Return-based financing of higher education - a temporary graduate “tax”

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Challenges

- Higher education system needs to expand
  - Skills need of labour market increase
  - Equity concerns
  - Lifelong Learning
  - New target groups
  - …

Dilemmata

- Meritocracy (vs) Equity
- Equity (vs) Equality of Opportunity
- Equity (vs) Diversity
- Equity (vs) Distributional justice
- Beneficiaries (vs) Financiers
- Higher education (vs) Employability

Every (compensatory) education policy benefits the better-off too!
Definitions

Meritocracy is performance-based

Equity means that all people can reach the goals they want to reach (enabling policy)

Equality of opportunity means to remove possible barriers to enter HE

Distributional justice means that cost and benefits have to be balanced between those benefitting and those not benefitting

Financing requirement

The whole education system needs expansion

- Early education (coverage of children from disadvantaged families)
- Expansion of all-day-school system
- Number of upper secondary graduates will have to increase
- Qualification of early school leavers
- Further education needs also expansion

Germany:
- Reduction of school duration from 13 to 12 years
- Abolition of obligatory military service
FiBS-prognosis of student numbers

Diskrepanz zwischen Studiennachfrage und Studienplätzen nach HSP II (oberes Szenario)

Financing requirements

=> 1 Million additional places for freshmen till 2020

Costs are appr. € 26bn till 2020 (on average € 2.6bn p.a.)

Wissenschaftsrat: € 1,0bn p.a. (Adaptation of Bologna-Process)

In total: € 3.6bn p.a. (= 15% of public budget für higher education)
Future trends

- Strong growth of private universities
- Strong growth of (part-time) studies (in parallel with employment)
- Increasing interest in studying for those eligible
- Increasing number of foreign students
- Increasing number of migrating German students (?)
- Studying behaviour will change (2, 3 or even 4 study periods)
- Number of „elderly“ students will increase
- VET graduates will enter universities more frequently
- More (part-time) Master programmes

Financing sources

- Public budget
  - UK has announced reduced public spending on HE
  - Austria has announced reduced public spending on HE by 2013
  - German laender have (announced to) reduce(d) public spending
  - Abolishing of fees costs laender up to € 250mln (an can only be financed through public debt)

Public budgets will have a more limited role in financing HE!
Budget are empty!
Need to repay increased public debt due to crisis raises the pressure on public budgets!
Financing sources

Private Funding

Fundraising/Sponsoring – yes, but too limited

Students and graduates, respectively

International trend – studying is free at the point of entry! …

… But „repaid“ income-contingent when income allows

⇒ Graduate tax
⇒ as temporary, …
⇒ exclusively income-contingent and
⇒ return-oriented contribution

Graduate tax

Bachelor: 3.6%
Master: 2.4%
BA+MA: 6.0%

Examples:
Income: € 1,000 = € 60 per month
Income: € 2,500 = € 150 per month
Income: € 5,000 = € 300 per month

Who doesn’t earn anything doesn’t (re)pay at all
(and has no obligation to pay this later on)
Graduate tax

Example for Germany:
Financing needs are at about €3.6mn per annum
= ca. €2,000 per student and year
=> €10,000 for a BA and MA-programme

Examples:
Income: €1,000 = €60 per month
Income: €2,500 = €150 per month
Income: €5,000 = €300 per month

Graduate tax is a model which is based on the income return of university graduates only …
… and avoids the equality and unfairness problems of loan schemes

Mortgage loans

Debt increases during studying
– And has to be repaid in fixed monthly instalments
– Debt burden on monthly income decreases with income

=> Low earners contribute disproportionately
=> (Temporary) inability to pay extents repayment period
=> Dis-advantages particularly female in part-time employment and/or with family obligations
=> Dis-advantages students in subjects with low return on invest
=> Students are risk-averse!
**Income-contingent loans**

- Are still a loan!
- Repayment period is extended in case of (temporary) inability to pay
- Temporary inability to pay increases debt due to interest rate
- Temporary inability to pay increases debt
- Students are still risk-averse!

=> Major advantage compared to mortgage loans: income contingency

Graduate tax is superior (it may even be in a position to increase (re)payment rates

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**Problems of return-based model**

- A tax does not increase funding immediately but in the long run only
- Pre-financing is required!

Possible sources:
- Government takes up a loan from credit-market (debt problem remains)
- Public banks
- Private banks
- Private (Philanthropy) Funds
- Private (commercial) Funds