Czech Republic White Paper: Comments on Tuition Fees & Loans

Bruce Johnstone

State University of New York

at Buffalo

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- Bruce Johnstone, Pamela Marcucci
  - Center for Comparative and Global Studies in Education, State University of New York at Buffalo
  - International Comparative Higher Education Finance and Accessibility Project
  - http://www.gse.buffalo.edu/org/2/index.html

Higher Education Finance Reform Worldwide—driven by:

- Steep escalation of costs:
  - The <u>inflation plus</u> trajectory of <u>per-student costs</u>…
- further escalated by rising enrollments:
  - Demographics (may be flat or even negative)
  - Advances in secondary participation
  - Advances of tertiary aspiration
  - Advances in tertiary training needs of economy
- Increasing revenue needs <u>continuing</u>
- All far beyond possible increases in public / governmental / taxpayer / increases.

Solutions:

- **Cost-side:** productivity advances
- **Revenue side:** revenue diversification:
  - Faculty / institutional entrepreneurship
  - philanthropy
  - Cost-sharing: enhanced revenue from parents and/or students

The White Paper on Tertiary Education in The Czech Republic

Comprehensive, informed, strategic, impressive

- Diversification
- Integration of professionally-oriented short cycle institutions
- Integration with needs of employers
- Recognition of need for cost-sharing: enhanced revenue from student
- Recognition of need for greater access/equity
- Preference for direct rather than indirect aid

White Paper Recommendations … Two Comments

1. Rejection of concept of university student as financially dependent child (that is, no explicit assumption of <u>expected parental contribution</u>)
2. Not clear how deferred fees are to be <u>capitalized</u>: i.e., treated as <u>assets</u> that can be sold or securitized to put money in universities and in hand of the students

1. Cost-Sharing from Parents or students or both?

The *free at the point of entry* model: like Australia, England

- Distinction between responsibilities for: 1) costs of instruction, (2) costs of maintenance
- Forgoes means-tested parental contribution to the costs of instruction
- Adds to student burden (albeit not from low lifetime earners)

Sharing the Costs of Instruction (Tuition Fees)

Means-tested expected Parental contribution	**Student Contribution (deferred, or loan)**	**Neither Parent nor Student: only Government**
Austria	Australia	Argentina
Canada	**Czech R. proposed**	Brazil
Chile	England	**Czech R. Current**
China	Ethiopia	Denmark
Japan	New Zealand	France
Portugal	Tanzania	Scotland
United States	Wales	Sweden

In favor of no expected parental contribution [6]

1. Conforms to socialist/social welfare legacy … seems "almost free"
2. Greatly preferred by [some] students [?]
3. Eliminates injustice of parental refusal [?]
4. Eliminates technical problems of transition to unquestioned independence
5. Students benefit, not parents [?]
6. Means testing of widely needed and desired benefits may be an inefficient way to redistribute income

In favor of officially expected parental contribution to fees [7]

1. Parents <u>do</u> assist financially when able
2. Parents anyway expected to contribute to maintenance – also means-tested [/]
3. Students already paying living costs [?]
4. White paper still encourages contribution
5. Parents in many cultures expect it
6. Parental contributions to tuition fees can be enormous: *Why walk away from the much needed revenue?*

2. Deferred Fees by themselves provide no current revenue

- Deferred fees are loans and as such are <u>assets</u>, not <u>expenditures</u>
- Universities and students, however, need money [$, €, £, ¥]
- Loan assets (deferred obligations to pay) convert to money by: sale or securitization to the private capital market (i.e. savers)

Asset value of loans (deferred fees) depends on:

1. Minimal or no subsidization
2. Very good lender collection policies
3. Inevitable high risk covered: e.g. government, co-signatories, foundations, borrowers (i premium)
4. A way of capitalizing: sale or securitization of lender assets

Proposed loans (deferred fees) have good asset potential

- A sufficient (minimally subsidized) Interest rate (except for in-school period
- Assistance of tax authority
- Assistance of employers [?]
- Problem <u>may</u> be market uncertainty of income contingent form of repayment obligation
- Deferred fees <u>may</u> then be dependent on annual government operating budget (if fees reach institution at all)

A Few Recommendations

- Simplify the Tasks ahead: begin with a few big principles (e.g. appropriateness of tuition fees, expected parental contributions [or not])
- Student loans will never, ever, be self-sufficient: will always take new annual governmental revenue
- Reconsider expected parental contribution
- Reconsider income contingent v. “hybrid: repayment obligations

Final thought: politically-acceptable, policies of cost-sharing require:

1. Fees must <u>supplement</u> not <u>supplant</u> tax aid;
2. Understanding that a deferred fee is a <u>tuition fee</u>
3. Understanding that a deferred fee is a <u>loan</u> with bad consequences for default
4. Avoid annual political theatre of fee setting
5. Develop expectation of fee as a <u>constant percent of costs</u> requiring <u>annual</u> increases
6. Erase expectation of <u>*free*</u> as a normal reward for academic merit / achievement

The End