

A low-angle photograph of three graduates in blue gowns throwing their black mortarboards into the air. The caps are captured mid-air against a clear blue sky with a few wispy clouds. The graduates' arms are raised, and their faces are looking upwards.

Michael H. Strickfaden

The German Market of Private Higher Education Financing:

Are the Existing Products Suitable
to Satisfy Students' Needs?

Tectum

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*“If a man empties his purse into his head,
no man can take it away from him.
An investment in knowledge
always pays the best interest.”*

BENJAMIN FRANKLIN
(* 1706 † 1790)

Abstract:

On 20 October 2008, 'Deutsche Presse Agentur' (dpa) reported that, according to an estimation of the German ministries' of culture and education conference, up to 180,000 A-level degree holders forewent their opportunity during the last three years to start an academic career due to the introduction of tuition fees. This is a dramatic development as the benefits of higher education are unquestioned not only for the individual ('social status' and 'higher earning prospects') but also for the society as a pushing factor for economic welfare ('economic growth' and 'international competitiveness'). While in 2005, Germany's graduation rate was profoundly below OECD average, more topical data are associated to reveal even a further decrease in German graduates. Although numerous products of higher education financing have been established in the meanwhile due to a directive of the Federal Constitutional Court, only a small percentage of students make use of these products.

This dissertation focuses on explaining the reasons for students' persistent reservation about funding their academic studies by debt financing. It aims to determine the nature of a product which is favoured by students as a means of private higher education financing as well as to identify product features that currently deter students from more intensely accessing products of private higher education financing. The overall objective is to provide a comprehensive answer to the question: Are the existing products on the German market of private higher education financing suitable to satisfy students' needs?

To achieve this objective, a four-step approach is adopted. While within the first step, a detailed review of literature concerning instruments of private higher education financing is performed (what is the nature of products that should be there in view of economical theorists?), within step 2, Germany's real world situation with reference to the categorisation suggested in the literature review is analysed (what is actually there on the German market of private higher education financing?). Within step 3, students are directly addressed within an e-based survey to ascertain the nature and features of a product that are relevant for their decision to debt finance their higher education or not (what should be there on the German market of private higher education financing in view of the students?).

*The results of the study impressively disclose the fact that **NOT** any **detailed or hidden product features** **BUT** the **nature**, that means **the general design** of the products offered on the German market of private higher education financing can be identified as the main and determining reason for students' permanent reluctance towards products of private higher education financing. As a consequence, the research question 'are the existing products on the German market of private higher education financing suitable to satisfy students' needs?' is to be answered with a clear: No, they are not.*

The dissertation ends with the provision of practical recommendations (step 4), how to change the current situation by introducing an income contingent loan to the German market of private higher education financing – a product not existent on the market but preferred by the majority of students as their favoured form of private higher education financing.

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List of Abbreviations

AG.....	Aktiengesellschaft (stock corporation)
BAföG.....	Bundesausbildungsförderungsgesetz (Federal Education and Training Assistance Act)
BayernLB.....	Bayerische Landesbank (Bavarian State Bank)
BMBF.....	Bundesministerium für Bildung und Forschung (Federal Ministry for Education and Research)
CHE.....	Centrum für Hochschulentwicklung (Centre for the Development of Higher Education)
CSL.....	Conventional Student Loan
DKB.....	Deutsche Kreditbank
dpa.....	Deutsche Presse Agentur (German Press Agency)
GAO.....	US Government Accountability Office
HCC.....	Human Capital Contract
ICL.....	Income Contingent Loan
KfW.....	Kreditanstalt für Wiederaufbau
N.A.	not available
n/a.....	not applicable
OECD.....	Organisation of Economic Co-operation and Development

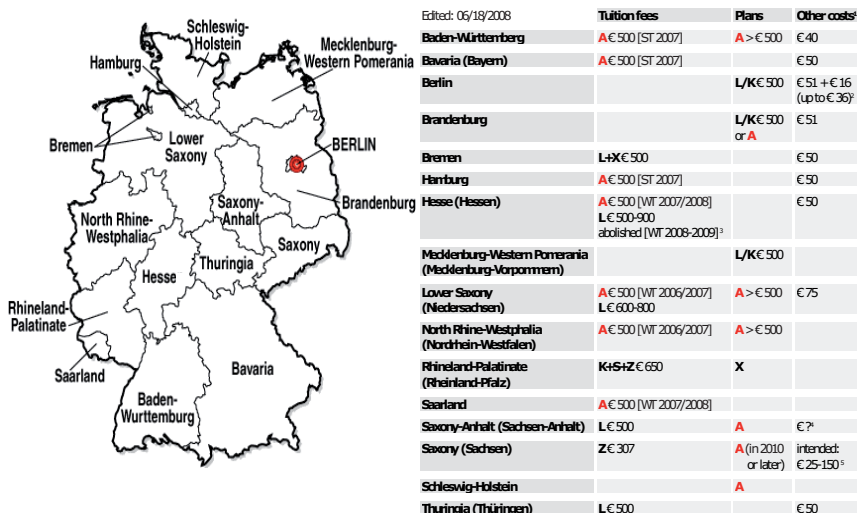
1 Introduction

1.1 The Relevance of Private Higher Education Financing in Germany

“40% of German students assume that the financing of their higher (tertiary) education is not secured”. This alarming news hit the headlines of ‘Süddeutsche Zeitung’ in October 2007 (Simon, 2007:29). 18% of students even assess their own situation as ‘precarious’ (BMBF, 2007:18).

Nevertheless, at 26 January 2005, Germany’s Federal Constitutional Court judged that the general prohibition of tuition fees is not conformable with the Federal Constitution of Germany and allowed the Federal States to introduce tuition fees (Becker and Fenge, 2005:16; Schwarzenberger and Gwosć, 2008:66).

Figure 1.1: Tuition Fees (and other administrative costs) in Germany

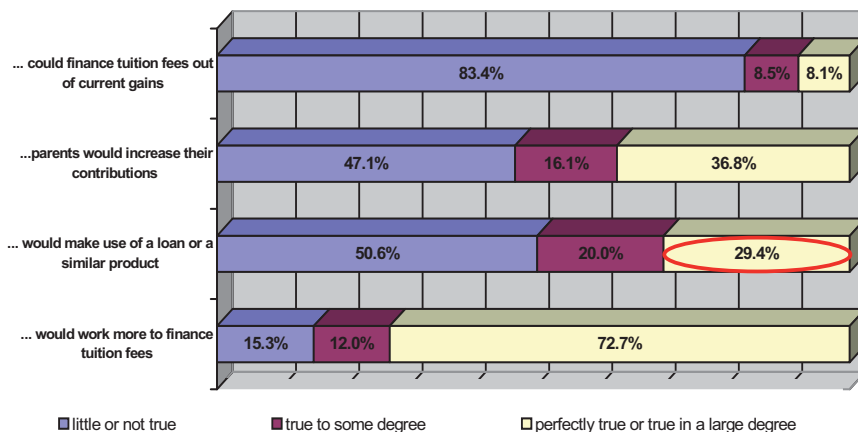


- A Tuition fees that start with the beginning of higher education
- K "Studienkonten" (in fact a special version of the surcharge mentioned below)
- L Surcharge for students studying for more than 5-7 years (according to the field of study chosen). All terms count including even former fields of studies.
- S Fees for seniors (people older than 60)

- X Fees for students who are not inhabitants of the city / region where the university is located
- Z Tuition fees for post-graduates starting a new and different subject
- [] Start date of introduction of tuition fees
- ST Summer term
- WT Winter term
- ¹ Charges for enrolment and administration
- ² Costs for social affairs are higher if somebody studies for more than 5-7 years
(according to the field of study chosen)
- ³ Federal government of Hesse decided in June 2008 to abolish fees (exactly one year after
their introduction) with the start of winter term 2008/2009
- ⁴ Optional charges for learning aids, libraries and other facilities of the university
- ⁵ Examination fees

The consequence of the Court's judgement involves an additional, average monthly encumbrance of about € 120¹ which considerably tightens the financial situation of the individual student. Every fourth student must get by with a monthly budget of less than € 600 (BMBF, 2007:15). In a survey of the University of Applied Sciences (Evangelische Fachhochschule) Darmstadt, students were asked in winter term 2006/2007 how they intended to pay for tuition fees if being introduced by the Federal States as listed in Figure 1.1.

Figure 1.2: How German Students Finance Their Tuition Fees ...



(Evangelische Fachhochschule Darmstadt, 2006)

¹ Calculation by Gröske (2003:116)

Figure 1.2 illustrates that about 30% of the asked students think about making use of a loan (or a similar financial product). The result of the survey is consistent with the Federal Constitutional Court's postulation which imposed two conditions concerning the introduction of tuition fees (Pache, 2006:2):

- a. tuition fees must be socially agreeable **AND**
- b. loans for higher education financing must be made available for students.

By doing so, Germany's court of ultimate resort sent a signal not only for the public sector to provide loans for students but also for the private sector to design products that help students to finance their higher education. Experiences abroad have shown that the provision of financial aid to students has a strong impact on improving access to higher education (Dräger, 2003:23; Zehetmair, 2003:19; Barr and Crawford, 2005:295; GAO, 2005:29).

Amazingly, there is still a strong reservation of German students about offers from the private sector of higher education financing: at present, only 6.5% of students make use of the products. This is an issue of high explosiveness as the effect of insufficient funding does not only harm the personal success of the individual student but also the whole society in the case of study default.

1.2 Problem Statement and Objectives of the Dissertation

Germany's 2005 rate of graduation in tertiary education (19.9%) is profoundly unsatisfactory for a highly industrialised country. With only Turkey facing a lower rate of tertiary graduates (11.2%), Germany is far below the average OECD graduation rate of 36.4% and, therefore, limps significantly behind in the international context.