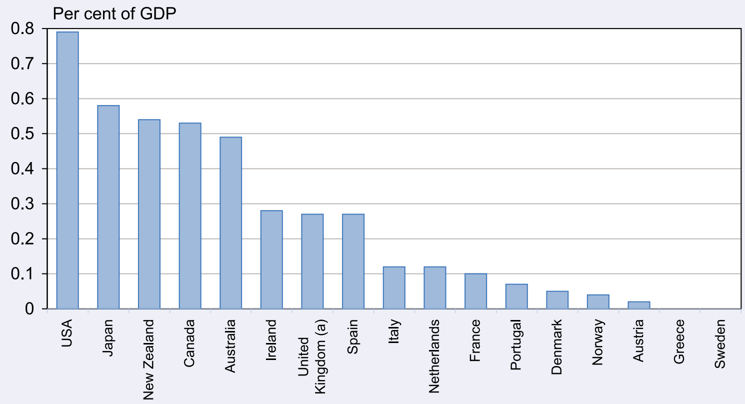
Tuition Fees and Student Loans

The funding of tertiary education institutions coming from tuition fees paid by students is highest in the United States, Japan, New Zealand, Canada and Australia and lowest in the Scandinavian countries, Austria and Greece (Figure 1). Tuition fees can vary across subjects and across universities for the same subject or degree. Most OECD countries charging tuition fees allow some variation.

Figure 1

Tuition Fees in Tertiary Education



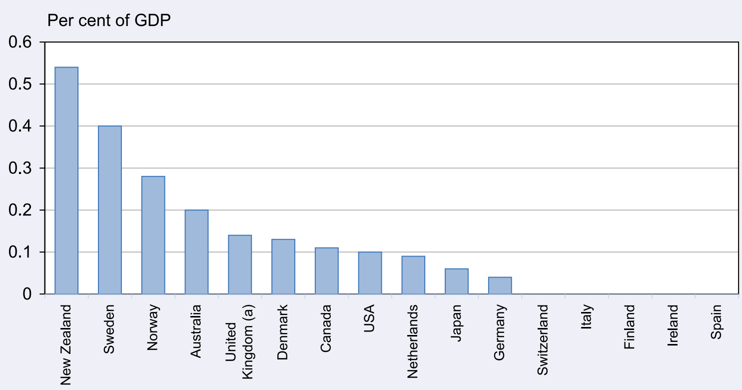
(a) 1999; the other country data refer to 2000.

Source: OECD Education Database.

In countries where the level of tuition fees varies across subjects, it is typically low in arts and high in medicine with science and law courses varying between these two extremes. This is arguably both fair and efficient, given the higher costs of such courses and that graduates from these courses typically earn higher incomes. In those countries where fees can vary across universities for the same subject or degree, very different outcomes can be observed. For example, in the United States fees vary substantially across universities, as notably private universities charge fees that are several times higher than the average of about USD 6,000. The level of tuition fees in the US public sector is typically decided by the university itself, but in many states there are regulations limiting the level of fees charged for students coming from within the state.

Figure 2

Public Loans to Students in Tertiary Education



(a) 1999; the other country data refer to 2000.

Source: OECD Education Database.

Many OECD countries operate some form of public student loans to finance tuition fees and/or living costs. However, for only a few countries – Australia, New Zealand, Norway and Sweden – student loans amount to 0.2 percent of GDP or more, with New Zealand having the highest level of student loans equivalent to more than 0.5 percent of GDP (Figure 2). Student loans are in some cases tied to the payment of tuition fees. Alternatively, loan schemes help students finance the tuition fees, but lending is not tied to tuition fees, and the same conditions apply whether a student borrows money to finance tuition fees or living costs. In some countries, the limited use of loans should be seen in the context of significant public grants.

A way of reducing the risk carried by individuals investing in their own education is to make student loan repayments conditional on graduate income. In Australia, New Zealand as well as in the United Kingdom, the speed of repayments depends on graduate income. Hardship procedures may to some extent replicate income contingency, and exist in most countries, such as the Netherlands, where persons with low income can request temporarily reduced repayments. Income contingent repayments, however, can be thought of as a less bureaucratic alternative to hardship procedures. Moreover, in the United States where the obligation to repay loans does not depend on graduate income, the default rate is high, in particular for persons having studied at vocational institutions. In Sweden, repayments on loans to cover living costs used to be 4 percent of a graduate's income. Now, although repayments will be initially independent of income, graduates are entitled to have repayments reduced to equal no more than 5 percent of their income. This, however, does not reduce the period over which loans are to be repaid, and consequently the borrower will have to pay more in later years.

W. O.

Reference

OECD, Economic Surveys, United Kingdom 2004, Paris 2004.