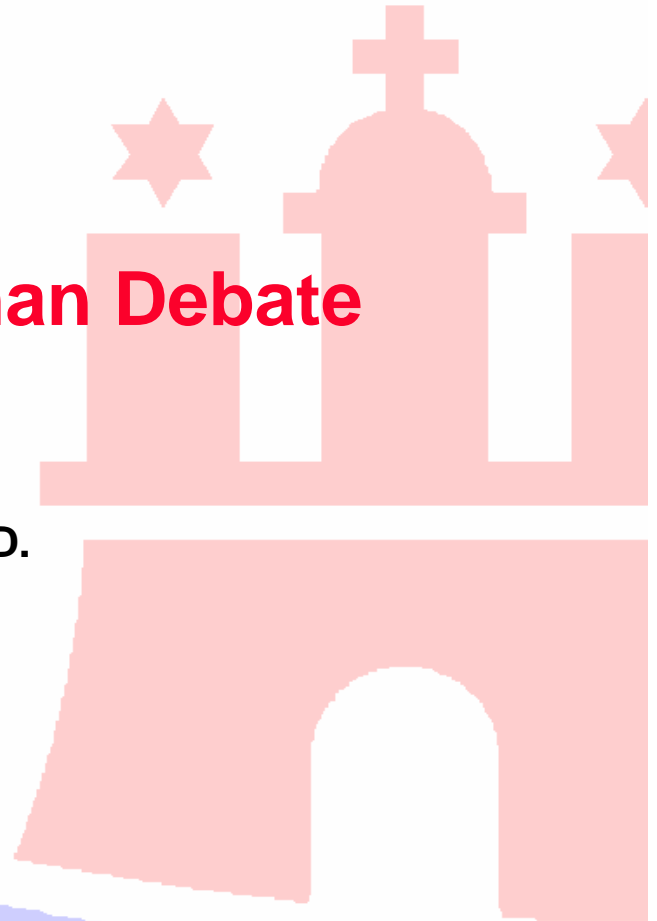


Tuition Fees – the German Debate

Berlin, March 2005

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2. The current debate on tuition fees in Germany
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1. Tuition and fees: just one element of the ongoing higher education reform in Germany

The German university system is undergoing a radical reform

Competition and Autonomy

- Grant autonomy for the universities (same rights for private and public universities)
- Accept diversity, enhance competition
- Establish adequate management structures

Higher education reform in Germany (example Hamburg)

Financing

- Establish performance-based governmental financing
- Introduce tuition fees

Hamburg as example: state grants extensive autonomy for the universities (1)

Organisation

- Internal organisation is determined by the universities without governmental influence
- External board of trustees, professional president and deans

Curricula

- Introduction of Bachelor / Master
- No governmental permission required for curricula, admission procedures and examination regulations

Admission

- Universities choose their own students
- 90% of students admitted by performance; criteria determined by universities

Hamburg as example: state grants extensive autonomy to the universities (2)

Salary

- Performance based salaries for professors
- Decision by the university (president / dean)

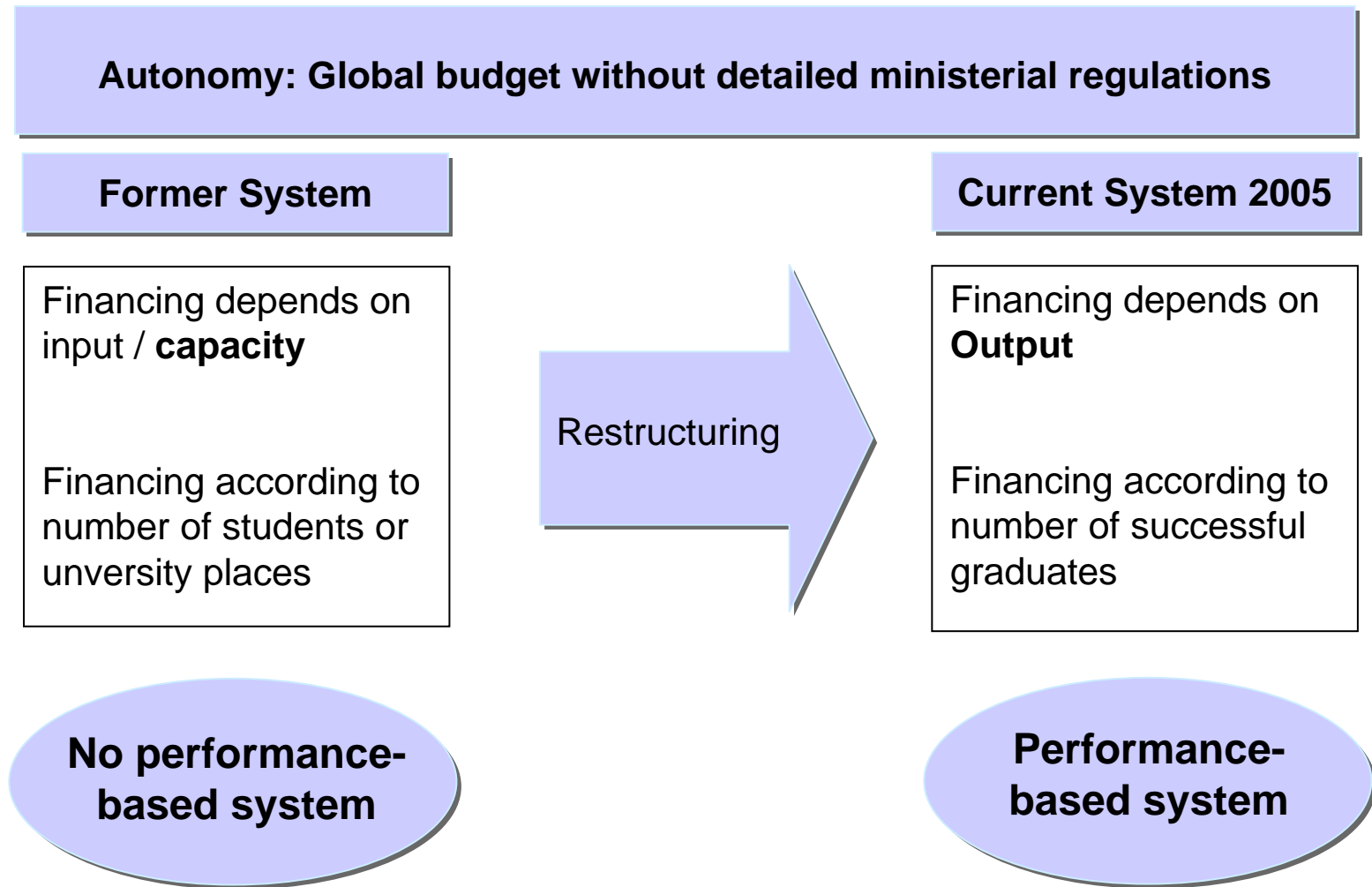
Teaching load

- Performance based teaching load
- Instead of 8 hours/week for everybody it is possible to reduce or increase teaching load individually (dean's dec.)

Appointments

- All appointments (professors) by the president of the university, not the minister

Hamburg as example: reform of higher education financing; turning from an input- to an output-orientation



2. The current debate on tuition fees in Germany

The German (formal) debate on tuition fees: a special case in federalism

Legal situation until January 2005

- Federal government forbids general tuition fees by the 'Hochschulrahmengesetz', though Länder pay exclusively for their universities
- 6 Länder (including Hamburg) sue the federal government

Federal Constitutional Court: Judgement of 26 January 2005

- Ban of tuition fees in 'Hochschulrahmengesetz' is not constitutional
- Federal government exceeded its competencies
- No „content-based“ decision: politics should discuss about the pro and cons

Länder are now allowed to introduce tuition fees; Hamburg and some other CDU-Länder want to raise tuition fees starting 2006

With the court decision the debate on the pro and cons of tuition fees has begun

Proponents

The Introduction of Tuition Fees

- + will establish a **supplier-customer-relationship** between universities and students
- + will underline the correlation between higher education and higher income (and will therefore be **the fairer system**)
- + will increase the **financial resources** for higher education

Opponents

The Introduction of Tuition Fees

- will **prevent people** from lower income classes to commence their studies
- will lead to a **purely economic consideration** of higher education
- will lead to a **decrease of governmental spending** for higher education

But international comparison shows: the German tuition free system is not as fair as critics believe

Status quo
(despite of or
because of the
tuition free
system in
Germany)



Not enough Germans participate in Higher Education.



Not enough students from lower income classes make it to university.



The German debate focusses only on the cost of education on its return on investment.



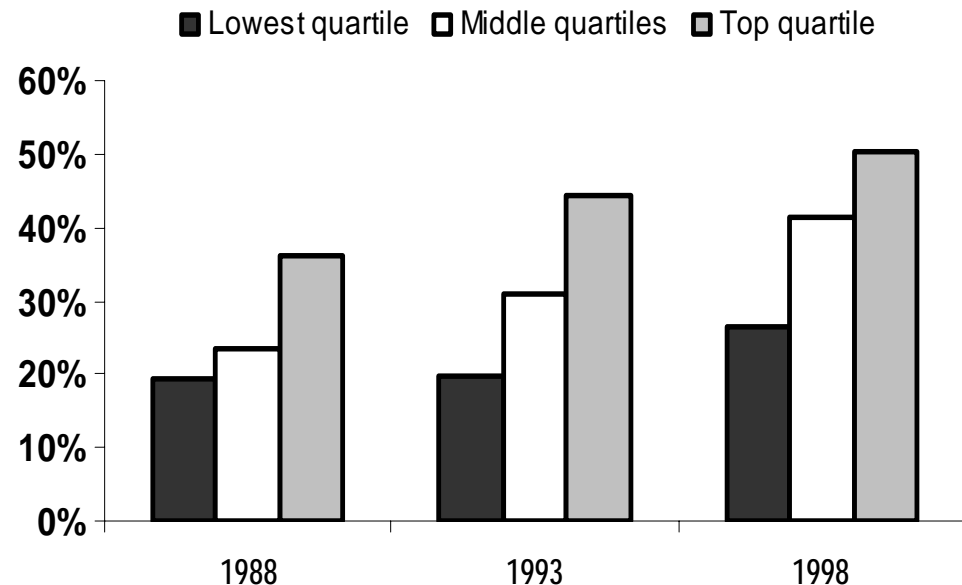
German universities are poor on international standards due to a lack of private financing.

International comparison shows: not enough Germans receive a university degree

Proportion of university graduates in international comparison

| | |
|------------------|-------|
| - Great Britain: | 37,5% |
| - Australia: | 36,3% |
| - Finland: | 36,3% |
| - USA: | 33,2% |
| - Germany: | 19,3% |

Development of university attendance in Australia after the introduction of fees²



After the introduction of tuition fees university attendance in Australia increased.

¹ OECD, Bildung auf einen Blick 2002; bereits bereinigt um Effekte der dualen Ausbildung in Deutschland

² Im Verhältnis zum Familieneinkommen; Quelle HECS, Chapman und Ryan 2002

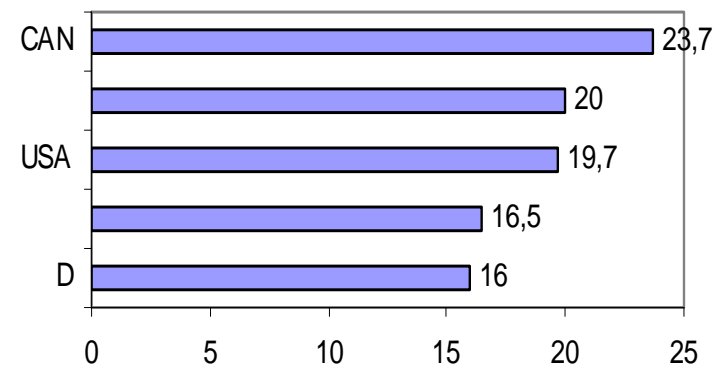
The current system of higher education in Germany discriminates the lower income classes

„Education Mobility“ in Germany

- From a total of 216.000 children from the working classes, only 25.000 (12%) study
- From a total of 69.000 children of civil servants, more than 50.000 (72%) study

„Education Mobility“ International²

Anteil der Nicht-Akademiker-Kinder unter Hochschulabsolventen in %



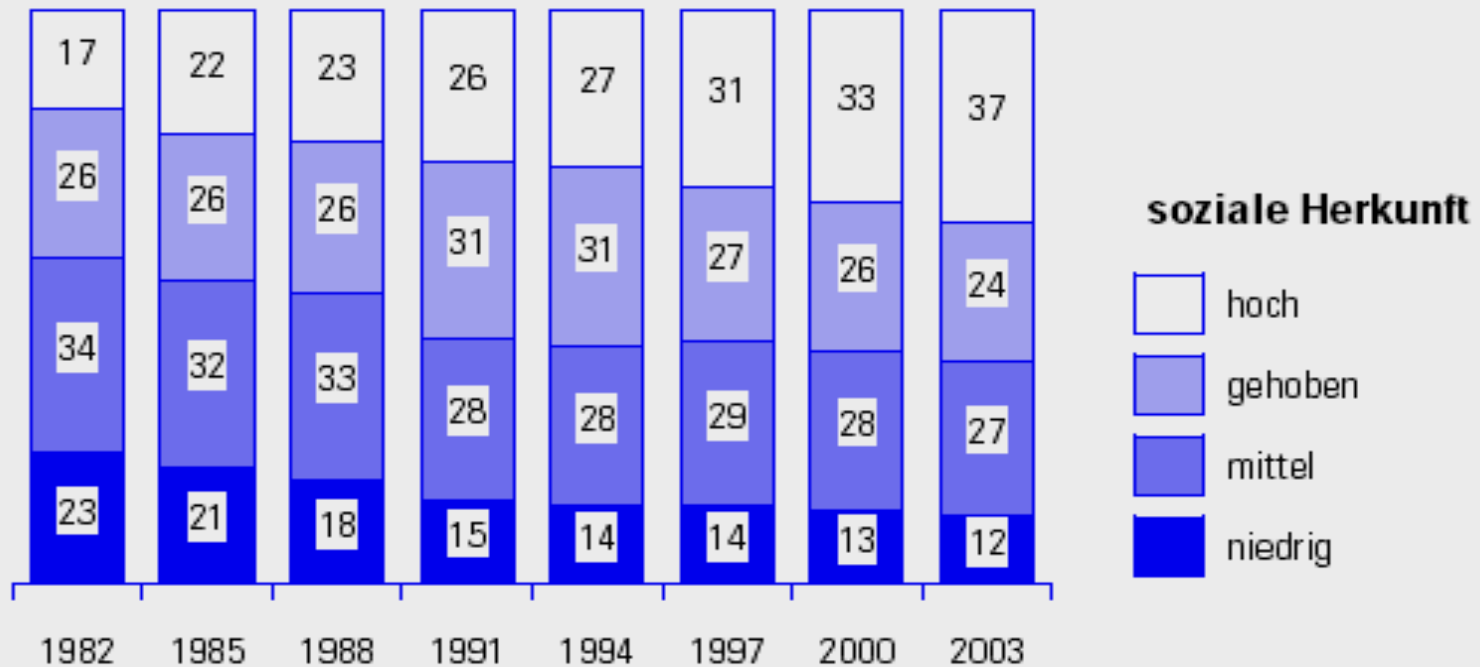
Number of university graduates from non-academic-families is higher in countries with tuition fees than in Germany.

¹ 16. Sozialerhebung des Deutschen Studentenwerkes, 2001. Die 17. Sozialerhebung liefert diesen Vergleich nicht mehr.

² OECD-Bildungsbericht 1998

The social differentiation is getting worse and worse in Germany

- BACK UP -



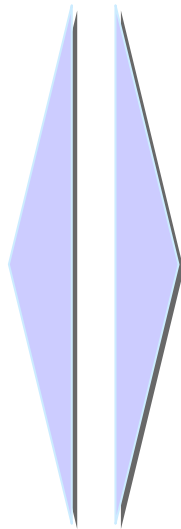
DSW/HIS 17. Sozialerhebung

* ab 1991 einschließlich neue Länder

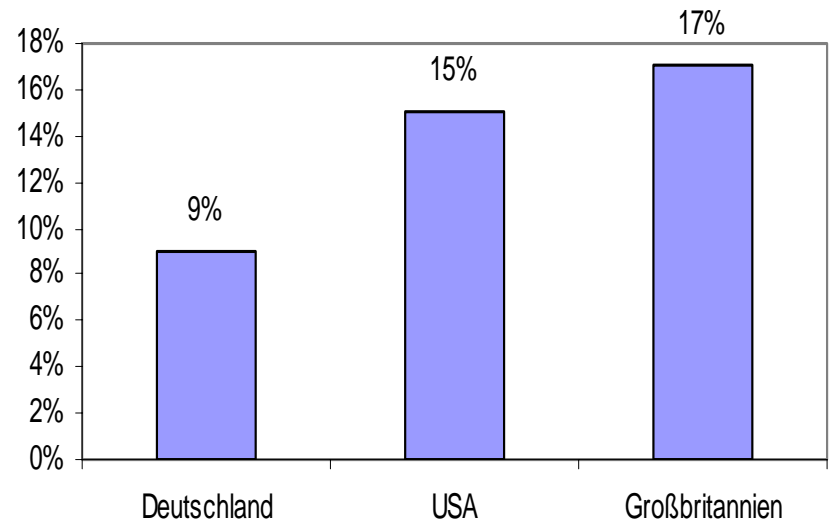
Wrong focus: The German debate is only about cost, not about the return on investment.

Germany

- Germans highlight the costs of higher education, but neglect the return on investment
- Education is considered as a value in itself, but not as a financial asset



Return on investment¹ in comparison



Despite tuition fees a student from the US has a higher return on investment than his fellow student in Germany

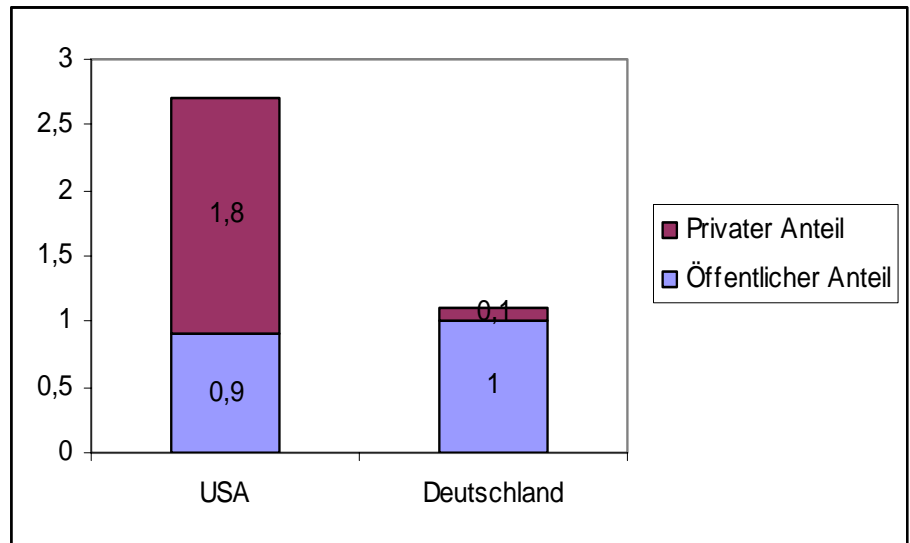
¹ OECD, Bildung auf einen Blick 2003. Die Rendite ergibt sich aus dem Vergleich der Kosten für das Studium und des entgangenen Einkommens in dieser Zeit mit dem späteren, durchschnittlich höheren Einkommen eines Akademikers.

Our university system is affected by the lack of private financing

Proportion of private spending in education in Germany ¹

- Kindergarten 36,9%
- School / vocational training 19,5%
- University 8,2%

Higher Education Financing in Germany and the USA (in proportion to GNP)¹



US triples governmental spending of higher education by private means.

¹ OECD-Bericht „Bildung auf einen Blick“ 2003

Lessons learned: international comparison shows that a system of tuition and fees can be fair

International comparison

Countries¹ with tuition have

- higher participation in higher education
- More students from lower income classes
- More money to spend for their universities

than Germany without tuition



Precondition

Countries with tuition generally have

- Need-Blind-Admission
- Access to loans, independent from family background
- With socially acceptable conditions of repayment

Opinion polls show: More than 50% of Germans are in favour of tuition fees.

3. Introducing tuition fees: A model for the reform of student financing in Germany

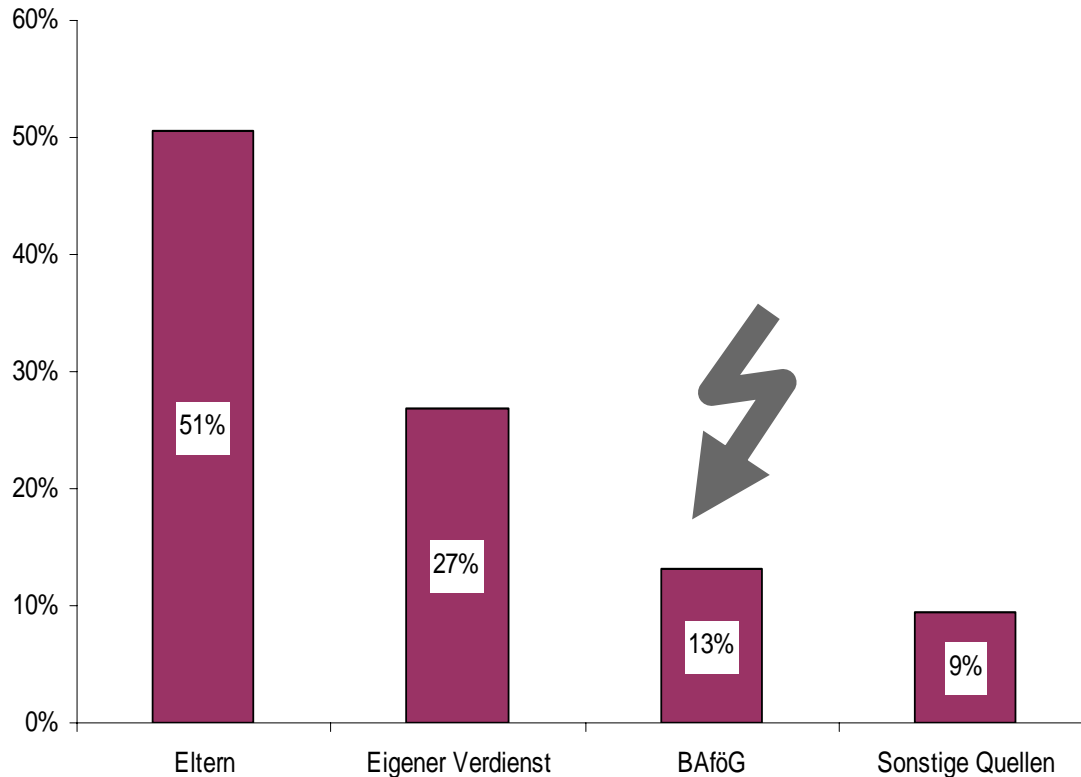
Introduction of tuition fees: A consensus emerges about the most important parameters

Political consensus of proponents

- **Level:** up to 500 € per term; universities free to raise tuition fees up to that amount
- **Effect:** governmental „guarantee“
 - additional income from tuition has to be given to the universities and must be spent for teaching;
 - Up to 2 billion € p.a. additionally for German universities
- **Framework:** socially acceptable model for loans
 - Access to loans independent from parental finances
 - No rating of students: e.g. no differentiation of interest rates by field of study
 - Income related repayments
- **Start:** 2006

But the issue is not only tuition fees: Germany needs a general reform of student financing

- Allocation of the income of students -



**Today's
scholarship
System (BAföG)
covers only 13%
of students' expenses**

Quelle: 17. Sozialerhebung des DSW

The general idea: a loan for living cost and tuition fees with income contingent repayment

Basic Ideas

- Fundamental reform of student financing
- **Change of the perspective:** the parents' income is no longer decisive for governmental support
- **Change of government subsidy:** Instead of paying subsidies to families of students from lower income groups, the government will pay subsidies to graduates with an income below the average

Payment

- Students get loans (living cost, tuition fees) irrespective from their parents' financial status
- More students get government aid



Universities

- Universities can raise tuition fees
- Universities keep tuition fees and improve their financial situation

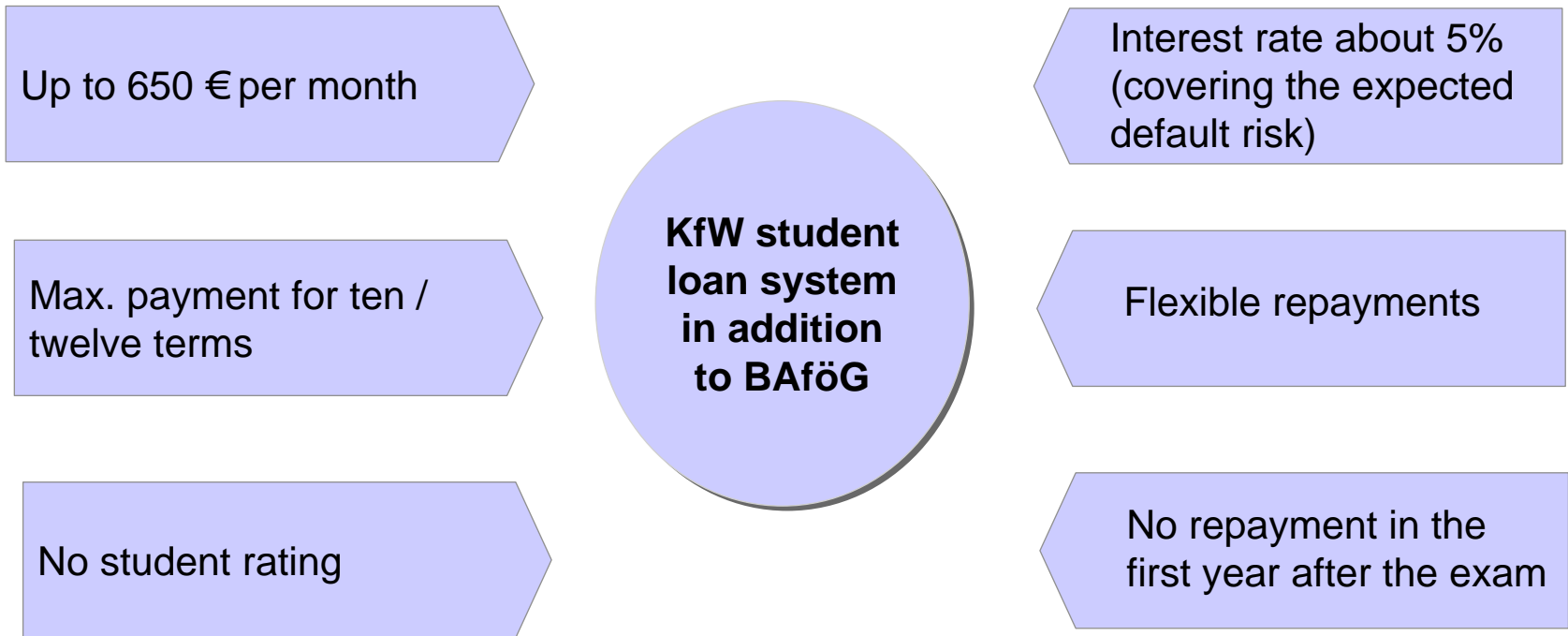


Repayment

- Income is decisive for repayment
- No psychological barrier: somebody who earns nothing, pays nothing back

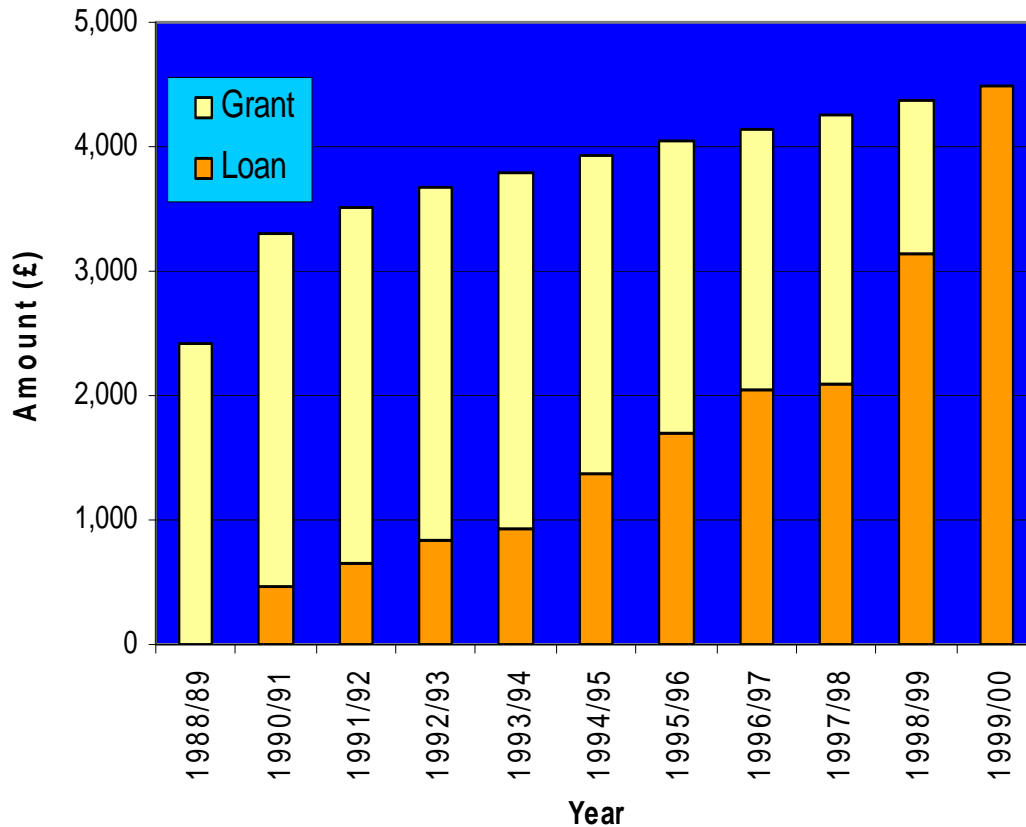


Germany's state-run bank KfW wants to establish a student loan system this fall



Perspective: The KfW-loan is just the starting point - Germany should follow UK and subsidize loans instead of grants

Student Maintenance - Grant and Loan Rates



Source: DfEE

Instead of more than 820 Mio. Euro p.a. grants, Germany should offer subsidized loans (lower interest rate; family politics)