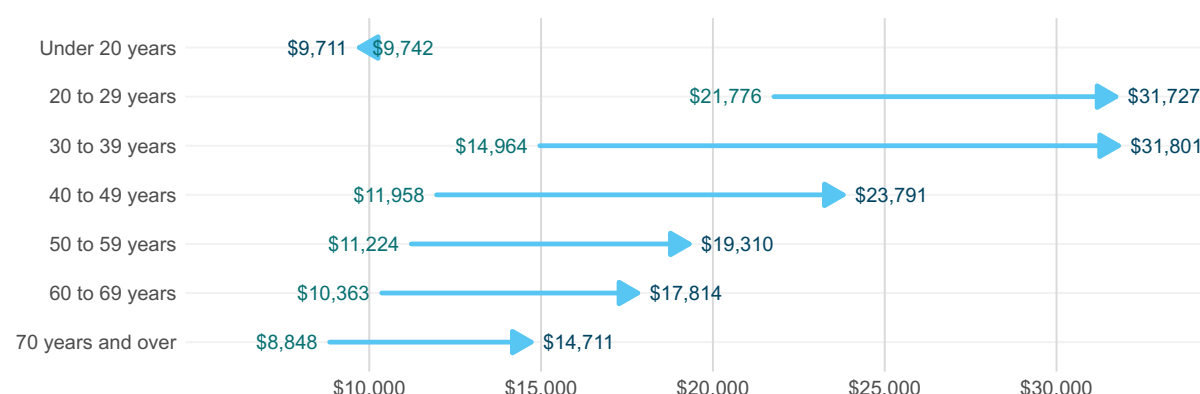
Figure 4 compares the average student debt between **2006** and **2025** by age group. The amount is adjusted for inflation.

This figure shows that individuals aged 30 to 39 years now have the highest average overall debt, at over \$30,000.

The recent implementation of the Albanese Government's election promise to cut all student loans by 20% will provide some much-needed relief to those with student loans. However, as Figure 5 shows, rather than delivering lasting relief, the reduction will only take the average loan back to 2022 levels. The debt reduction is also a once-off occurrence and does not deal with the underlying issues of higher levels of student debt and a lower graduate wage premium.

Australians aged 30 to 39 years now have the largest average student debt

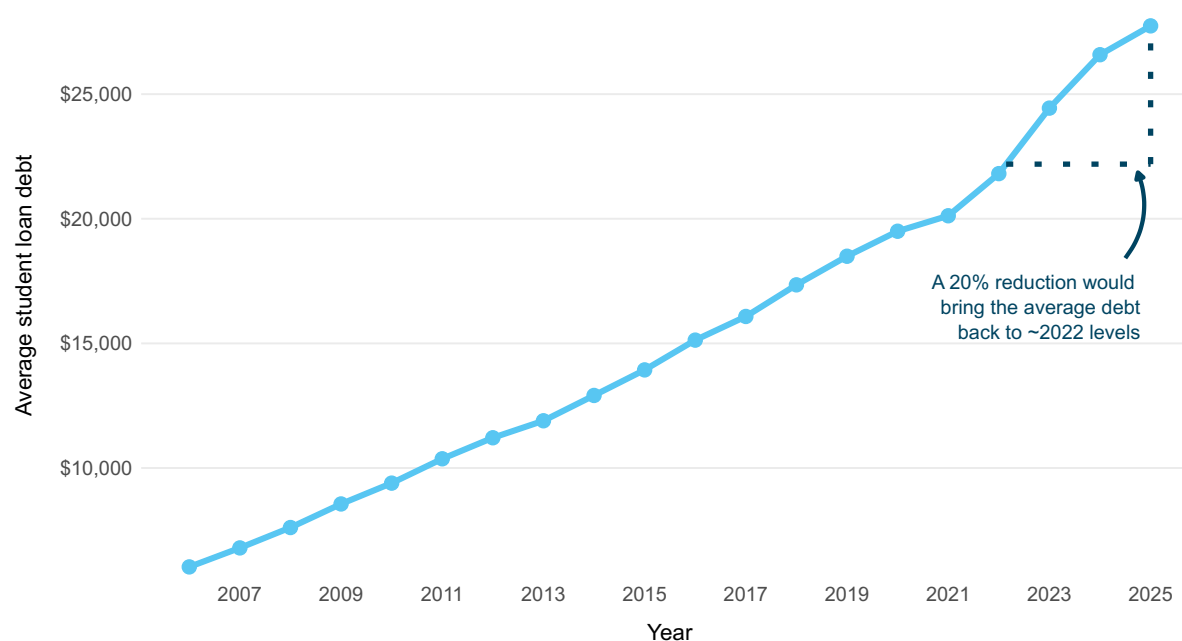
Figure 4: Average student loan debt by age group between **2006** and **2025**



Source: Mitchell Institute analysis of ATO (2025) data

The average student debt has increased steadily

Figure 5: Average student loan debt by financial year, adjusted for inflation



Source: Mitchell Institute analysis of ATO (2025) data

The spectre of credential inflation

The falling wage premium for tertiary qualifications also raises the prospect of credential inflation. This is when higher levels of qualification attainment are required to reach the premium that was once available with lower-level qualifications that usually take less time to complete.

This is because wage outcomes are not only driven by higher productivity from studying. Research evidence and a range of theories indicate that the wage premium can also be shaped by the relative scarcity of qualifications: as the supply of graduates rises, the value of those qualifications can fall (Collins, 2019; Hirsch, 1978).

This can be most strongly seen in the relative strength of wage outcomes for VET graduates, which has fallen since 1981. The median full-time wage for someone with a diploma or an advanced diploma is no longer higher than the median full-time wage of all other full-time workers in the labour market.

The premium for post-graduate qualifications is also weakening relative to other qualifications. With a more highly qualified workforce, individuals need to spend longer in education to get the same premium they may once have received with a lower-level qualification a few decades ago.

Policy implications

These trends have big consequences. Post-secondary education carries costs, through delayed entry into the labour market and student debt.

The Australian Government is still grappling with who pays for higher education and how much. The implementation of Labor's 2025 election promise of a 20% reduction on all student debt will ease the burden, but it is a once-off reprieve.

There is a pressing need to replace the much-maligned Job Ready Graduate funding regime that increased student debts for individuals studying humanities and business courses. It is a difficult problem in an environment when a degree doesn't get you what it once did. The targets proposed by the Australian Universities Accord could further change the equation. As more Australians graduate, the differentiating value of a degree diminishes.

The census data highlights a wider problem, with a lack of coherence across the tertiary education system. Tertiary education policies continue to treat universities and VET as separate systems, rather than parts of a cohesive whole.

There is also the problem of what some have called the 'missing middle' (Farquharson et al., 2022). This refers to the absence of high-quality sub-degree qualifications that act as pathways into higher-level jobs. Without these, Australia risks an inequitable polarisation between those who go to university and those who don't.

It is a big task, but policy reform should aim to deliver a tertiary landscape where multiple pathways deliver strong returns for young Australians, regardless of the sector.

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Acknowledgement of Country

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About the Mitchell Institute

Established in 2013, the Mitchell Institute at Victoria University is a leading policy think tank and research centre. With a focus on education policy, systems and place, we are working towards a fairer and more productive society where every individual, regardless of their background, has the opportunity to thrive.

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