

INTERNATIONAL
Herald Tribune

Higher education: Priced out of reach?

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FRIDAY, JUNE 30, 2006

Talk about the real world. U.S. university graduates enter the job market with new degrees, all the confidence of youth and student loan debts averaging \$19,200 - a 58 percent inflation-adjusted increase from ten years ago, according to figures compiled by the State Public Interest Research Group, a Washington-based independent research organization.

Most university graduates outside the United States have nothing of the financial burden of their American counterparts - yet. But countries around the globe, from Britain to Kenya to New Zealand to Mexico, are embracing what academics call "cost sharing" or "revenue diversification" to shift education finance away from government. That means more students and their parents are assuming more of the cost of higher education - and that is leading economists and educators to wonder about the long-term effects on personal wealth and advancement.

The numbers are impressive, and growing. In Mexico, students and their parents are paying as much as 35 percent of the cost of a university education, including living expenses, according to research by the International Comparative Higher Education Finance and Accessibility Project, a Ford Foundation-financed program.

In China, a place where free education was sacrosanct under Marxist nation-building principles, students attending public as well as private universities now pay tuition. According to the study, tuition costs borne by Chinese students and their parents - on an average monthly household income of 10,493 yuan, or about \$1,300 - range from \$518 to \$2,591 at state-supported universities, and from \$1,295 to \$4,663 at private institutions. Tack on additional instructional and student-living expenses and Chinese students and their families paid as much as \$11,399 to attend private universities and \$8,187 for top-end public schools.

British students, who took to the streets to protest the imposition of tuition fees at state universities in the late 1980s, are now among the most heavily indebted graduates outside of the United States. A 2004 to 2005 survey commissioned for the government found that four out of five full-time college students had taken out some kind of loan, with indebtedness averaging around £7,900, or \$14,400, for final-year graduates.

The researchers found that, apart from the desire of governments to balance overstretched budgets by cutting funding for higher education, factors contributing to student indebtedness include:

Rising costs of student living, especially in urban areas, even where tuition may not yet be a factor.

The heavy reliance on private, tuition-supported colleges and universities in much of Asia, especially in Japan, South Korea and the Philippines, and in Latin America, particularly in Brazil, Chile and Mexico.

Demographic shifts in Japan and other countries, where dwindling college-age populations mean a smaller student body to share the costs of education.

Whatever the reason for the changes, the implications for personal financial planning are the same. "A shift of cost to students means more loans," said D. Bruce Johnstone, a professor of education at the State University of New York at Buffalo and director of the study.

Politicians are becoming concerned that if the specter of debt leads young people to view higher education as a luxury not worth pursuing, their nations' competitiveness will suffer.

While that concern seems mostly hypothetical for the moment, students themselves are worried - and expressing it on Web sites like Student Debt Alert, at <http://studentdebtalert.org>, sponsored by the

Washington Public Interest Research Group, or PIRG.

"It is mostly a requirement to go to college, but by doing this, students start out ten steps behind," wrote Thomas, a pre-pharmacy student at the University of Connecticut, who did not provide his last name. He wrote that he expected to graduate in 2008 with \$160,000 of debt. "Tuition costs loom over students and their decisions for years before and after their graduation," he wrote.

In light of what is happening in the United States, governments are working to create student loan systems that offer some degree of protection for those in the system, either through caps on loan amounts or through deferred payments. As an example of the latter, Australian students can either pay their tuition fees up front directly to their university for a 25 percent discount, or they can choose to defer payment and take out a loan with the government at a real interest rate of zero.

The Australian system is gaining favor in countries like Vietnam and Ethiopia. Other nations are making loan repayment schedules contingent on income. But Johnstone, and others, questioned the wisdom of income contingency in emerging economies, where future salary levels may not be sufficient to repay outstanding loans.

Bob Shireman, the founder and executive director of The Institute for College Access and Success in Berkeley, California, said that cost sharing for higher education can and does work when a government holds up its end of the bargain. According to Shireman, cost sharing within the U.S. higher education system came undone when a surge in enrollment at the beginning of the decade was not met by a commensurate increase in federal and state funding. Instead, government funding is declining, leaving students and their families shouldering a disproportionate amount of the system's debt load, he said. In February, the U.S. Congress cut student aid by \$12 billion dollars, the largest cut in the history of the loan programs.

To Shireman and others, this is a competitiveness issue. "We are constrained right now while other countries are actually introducing the concept of cost sharing and are expanding access to their higher education systems," he said.

Some economists go so far as to say that cost sharing is one of the best ways to create a higher education system that is both broadly accessible and quality oriented.

Annamaria Lusardi, an economics professor at Dartmouth College in Hanover, New Hampshire, said, "In a country like Italy and other places in Western Europe where education is completely public, this type of system pushes a lot of people to go to a college they wouldn't go if they had to pay something."

Lusardi, a native of Italy and a specialist in economics and public policy, added that there was "no merit system in place to reward universities - private and public - that excel in particular disciplines or areas of research and development." As a result, the value of a higher degree takes on a sort of universal mediocrity, she said.

Lusardi said the rewards of cost sharing far outweighed the risks. In this regard, she speaks as much from personal as professional experience. Lusardi attended a private university in Milan as an undergraduate.

"I had the huge advantage in 1981 of having a U.S. professor come to my university and teach English, which would have been completely impossible in Italy at a public university," she said. By learning English, Lusardi said, she had the confidence to pursue her doctoral degree in the United States.

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