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Higher Education Investment Fund: A New Approach for the Private Financing of Higher Education

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6.1 Introduction

Developed countries spend between 4.6 and 8 percent of GDP on education (OECD, 2013). Despite the fact that not all education expenses are covered by the Organisation for Economic Cooperation and Development (OECD) measures (FiBS/DIE, 2013), the actual financial need is far higher for a number of reasons. One is that, in almost all countries, many children do not attend early childhood education. This is true even for three- to five- or six-year-old children and, to a much greater extent, for those children younger than three. Since the basic foundations for future education on attainment are laid here, the share of children, especially from disadvantaged families, has to be increased significantly. Research from various fields indicates that particular investments in early childhood are particularly profitable (Cunha et al., 2006).

Second, apart from a few countries such as Japan and Korea, no country has been able to achieve a 100 percent graduation rate for secondary school students. In most countries, a significant proportion of young people drop out of school even before reaching lower secondary education. The economic costs associated with this are immense (Hanushek and Woessman, 2011; OECD, 2010). Although the number of higher education students and graduates has steadily increased, and some countries may be approaching a ceiling on the number of students who should pursue tertiary education, the proportion of students and of high-skilled workers is still too low.
in many countries. While some authorities think that a tertiary education degree will replace upper secondary education as the key education requirement to enter the labor market successfully, this development is more likely to be seen in 2050 than in 2025.

There are no estimates of how much is required to finance the expansion of high-quality education worldwide. For Germany, the estimate is almost $40 billion per year. However, whatever the amount will be, a significant part of this money will be channeled into investments for buildings and equipment in order to increase capacity, while the other part consists of recurrent operating expenditures for more and better teachers, and so on. Thus, even with no major policy initiatives, current worldwide education spending is likely to grow by several 100 billion dollars each year.

Reviewing the situation of public budgets and the budget cuts seen in the past decade in many countries, not only, but also, for education (Eurydice, 2013; EUA, 2014), it is rather unlikely that this major increase in education financing will come from the public sector. Even a sharp increase in tuition fees will not be able to close the gap significantly enough to boost investments as required. Against this background, the object of this chapter is to outline an approach for an alternative funding model.

6.2 The need for additional funding sources for education

This model is developed with particular attention to the current state of the German education system, where there is a need for both quantitative and qualitative expansion of all segments of education from early childhood to continuing education for adults. Without going into the details of this estimate, it adds up to around $40 or even $50 billion annually, with a large share of (re-) investment to refurbish existing buildings and equipment and to cope with new requirements, such as information and computer technology. Furthermore, the share of children up to the age of 2 or 3 years in early childhood is now at around 35–40 percent, leaving much scope to increase participation rates, particularly with regard to children from disadvantaged backgrounds. Additional investments in quality are also necessary because the recent expansion of students has come at the cost of quality. Available estimates arrive at a figure of $12