University should cost nothing to the students ...during the studies

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Introductory remark

- Before starting an exegesis of that sentence, heard from Nicholas Barr, a professor at the London School of Economics (LSE), and an assessment of its policy implications, let us observe the following points

1. French journal *Le Monde* reported last Summer that according to two economists, one from PS, the other from the right,
   - *financing Higher Education through the sole tax system is no longer possible in a time of heavy public deficit.*
2. In French-speaking Belgium, tuition fee is less than 1,000 euros
   - Whatever the field and the year of study
   - While the cost of for the government lies between 6,000 and 17,000 euros

3. Arguing that the “socialized” part of the cost will be repaid by the students after her graduation thanks to the progressivity of the tax system is no longer sustainable:

- many students come from other EU members states; most of them return home after graduation
- many students will spend their career in various countries, mostly EU members states
    - imbalance already exists within the EU: according to OECD figures, 16,650 French students attend Higher Education in Belgium against 2,768 Belgian in France; similarly 17,464 German students are in Austrian tertiary education against 6,419 Austrian in Germany.
    - next slide

Table 1. Imbalance in the mobility of students within the EU (2008).

Countries	Foreign students (%)	Balance of mobility (%)	Countries	Foreign students (%)	Balance of mobility (%)
Austria	11,36%	-8,02%	Hungary	1,20%	0,36%
Belgium	6,98%	-4,62%	Italy	0,54%	1,06%
United Kingdom	4,06%	-3,63%	Finland	0,74%	1,37%
Czech Republic	5,21%	-3,01%	Poland	0,11%	1,43%
Netherlands	4,17%	-2,41%	Portugal	0,68%	2,50%
Denmark	2,70%	-1,18%	Greece	0,15%	4,06%
Sweden	2,03%	0,11%	Ireland	1,92%	7,47%
Germany	2,61%	0,26%	Slovak Republic	1,59%	9,73%
Spain	0,75%	0,30%	Luxembourg	37,00%	232,70%
France	1,60%	0,33%			

Theoretical Analysis and Policy Suggestions: HCP

- The currently applied <u>Host Country Principle</u>
  - A 2-country model
  - Each government decides on how many students it <u>welcomes</u> from abroad (optimal quota)
  - Taking into account the effect on its domestic welfare (remaining students) not on global welfare
  - Underprovision of cross border HE as compared to centralization

Theoretical Analysis and Policy Suggestions: OCP

- The <u>Origin Country Principle</u>
  - A 2-country model
  - Each government now decides on how many students it <u>sends</u> abroad
  - Taking into account the effect on its domestic welfare (returning students) not on global welfare
  - Smaller underprovision of cross border HE as compared to centralization

Theoretical Analysis and Policy Suggestions: 2V

- A <u>two-part voucher</u>
  - Issued by the Origin country
  - Usable at home or in host countries' HE institutions
    - Certified by the issuer or a certification agency (e.g. Equis)
    - Possible mutual recognition
  - Part 1: To finance the cost of studies
    - Actual cost (see table)
    - No voucher no admission ? => Enlargement of domestic HE policy
  - Part 2: To finance the cost of living
    - "Student wage"
    - Possibly used an incentive to targeted student groups

Table 2. Budget allocated by the French-speaking Community of Belgium.

University higher education	Euros per student
Any year of bachelor and master degree in humanities, political and social sciences, law, economics and management, psychology...	5,597.50
1st or 2nd year of bachelor in medical sciences and engineering	11,195.00
3rd year of bachelor degree or any year of master degree in medical sciences and engineering.	16,792.50

Theoretical Analysis and Policy Suggestions: Bhagwati Tax

- A many-country world
  - Either the Host Country Principle
  - Or the Origin Country Principle
  - But supplemented by a Bhagwati Tax
    - Principle of the Bhagwati Tax
    - Application => progressive tax, // contingent loan
    - Requires international / EU cooperation or / and treaties
  - Might be designed in such a way that there is no externality (no underprovision of HE)

Theoretical Analysis and Policy Suggestions: Contingent loans

- A many-country world
  - A financial institution either in the Origin or in the Host country, or in any other country,
    - With public guarantee, by which jurisdiction?
    - Makes a loan to the student
    - The refund being contingent to the graduate income (contingent in the maturity length and in the amount to be repaid yearly)
    - // Bhagwati Tax
  - Might be designed in such a way that there is no externality (no underprovision of HE)

Policy Suggestions: summary

- The Host Country Principle is not sustainable in a Bologna area where students' mobility increases
- The Origin Country Principle is an alternative option but what if the return rate after graduation declines?
- The two-part voucher is an attractive but maybe costly feature, compatible with both HCP (less) and OCP (more)

Policy Suggestions: summary

- The Bhagwati Tax and the Contingent Loans are interesting features
- They are not "socially unacceptable options" but might be designed in such a way they are tools to stimulate HE participation by targeted groups, or to stimulate education in some desirable fields though not well rewarded financially

Some national experiences

- Norway
  - Loans to finance the cost of living and possible studying abroad; accessible to foreigners; loans might be turned to grant
- Australia
  - Contingent loans and Taxation
- Switzerland
  - Origin Canton Principle
- Canada
  - Tax credits

An Example of contingent loan

- Two graduates in English language got identical vouchers during their studies
- But after graduation one becomes a teacher in a secondary school, and the other a translator in a multinational enterprise
- The former will repay nothing, the latter will repay (all) the vouchers within a (short) period of time (say 10 years)