

Feasibility of a Coordinated Financing Scheme for European Higher Education

*A critical analysis of the feasibility of the
two-part voucher system by Marcel Gérard*

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| Author: | Susanne Foerster (s0138142) |
| Supervisor: | Mr. Hans Vossensteyn |
| Second reader: | Mrs. Adrie Dassen |

Abstract

In this paper the feasibility of the two-part voucher system, designed by the Catholic University of Mons and College of Europe, Belgian Professor, Marcel Gérard¹ in order to finance higher education student mobility, is evaluated. This qualitative research describes the two-part voucher system with its two elements, namely the tuition fee voucher and student support voucher (covering costs of living). Gérard's system is based on an income contingent loan mechanism aimed at eliminating negative externalities of student mobility like free-riding or decrease in quality, by switching from a host country based financing system to a scheme wherein the origin country of the student finances her studies. Through the analysis of organizational, financial, legal, operational and cultural criteria, this study sheds light into the problems and obstacles the two-part voucher system would face in case of implementation and how difficult it is for a single design combining student financing and mobility to satisfy EU ambitions and rules as well as national diversity and preferences. The limited feasibility of most analysed criteria of this study emphasizes the need for and the importance of more research and cooperation for a coordinated study financing system among the Bologna countries, enabling student mobility with the least financial restrictions possible in order to accomplish the ambitious student mobility goals set by the Bologna countries and the EU.

¹ For more information on Marcel Gérard, please consider:
<http://www.fucam.ac.be/view.php3?include=3617&pere=501&print=0>, retrieved on the 11th of August 2010.

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1. Introduction

In 1999 the Bologna declaration was signed with the aim of creating a coherent and cohesive European Higher Education Area (EHEA) by 2010. The main objectives were the adoption of a system of easily readable and comparable degrees, the implementation of two main cycles (undergraduate and graduate), the establishment of a system of credits (European Credit Transfer System (ECTS)), the promotion of mobility, the promotion of European cooperation in quality assurance and of a European dimension in higher education (EUA, 2008). Later on the communiqués of Prague, Berlin and Bergen respectively added points such as the inclusion of lifelong learning strategies, recognition of degrees, the third cycle (doctoral education) and the awarding and recognising of joint degrees.

The question is whether countries have implemented the above cited goals in 2010. How much has been achieved? What are the failures? Every student or professor has an opinion on these topics and the opinions might be extremely divergent according to where the student or professor is located and in which year he or she is teaching or studying. But the overall performances of the Bologna Reform and the following process are not of such an importance to this bachelor assignment. What is of interest henceforth is the striking lack of financial support for mobile students and financial coordination in the EHEA (Gérard, 2008; 2010).

Mobility is one of the core elements of the Bologna process and exchange programmes like ERASMUS stimulate students to spend three to twelve months abroad by supporting them financially. But students going abroad for a full-time study are much more uncommon and financing possibilities for them are highly complex and varying from country to country. Some countries work with direct, others with indirect financing. The loans or grants can be merit or means based and financial support might be portable or not (cf. chapters 2.2 and 2.3).

1.1 Problem statement and research questions

The extreme diversity in study financing mechanisms represents a major problem for mobile students who do not dispose of sufficient financial means. Bologna countries want their students to be mobile, but the different national financing schemes make mobility rather difficult. That is why a coordinated financing scheme, implementable in all Bologna countries should be considered in the EHEA. The central focus of this qualitative desk research therefore aims at finding out about the feasibility of the two-part voucher system conceived by Marcel Gérard (Gérard, 2010; Chevalier&Gérard, 2008). Mister Gérard has published a considerable list of articles on student mobility and study financing² and will host a conference on “Financing the Mobility of Higher Education Students and Researchers” in November 2010³.

The two-part voucher system has been designed to establish a financing system that is pan-European, efficient and enhances and facilitates student mobility. It comprehends a first part, named tuition fee voucher that covers the “true” costs of studying and a second part, the

² Please consider: <http://www.fucam.ac.be/view.php3?include=3617&pere=501&print=0>, retrieved on the 12th of August 2010.

³Please have a look at: http://164.15.69.62/index.php?option=com_events&task=view_detail&agid=480&year=2010&month=11&day=9&Itemid=306&catid=34, retrieved on the 12th of August 2010.

student support voucher that aims at covering the costs of living of the student (Gérard, 2010 & Chevalier&Gérard, 2008). The two-part voucher system abolishes the common host country based financing of mobile students that appears to create negative externalities (Gérard, 2010 & Chevalier&Gérard, 2008). In order to prevent negative externalities, the origin principle which lays the financing of students in the hands of the home (origin) country of the students is introduced.

This report's central research question hence asks:

To what extent is the two-part voucher system feasible in the Bologna countries?

For this question to be answered, the two-part voucher system will have to be explained. The first sub question therefore is: *What is the two-part voucher system?*

Furthermore the feasibility of Gérard's model will be assessed with the help of a model comprehending technological, economic, legal, operational and cultural criteria (Barringer&Duane Ireland, 2008) and the second sub question "*How can feasibility of the two-part voucher system be defined?*" will be answered.

1.2 Relevance

This report puts an emphasis on an area which has so far been quite neglected by authorities and institutions, namely the common financing of student mobility (Erasmus scholarships represent a first approach). It will offer an understanding for the urgency of the problem and the imperative need to invest more ideas, money and effort into the subject of a common financing scheme, in spite of programs like Erasmus. If Europe wants to stay in the race with India, China and the US and remain attractive on the higher education market, new paths have to be trodden.

Bologna is one major step for Europe on the way of becoming the most "competitive and dynamic knowledge-based economy" in the world, but one should not forget that students have to be able to afford and reach knowledge. Study financing through public but possibly as well private means should therefore figure amongst the highest priorities of the EU and its member states. The goal of being the "most competitive and dynamic knowledge-based economy" by 2010 has failed because the implementation of reforms has been uneven and not as effective as supposed in all countries and sections of the economy (European Commission, 2010f). Europe hence needs to set a new deadline and strike new paths on which study financing should figure as a major milestone.

1.3 Structure of the report

After this introduction, chapter 2, on the background for this research will thoroughly elaborate on the interaction between mobility and study financing schemes. What is the problem there? Why are students not as mobile as the authorities would like to see it? How can this problem be solved? Chapter 3 comes up with an answer, namely the two-part voucher system Marcel Gérard designed to set up a coordinated study financing system for the Bologna countries. Chapter 3 therefore replies to the question: *What is the two-part voucher system?* Further on the methodology of this research is developed (chapter 4). It provides the reader with the necessary insights to understand how the feasibility of the two-part voucher system will be tested in this report. What criteria will be used and applied to the two-part voucher system in the feasibility test is outlined in chapter 5.

Feasibility Analysis of the Two-Part Voucher System

But what is feasible? And what is not? Thanks to the feasibility criteria, literature reviews, case studies (country examples) and stakeholder interviews in chapter 6 to 10, this report will try to find answers to these questions and respond to the main research question. Before the final conclusion, stating to what extent the two-part voucher system is feasible, is made in chapter 12, chapter 11 reflects and comments generally on Gérard's system from an equity perspective.

2. Background

How can students finance their studies? This question is mostly answered nationally through public subsidies to higher education institutions and financing schemes based on loan or grants, possibly through scholarships but mostly through the wallet of the parents or the students themselves. Recently the European Commission published a modernisation agenda for universities and one major reform concerns funding (European Commission, 2010g). The intention is to better link the diversified sources of university income to “*performance, promoting equity, access and efficiency including the possible role of tuition fees, grants and loans*” (European Commission, 2010g). But what about mobile students? How is the financing regulated in their case? Are their grants portable? Can they receive support in the host country? According to what conditions?

How come that the Bologna signatory countries or the EU did not think about a coordinated financing scheme yet? One might argue that such a scheme might trespass the competences of the countries, but there are developments that will be outlined later, which obviously call for a common solution within the Bologna countries in the financing area. Two major developments demanding financial cooperation in higher education will be discussed below. Afterwards the EU competences and incompetences in the higher education sector will be outlined, and the main challenges for student mobility and the various study financing systems will be shortly described.

Firstly, as already mentioned one has to cite the slow development of ideas for a common financing agreement whereas mobility of students across the “borders” of Europe's higher education area is constantly pushed and praised. Whereas universities advocate internationalisation and the EU celebrates the free movement of persons relatively few has been provided regarding the necessary financing of the mobility of the students. Therefore, as Chevalier and Gérard (2008) observe, “*countries with the best schools will be more attractive to foreign students, but due to the mostly used financing mechanism of higher education, that quality will cost to the residents of the host country. In economic terms, countries with best higher education will provide the other countries with a positive externality.*” From this follows that more selective or less attractive countries might be tempted to free ride the better quality countries having as a consequence “*the risk that such a process eventually downsizes the global quality of higher education in our part of the world*” (Chevalier & Gérard, 2008).

The second alarming point takes a look at the inflows and outflows of students from one country to another. It appears that many students from France follow studies in Belgian higher education institutions and the Belgian taxpayer pays for them. Chevalier and Gérard (2008) formulate that phenomenon in the following way: “[...] *France free rides Belgium, exporting student whose education is uncompleted and getting back enriched human capital four or five years later; [...]*”. It needs to be stressed that most of the French students entering Belgian higher education institutions are those who were not able to fulfill the admission criteria in France, especially in studies like paramedical or veterinary medicine (Chevalier & Gérard, 2008). Good quality of education, language similarity, unrestricted access and low levels of tuition fees stimulate these student flows. A comparable movement, called as well asymmetric or bypass mobility, is happening between Germany and Austria in medicine studies as well. At the University of Twente (UT) in the Netherlands such developments can be noticed in study programmes like psychology and European Studies which are highly appreciated by German students.

Gérard sees the decrease in quality and free-riding as negative externalities that call for cooperation. The actual dimension of these problems will be questioned later on in the report (cf. interviews).

Table 1 below elucidates Gérard's statements. One can observe that Austria and Belgium largely support the cost of other countries higher education (only 1,77% of the Belgian students study abroad ($-4,69+6,46=1,77$) while the country receives 6,46% of foreign EU students). Luxembourg is an example of a country that externalizes higher education for its citizens (since 2003 Luxembourg possesses a university as well⁴, that is why numbers might have changed). The third column gives the ratio between the difference of the number of outgoing local students (to EU countries) and that of incoming students (from EU countries).

| Country | EU foreign students as % of total | Nationals studying abroad minus EU foreign students as % of total |
|-----------------|-----------------------------------|---|
| Belgium | 6,46% | -4,69% |
| Austria | 8,07% | -4,42% |
| United Kingdom | 4,04% | -3,56% |
| Sweden | 3,57% | -2,65% |
| Germany | 3,01% | -1,82% |
| Ireland | 2,34% | -1,52% |
| Czech Republic | 2,66% | -1,09% |
| Netherlands | 2,03% | -0,75% |
| Denmark | 1,59% | -0,47% |
| France | 1,63% | -0,39% |
| Spain | 0,51% | 0,29% |
| Hungary | 0,91% | 0,49% |
| Italy | 0,62% | 0,65% |
| Poland | 0,04% | 1,13% |
| Portugal | 0,65% | 1,34% |
| Finland | 0,63% | 1,47% |
| Greece | 0,04% | 3,15% |
| Slovak Republic | 0,36% | 8,35% |
| Luxembourg | 0,00% | 187,77% |

Table 1 – EU originated foreign students in higher education and net (im-) balance as a percentage of the total higher education population (Gérard and Vandenberghe, 2007a, in Gérard, 2008).

Due to the imbalances occurring between inflows and outflows of students among countries the appearance of protectionist behaviour from the host governments and universities is understandable. The introduction of quotas, thus discrimination on the ground of citizenship (Chevalier&Gérard, 2008 and Villé de, 1996) has been a deplorable consequence. Several cases have been treated in front of the European Court of Justice (ECJ)⁵. It needs to be stressed that the majority of protective measures are meant to exclude students from host

⁴ Link to the university website: <http://wwwfr.uni.lu/universite>

⁵ For more information see:

- Article 18 Treaty on the functioning of the European Union (TFEU) (ex article 12 TEC)
- Case C-293/83 Françoise Gravier v. City of Liège / Case C-147/03 Commission v. Austria / -BIDAR: Case C-209/03 / - FÖRSTER: Case C-158/07.

country student support, but do not prevent people from studying abroad. Nevertheless the introduction of protective policies, quotas and discrimination represent the exact contrary of the intentions of the Bologna Process and the ideas and values it intends to stimulate.

2.1 EU (in) competences in Higher Education

The last paragraphs have shown that serious problems arise from the current manner of how study financing within the Bologna countries is organised. The following sections elaborate on the competences of the EU in the field of Higher Education and the complexity of student mobility in order to establish a context for the two-part voucher system and the assessment of its feasibility.

First of all, an explanation of the actual meaning of feasibility is required in order to proceed. Asking the question “*how feasible is this?*” implies that there is a possibility, or not, of something to be done. To be more accurate one can say that feasible means “capable of being done with the means at hand and circumstances as they are”⁶. What are the means at hand for the Bologna countries and what are the circumstances they operate in?

In order to answer the above mentioned question attention needs to be turned towards the actual competences the Bologna countries possess. It needs to be acknowledged that all 47⁷ countries participating in the Bologna Process encompass the 27 EU countries. The EU counts almost 4000 higher education institutions, of which about 2000 can be called universities *stricto sensu* and thus combine education with research. There are over 17 million students and 1, 5 million staff members of whom 435, 000 work as researchers (van der Ploeg&Veugelers, 2007). Despite these impressive numbers the effective role of the EU remains, when it comes to education, quite symbolic. Article 165 of the Treaty on the functioning of the European Union (TFEU) (ex Article 149 TEC) states the following:

*“The Union shall contribute to the development of quality education by encouraging cooperation between Member States and, if necessary, by supporting and supplementing their action, while **fully respecting the responsibility of the Member States** for the content of teaching and the organisation of education systems and their cultural and linguistic diversity (emphasis added).”*

The Treaty thus provides no legal mandate over higher education affairs. Article 165 TFEU pursues by elaborating on the fact that the Union's action shall be aimed at, for example, promoting cooperation between educational establishments or encouraging mobility of students and teachers, by fostering *inter alia*, the academic recognition of diplomas and periods of study.

⁶ Thesaurus (2010). *Feasible*, retrieved on the 9th of April 2010 from <http://thesaurus.com/browse/feasible>.

⁷ Bologna process (2010). *Bologna countries*, retrieved on the 12th of April 2010 from <http://www.ond.vlaanderen.be/hogeronderwijs/bologna/pcao/>
Participating countries Bologna Process (EU 27 + 20+1):

Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom and Albania, Andorra, Armenia, Azerbaijan, Bosnia-Herzegovina, Croatia, Georgia, Holy See, Iceland, Kazakhstan, Liechtenstein, Moldova, Montenegro, Norway, Russian Federation, Serbia, Switzerland, the former Yugoslav republic of Macedonia, Turkey and Ukraine. The European Commission figures as an additional member, next to consultative members such as the European University Association (EUA), the European Students' Union or the Council of Europe.

The EU fulfilled these tasks and commitments by installing for instance the Lifelong Learning Programme, an umbrella for the Commission's various education and training initiatives, which incorporates the successful Erasmus Programme for higher education or the Leonardo da Vinci programme for vocational education and training (European Commission, 2010a). Nevertheless it should be carefully kept in mind that the Bologna process is steered by ministers responsible for higher education in each country.

It is seen as collective effort of public authorities, universities, teachers and students, together with stakeholder associations, employers, quality assurance agencies, international organisations and institutions. Although the process goes beyond the EU's borders, it is closely connected with EU policies and programmes. For the EU, the Bologna Process is part of a broader effort in the striving to create a Europe of knowledge, but the decision-making competence remains exclusively in the hand of the Member States. The well-thought strategic role of the Commission (Keeling, 2006) as an additional member in the Bologna Process and the fact that all 27 EU countries participate in the process contributed to the general idea that Bologna is EU invented, although it clearly emanated from the national initiative of the education ministers of France, Italy, Germany and the UK signing the Sorbonne Declaration in 1998⁸.

The Bologna Process is thus a European process but there is "no comprehensive basis for EU action in higher education" (Keeling, 2006) and it is not a binding agreement either. Essentially the process relies on the willingness of the participating countries to cooperate, instigate joint policies, establish benchmarks, report on developments and set common targets. The EU represents only one of the many stakeholders in this intergovernmental (trespassing EU borders) rather than supranational process. Because of the absence of a legal mandate, the Open Method of Coordination (OMC), as governance tool in higher education policy, turned out to be an innovative and useful policy-making instrument acting in favour of EU interests.

This chapter has put higher education in Europe into a legal context in order to give the reader a general overview, chapter 8 will dig deeper into legal aspects and apply them specifically to Gérard's two-part voucher system.

2.2 Importance and challenges of student mobility

The promotion and expansion of mobility represents one of the ultimate reasons for establishing the EHEA and at the same time it is listed as one of the major goals in the Bologna Declaration. The EU contributes to this aim by funding, for example, the ERASMUS programme which stimulates students to spend three to twelve months at another university in the EU and supports them financially during their stay abroad. Since the start of the programme in 1987 more than two million students have participated through doing an exchange while remaining enrolled in their university at home (i.e. credit mobility) (van der Ploeg&Veugelers, 2007) and around 90% of the European universities take part in the programme (European Commission, 2010b). Few, if any, programmes launched by the European Union have had a similar Europe-wide reach. The rationales underlying student mobility under the flag Erasmus can be outlined, firstly, as an economic and professional rationale of student mobility. It is regarded as a means to promote the European labour market because it would predispose individuals to cross borders more easily during their professional lives. And it creates "European-minded professionals" (Papatsiba, 2006).

⁸ For History and development of the Bologna Process, see attachment 1.

Secondly there is a civic and social rationale of student mobility with the goal of creating European citizens. Student mobility forges European consciousness and is seen as a means to reach international understanding (Papatsiba, 2006).

The number of students going abroad for a full-time study at a foreign university (i.e. diploma mobility) is much smaller (van der Ploeg&Veugelers, 2007). Although the number of students going abroad, might it be credit or diploma mobility, is increasing, the total number abroad remains nevertheless far below the Commission's target of 10% (van der Ploeg&Veugelers, 2007). Analysts put the blame on the Member States' limited financial support to student mobility and their subsequent unwillingness to provide incentives in order to make the programme reach its objectives (Papatsiba, 2006). In order to increase mobility of students, the attractiveness of the EHEA needs to be increased and especially portability of funds has to be installed and simplified.

In the Leuven/Louvain-la-Neuve Communiqué mobility is praised as “[...] *the hallmark of the European Higher Education Area. We call upon each country to increase mobility, to ensure its high quality and to diversify its types and scope. In 2020, at least 20% of those graduating in the European Higher Education Area should have had a study or training period abroad.*” This ambitious goal has to be supported by “*practical measures pertaining to the funding of mobility, recognition, available infrastructure, visa and work permit regulations. Flexible study paths and active information policies, full recognition of study achievements, **study support and the full portability of grants and loans** are necessary requirements* (emphasis added)”. Additionally it has been concluded by expert groups that introducing or expanding the portability of grants and loans is possible for the Bologna countries and generally within the capacity of each individual country (Working group Portability of grants and loans, 2007). One might now ask what the countries are waiting for to set up systems that allow national grants and loans to be portable.

The first reason for hesitance can be found in the financial implications such a step could have. When students are abroad, the country providing the support may lack information on the financial situation abroad (e.g. rents) and portability could become a burden. The extent of this information-gap depends on the nature of the national student support system and the conditions under which support is granted. Where the fulfillment of these conditions takes place in the host country of the student, the supporting (origin) country might have no clear view on and information about the situation abroad, for example when it comes to costs of living or additional study costs (Working group Portability of grants and loans, 2007).

Another problem that mobility engenders is brain drain or human capital flight (Tremblay, 2005) which describes the large scale emigration of highly skilled, mostly academic individuals. It generally refers to professionals who have to leave their homes due to conflict, instability or the economic situation. With student mobility the problem is slightly more complex since, as described in the introduction, “[...] *France free rides Belgium, exporting student whose education is uncompleted and getting back enriched human capital four or five years later; [...]*” (Chevalier&Gérard, 2008). France actually first experiences brain drain (the students leave) but since most of the students return to their country of origin after the end of their studies, drain turns into gain.

The exact opposite phenomenon can be observed in Belgium where the French students are expected to engender brain gain, but since studying in Belgium remains mostly an emergency solution for the students (who profit from less restrictive selection criteria) they will return to France or maybe even move to a third country after their studies and Belgium goes away empty handed, unable to profit from the brains it educated. In spite of this dark shadow of

cross-border mobility, one should not neglect that brain drain hides as well the fact that the foreign students having studied in Belgium or Austria remain majorly influenced by their stay abroad for the rest of their lives. They will inevitably become a sort of ambassador for the country they studied in and will remember the experience in their later business and professions. The free riding might then turn out to be a positive, unexpected externality for the host country. Moreover the reputation of the host country increases and the higher education institutions become more dynamic in curricula, programs and general quality thanks to the input and simple presence of international students.

Currently *“changes and reforms associated with the Bologna Process are moving unevenly, not least because reforms do not take place in a vacuum, but against the background of diverse inherited national systems”* (Papatsiba, 2006).

The above standing paragraphs have shown that despite the EU's ambitions and initiatives to increase student mobility, there are still, especially financial, hurdles to cross.

2.3 Study financing systems in Europe

If one takes a glance at the study financing systems of the different Bologna countries, incredible diversity and ingenious inventiveness will strike the observer. The landscape could not be more divergent and varies extremely from country to country.

Generally student support can be divided into direct and indirect support (Vossensteyn, 2004). Direct support comprehends *“grants, scholarships, loans and support in kind such as meals or travel support”* (Vossensteyn, 2004), those are arrangements that are directly made available for the student. Indirect support describes all kind of subsidies made available to the parents of the student such as family allowances or tax benefits (Vossensteyn, 2004). Moreover the financial support can be means or merit based, which in the former case makes the amount of money received dependent on the income of the parents of the student. In the latter case financial support is offered for students with outstanding grades or accomplishments.

For a more exhaustive description of twenty four European countries the report of Vossensteyn (2004) presents excellent material.

After having elaborated on the importance of mobility with the Bologna countries and the EU, and after having briefly demonstrated the differences between the various study financing schemes existing in Europe, it became clear that both subjects are intertwined.

At this point, the announced central focus of the paper has been reached since this paper aims at finding out about the feasibility of the two-part voucher system conceived by Marcel Gérard. His two-part voucher system has been chosen because it deals with all the above cited problems and challenges. Moreover it is one of the very few suggestions for a common study financing scheme in the Bologna countries.

Chapter 3 will now thoroughly describe the two-part voucher system and hereby answer the first sub question of this thesis, namely: *What is the two-part voucher system?*

3. The two-part voucher system

Acknowledging problems like free-riding, decrease in quality and restricted mobility, Marcel Gérard ((2008) together with Chevalier and Gérard, 2008&2010) formulated a solution. Gérard proposes a voucher made out of two parts, namely the “tuition fee voucher” covering the true costs of the studies, and the “student support voucher” intended to finance the costs of living of the student at home or abroad (Chevalier&Gérard, 2008). According to Chevalier and Gérard (2008) the tuition fee voucher, the first part of the two-part voucher system works as explained in the following paragraph.

A student, who wants to enrol for example in the first year of the master program in European Studies at the University of Twente, applies for a voucher for that year and field of studies. The authority responsible for the issuing of the vouchers in the home country of the student (a special agency or the University of the student) delivers the voucher to the student, who gives the voucher to the higher education institution she has been accepted at (in our case the University of Twente). Chevalier and Gérard (2008) proceed by explaining that the UT then presents the voucher to the issuing authority and thereupon receives the corresponding amount of money.

Illustration of the process:

Application for voucher at issuing authority

→ Receipt of voucher by the student

→ Presentation of the voucher to desired University

→ Host University shows voucher to issuing authority

→ Host University receives money from issuing authority

The second part of the two-part voucher is aimed at supporting the student's costs of living. This represents of course a quite vague concept since a student's life in Prague is not comparable to a student's life in London. Chevalier and Gérard mention that the voucher might consist of a fixed amount of money or could be adjusted according to a series of criteria. These criteria could be dependent on the place the students will live, the belonging of the student to a targeted group – ethnic minority, immigrant, poor family, in intellectual or money terms- and the type of study programme she intends to follow. The two vouchers are combined in order to form the “two-part portable voucher” (Chevalier&Gérard, 2008).

3.1 The concept of student in Gérard's system

After having explained the essence of the two-part voucher quite some questions remain unanswered. First of all what is meant by student?

The focus of Gérard's and this work lies on students who are mobile across borders. For European students, two different kinds of mobile students can be distinguished according to Gérard (2007). On the one hand, students go abroad to acquire the ECTS required to attain a degree. As an example one can cite a random master degree, necessitating 120 credits out of which 30 or maybe 60 can be obtained outside the country that issues the degree. Those students are named Erasmus or Socrates students after the homonymous EU financed programmes stimulating the exchange of students between universities. These students

remain enrolled at their home university; they enjoy credit mobility and pay tuition fees at their home university during the exchange.

On the other hand, some students go abroad with the intention to achieve a full degree (bachelor or master) abroad. This second type of students carry the name of “Bologna students” (Gérard, 2007) who belong to the diploma or degree mobility category.

What distinguishes both types of students further on is that in the former case, concerning the Erasmus and Socrates students, the school or university of the country of residence (the origin country) receives the whole subsidy or fee and the host country does not receive any money at all, since the whole idea of the exchange programmes is based on reciprocity (but serious asymmetry can be found here as well). In the latter case it is the hosting country, the higher education production country (Gérard, 2007), that at least partially, supports the cost of the education for the students.

This report hence defines as a student, a citizen of a European Union country, Bologna type of diploma mobile person. The student's nationality is assumed to be European (EU) since non-Europeans encounter other difficulties or opportunities (like scholarships) when it comes to financing. “*Exchange students, like Erasmus students, are not concerned*” (Gérard, 2007; 2008) by the two-part voucher system.

It is understandable that Erasmus students are not concerned by the two-part voucher system since their exchange is based on reciprocity, but Gérard's two-part voucher design includes as well students who stay at home in their origin country as he notes in several of his articles ((Chevalier & Gérard, 2008) and (Gérard, 2007; 2008)). Focusing specifically on Bologna students, Gérard unfortunately fails to explain the difference between both types of students (Bologna type and students staying at home) and the various implications their choice has on the financing they need⁹.

3.2 The origin and the production principle

It needs to be added at this point that most tuition fees at European universities are rather symbolic and do not cover the real costs of studies. EU universities do not have the option to charge the European passport holder foreign students with higher fees since such a measure violates the non-discrimination principle of EU (cf. Case C-147/03 Commission v. Austria). This represents a key difference if one compares the EU to the United States where a state university usually charges a different fee to American residents and American non-residents of the state, let alone foreign students (Gérard, 2007).

As already mentioned nothing has been decided yet among the Bologna countries on which country will be responsible for organizing the financing of the studies abroad. Should that be the country of origin of the student (i.e. the country where the student finished his secondary education) or should that be the country where the study takes place? The latter case will be referred to as the “production principle” and the former as the “origin principle” (Gérard, 2007).

⁹ “The two part vouchers are provided by a given government to all students who are “from the country” (the issuing country is e.g. the country where they got their high school diploma) and may be used either at home or abroad provided it is in an institution whose quality has been recognized by the issuer (first part, through e.g. mutual recognition or labellization).”

This is the answer of Gérard to a question concerning the inconsistency of the application of the two-part voucher system for students staying at home and students getting a diploma abroad.

The production principle defines a system in which studies are financed by the host-jurisdiction (as well *host country principle*, since foreign human capital is enriched there (Gérard, 2010)). This represents the most common system in countries where higher education is publicly funded. The origin principle makes the country where the students “have their permanent residence, or their main attachment, or where they have obtained their high school degree (Gérard, 2008)” responsible for the financing of the studies and can be denominated *origin country principle* too (Gérard, 2010).

The current system for financing Bologna students, based on the host country principle is considered to be neither sustainable nor efficient in the long run by Gérard (2010) since it produces too little cross-border education. The examples of Belgium and Austria cited in the introduction consolidate this argument since higher education institutions in those small countries do enrich foreign human capital (from France and Germany) with the money of domestic taxpayers. That enriched human capital then returns back home where it increases the value added of a country which profits from that improvement free of charge (Gérard, 2010). The introduction of protective quotas seems, out of the perspective of Belgium and Austria, quite understandable because of the costly externalities.

Recently the European Court of Justice decided that such quotas are against European Union legislation except if “Belgian authorities could proof that they are justified by reasons of public health – like a potential lack of graduates in paramedical studies compared with the local needs – and that they are proportional to those needs” (Gérard, 2010).

3.2.1 The most efficient principle

In his 2010 report, Gérard demonstrates through a number of equations that the host country principle (or production principle) is not efficient. For the interested reader or mathematician these equations and calculations can be found back in Gérard's papers of (2010) and (2008). This report is not going to evaluate them but will take their outcomes for granted. This is justified since this report investigates more the idea and concept of the two-part voucher than its mathematical or economic accuracy.

After having made the most important argument (the origin principle is more efficient than the production principle) the following dynamic is postulated by Gérard (2010): it is the country of origin which will decide on the total number of students who are permitted to follow a given field of studies and who are financed wherever they attend courses – at home or abroad. Those students receive a voucher from the origin country dedicated to cover the corresponding tuition fee, and possibly another voucher to finance the cost of living during the studies and to stimulate higher education attendance by socially targeted groups or to target some fields of studies. Gérard (2010) proceeds by affirming that “*in line with bi- or multi-lateral arrangements like bi-lateral treaties or EU directives, higher education institutions at home or abroad only enrol students able to show up a voucher.*”

The outcome is that the higher education policy of the origin country, for example enrolment in veterinary medicine, is not only applied by domestic higher education institutions but also by institutions across the borders (Gérard, 2010). That feature might be regarded as an amelioration with respect to the current situation where a student who fails admission tests in a given field in her country of origin migrates to the country next door for the purpose of studying that field, and returns back home after completing her curriculum, with a degree fully recognized by her origin country (Gérard, 2010). Is that not exactly what free movement of persons and knowledge within the EU is meant for?

3.2.2 Assumptions of the two-part voucher system

For this system to work, Gérard made two (for now accepted but later on refuted) assumptions. Firstly he assumes that the costs for the studies are similar in all countries. This makes the valuation of the voucher easier and the partner countries are able to jointly determine the cost of getting a set of ECTS or a degree in a given field of studies (Gérard, 2010).

Secondly it is assumed that the vouchers are only used in institutions of which the quality has been recognized by a voucher issuing authority (Gérard, 2010). To date identical or comparable quality is unfortunately not guaranteed everywhere at all. The principle of mutual recognition or a system of labels granted by certifying agencies (for example the Equis¹⁰ label for business schools) might present useful tools to solve this problem (Gérard, 2010). Next to that universities participating in the Erasmus programme already practice such quality equivalence mechanisms and agreements, but the functioning is not always as smooth as it should be (credit recognition problems).

For now these assumptions are taken for granted, the report will critically discuss them at a later stage.

3.2.3 Centralization or decentralization

Despite the fact that the equations of Gérard show that the origin country principle is more efficient than the host country principle when it comes to mobile students, they display as well the fact that *“both the funding by the host country and the funding by the origin country imply an under-provision of cross border higher education* (Gérard, 2010). With the production principle, the students are educated at the expenses of the host country and will not contribute to the local wealth and revenue (if they go home or to a third country after studying). In the case of the origin principle, the students are educated at the expenses of the taxpayers from their home country but it is probable that they will not compensate this money by working for the wealth and revenue of their home country. *“In both case a free riding process is at work and a jurisdiction benefits from an enriched human capital free of charge* (Gérard, 2010).”

How can these externalities be avoided? Gérard offers two solutions. The first solution would be a centralized agency that is responsible for higher education policy. But this solution is not compatible with EU values because first of all the principle of subsidiarity would be deeply violated and the fact that the EU does actually not have real competences in the area of education makes it an even more, so far, inconceivable solution. Additionally one needs to ask what would happen to the countries that are not EU but Bologna countries. Would such a centralized mechanism only be available for EU Member States?

It needs to be mentioned though that there are examples of centralized higher education policies, for example in *“Canada where fellowships, in a limited number however, are granted by the Federal government although higher education is a competence of the provincial authorities* (Gérard, 2010)” but as well in Switzerland where education is a competence of the cantons but in the case of the polytechnics the confederation is the decision-maker (Gérard, 2010).

A European Higher Education Organisation does not (yet) represent the goal and the means for solving the mobility and financial problem of students. That is why Gérard thought of

¹⁰ For more information please consult: <http://www.efmd.org/index.php/accreditation-/equis/what-is-equis>

another possibility to make the two-part voucher system work, namely a decentralized system being more in coherence with the origin country principle.

Gérard's idea states that the jurisdiction of origin (the country where the student comes from) is supposed to be in charge of funding the studies of its students but, for each year of their career spent abroad, it benefits from a transfer payment from the country where they work (Gérard, 2010). For some of the readers this set-up might ring a bell since the **Bhagwati¹¹ tax** follows exactly the same principle, in which the graduate (former Bologna student working in another country than her origin country) repays the country of origin through a yearly contribution with the aim to compensate the country of origin for the investment done into her higher education. The money can be obtained through a tax on the income of the worker, *“that tax might be levied by the tax authorities of the country where she works and have its revenue transferred to the country of origin”* (Gérard, 2010).

The idea of the **income contingent loan** follows the same principle. The loan is contingent in the sense that the height of the interests and the repayment amount depends on the income of the graduate. In case the graduate returns to the country of origin after the completion of her studies, the loan does not have to be repaid since the worker contributes to the production of wealth in her origin country.

The **graduate tax** draws a different picture since it makes the payment of education costs contingent on whether or not the individual succeeds in education (Garcia-Penalosa&Waelde, 2000). Students who do not obtain a skilled job do not have to pay higher education costs but students being employed as high skilled workers pay back both their own education costs and an amount used to cover the subsidies to those who have failed (Garcia-Penalosa&Waelde, 2000). The graduate tax therefore increases the payoff for a student who studies and fails and decreases the payoff for one who succeeds. This reduces the risk associated with education investment and provides partial insurance since such a system induces more persons with low wealth to invest in education (Garcia-Penalosa&Waelde, 2000). This complex of problems revolving around equity in higher education systems will be further developed in chapter 11 on equity implications of the two-part voucher.

What all repayment schemes have in common is the tremendous need for bureaucratic structures in order to trace and file every student during and after her studies.

3.3 Value of the voucher

3.3.1 The tuition fee voucher

In line with the Origin and Production principle is the question about the financing of the two-part voucher student financing system. Gérard (2008) states: *“Those vouchers can either be provided for free, thus granted, by the responsible government, or they can take the form of a loan, or of a mix of a grant and a loan. This is up to the origin government to take decision in that matter.”* The discussion whether and when a grant or a loan should be considered will be elaborated further on.

For the first part of the two-part voucher system Gérard and Vandenberghe (2007b) estimated the value of the tuition fee voucher (first part of the two-part voucher) by field of studies. A

¹¹ That tax has been suggested by economist Jagdish Natwarlal Bhagwati in order to compensate developing countries whose students, after completing their education in developed countries, decided to stay and work there rather than returning home.

Bachelor or Master degree in philosophy, theology or languages, as well as communication, political sciences and law amounts for 5.597 Euros per student. Whereas the first or second year of a Bachelor degree in medical sciences, such as dentistry or veterinary medicine, is estimated at 11.195 Euros per student, the third year of Bachelor or the Master degree in engineering has a value of 16.792 Euros per student, according to Gérard and Vandenberghe (2007b) who based these numbers on the 2005-2006 budget of the French-speaking Community of Belgium.

3.3.2 The student support voucher and the Norwegian case

The literature is not explicit on the value of the second part of the voucher, the student support voucher, because amounts are highly variable depending on the social situation of the student and the living conditions in the (host) country. The example of Norway might nevertheless make this second part of the two-part voucher system more concrete.

In Norway higher education is mostly public and free and therefore the first part of the two-part voucher is superfluous. But financial help is nevertheless provided for other study related costs (the second part of the two-part voucher system). The system of financial help is based on grants, loans and loans convertible into grants (Gérard, 2008). It is important to mention that students, and not families, are the beneficiaries of the available help. In Gérard (2008) one can read that *“For Norwegian students staying at home, a help of up to 10,000 EUR per academic year can be granted, initially as a loan; this loan, however can be partially or completely converted into a grant. In order to receive the maximum grant, the Norwegian student has to live on his or her own, to pass all the examinations, to earn less than 14,000 EUR and to have assets not exceeding 28,000 EUR. Additional loans can be provided give the family situation, e.g. the fact that the student has a dependent, like children.”*

The support received is fully portable if a student goes abroad. And not only Norwegians can profit from this system. Foreigners are as well entitled to receive such support *“under very generous conditions”* (Gérard, 2008) as soon as the foreign students has been admitted at a higher education institution and has obtained a residence permit in Norway. Norwegian and foreign students are henceforth treated alike.

The main objective of this social system is enhancing equity through making entry to and staying at higher education more accessible. Next to this relatively known goal, the Norwegian system of student support hides as well a goal which could be named *“pursue of harmonious economic development”*. This pursue is illustrated by the fact that a Norwegian student who decides to work in a remote region of Norway can have his loan completely converted into a grant. The same goes for students from developing countries, who after completion of a study in Norway, get their loan converted into a grant if they decide to return home and use their acquired knowledge in their own country (Gérard, 2008).

3.3.3 Application for the voucher

Having determined the value of the vouchers, the issuing authority decides on the number of vouchers supplied for a given field and year.

Gérard (2008) cites an example: *“The French government may, for instance, organize a competition for a predetermined number of vouchers in veterinary medicine. Applicants who fail to get the voucher can still be accepted by schools but then at a (high) price covering the real cost of the studies, either at home or abroad. Alternatively the schools may decide not to accept those unfunded students or, possibly, provisions in the international agreement organizing the system, may compel the schools to reject those applicants. In that latter case,*

partner countries help France enforcing its numerus clausus — the issue of a limited number of vouchers. Then indeed French students — the most likely to practice in France after completing their studies — no longer have the opportunity to overcome that quantitative limit deemed to be justified by the needs for a given profession.” One may now rightfully ask the question, why countries limit the access to certain study programmes, but because of space bondage the reasons why a country opts for a *numerus clausus* are not of concern for this study.

To sum up the two-part voucher system, constituted out of a first voucher, the tuition fee voucher, covering the “real” costs of the study and a second voucher, the student support voucher, financing the living costs of the student, differentiates between two areas of costs that students face while studying. The proposed vouchers can be either used at home or abroad as long as it is in a higher education institution whose quality has been certified or recognized by the voucher issuing country. Gérard (2010) insists that this “*system is more efficient than the current one [...]*”

In order to make the system even more efficient, it is suggested to combine the origin principle with a contingent loan in case the graduate does not return home after the completion of her studies and hence, does not contribute to the production of wealth in the country that invested into her education. A Bhagwati tax was considered as well and would take the form of a transfer payment between countries. But the contingent loan concept appears to be the best solution according to Gérard (2010) because “*the amount of cross border education generated by that process is then identical to that produced by a centralized mechanism aiming at maximizing common social welfare.*” The concept of income contingent loan will be treated with more depth in chapter 7 on financial feasibility.

For Gérard the set up seems clear. He advocates a decentralized origin country based two-part voucher system being funded by an income contingent loan. Despite the ideal design he paints, a major question remains unanswered and this question concerns the actual feasibility of the voucher system and therefore the second sub question of this thesis asks: *How can feasibility of the two-part voucher system be defined?*

In the following chapters this report will evaluate whether the decentralized solution Gérard offers is effectively the most convenient and plausible for the Bologna countries and whether the income contingent loan idea really represents the best concept for the two-part voucher system. In order to evaluate the feasibility of the origin principle and the income contingent loan system several criteria will help for the analysis, but first the methodology applied for this report will be outlined.

4. Methodology

The model

After having highlighted the current problems in the field of study financing and student mobility, and after having thoroughly described the functioning of the two-part voucher system, the analysis which follows uses five feasibility criteria in order to set the analytical anchorage for the present **qualitative** report. The criteria have been borrowed from a business administration model testing the feasibility of a new product or business idea before launching production in order to evaluate and analyse the implementation potential of the proposed project (Barringer&Duane Ireland, 2008). The technological, economic, legal, operational and cultural feasibility criteria are applied to the higher education sector in form of Gérard's two-part voucher system. A SWOT analysis might have been another feasibility testing means but examining the two-part voucher through a technological, economic etc. lens enables this report to develop a deep understanding of all the diverse and complex aspects related to the connection between student mobility and study financing. Including other factors like a political criterion would have exceeded the boundaries of this research but one can observe that each feasibility criterion comprehends a slight political nuance.

The feasibility analysis functions as theoretical tool for the problematization of the two-part voucher system.

But why is a business administration model applied to a financing system for higher education which can not be regarded as a new toothbrush or other product? The reason for choosing such a model is to be explained by the fact that the two-part voucher system of Gérard has never been tested or critically examined so far¹². Although validity might be affected, the business administration feasibility analysis model gave a clear structure and guidelines to analyse Gérard's scheme thoroughly and present a first, founded judgement of its viability.

Procedure

The report adopts the following methodological structure: first the problem statement (student mobility and financing, cf. chapter 2). The two-part voucher system has to be seen as the solution to the problem between student mobility and financing (chapter 3). Whether it represents a feasible answer to the problem is the central focus of this report. Therefore the main research question and the related sub questions ask:

To what extent is the two-part voucher system feasible in the Bologna countries?

-What is the two-part voucher system?

-How can feasibility of the two-part voucher system be defined?

The feasibility analysis is strengthened by literature on amongst others, the two-part voucher system and its functioning (Gérard, 2007/2008/2010) vouchers in higher education (Koelman&Jongbloed, 2000), income contingent loans (Vossensteyn, 2009 and Johnstone, 2004), the subsidiarity principle (Ederveen&Gelauff&Pelkmans, 2008) and quality of education (Teichler, 2003) because these subjects of these papers are connected to and intertwined with the aspects describing the feasibility of the two-part voucher system (chapter 5 – 10).

¹² Gérard has sent his two-part voucher system to the European Investment Bank and to the European Commission for examination, but has not received any comment at the moment of writing this report

Interviews

The literature covers thoroughly each criterion in its diversity and additionally stakeholder interviews allow more concrete insights.

Three interviews were carried out through email contact in the period from June 2010 to August 2010 (the interviews can be found in attachment II). The interviewees have been chosen because of their direct work or policy-making role with regard to study financing issues. Nevertheless the small number of respondents and the sampling method (reliance on available subjects (Babbie, 2007)) ask for caution in generalizing from the given answers. Several organisations, amongst others the European Commission, the Bologna Secretariat and the European Investment Bank have been approached, but answers were unfortunately rare. The contacts below have been made thanks to CHEPS and Nuffic (Netherlands Organisation for International Cooperation in Higher Education).

The interviewed stakeholders are:

- Els van der Werf, Member of the Dutch team of Bologna experts from the Hanzehogeschool Groningen.
- Jacob Smit from DUO, the implementation organisation of the Dutch Ministry for Education, Culture and Science.
- Brian P. Power, Head of Student Support and Equity of Access to Higher Education, Department of Education and Skills, Ireland.

The respondents were asked for authorisation to be explicitly named in this report and they agreed on condition that one mentions that their answers are their personal opinions and evaluations. The respondents did not reply to the questions in the name of their organisations, but according to their own expertise and experience in the area of study financing.

The research strategy for this report hence combines **desk research with interviews**. Desk research made it possible to assemble a considerable amount of published articles on subjects related to the two-part vouchers system and its functioning. Because no one ever evaluated Gérard's system before¹³ a theoretically founded approach to higher education financing was taken through the articles and the feasibility test model. The interviews were held in order to cover the empirical side of this research by considering opinions of people working with study financing issues in day to day life.

Validity

Validity describes the correctness of, or degree of support for an inference (Shadish, Cook & Campbell, 2002). Several indicators can confirm an outcome or a conclusion, in that sense weight might be an indicator for obesity. But length is an indicator that should not be forgotten when one evaluates obesity. The same goes for this research, each criterion looks at the two-part voucher system from a particular angle and each indicator is essential to construct a reasoned argument about whether or not Gérard's scheme is feasible. This research tries to be as complete as possible relying on a business administration model together with literature and interviews, but, as has been mentioned beforehand, some risk to validity is present due to the selection process. The reader should be aware of that and should acknowledge as well that this report has its limits in space and depth.

¹³ Information coming from email contact with Mr. Gérard.

5. Feasibility analysis criteria

As mentioned in the introduction, by feasibility this report understands “*capable of being done with the means at hands and the circumstances as they are*”¹⁴. To put it shortly a feasibility analysis stands for “*a preliminary evaluation of a business idea to determine if it is worth pursuing*” (Barringer&Duane Ireland, 2008). Since no evaluation or criticism has been done on the two-part voucher system, a basic feasibility analysis like practiced in the business and innovation sector seems appropriate for a first feasibility test. Further investigations into the implementation possibilities of the two-part voucher system will complete this report who wants to cover the lack of research on that level.

In the chapter above the means at hand of the EU have been explored and the conclusion has been that there is some influence through programmes like ERASMUS but the effective power lies within the hands of the Bologna declaration signatory countries. The circumstances as they are have been outlined too and are characterized by externalities like free-riding and insufficient student mobility.

One can therefore state that there is sufficient demand for a new approach concerning study financing in Europe. Whether the two-part voucher system can be implemented depends on **technological, economic, legal, operational and cultural criteria** (Barringer&Duane Ireland, 2008). A classical feasibility analysis, like it is done in the business or innovation sector, comprehends as well a schedule feasibility criterion, but a time frame is, at this stage of the development of the two-part voucher system, not yet needed and has no added value.

1. **Technological** (or organizational) feasibility is assessed through determining whether the company or institution has the capability in terms of available personnel, management expertise and organizational competence to handle to the completion of the project (Barringer&Duane Ireland, 2008). Management prowess and (non financial) resource sufficiency have to be tested.
2. The **economic** (financial) criterion is most of the time determined through a cost/benefit analysis and a measure of how cost effective the proposed solution will be. It is difficult to estimate costs until all of the requirements are known and technology choices have been made. That is why an in depth financial analysis is not required because the conditions in the business will inevitably evolve, making detailed financial forecasts superfluous at the stage of the feasibility analysis (Barringer&Duane Ireland, 2008).
3. **Legal** feasibility must be considered because the assessed system should not interfere with existing laws or rules.
4. The **operational** feasibility is a measure of how well the solution will work in the organization. It can be tested through stakeholder interviews and expert opinions on whether the proposed solution might work.
5. Finally the **cultural** criterion measures the impact of the project on the local, regional or international culture. It is an important aspect to consider since mobility within the EHEA intends to foster mutual comprehension and closer relationships within Europe.

These criteria will make apparent whether the two-part voucher system is viable and an option for financing to be considered by the Bologna States. The analysis of the criteria will

¹⁴ Thesaurus (2010). *Feasible*, retrieved on the 9th of April 2010 from <http://thesaurus.com/browse/feasible>

be completed by the answers, comments and suggestions of the three interviewees. This will enable the report to combine theoretical outcomes with concrete stakeholder opinions.

It has been stated that some product/service desirability (Barringer&Duane Ireland, 2008) for the two-part voucher system is given, but before starting the analysis the next page will outline the concept statement (and a summary) of the two-part voucher system. The concept statement belongs to the feasibility analysis and involves a preliminary description of a product or service idea which is further on shown to experts or prospective costumers to solicit their feedback (Barringer&Duane Ireland, 2008). The statement includes:

- A description of the product or service
- The intended target market which lists potential buyers
- The benefits of the product or service
- The position of the product in comparison to competitors
- The description of the management team

5.1 Concept statement: The two-part voucher system

Product - The two-part voucher system

The two-part voucher system, intended to alleviate negative externalities (i.e. free riding, lack of mobility and decrease in quality) arising from complicated variable European study financing systems based on the production principle (Gérard, 2007) and student mobility, is constituted out of two elements. The first part covers the tuition fees a student needs to pay whereas the second part is intended to cover the costs of living of the student. It is furthermore suggested by Gérard (2010), the creator of the system, to transfer the responsibility for financing higher education from the hosting country to the country of origin of the students who have to pay their received loan back as soon as they graduate (income contingent loan). The vouchers can be used anywhere in a defined international area (EHEA) provided it is in a school whose quality has been recognized by the voucher issuing country or authority.

Target market

This voucher concerns only a certain kind of student, namely so-called Bologna students which are mobile across borders in order to get a degree abroad, not just a few credits like it is the practice with Erasmus students. These students produce negative externalities like free-riding and brain drain after the study abroad (cf. chapter 2). In the case of Erasmus and Socrates students, the school or university of the country of residence (the origin country) receives the whole subsidy or fee and the host country does not receive any money at all, since the whole system of the exchange programmes is based on reciprocity. In the case of Bologna students it is the hosting country, the higher education production country (Gérard, 2007) that at least partially, supports the cost of the education for the foreign students. Gérard wants to eliminate these externalities and increase mobility. Therefore the target market for the two-part voucher concerns Bologna type students in Bologna countries.

In his articles Gérard includes students staying in their home country and makes the two-part voucher as well available to them but he failed to enlarge and deepen this topic.

Why the two-part voucher system?

The benefits of the two-part voucher system can be found in the elimination of negative externalities of cross-border mobility and engendered effects such as quota practices (cf. Austria-Germany case in chapter 2) because the production principle is abandoned.

Competitors

The two-part voucher system could be handled by each Bologna country or by a centralized agency that would issue the voucher. Alternatives or competitors to the two-part voucher system and how the Higher Education system receives money are financing schemes such as “1) *the traditional tax-subsidy*, 2) *pure loans*, 3) *income-contingent loans with risk-sharing*, and 4) *income-contingent loans with risk-pooling*” (Del Rey&Racionero, 2009). The graduate tax can be cited as well (Chapman, 2005 and Garcia-Penalosa&Waelde, 2000) but whether it is an alternative for graduates to repay more for their higher education than they actually received remains open. Solidarity should be fostered in higher education financing schemes but the schemes should stay fair even though such a tax would provide the public sector with major revenues. Participation of the private sector represents another possible alternative or addendum for the two-part voucher system (Chapman, 2005).

When it comes to the origin principle no real alternative can right now be found on the market and the main competitor remains the established production (host country) principle.

Management team

At the moment there is no management team of the two-part voucher available. Marcel Gérard is having his concept considered by the Commission and the European Investment Bank.

6. Technological Feasibility

Technological or organizational feasibility is tested through determining whether the company or institution has the capability in terms of available personnel and expertise to handle the completion of the project (Barringer&Duane Ireland, 2008). When it comes to the two-part voucher system two points are of major interest in order to find out whether the system is technologically feasible.

Firstly, one has to ask a general question about the vouchers which generally earned lots of criticism because of the administrative burden they represent. Additionally the diverse national funding schemes play a role alongside with the non-authority of the EU in education. Secondly a look shall be taken at the (non financial) resource sufficiency, meaning the agencies or institutions that would fund, support and administrate the whole voucher system. On what level would they operate? What would constitute the most efficient level?

6.1 The pros and cons of a voucher system

A voucher system represents a specific (higher) education funding scheme (Koelman&Jongbloed, 2000) in which the government does not allocate funding directly to the higher education institutions (the providers of education) but in which the funding is provided through the consumers, i.e. the students. The student receives a voucher which stands for a certain amount of money to be spent on education. The value of the voucher is related to the average per capita costs of a certain amount of education (Koelman&Jongbloed, 2000). Once a student has chosen a higher education institution (HEI), the HEI redeems the value of the voucher from the government (ministry of education). *“The effect of vouchers is that HEIs are forced to acquire means by attracting vouchers from students. Providers are forced to compete and students (or pupils) are encouraged to seek the provider that best satisfies their demands. In doing so they can choose from a range of providers”* (Koelman&Jongbloed, 2000). It is thus the choice of the student that drives the funding.

It should not be forgotten that there are several versions of voucher systems, some having been tested and others only existing on paper (Koelman&Jongbloed, 2000). This section of the thesis looks at vouchers in education from a more general perspective, though keeping the two-part voucher system in mind.

Pros

Vouchers are praised for the enhancement of competition they promise since students will be able to choose the university that offers the best facilities to them. The HEIs will therefore centre their policies on the students' preferences in order to attract more money. Despite the fact that there is only few experience with voucher systems in the higher education sector (Koelman&Jongbloed, 2000) some general advantages and disadvantages of a voucher system can be listed.

What is generally considered as a main advantage of a voucher system is the freedom of choice that is offered to students by it. Firstly it is argued that under a voucher system, the supply side (i.e. the HEIs) would be much more responsive to the needs and preferences of the “costumers”. This responsiveness would increase competition among the HEIs that want to attract as much students as possible and thereby efficiency of the curricula, teaching methods and other provided services are augmented.

Secondly a voucher system bears the advantage of more money being spent on education even in times of economic stringency (Koelman&Jongbloed, 2000).

A third advantage can be seen in the fact that the government can exert less bureaucratic control on the HEIs which are getting their funds through the students and not anymore directly through the government.

As a last advantage a rise in equality of opportunity is cited (Koelman&Jongbloed, 2000). Thanks to a voucher system HEIs can be much more responsive to and flexible towards preferences of minorities for example.

Cons

The first negative aspect of a voucher scheme relates to the fourth advantage, namely that the most popular HEIs will constantly grow and improve whereas the unpopular ones will have to close or will only be able to accept those students that can not afford the popular HEIs.

A second disadvantage can be seen in the costs a voucher system would create. The implementation of a voucher system in the U.S could “raise public educational costs by 25% or even more” (Koelman&Jongbloed, 2000). Connected to this cost factor are practical difficulties like the administrative burden a voucher system generates. Each student would need to be filed and tracked throughout her career, which requires enormous amounts of paperwork, administrative staff and organization.

The ultimate argument giving a voucher scheme a bad taste is that there has been almost no serious testing on the functionality of such a system (Koelman&Jongbloed, 2000)¹⁵.

Denmark, Sweden, Norway, Iceland and Finland actually practiced a voucher system and the following lessons can be drawn from their Nordic agreement experience (Villé de, 1996). The idea resembles majorly the two-part voucher system since each state finances its national who decides to study in another country which signed the Nordic Agreement and the whole system functions according to the principle of “*money will follow the student*” (Nyborg, 1996).

In the Scandinavian experience the voucher system turned out to be viable only when there is a certain degree of harmonisation (admission requirements, organisation of different disciplines, evaluation and conferring of diplomas etc.) (Nyborg, 1996; Villé de, 1996). If one now thinks about the EU and the Bologna countries, it is obvious that this harmonisation is far from being reached even though the Bologna reform and current process can be considered as a starting point.

This Nordic experiment shows that when the costs per student differ from one discipline to another and from one country to another it is extremely difficult to determine the amount of a voucher which satisfies both the host country and the home country (Nyborg, 1996).

For the two-part voucher system of Gérard this bears interesting insights but a lack of basic empirical knowledge and practical foundations remains.

To sum up one can thus state that the advantages of voucher systems are attractive and motivating but whether they are realistic and applicable for both the tuition fee voucher and the student support voucher has not been sufficiently corroborated.

¹⁵ For information on some practical experiments with vouchers, read Koelman&Jongbloed, 2000.

6.2 Resource sufficiency

A central voucher company represents one of the possible scenarios to administer the voucher system of Gérard. This part has the objective of identifying the most important non financial resources and assess whether they are available (Barringer&Duane Ireland, 2008). As already mentioned the funding would not be allocated to the HEIs anymore but to the students who then deliver the voucher they received at the university of their choice. But where did they receive the voucher from? A department of the ministry for education? A central voucher company? The European Investment Bank (EIB)?

The question is whether the Bologna countries possess the capacities and infrastructures to manage the two-part voucher system. Most of the countries possess an agency like the Dutch DUO, or the German BAföG department, meaning agencies of the ministry for education which take care of study financing. These agencies would be suited to handle the voucher issuing and tracking of the students but the question is whether they would continue to operate on a national level or whether a central organ should be installed. How many students could the agencies handle? Of course not all 17 million students (van der Ploeg&Veugelers, 2007) will suddenly go abroad because of the voucher system but a sudden rise in numbers might exceed capacities.

According to the origin principle Gérard advocates, the agencies would operate nationally which increases the two-part voucher system's feasibility because the competences of the EU in education are not sufficient to push a centralized EU wide agency through without the agreement of the member states. Additionally remains the question what status the non-EU Bologna countries would have in such an agency.

It has thus been made clear through this first criterion of the feasibility analysis of the two-part voucher system that technological feasibility is difficult to guarantee. Lack of experience and unclear resource conditions and related efficiency questions do not make it a convincing proposal for authorities.

The next section is going to look at technological feasibility from a concrete, stakeholder perspective in order to get insights into more practical aspects of the two-part voucher system.

6.3 The view of the interviewees¹⁶

As mentioned in chapter 4 on methodology, three stakeholders have been interviewed in order to analyze the different feasibility criteria of the two-part voucher system. In this feasibility study qualitative answers from various stakeholders are used to provide the argumentation made from the literature with more practical substance.

Els van der Werf stated the following about organizational feasibility. She sees no real obstacles for the first part of the voucher (tuition fee voucher) since such a system seems not as “complex” to her. The second part of the voucher though requires a more advanced administrative system in her opinion, because it is not “static”. To her both parts are costly to set up in the different countries' administrations. Additionally she sees a problem in the fact that loan and grant systems are slow in responding to fluctuations which would engender massive complaints by students and complicated adjustment procedures.

¹⁶ All interviews can be read in attachment II.

Jacob Smit works for DUO which is responsible for the implementation of the educational policies the Ministry decided on and administers all grants and loan facilities for students in the Netherlands. Since Jacob Smit is concerned with the practical implementation of policies at DUO, his opinion on the two-part voucher system is of particular interest.

Smit rightfully asks how students staying in their home country would be financed since the two-part voucher system essentially focuses on diploma mobile students. As has been pointed out in chapter 3 on the characteristics of the two-part voucher system, Gérard considerably weakens his design by not giving a thorough explanation of how the voucher system would function for students staying at home. This lack of clarity offers either the option of keeping the present system for home staying students or of introducing the voucher system as well. No matter what option might be chosen for, Smit has difficulties in attributing technological feasibility to the two-part voucher system since in his opinion there are only few countries which regulate and implement study financing, financial support and child allowances within one national scheme. Nevertheless he states that the countries like the Netherlands should be, technically speaking, capable of implementing the two-part voucher system. Smit's opinion on vouchers in general is quite negative since their implementation is connected to major unanswered questions like: How to prevent cheating? How long is a voucher valid? How can all countries participate? These difficulties combined with an income contingent loan system that needs to be administered make the two-part voucher system extremely complex in its technological feasibility in the eyes of Smit. Despite the complexities Smit values the idea dividing the voucher into two parts which enable a student centred financing according to the individual needs, but this advantage simultaneously turns into a disadvantage because such an individualized system is expensive, time intensive and too detailed.

Mister **Brian Power**'s vision of the two-part voucher system differs with the opinion of van der Werf and Smit because he partly attributes organizational feasibility to the two-part voucher system of Gérard. Power sees a possibility of integrating the administration of the two-part voucher system into the already existing study related administrative structures of the member states at relatively low marginal additional costs. Nevertheless he fears that considering the current financial climate, only large short-term benefits would generate sufficient political will to implement such a system. When it comes to advantages and disadvantages of the two-part voucher system, Power expresses that under the existing law provisions it would be discriminatory to deprive a visiting student from the support benefits and provisions the host country offers to its students despite the fact that the visiting student receives home country support. Power seems to misunderstand Gérard's idea that all countries adopt the voucher system and therefore abolish their own financing and support schemes.

6.4 Conclusion: technologically feasible?

All in all, the analysis and the stakeholder opinions showed that technological feasibility can not be guaranteed for the two-part voucher system due to the lack of experience and the administrative burden. The respondent Mr. Power nevertheless sees implementation possibilities, but it must be acknowledged that if the voucher is only meant for mobile students, at the moment, this would mean a transformation of the entire higher education sector because of a so far relatively low amount of students (20% of mobile students by 2020

far from being reached¹⁷). Even though Gérard actually includes students staying at home in his two-part voucher system (Gérard, 2010), he omits to concretely explain the functioning of the system for those students in his papers.

¹⁷ Please consider: http://ec.europa.eu/education/lifelong-learning-policy/doc/mobility/com329_en.pdf , retrieved on the 16th of August 2010.

7. Economic (financial) feasibility

For this feasibility criterion a cost/benefit analysis is mostly made and it is concerned with the overall financial attractiveness of the proposed idea or product (Barringer&Duane Ireland, 2008).

Gérard (2008) states that: *“Those vouchers can either be provided for free, thus granted, by the responsible government, or they can take the form of a loan, or of a mix of a grant and a loan. This is up to the origin government to take decision in that matter.”* Leaving the decision-making power about the financing of the voucher to the member states makes Gérard’s system very member state friendly. To be precise Gérard advocates an income contingent loan system (chapter 3.3.3).

This chapter will elaborate on the grant or loan debate with a special focus on the income contingent loan (ICL) suggested by Gérard for the two-part voucher system and whether the ICL is feasible for the Bologna states. Secondly it will look at general financial aspect of the two-part voucher system like study costs and costs of living in the different Bologna countries with regard to financial feasibility.

7.1 Income contingent loan (ICL)

„An ICL provides students with finance for tuition and/or income support, its critical and defining characteristic being that the collection of the debt depends on the borrowers’ future capacity to pay (Chapman, 2005).“ With ICLs, graduates repay their study debt as a percentage of their income. *“For example, in Australia and the UK, repayments are automatically withdrawn from gross salary through the tax authorities. In such a system, graduates repay quickly if their income is relatively high, but more slowly in periods of low income (Vossensteyn, 2009).”*

It has been made clear that students studying abroad often return to their country of origin (Chevalier&Gérard, 2008). In this case the student might be eligible for a grant, a direct subsidy that does not have to be repaid (Vossensteyn, 2009), from her home state since she will contribute to the economy of her home country. If the student does not return the state loses the money of the grant invested into the student. One can assume that thanks to mobility the number of persons working abroad after their studies (in their host country or in a third state) will increase. Therefore the grant represents an unsecure tool for financing the Bologna type of student this work focuses on since the students will not necessarily contribute to the GDP of the country they received the grant from (Gérard, 2008). A loan system suits these students much more¹⁸. But the fear of lending and making debts at such an early stage of life displeases most students. This loan aversion could be fought if students would receive clear information about borrowing and the benefits of higher education, such as high job satisfaction or better job opportunities. Additionally it turned out that average debt levels generally are low compared to average earnings shortly after graduation (Vossensteyn, 2009).

The loan (in form of a voucher) would be repaid to the country that issued it according to the income of the student and respecting possible periods with low or no income. What at first sight seems like an ingenious system does nevertheless hide some serious drawbacks and complications.

¹⁸ What about the ideal of free education? Please cf. chapter 11.

In a first place governments have to show “*the willingness to enlist the policies and procedures of income tax and pension or insurance withholding to the cause of collecting student indebtedness*” (Johnstone, 2004).

Secondly compliance must be verified and transgressors punished if for instance wrong income sums are adduced. And it has to be stressed that potential cases like persons with multiple incomes or variable incomes constitute a grand challenge for the feasibility of the ICL within the two-part voucher system because of the “administrative sophistication” (Chapman, 2005) required to make the ICL, and as shall be seen the two-part voucher system, administratively viable. But countries with extensive reporting and monitoring of all income and with a culture of voluntary income tax compliance like Australia (cf. Chapman, 2005 for an overview) or Sweden have been able to tackle these challenges (Johnstone, 2004). Nevertheless scholars are divided on the question of the actual advantages of an ICL compared to a conventional loan programme or the graduate tax (cf. Johnstone, 2004; Chapman, 2005; Garcia-Penalosa&Waelde, 2000).

7.2 United in (financing) diversity

First of all one has to consider the different cost structures in the Bologna states. Studying in Poland does not cost as much as studying in England, might it be for the tuition fees or the costs of living? The national government defines the relative generosity, like a family determines how much money it spends on food, the car and clothes. Each member state defines its own the budget for higher education (sometimes even smaller entities take such decisions, for example in Germany where the *Bundesländer* are responsible for education) and possesses additionally highly varying funding mechanisms¹⁹ (Villé de, 1996). It is hence quite difficult and not realistic to calculate an average cost of a study like Gérard and Vandenberghe (2007b) did (cf. chapter 3.3.1).

Moreover the salaries of professors differ widely across countries and therefore study costs vary as well. The assumption of Gérard that costs of studying could be similar in all countries (Gérard, 2010 and chapter 3.2.2) is thus simply not feasible now and in the upcoming years. And even if each country would install and fund the voucher system new protectionist behaviour could appear because countries could make a selection on admissions into programmes according to whether the students come from a rich or a poor higher education funding country. Such developments could be countered by the European Court of Justice but of course only when EU member states are involved. Non-EU member states can not be pursued by the ECJ.

There is also the problem concerning the amount of money to place on the voucher. Some scenarios to determine the amount of money a voucher is worth have been developed.

7.2.1 Determining the amount of money on the voucher

Two possible approaches in determining the required levels of pan-European loans are offered by a research team around the Dutch Ecorys group (Ecorys, Cheps&CHE, 2009).

Firstly “*a detailed complex approach in which one on a (bi) annual basis determines the (average) costs of studying in all EU/EEA countries joining the programme. Based on cost differences including all study related costs one can determine the differences between*

¹⁹ Consider the European Investment Bank’s student loan overview:

http://www.eib.org/attachments/general/events/luxembourg_22012009_student_loans.pdf, retrieved on the 28th of June 2010.

countries, compensate for national support, and then determine a maximum amount to be borrowed (with a potential top-up for travel costs). Such an approach could very well link up with the EUROSTUDENT²⁰ project”. And secondly “a more simple approach would be using standards like GDP per capita, average income or something similar, differences in tuition regimes and determine some standard amounts students can borrow if they go study in a different (more expensive) country.” Questions like who provides the capital, repayment terms and management of the loan provisions remain unanswered (Ecorys, Cheps&CHE 2009).

As a last point of criticism on the financial feasibility of the two-part voucher, one might cite the need for a thorough tax and debt collection system which is not necessarily installed in every country. The costs of setting up such a system and the necessary staff next to the voucher administration might certainly exceed the benefits in the short run. On the long run the scenario might be different but the voucher system needs concrete testing in order to make a good estimation of possible benefits.

And up until now only the tuition fee voucher has been in the spotlight. How to define the living costs per country? According to which criteria and what standards should the student support voucher be set and issued? Gérard does not answer these questions in his two-part voucher concept.

After having elaborated on the ICL system and the value of the voucher it became clear that the general financial attractiveness of the two-part voucher system remains limited. An income contingent loan system requires harmonisation in administrative structures which is simply not given within Bologna countries. Calculating the value of the voucher represents another insecure adventure and the question of whom would be financing the vouchers stays unanswered.

What is certain is that there is an increasing interest in and thought of a European student loan facility as the conference on student lending of the European Investment Bank in 2009 demonstrated²¹.

7.3 The view of the interviewees²²

Van der Werf states that the costs for the implementation of the two-part voucher system do not stand at all in relation to the rather small problem of free-riding. Financial feasibility is not guaranteed according to her because the administrative burden appears to be too high. But she sees advantages in students taking up a loan and investing into their own future. The debate about the costs of studying and living in the different countries has been thoroughly described above but van der Werf makes the pertinent point that not only national, but as well regional price differences in and among countries should be considered.

When it comes to financial feasibility **Smit** also questions whether the elimination of negative externalities like free-riding outweighs the costs of implementing and running the two-part voucher system. Like van der Werf, Smit expresses his doubts regarding the small-sized problem and the amplitude of the implementation of the solution. Additionally he states that students being able to finance the study on their own or thanks to their parents will not

²⁰ For more information: <http://www.eurostudent.eu:8080/about>, retrieved on the 6th of June 2010.

²¹ For more information <http://www.eib.org/about/events/international-policy-conference-on-student-loans.htm?lang=en>, retrieved on the 14th of June 2010.

²² The entire interviews can be read in attachment II.

make use of the loan scheme, turning the system into a “relapse option” disregarded by a considerable amount of students. In terms of the student support voucher, Smit sees possibilities in calculating adequate amounts for the vouchers and even suggests to form clusters which group countries presenting similar costs of living but all in all, for Smit, the two-part voucher systems’ feasibility stays limited.

Financial feasibility is difficult to gauge for **Power** since each country possesses differing resource capabilities. He additionally mentions that with the introduction of the voucher system, through the abolishment of negative externalities like free-riding, might privilege net host countries of mobile students because more money is pumped into their HEIs and they might be reluctant to extend arrangements the voucher system implicates.

Power’s opinion on the income contingent loan is biased since he recognises the advantages of the scheme but states that only students from families having a good understanding of the value and the returns of higher education will be willing to make debts in such an early point of life. It turns out that low income groups are less willing to incur debts and show higher debt aversion than middle or high income groups. Power quotes a citation from Shireman (2005)²³ saying: “*If you have a mortgage, then you have a house. If you have an auto loan, then you have a car. But if you have a student loan, you do not necessarily have the increased income that you need to pay it off*”. The fear of not being able to attain a high income discourages students to take up a loan. That is why Power advocates a system of income contingent loan including grant assistance for students coming from disadvantaged backgrounds.

For the costs of living Power proposes to follow the “*funding regime within the host country (where supports will have been set to accommodate local costs, at least in theory), up to a maximum of what is provided in the home country, so that outgoing students are not seen to be treated preferentially or to incur an additional financial burden on the state.*”

The student would receive a lower amount if the costs of living in the host country are lower than in her home country, but if the living costs are higher than in her home country she would only receive the maximum amount her home country fixed for its students. This set up is controversial since it clearly disadvantages students coming from less wealthy member states.

7.4 Conclusion: financially feasible?

Financial feasibility stays limited because of the different cost structures in the various countries and because the income contingent loan system is difficult to set up. The three stakeholders agree that the expenses for the installation of the administrative system the two-part voucher scheme requires, do not stand in relation with the relatively small externalities (free riding). Additionally making debts remains unpopular among the citizens.

²³ Additional document to interview. Citation does not figure in the interview.

8. Legal feasibility

In order to apply this feasibility criterion to the two-part voucher idea of Gérard, the principle of subsidiarity will be examined because it will help answering the question about centralization or decentralization of an EU study financing system (Gérard, 2010). The theory of fiscal federalism will serve as theoretical background to assess whether the two-part voucher system is effectively best organized in a decentralized system like Gérard (2010) suggests.

8.1 The principles of subsidiarity and proportionality

Since the competences of the EU within the field of higher education are rather restricted, the different governments of the Member States pull the strings (intergovernmental decision-making). At this point it seems useful to introduce a “*guiding principle for dividing powers in the European Union*” (Ederveen&Gelauff&Pelkmans, 2008), namely the principle of **subsidiarity**. It was firstly explicitly mentioned in the Single European Act of 1986 and was officially introduced in the Maastricht Treaty of 1992 (Ederveen&Gelauff&Pelkmans, 2008). Generally it goes along with the principles of conferral and proportionality, the former stating that “*the Union shall act within the limits of the powers conferred upon it by the Member States in the treaties*” and the latter affirming that “*the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties.*”

Article 5.3 (ex Article 5 TEC) of the Treaty on the European Union (TEU) says the following:

“3. *Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.*”

As can be read above the principle of subsidiarity is neutral about the optimal degree of centralization. Commonly however, scholars interpret the principle of subsidiarity as a tool to delegate power to the lowest level possible. But subsidiarity and lower level decision-making are not synonyms (Ederveen&Gelauff&Pelkmans, 2008). Instead of proclaiming absolute decentralization and power to the lowest government levels possible, it rather stands for a careful assessment of the optimal level at which decisions should be taken. This optimal level might involve centralization as well as decentralization.

Similarly the principle of **proportionality** limits the EU institutions’ involvement to what is necessary to achieve the aims of the Treaties. This means concretely that, when various forms of action and involvement are possible for the EU institutions, they must opt for the approach that leaves the biggest freedom to the Member States and their citizens. From that perspective centralization seems to represent the very last option for decision-makers but subsidiarity and proportionality belong to the main EU principles and can be applied as well to the Bologna countries in the sense that national governments decide on common goals and aims to reach for in higher education.

In order to make an assessment of the adequate level of centralization for the two-part voucher the focus will be restrained to the principle of subsidiarity which revolves around the optimal level of decision-making that can, but must not necessarily be the lowest governance level (Ederveen&Gelauff&Pelkmans, 2008).

In the upcoming paragraphs, with help of the theory of fiscal federalism and the subsidiarity test, it will be evaluated whether higher education is well placed in the hands of national governments and whether the two-part voucher is feasible on a decentralized level or possibly within a centralized frame.

As theoretical background for the motives of centralization and decentralization literature on fiscal federalism will be applied.

8.2 Fiscal Federalism

One might ask the question why fiscal federalism is used to assess the two-part voucher system which seems not much related to fiscal affairs. *“The economic theory of fiscal federalism explores when centralization of public economic functions is welfare improving”* can be read in Ederveen&Gelauff&Pelkmans (2008) and that is why it can be applied for various policy areas not necessarily in connection with taxes. But as has been described in chapter 3, the contingent loan option and the Bhagwati tax do place the two-part voucher system in the scope of fiscal federalism.

The theory was mainly influenced by Richard Musgrave and Wallace Oates and it *“explores the trade-off between preference matching and internalization of interjurisdictional external effects or economies of scale”* (Ederveen&Gelauff&Pelkmans, 2008).

The point of departure is a region composed of a number of jurisdictions, for example federations Germany, Switzerland or the US. The EU and its Member States are not a “full” federation (the EU has many possible shapes and set-ups, from federation via its status as a political dwarf and economic giant to its *sui generis* nature) but comparable questions concerning the allocation of power to the levels of government can be traced in multiple policy areas. The government generally pursues public policy and the point it to know whether the centralized government (in our case the EU) or the local governments (thus Member States or even provinces or municipalities) should be in charge and carry responsibility for the policy-making.

A look shall now be taken at how fiscal federalism sees decentralization, whose principal motive can be found in the *“diversity of preferences for public policies in jurisdictions”* (Ederveen&Gelauff&Pelkmans, 2008). The diversity of preferences might have its origins in culture, history and political orientation, physical conditions in countries, sectoral structures or infrastructure. Throughout Europe policy agenda preferences are extremely divergent and agreements and deals are necessary to find a common denominator. That is why the Union does not have a centralized government which commands everything. *“If preferences differ among the jurisdictions, preference matching is the main motive for decentralization”* (Ederveen&Gelauff&Pelkmans, 2008) which engenders welfare gains because policies can be diversified according to local preferences and conditions.

In the European higher education sector one can not talk of immense diversity of preferences since common, explicit goals have been formulated in the Bologna declaration in agreement with all signatory countries, but the diversity of educational culture, such as funding or teaching methods is extremely broad.

The main motives for centralization are cross-border externalities and economies of scale (Ederveen&Gelauff&Pelkmans, 2008). Cross-border externalities are clearly present in the

higher education sector, as has been demonstrated in the Franco-Belgian and Germano-Austrian free riding cases. When it comes to economies of scale, thus cost advantages through expansion, the European Union has, for example, successfully established the internal market, erasing borders and costs. In the field of higher education comparable diploma, curricula and common rating through the ECTS system symbolize expansion that is not necessarily engendering economic advantages for the universities, but that without doubt facilitated administrative tasks in the long run. Economies of scale have been achieved because the former decentralized system, with each country following its own rules and traditions, represented an incredible maze for mobile students and administrative staff concerned with mobility like international offices or faculty coordinators.

“Any serious assessment of subsidiarity has to start with identifying the existence of increasing returns and cross border externalities and weighing them against the heterogeneity of Member States” (Ederveen&Gelauff&Pelkmans, 2008). The assessment has been partly started in the above preceding paragraphs and the subsidiarity test of Ederveen&Gelauff&Pelkmans (2008) will be an indispensable tool for this report to make the main arguments pro or contra centralization or decentralization and whether technological feasibility can be guaranteed for the two-part voucher system.

8.3 The subsidiarity test

Decentralization is associated with the motive of preference matching and centralization is connected to the motives of cross-border externalities and economies of scale. Given a certain degree of heterogeneity, centralization is only desirable when externalities or economies of scale are sufficiently large. Pelkmans (2005) developed a subsidiarity test with the following four steps:

- 1) Do cross-border externalities or economies of scale justify centralization?
- 2) Is credible voluntary cooperation possible?
- 3) At which level can policies be designed and implemented in a cost minimizing manner?
- 4) Does the policy fall in the area of shared competences?

Applied to higher education and the two-part voucher system one can answer the **first question** of the subsidiarity test by a yes. The externalities of cross-border mobility are note well, not negative for all Bologna countries (France definitely has an advantage in getting back enriched human capital from Belgium) but on the long run these externalities are not bearable for a community propagating equal chances in higher education and social values of higher education and research in a modern, globalized, and increasingly complex world with the most demanding qualification needs. Economies of scale have partly been reached since mobility has been facilitated for students even though there are still major challenges to take, notably in the field of credit recognition (Teichler, 2003). Therefore the first step towards centralization has been taken.

Question number two lies in a vague field. Voluntary cooperation is already at stake since Bologna countries meet on an intergovernmental basis and form the EHEA jointly. But the question is whether the implementation conditions of the two-part voucher (comparable funding mechanisms, similar tuition fees, establishment of administrative staff offices...) could be a base for credible cooperation? At the moment cooperation among Bologna countries in the study financing sector remains at the level of proposals and investigations. It

might be possible to agree on goals but the countries keep the right to choose their own instruments to reach them. Therefore, at this point of time, the answer to question number two would be a no. This means that *“if voluntary cooperation cannot come about or it would not be credible, there is a case for centralization”* (Ederveen&Gelauff&Pelkmans, 2008).

The answer to **question number three** is that no calculations can momentarily be made on the most cost minimizing implementation level. What is sure is that at the decentralized level, as well as at the centralized level, major investments into staff and system adaptations would have to be made. It has to be decided how policies should be implemented, monitored and enforced in order to answer the third question. The principle of proportionality becomes relevant at this point since it says *“Under the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties”* (Article 5.4 TEU). This means that *“where possible and efficient, member states should play the primary role in policy implementation”* (Ederveen&Gelauff&Pelkmans, 2008). This argument supports Gérard’s decentralized two-part voucher system, but ignores the answers favouring centralization of first two questions.

The ultimate question about whether the policy falls within the area of shared competences of the EU receives a clear no, since the European Commission is only an additional member in the Bologna process. But if one takes a closer glimpse the Bologna ideas and goals, one can not deny that there is some overlap with the existing higher education policies of the EU (cf. Erasmus or life long learning). Nevertheless is centralization within the EU and actually the Bologna states not thinkable momentarily. Until now the Member States and the rules and principles of the EU have been considered but what about the citizens? At which level would they like to see education managed? Cerniglia and Pagani (2007) asked the citizens of the EU which level should do what. As mentioned the policy responsibilities of the EU are limited in education and the citizens as well prefer to allocate the competence to the national level because, as Cernigli and Pagani (2007) suppose, education constitutes a part of the different countries’ national identities that need to be defended. It is interesting to observe though that the more citizens have studied, the more pro-European they are and the more competences they wish to allocate to the EU (Cernigli and Pagani, 2007).

After having answered the questions of the subsidiarity test above it turns out that the externalities and the will for possible cooperation are not big enough to argue in favour of centralization, considering that the proportionality and subsidiarity principles have to be respected and that the policy does not lay within the area of competences of the EU (left aside that Bologna countries are more than just the EU countries).

It must hence be agreed with Gérard that the voucher system is best handled at a decentralized level, which gives the two-part voucher system legal feasibility. It has to be asked at this stage what would make the two-part voucher a “common” system. Maybe one should take a look at it like at the Bachelor-Master system. Each country introduced the principle but across countries big curricula, level and structure differences remain and make comparisons difficult despite the similar set up.

8.4 The view of the interviewees²⁴

With regard to legal feasibility **van der Werf** favours a decentralized system but sees the possibility for a small central organising unit.

²⁴ The entire interviews can be read in attachment II.

Smit can imagine a central organ but this organisation would have to be able to maintain extensive and thorough contacts with all participating countries and institutions since there is no central population administration, central income agency or overview of all curricula and tuition fees. The execution of such a centralized coordination task appears to be too complex and expensive to Smit, making the two-part voucher system legally only feasible on a decentralized level.

Power favours as well the decentralized solution but argues that a because of the necessary bilateral interactions an “electronic hub” or a “clearing house” for information might be necessary. Furthermore he points out that the exchange of information regarding student’s data and later the income of graduates might interfere with data protection and privacy legislation that is why the two-part voucher system is only feasible between countries having similar legal understandings in the area of personal data. This would exclude a considerable amount of Bologna countries at the moment.

8.5 Conclusion: legally feasible?

Legally Gérard’s system is feasible on a decentralized level but data protection and privacy legislation might hinder Europe and for sure Bologna wide feasibility. Furthermore, when it comes to fraud or abuse, the ECJ could only intervene in and punish EU member states and non-EU states could misbehave as much as they like and disregard the common agreements made.

9. Operational feasibility

Operational feasibility measures how well the solution will work in the organization (Barringer&Duane Ireland, 2008). The previous discussions about technological, financial and legal feasibility certainly relate to operational feasibility. But if one now imagines that the voucher system gets implemented and that the problems with financial and legal aspects of mobility among the Bologna countries are overcome, what about the recognition of diplomas, courses, differences in quality and substance of curricula within the different educational systems?

9.1 Quality of education

First of all it needs to be asked: what has to be recognised? When student mobility is at stake different elements such as prior learning achievements (secondary school diplomas) and courses which have been taken are relevant since curricula are heavily shaped within the national culture and frames. Since this thesis focuses on Bologna students the recognition of diplomas takes a more central position than the recognition of credits (for Erasmus students) which too often, despite the European Credit Transfer System (ECTS) causes unexpected and frustrating recognition problems for students after their stay abroad (Teichler, 2003). Especially the installation of common shapes and forms like the ECTS and the bachelor-master system should enable students to easily move between countries without complicated recognition procedures. But the fact is that each country possesses its own traditions of teaching, of dealing with subjects and interpreting theories in such a way that the quality of education is not always comparable, let alone measurable.

Through mutual trust and some accompanying recognition and transparency mechanisms mobility is possible but with competition growing between universities diversity is expected to increase (Teichler, 2003). The barriers for mobility could therefore even become more pronounced for mobile students. Common structures and degrees were meant to create some harmony but one has to admit that this concerns a rather formal, superficial transparency instrument if the content remains extremely diverse. Teichler (2003) predicted that: *“by the year 2010 most European study programmes will fit in a bachelor’s-master’s structure, but the diversity with respect to the substance of curricula and the range of quality as well as structural details might be more diverse than ever. It will be interesting to note whether mutual trust in similar quality will prevail or even grow and thus facilitate recognition of study achievements of mobile students or whether increasing competition and diversity will eventually lead to an increasing uncertainty. Structural convergence does not necessarily increase mutual recognition.”*

Gérard’s assumption of similar quality standards in all Bologna countries is thus quite fallacious and not at a reality level. From this perspective operational feasibility of the two-part voucher is not given. But there are institutions and agencies such as the European Quality Assurance Register (EQAR²⁵) created in 2008 or ENIC (European Network of Information Centres) and NARIC²⁶ (National Academic Recognition Information Centres)

²⁵ For more information on their work please consult: <http://www.eqar.eu/about/introduction.html>, retrieved on the 24th of June 2010.

²⁶ For more information please consult: <http://www.enic-naric.net/index.aspx?s=n&r=g&d=about>, retrieved on the 24th of June 2010.

which respectively aim at increasing the transparency of quality assurance in higher education and improving recognition of diplomas.

Furthermore there is the OECD Assessment of Higher Education Learning Outcomes (AHELO), an initiative aiming at assessing “*learning outcomes on an international scale by creating measures that would be valid for all cultures and languages*”²⁷. On a voluntary basis HEIs can participate in the assessment which should not be misinterpreted as a HEI ranking aiming at comparing the different national HEIs. The idea behind the initiative is that higher education should not only be made more available but also of better quality. AHELO will be developed in the upcoming years and between ten and thirty thousand higher education students from more than ten different countries are meant to take part in the feasibility study testing the potential of such an HEI assessment²⁸.

9.2 Major outcomes of the interviews

Operational feasibility can be tested through stakeholder interviews and expert opinions on whether the proposed solution might work (Barringer&Duane Ireland, 2008). The section below shows the stakeholder opinions on operational feasibility and summarizes as well their general ideas on the two-part voucher system (opinions on cultural feasibility can be found in chapter 10).

Van der Werf does not see a real added value in the two-part voucher system and expresses serious doubts about its feasibility with regard to the rather small problem of free riding (Mechtenberg & Strausz (2008) have a quite different opinion on the size of the impact of free-riding and Case C-147/03 Commission of the European Communities vs. Austria demonstrates what the effects of the free-riding represent for a host country like Austria).

Operational feasibility is not guaranteed according to **Smit** and the problem of free-riding could only be eliminated if the students going abroad and taking advantage of another university system would pay entirely for the costs of their study. Smit asserts that the two-part voucher does not deliver the answers needed to cope with externalities like free-riding and decrease in quality.

Generally speaking Jacob Smit says that he does not consider the two-part voucher system to be feasible. The main reasons are the complexity and the cost intensity of a design that does not solve urgent problems like free-riding or lack of mobility. Interestingly Smit even pleads for a halt of mobility because he is worried about the quality of higher education and turns the attention towards the fact that financing does not represent the only element for students to be mobile. Factors like motivation, curiosity, spirit of adventure and a penchant towards other cultures influence majorly the decision to go abroad.

Power attributes operational feasibility to Gérard’s system as long as it proves to be financially and legally implementable and as long as it is backed up by political will. The question is how to convince the EU’s and member states’ leaders of a system with such an amount of inconsistencies.

The major points present in the interview of Brian Power are his positive view on technological feasibility of the two-part voucher system by simply embedding it into the

²⁷ For more details information please consult:

http://www.oecd.org/document/22/0,3343,en_2649_35961291_40624662_1_1_1_1,00.html, retrieved on the 3rd of August 2010.

²⁸ Idem.

existing structures. But the resources each country disposes of are far from similar which makes implementation difficult. Moreover the income contingent loan appears to be hindering student from low income families and therefore a grant system should be set up along with the ICL scheme. Legally the transfer of data might represent a major problem limiting the voucher system to countries with common legislative structures. But technological feasibility is not sufficient for the two-part voucher system to work. And therefore Power's input, despite its positive attitude, must be considered as acknowledging that the two-part voucher system is, under the current and nearby financial, legal and political conditions, not feasible.

9.3 Conclusion: operationally feasible?

The above standing interview summaries have been made with the purpose of getting stakeholder insights and opinions on the two-part voucher system. Generally it can be said that neither of the questioned stakeholders does ascribe feasibility to the two-part voucher system of Gérard. Even though the reasons are nuanced, it turns out that none of the interviewees sees chances of implementation for Gérard's scheme in the near future. The complexity and the costs of its implementation make the voucher unattractive. It is interesting to mention though that all stakeholders see the possibility for a central coordinating study financing administration organ. Furthermore the interviewees doubt whether students will actually take advantage of the loan structure.

Hence, in combination with the not given transparency in quality of education issues and recognition of diplomas, one must assert that operational feasibility of the two-part voucher system is not guaranteed.

10. Cultural feasibility

Cultural feasibility, in line with all other feasibility criteria asks whether the two-part voucher would be culturally accepted in the Bologna countries. Since the two-part voucher system is situated at the level of a concept and does not represent a concrete scheme the normal citizen knows and understands, it is difficult to find out whether governments and citizens would consider the concept as feasible with their national culture.

But cultural feasibility of the two-part voucher is closely linked to the potential increase of mobility the two-part voucher system could possibly produce since it is intended to make mobility more accessible and attractive to students from all social backgrounds. Therefore this section about cultural feasibility will focus on the cultural benefits increased mobility triggered by the two-part voucher system can produce for the Bologna countries.

The paper of de Villé et al. (1996) lists a certain number of benefits of mobility for the host country, the home country and Europe as a whole in order to make a cost-benefit analysis of student mobility in the EU.

The host countries can profit from the foreign students in terms of reputation, more dynamism and trade advantages in the long run (since students know the host country well and understand its culture). In general foreign students contribute to the wealth of the host nation because they spend money while studying in it. The costs for the host nation appear when capacities, like space or professors of the HEIs are exhausted. Once the budgetary costs become too high and additional financial resources are needed to run the university, the foreign student, despite its low marginal cost, represents a cost factor (Villé de, 1996).

One major motivation and inspiration for the two-part voucher system has been the fact some countries like France or Germany receive enriched human capital back without having paid for the education of their own students who studied in countries like Belgium or Austria. This is a major benefit for the home nation of the mobile students (who are expected to return home after their study). But the mobile student can represent a cost factor as well as soon as the student decides to stay in his host country or emigrates to a third country for work because in this case the home nation loses the money it invested into the primary and secondary education of the mobile student.

In professional terms, mobility is seen at the individual level as the ability to act autonomously and to adapt to a different socio-economic environment and culture. The benefit may also be socio-cultural. The attraction of the unknown and of the difference between countries helps to broaden the mind and ways of thinking. Learning about different lifestyles, social systems and structures of society helps to enrich the students. (Villé de, 1996).

When it comes to Europe and the costs and benefits of student mobility a clear picture can be drawn. Student mobility is good for the EU's economic, social and political development because students having experienced a year or study abroad are generally seen as more skilled, professional, less nationalistic, more Europe friendly and flexible (King&Ruiz-Gelices, 2003). The "cross cultural fertilisation" (Villé de, 1996) constitutes the basis for the student's and later on worker's appreciation of the European culture. The Europeanization of the future employees and employers hides major positive externalities for the EU, namely the spread of the European mentality, the dissemination of knowledge and science and mobile human capital available.

Whereas the benefits of mobility for the EU are large, the costs are actually almost nil as one can see in with the following numbers.

The 2010 budget of the EU amounts to 141, 5 billion Euros in credit engagements (European Commission, 2010c) from which 64, 3 billion Euros, thus 45% are invested into jobs, competitiveness, cohesion and infrastructure. Another 8, 1 billion Euros are spent on external aid (European Commission, 2010c). The Union's budget represents around 1% of the Union's national wealth which is equivalent to about 235 Euros per head of the population (European Commission, 2010c).

Education does not figure amongst the budget points but the Erasmus programme budget amounts 450 million Euros (European Commission, 2010b) which corresponds to 0,3 %²⁹ of the Union's whole budget. The benefits are thus exceeding the costs for the Union in the long run.

Financing education does hence not play a big role in the budget culture of Union. It is the member states that finance education and according to Gérard they should keep this role (origin principle). The voucher system would interfere with and disturb national study financing schemes which are most of the time deeply anchored in the national (educational but also social, economic and political) culture. But de Villé (1996) affirms that financial agreements like in this case, study financing usually require preliminary agreements on norms. These norms are slowly but surely installed within the EHEA since life long learning (modernisation agenda (European Commission 2010g)) is promoted as well as general rules like the Bachelor-Master system. Hence possible financing agreements might be conceivable.

10.1 View of the interviewees³⁰

Gérard's aim is to increase mobility and eliminate current negative externalities of mobility. **Van der Werf** questions the contribution the two-part voucher system can actually make for mobility because becoming mobile is related to far more aspects than simply financial issues. The major point van der Werf makes about the two-part voucher system is that its amplitude is too big compared to the small problem of free riding and the rather modest impact it can make to increase mobility. The voucher systems' impact on European culture is even seen as more modest and difficult to evaluate.

In terms of cultural feasibility **Smit** attributes rather low value to the two-part voucher system because of its complexity. He also expresses the fear that the two-part voucher system enables students with insufficient financial capabilities to go abroad. This would saturate an already quite burdened market, affirms Smit. Smit's opinion is interesting and controversial since the voices of the EU constantly propagate mobility (20% of the students by 2020).

Culturally **Power** clearly sees the positive aspects the voucher system implies with regard to European dimensions and identity forming through stays abroad. The hurdle remaining consists of the legal, financial and political feasibility.

²⁹ $450\,000\,000 \cdot 100 / 141\,000\,000\,000 = 0,319$.

³⁰ The interviews can be read in attachment II.

Interviewee Summary Table

| | Van der Werf | Smit | Power |
|----------------------------------|---|--|---|
| Technological feasibility | NO too complex | NO not all countries have the structures | YES |
| Financial feasibility | NO financial burden too high for small externalities | NO externalities problem too small for expenses | NO because of debt aversion |
| Legal feasibility | YES on decentralized level | YES on decentralized level | NO because of data privacy legislation |
| Operational feasibility | NO | NO | YES with political will |
| Cultural feasibility | NO | NO | YES with political will |

10.2 Conclusion: culturally feasible?

It has thus been put forward that mobility produces a strengthening of EU identity and citizenship. The role of the two-part voucher system would be to increase mobility of students through a standardised way of financing like Gérard predicts. But this could be done as well through other forms of financing schemes and not necessarily through the two-part voucher system with amongst others its arguable income contingent loan feature.

One should include as well national cultural patterns with regard to EU decisions and integration into the assessment of cultural feasibility. The British for example, have always been reluctant when it comes to give up national authority, whereas the German and French might be willing to discuss it. But in times of financial crises and government savings programs, the political culture, by principle, does not pay much attention to education and would rather encourage savings in this area. Therefore the cultural feasibility of the two-part voucher system stays rather limited.

The two-part voucher system could possibly contribute to a change in behaviour of students with regard to loans and debt aversion and thereby change the national lending culture. But this can only happen if technical, financial and legal problems are sorted out.

Thanks to technological, financial, legal, operational and cultural criteria, the previous chapters have elaborated on the feasibility of the two-part voucher system of Gérard. It can be seen that the diversity of the different national schemes, structures and traditions are impeding the implementation of a coordinated financing system.

Setting the feasibility analysis aside, before making the conclusion, the next chapter looks at the two-part voucher system from an equity perspective in order to broaden the reader's mind to the social implications and global consequences decisions in the field of higher education in Europe might have.

11. The equity perspective

Scholars can look at cost-sharing in higher education from the students' point of view, from the parents' perspective, with the eyes of philanthropists who in some countries finance HEI via endowments or through the lens of the government (indirectly the taxpayer). Major debates on private or public financing are ongoing in Europe and recently a majority of EU countries introduced tuition fees³¹. These current developments and this thesis on the two-part voucher system and its feasibility allow and require the question: what happened to the ideal of (higher) education provided for free and for all?

The answer is that the ideal has always been an ideal even in countries without any tuition fees like Germany or France. It has been proven that persons enrolled in higher education are in general much more likely to come from advantaged families and not from families with low income or from an ethnic or linguistic minority (Chapman, 2005 and Johnstone, 2004). This fact suggests that government subsidies injected into higher education redistribute tax resources collected from taxpayers to persons who are from privileged backgrounds and who will, thanks to Higher Education, figure among the privileged classes with high individual economic return in society (Chapman, 2005 and Garcia-Penalosa&Waelde, 2000). With the free education approach the government does thus distribute wealth away from the less fortunate and towards the privileged. Can values as equity and fairness be found in new proposed systems like the two-part voucher system?

At first sight the voucher guarantees equitable accessibility to mobility and thanks to its contingent loan feature it might theoretically be compatible with equity. The reality is though, that higher education has so far not been a high political priority in nations despite the efforts of the EU within the Bologna Reform. Equity of the voucher system has to be guaranteed at the moment of the wish for mobility and later when the repayment of the income contingent loan has to be made according to the income of the student. Some scholars even argue that the graduate tax is more efficient and equitable than the ICL because of the insurance properties it provides for students from less wealthy backgrounds (Garcia-Penalosa&Waelde, 2000). But even though the graduate tax introduces solidarity, the question whether it is an “honest” system for the high income earners, who pay for the less successful, stays debatable (cf. chapter 3.2.3).

The general trend to discharge free higher education and replacing it by fees is partly based on the notion that those ones who benefit from higher education should at least bear some of the costs. From a fairness perspective free higher education is thus very inequitable (Johnstone, 2005). Cost-sharing suddenly appears to be the more equitable way of financing higher education. But is the observed increasing higher education privatisation and growing market orientation compatible with the deeply rooted values social justice and equity? Or is this new approach openly fomenting the gap between upper and lower classes?

Rectors, politicians and policy makers confirm the compatibility of equity and higher education being market oriented under a certain number of conditions (Johnstone, 2004). Firstly student loans must cover the costs of both tuition fees and living costs in order to

³¹ Please consider:

<http://www.ifo.de/pls/guestci/download/CESifo%20DICE%20Report%202007/CESifo%20DICE%20Report%2004/2007/dicereport407-db5.pdf>

reach equity as well for students from low income families. Secondly manageable repayment schemes of these loans have to be set up to encourage the young adults to invest into their further education and future and, finally, easily accessible information for students and parents of all layers of society has to be provided to urge not only the importance but also the financial accessibility of higher education (Johnstone, 2004).

Talking about values, it has been confirmed that mobile students become more open to the European idea and more respectful towards other values, rituals and customs. The idea of students developing more potential and tolerance through stays abroad reached as well other regions of the world, since the Japanese authorities recently launched a policy to establish an Asian equivalent to ERASMUS (European Commission, DG Education and Culture, 2008).

The two-part voucher system in its essence aims at fostering mobility and making it more accessible for every student and creating, through better access, more responsible, multicultural individuals.

Within the lines of equity and fairness, de Villé (1996) does call for an EU compensation fund for higher education. The attractiveness of educational systems is majorly influenced through financial resources which could create unbalanced mobility with students tending to choose certain higher education establishments while neglecting the others. Therefore the EU should fund “*regions which do not have many education facilities*” (Villé de, 1996) just as it is already practiced in the field of unemployment and competitiveness with the European Regional Development fund (ERDF). The Tempus programme stands for such a fund since it aims at promoting voluntary convergence of HES of partner countries with EU developments in the field of higher education such as the Lisbon agenda and the Bologna process (European Commission, 2010d).

11.1 European Imperialism

And the two-part voucher system? The era of “free” education has passed and the two-part voucher system together with privatisation of higher education and competition represents a development towards a more market oriented higher education world. The voucher system relies on government participation and support to fund the vouchers but the question is whether the industry and private parties will not take over these functions?

In her paper Hartman (2008) sees the developments of Bologna as a type of European imperialism propagating a specific lifestyle, ways of thinking and consuming. Education and intellectuals, meant in a broad sense and including professional and knowledge workers (i.e. business leaders and industrial thinkers) play a pivotal role for the hegemony of EU norms (Hartman, 2008). Hartman analyses whether these norms are actually European or influenced by the USA (Bachelor-Master system, privatisation). The launch of an Asian ERASMUS and similar projects in Latin America are indicators for other parts of the world needing to adapt to EU educational ideas and standards in order to keep a connection to the attractive labour markets. These developments can be seen within the dynamics of an informal imperialism penetrating borders without dissolving them (Hartman, 2008).

This chapter wanted to look at the two-part voucher system and equity in higher education financing from another angle in order to point out social and fairness implications, which were not treated in the previous feasibility analysis.

12. Conclusion

In the foregoing chapters the two-part voucher system by Gérard has been described and analyzed according to a number of feasibility criteria. The purpose of this research has been to answer the question “*to what extent the two-part voucher system is feasible in the Bologna countries?*” Now that Gérard’s design has been evaluated within different frameworks the time has come to formulate a nuanced response.

What emerges at first sight is the conclusion that the feasibility of the two-part voucher system is profoundly questionable because the design lacks practical consistency in itself and basically fails to fulfil the proposed feasibility criteria.

Practical consistency refers to the core assumptions of the two-part voucher system which presume that costs and quality of studying present similarities throughout the Bologna countries (Gérard, 2008). This assumption is not and will probably never be true but certification networks and recognizing agencies could help to disentangle the recognition chaos. Another inconsistency of Gérard’s model is the fact that the two-part voucher is intended to be used by students at home or abroad on the one hand, but on the other hand paradoxically in his articles, Gérard emphasizes and focuses exclusively on diploma mobile students ignoring Erasmus and home staying students.

The two-part voucher system has been designed to eliminate negative externalities that mobility can produce for the hosting country and to install a common financing scheme between countries based on the origin principle (Gérard, 2008) because of the need for financial support for student mobility. The question whether the negative externalities are sufficiently important to justify the installation of the two-part voucher system has been posed several times and still causes controversy. It should thus be asked whether the two-part voucher system bears enough attractive features to convince stakeholders and policy makers.

The **technological feasibility** test has shown that at the moment it is difficult to provide the resources needed to administer the two-part voucher system. Additionally one of the few examples of actual real implementation of vouchers in higher education in the Scandinavian countries showed that a certain degree of harmonisation is needed not just in financing but as well in admission requirements, organisational structures of different disciplines and the evaluation and conferring of diplomas, for countries and their HEIs to be able to set up vouchers.

Financial feasibility is strongly connected to the income contingent loan scheme which requires major administrative structures and control mechanisms in order to keep track of all the graduate’s incomes. Another major hindrance for financial feasibility is of course the difficulty to estimate how much each part of the two-part voucher system will be worth. For the tuition fee voucher this appears to be complicated enough because of different cost structures and funding schemes, but for the student support voucher even more hurdles have to be taken since costs of living vary not only according to country but sometimes even according to region. According to these findings financial feasibility is far from being guaranteed.

From a **legal perspective** the two-part voucher system is feasible under the condition that it is administrated on a decentralized level because there is no legal competence within the EU for a centralized voucher agency nor do the citizens of the EU express themselves in favour of a centralized education system. The question is whether the data transfer, the two-part voucher system would engender would correspond to EU data privacy and security legislation.

Moreover from a legal point of view the two-part voucher system could only be implemented in EU member states because in case of fraud or misuse the European Court of Justice has a saying and right to punish only in EU member states. The non-EU Bologna countries can neither be bound to tax rules, nor can their potential abuses be pursued.

When it comes to **operational feasibility** it can be stated that, quality of education is hard to compare and recognition problems are still present. Additionally, the interviewed stakeholders generally doubt the feasibility to the entire two-part voucher system.

Culturally the two-part voucher system intends to finance the education of more responsible, flexible, tolerant and European-friendly citizens by setting up a financing system that makes mobility more easily accessible for everyone. The point is that other study financing mechanisms, like Erasmus already have such a cultural impact on students which makes the two-part voucher idea feasible with the current developments in higher education. But the cultural change a voucher and loan system would engender and the accompanying financial implications for the citizens can not be seen as feasible in many Bologna countries yet.

Chapter 11 made a short reflexion on the two-part voucher system and higher education financing from an equity perspective which added a new dimension to Gérard's scheme.

It now needs to be concluded from the above standing lines that the two-part voucher system bears not enough attractive features to impress policy makers and make them aware of the need for higher education financing harmonisation. At the moment, the incredible diversity of systems, interests and structures each Bologna country presents, makes it impossible for a single mechanism to cover and satisfy all these differing country set ups. This does nevertheless not mean that student mobility financing is a hopeless case, since mobility financing exists thanks to organised mobility measures like Erasmus and these measures should be seen as a starting point for further harmonisation and cooperation. It should be remembered though that uneven mobility flows are not only a European, but also a global problem claiming a solution.

Further serious and exhaustive research as well as testing will be needed to confirm the supposed advantages and reduce the negative sides of the two-part voucher system. The used sample of interview respondents is certainly not representative and the application of the business model to higher education makes a generalization of the findings difficult. But it needs to me reminded to the reader that Gérard's system has been tested for the first time in this report (even though there are considerable amounts of literature on vouchers, Gérard's scheme stays unique) which gives important insights, but certainly possesses it limits in means and reach.

At the end of this research the two-part voucher system can not be declared as feasible but it puts on the agenda the so far neglected and avoided, but due to current harmonisation developments like the EHEA, indispensable subject of coordinated financing of higher education within the EU member states majorly, and the Bologna countries in the future. Further research should take inputs like the origin principle or the income contingent loan serious in order to elaborate on a more feasible coordinated study financing scheme.

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Attachment I

Brief history of the Bologna Process³²

In the mid-1990s European heads of government were shocked to hear that mobile students from the newly emerging Asian economies preferred to study in English-speaking countries leaving the rest of Europe aside like a white spot on the map (Teichler, 2003). This discovery created a new debate on internationalisation and globalisation in education in Europe. In 1998 the ministers of education of France, Italy, Germany and the United Kingdom declared jointly that “*European states have to opt for structural convergence of their systems and to introduce a bachelor’s master’s stage structure of programmes and degrees to be understood by and to become attractive for students from other parts of the world*” (Teichler, 2003). This meeting became known as the Sorbonne declaration. One year later the ministers and delegates of HEIs from 30 countries met in Bologna and signed the homonymous declaration aimed at creating a European Higher Education Area (EHEA) by 2010.

Every second year, Ministers responsible for higher education in the 46 Bologna countries meet to measure progress and set priorities for action. After Bologna (1999), they met in Prague (2001), Berlin (2003) and Bergen (2005), London (2007) and Leuven/Louvain-La-Neuve, Belgium (April 2009) (European Commission, 2010e). As decided back in 1999, the ministers met in March 2010 in Budapest to officially declare the EHEA as launched despite the fact that there are still major shortcomings, such as for example credit recognition or the lack of mobility. In the various declarations the following important elements could be detected (Teichler 2003):

- the establishment of a European higher education area until 2010, which ought to be made attractive in various respects
- the introduction of 3-4 years bachelor’s programmes and 1-2 years master’s programmes with an overall duration of 5 years
- support to increase mobility beyond the current level (20% by 2020)
- cooperation in matters of curriculum development, ECTS, easily readable degrees and recognition and cooperation in matters of quality assurance.

³² Please consider as well: <http://www.ond.vlaanderen.be/hogeronderwijs/bologna/>

Attachment II

Questionnaires of stakeholders

Els van der Werf (Bologna Expert for the Netherlands from the Hanzehogeschool Groningen)

Organizational (technological) Feasibility:

- 1) Do you think that the different Bologna States have or could provide the staff and the expertise to administrate the two-part voucher system?

I think that most Bologna countries should be able to set up an administrative system, either centrally or decentrally, to deal with a voucher system. Particularly the administrative system needed to deal with the first voucher – for the tuition fees – is not necessarily that complex, because it is a fairly straightforward sending and paying of invoices. Part two is more complex and would need a more advanced system.
In either case, all countries would have to set up a new system/office, which is always costly.

- 2) What is your opinion on vouchers in (higher) education in general when it comes to education or costs of living?

The principle of the system seems logical and even attractive, up to a point. However, we should ask ourselves whether we are not trying to shoot a fly with a cannonball. The problem of ‘free-riding’ is relatively small, compared to the large-scale solution that is proposed.

- 3) What advantages or disadvantages can you find within the framework of the two-part voucher system?

Unfortunately no answer has been provided by the interviewee.

Financial feasibility:

- 4) Do you think that the benefits (reduce negative externalities like free riding) of the two-part voucher system exceed the costs of implementing and administrating it? Why?

No. I think the system will prove to be an administrative burden and therefore very expensive.

- 5) Do you think that a contingent loan system (in which student have to repay their loan according to their income) should be considered for the students of Bologna countries? (Ignore complexities like who provides the loans to which students at which interest rates, etc. I am interested in the general idea of contingent loans).

I think that the principle of asking a student to invest in his own future by means of taking out a loan to pay for his/her education is good.

Feasibility Analysis of the Two-Part Voucher System

- 6) Do you think it is possible to predefine what the costs of living for students in e.g. Poland or the UK could be?

Only partly. The actual cost of living depends not only on the country, but also on the part of the country that a student resides in, the services that may be provided to students, free-of-charge or at low cost, etc. The cost of living is moreover not static. Fluctuations may be sudden, rapid and very dramatic and loan and grant systems are always slow to respond to such changes, which will lead to a continuous stream of complaints, adjustments, and problems.

Legal feasibility:

- 7) Is it plausible for you that one central organ in Europe administers the two-part voucher system for all students in Bologna countries? Or is a decentralized national administration, like Gérard advocates it, more feasible to you? What will be according to you advantages and disadvantages of each system?

On the basis of my experience with European funding programmes, I would advise to use decentralized, national administrations, with (possibly) a very small central coordination point.

Operational feasibility:

- 8) Can the two-part voucher system stimulate mobility and solve problems like free-riding?

Such a system will probably make a modest contribution to the mobility of students. However, the decision to become mobile depends on a large number of things, and finances are only one of them. As pointed out above, the problem of free-riding seems relatively small compared to the proposed solution.

- 9) Gérard assumes that all countries have the same costs of studying and living. This is a quite unrealistic assumption. How should the two-part voucher system in your opinion overcome differences in the costs of education and living between countries?

Unfortunately no answer has been provided by the interviewee.

Cultural feasibility:

- 10) What impact on (European, Bologna) culture could the voucher system possibly have? E.g. more mobility, more students (also from less wealthy background), less fear of loans, strengthening of the European identity, etc...

The impact of the system is difficult to predict. The system alone will only have a modest impact. It will be very difficult, if not impossible, to measure the impact of such a system on something as big and vague as European culture.

- 11) Do you think that a system like the two-part voucher scheme can stimulate the European dimension on higher education and among graduates?

Again, on top of all other initiatives that have been taken, the system could make a modest contribution. The impact of the system by itself should not be overestimated.

Jacob Smit (staff member of Dienst Uitvoering Onderwijs (DUO), from the Ministry for Education, Culture and Science)

Organizational (technological) Feasibility:

- 1) Do you think that the different Bologna States have or could provide the staff and the expertise to administrate the two-part voucher system?

Antwoord: Ik heb het zo geïnterpreteerd dat het stelsel van vouchers uitsluitend wordt gebruikt voor het volgen van opleidingen in het buitenland. Er wordt namelijk niet gesproken over de wijze waarop de opleiding in het land van afkomst worden gefinancierd. Wordt ook daar een systeem van vouchers ingevoerd of blijven de bestaande regelingen bestaan? Als je daarvoor kiest gaan er twee stelsel van financiering ontstaan, hetgeen vermoedelijk als onwenselijk zal worden gezien.

Ik denk niet dat er veel landen zijn die een dergelijk systeem zouden kunnen uitvoeren. Voor zover ik dat kan nagaan is er maar een beperkt aantal landen met een landelijk regeling en uitvoering. Veel landen hebben gecombineerde stelsel van fiscale tegemoetkomingen, studiefinanciering en kinderbijslag.

Landen als Nederland zouden in staat moeten zijn om een dergelijk stelsel te kunnen uitvoeren.

- 2) What is your opinion on vouchers in (higher) education in general when it comes to education or costs of living?

Antwoord: Vouchers worden gezien als een instrument voor subsidiëring van de kosten van deelname aan het onderwijs. Er is een tal van factoren in de uitvoering die de invoering echter bijzonder lastig maakt. Wie komt in aanmerking voor een voucher, hoe lang blijft het voucher geldig, hoe wordt het uitgevoerd en geregistreerd, hoe regel je de financiën, hoe regel je dat alle landen meedoen, voor welke opleidingen worden vouchers toegekend, hoe voorkom je fraude etc.

In de uitvoering komt er zoveel bij kijken dat realisatie moeilijk wordt.

In de uitwerking in dit voorbeeld wordt stelsel gekoppeld aan een inkomensafhankelijke terugbetaling van het ontvangen bedrag. Een inkomensafhankelijke terugbetaling compliceert het stelsel nog meer.

- 3) What advantages or disadvantages can you find within the framework of the two-part voucher system?

Antwoord: In het systeem wordt een onderscheid gemaakt tussen twee componenten met twee financieringstromen. Als voordeel kan worden aangemerkt dat daardoor maatwerk kan worden geleverd en dat er rekening wordt gehouden met de individuele situatie van de student.

Dit is echter tevens het grote nadeel. Het is complex omdat met iedere individuele situatie rekening moet worden gehouden. Dit maakt het lastig uitvoerbaar en duur. In mijn ogen kun je beter kiezen voor een robuuster en grofmaziger systeem.

Feasibility Analysis of the Two-Part Voucher System

Financial feasibility:

- 4) Do you think that the benefits (reduce negative externalities like free riding) of the two-part voucher system exceed the costs of implementing and administrating it? Why?

Antwoord: Het is maar zeer de vraag of de kosten invoering en exploitatie opwegen tegen de voordelen, het tegen van free riding. Alle landen zullen moeten meedoen, de landen die meedoen, zullen een relatie moeten gaan onderhouden met alle instellingen in alle landen. Dit is erg veel werk en arbeidsintensief. Landen waar een redelijke balans is tussen de import en export zullen deze kosten niet willen maken.

De vraag is bovendien of dit stelsel. De vraag is namelijk hoe hoog het betaald.

- 5) Do you think that a contingent loan system (in which student have to repay their loan according to their income) should be considered for the students of Bologna countries? (Ignore complexities like who provides the loans to which students at which interest rates, etc. I am interested in the general idea of contingent loans).

Antwoord: Het treffen van een leenvoorziening kan aantrekkelijk zijn om het volgen van opleidingen in het buitenland te faciliteren. Het zal echter een terugvaloptie zijn omdat studenten die het zelf kunnen betalen geen gebruik zullen maken van de leenvoorziening.

- 6) Do you think it is possible to predefine what the costs of living for students in e.g. Poland or the UK could be?

Antwoord: Het zou mogelijk moeten zijn om vooraf te bepalen wat de kosten van levensonderhoud zijn. Ik zou er echter wel voor kiezen om dit niet voor ieder land afzonderlijk te doen maar te gaan clusteren.

Legal feasibility:

- 7) Is it plausible for you that one central organ in Europe administers the two-part voucher system for all students in Bologna countries? Or is a decentralized national administration, like Gérard advocates it, more feasible to you? What will be according to you advantages and disadvantages of each system?

Antwoord: Een centraal orgaan zou op zich de uitvoering ter hand kunnen nemen. Het nadeel is wel dat dit orgaan met alle deelnemende landen erg uitgebreide uitwisselingen tot stand zou moeten brengen. Er is nu eenmaal geen centrale bevolkingsadministratie, centrale inkomensregistratie, centraal overzicht van alle opleidingen en verschuldigde collegegelden. Op centraal niveau uitvoering is te kostbaar en te complex.

Operational feasibility:

- 8) Can the two-part voucher system stimulate mobility and solve problems like free-riding?

Antwoord: Ik denk niet dat het systeem free-riding zal oplossen. Uitsluitend indien de student een volledig kostendekkend collegegeld in rekening zal worden gebracht kan het probleem worden opgelost.

Feasibility Analysis of the Two-Part Voucher System

- 9) Gérard assumes that all countries have the same costs of studying and living. This is a quite unrealistic assumption. How should the two-part voucher system in your opinion overcome differences in the costs of education and living between countries?

Antwoord: Ik denk niet dat het vouchersysteem daar een antwoord op kan geven. Een vergoedingensysteem kan dat niet, dat is volgend.

Cultural feasibility:

- 10) What impact on (European, Bologna) culture could the voucher system possibly have? E.g. more mobility, more students (also from less wealthy background), less fear of loans, strengthening of the European identity, etc...

Antwoord: Een dergelijk systeem maakt het mogelijk dat minder draagkrachtigen, als zij dat willen, in het buitenland kunnen gaan studeren. Veel meer dan dat kan niet zijn. Er zullen meer aanvullende maatregelen moeten komen en het onderwijs moet kwalitatief goed zijn.

Completion of the answer:

Ik bedoelde te zeggen dat dit stelsel het mogelijk maakt dat iedereen die dat wil in het buitenland kan gaan studeren. Hij kan immers een lening aan gaan om de financiële belemmeringen op te heffen. Studenten met arme ouders of zonder eigen middelen kunnen dus lenen. Dit is echter onvoldoende om de echte mobiliteit te verminderen. Er zijn immers meer belemmeringen.

- 11) Do you think that a system like the two-part voucher scheme can stimulate the European dimension on higher education and among graduates?

Antwoord: Ik denk het niet. Het systeem is te complex en lost het probleem niet op.

**Brian Power (Head of Student Support and Equity of Access to Higher Education,
Department of Education and Skills, Ireland)**

Organizational (technological) Feasibility:

- 1) Do you think that the different Bologna States have or could provide the staff and the expertise to administrate the two-part voucher system?

I think that there is clearly some existing capacity in some Bologna States because they already administer student grants, fees and loans. It is possible that the administration of a two-part voucher system could be integrated into existing systems at relatively marginal additional cost. This will depend on the structure of existing systems. The capacity to devote significant additional administrative support to such a project is likely only to be provided, in the current financial climate, on a strict cost-benefit basis.

- 2) What is your opinion on vouchers in (higher) education in general when it comes to education or costs of living?

The provision of vouchers for meeting individual costs in higher education has never been part of the funding landscape in Ireland. Traditionally, the concept of the voucher for public services has been characterised as a means of increasing the market share of private providers in public service domains such as education and health services. In Ireland, students attending private, for-profit institutions are not entitled to state support for higher education fees or grants.

- 3) What advantages or disadvantages can you find within the framework of the two-part voucher system?

Clearly, the system has a number of advantages, as outlined above. However, I presume it would preclude the visiting student, on the basis that he/she already has support from the home country, from benefiting under the provisions of the host country in the way currently envisaged under EU law. For example, Ireland has a system of free tuition fees. Under the Gravier judgement of the ECJ, this must be extended to students from other EU/EEA countries as discrimination on nationality grounds is not permitted. A government to government funding transfer on the basis of the home country's fees regime may not fully meet the costs of the host country. However, it could also be argued that this would be better than no contribution at all.

Financial feasibility:

- 4) Do you think that the benefits (reduce negative externalities like free riding) of the two-part voucher system exceed the costs of implementing and administrating it? Why?

This is difficult to gauge and would vary from one country to another, depending on the extent of the resources already available in different countries to administer such a scheme. It would appear that countries which are net hosts of mobile students (i.e., more students incoming than outgoing) are likely to derive greater benefit from the reduction of negative externalities like free riding. They may also feel less constrained from a cost perspective in extending arrangements to their own citizens for the portability of grants and loans.

Feasibility Analysis of the Two-Part Voucher System

- 5) Do you think that a contingent loan system (in which student have to repay their loan according to their income) should be considered for the students of Bologna countries? (Ignore complexities like who provides the loans to which students at which interest rates, etc. I am interested in the general idea of contingent loans).

Certainly, there appears to be considerable merit in the idea of income contingent loans, as they facilitate higher education “free at point of use” with the repayment having to be made only when the graduate is at a sufficient level of earnings. International research has shown that this works well where there is a good understanding on the part of students and parents of the returns to education in terms of significantly higher earnings capability over the graduate’s working lifetime. In other words, the income contingent loan is regarded as an investment in the student’s future earnings capacity and it is reasonable to seek a contribution towards higher education from the student in that context. However, international research in this area also clearly demonstrates the phenomenon of “debt aversion” among less well off or disadvantaged families, where the future earnings value of incurring considerable debt is not as readily understood or appreciated. Even though repayment of the loans is income contingent and the higher education provision is free at point of use, there may still be some reluctance to accessing the facility (see attached paper, “Introduction of a Student Loans Scheme - The Implications for Equity of Access to Higher Education”). Therefore, it is likely that, even in an income contingent loans regime, some level of free grant assistance for the most disadvantaged groups is likely to be necessary.

- 6) Do you think it is possible to predefine what the costs of living for students in e.g. Poland or the UK could be?

This would be a very difficult proposition, particularly given that many countries set their supports, not in relation to the full living costs for a student, but taking into account a notional presumption of some level of parental support, in addition to the state support offered. Perhaps the best way to gauge this cost would be to follow the funding regime within the host country (where supports will have been set to accommodate local costs, at least in theory), up to a maximum of what is provided in the home country, so that outgoing students are not seen to be treated preferentially or to incur an additional financial burden on the state. Therefore, for example, an Irish student studying in a country with lower living costs (and support levels) could receive the maximum level of support payable by the national authorities to students in the host country, although this might be less than the support available in Ireland. On the other hand, an Irish student studying in a country with higher living costs could receive support only up to the maximum level payable in Ireland.

Legal feasibility:

- 7) Is it plausible for you that one central organ in Europe administers the two-part voucher system for all students in Bologna countries? Or is a decentralized national administration, like Gérard advocates it, more feasible to you? What will be according to you advantages and disadvantages of each system?

A decentralised national administration would certainly appear to be more feasible, particularly given the costs involved in establishing a central organisation for that purpose. However, it is likely that if such a system were built on a series of bilateral national interactions, then perhaps an electronic hub or clearing house for information might prove a valuable addition. In relation to legal feasibility, I would also point out that any exchange of personal information between authorities in different states is likely to be governed and/or constrained by data protection legislation. Finally, it may be more feasible to start such a venture with a group having established common legal understandings in this area (e.g., EU or EEA member states) with a view to broadening to other EHEA states subsequently.

Feasibility Analysis of the Two-Part Voucher System

Operational feasibility:

- 8) Can the two-part voucher system stimulate mobility and solve problems like free-riding?

Certainly, in theory, it can address both of these issues – the pertinent question is whether it is also financially and legally feasible and, of course, politically desirable (there will be winners and losers – some countries will gain financially, while others will not).

- 9) Gérard assumes that all countries have the same costs of studying and living. This is a quite unrealistic assumption. How should the two-part voucher system in your opinion overcome differences in the costs of education and living between countries?

As outlined at 6 above, perhaps the best way to deal with the cost differences would be to follow the funding regime within the host country up to a maximum of what is provided in the home country.

Cultural feasibility:

- 10) What impact on (European, Bologna) culture could the voucher system possibly have? E.g. more mobility, more students (also from less wealthy background), less fear of loans, strengthening of the European identity, etc...

It can be argued that the proposed voucher system would make it more transparent and easier for students to consider studying in another country as, effectively, it would make all of the home supports fully portable. A fundamental outcome, as I understand the proposal, would be that countries could provide this portability within a defined area (EU, EEA or EHEA) without the potential financial consequences of extending this to the nationals of other states who would themselves be responsible for supporting their own nationals by way of the voucher system. Essentially, the mobile student enjoys the support system of the host country, which can recover the cost of extending these supports from the national authorities in that student's home country by way of a voucher.

- 11) Do you think that a system like the two-part voucher scheme can stimulate the European dimension on higher education and among graduates?

Yes, it has the potential to do this if it proves to be financially, legally and politically feasible.