

## The myth of free education

*Why investment in private higher education is worth it – using the example of the Jacobs University Bremen.*

Whilst academic education at private universities is recognised and has a high reputation in countries such as the United States, Great Britain or Japan the private operators in Germany permanently have to fight to justify their existence and against prejudices. The Jacobs University in Bremen, North Germany, which was founded in 1997 and is the only private full university in the whole of Germany aspiring to excellence in teaching and research, also sees itself confronted by this.

The basis of these prejudices against private operators is that the tradition-steeped, higher education establishments founded by the state in Germany and worldwide enjoy an excellent reputation. It is very difficult for a young private university to compete against a traditional university in the country of poets and thinkers. This perception is fueled by the costs of the private operator: whereby in Germany the state universities enable anyone with the higher education entrance qualification to study for a first degree without student fees, the private universities charge a fee of from between EUR 3,000 to 20,000 per year. For this reason these are often seen as educational establishments for the elite.

### **Thesis 1: Private universities deserve more respect in Germany.**

By international comparison Germany invests a marginal proportion (0.2 percent) of its GDP in private universities (see Fig. 1). Whereas the OECD average at least spends 0.5 percent, the United States as the top performer shows a share of 1.8 percent. An investment which is worth it: 13 of the top 20 universities are located in the United States – 12 of these are funded by private owners.

*Fig.1: Investments in higher education institutions by comparison, as a percentage of GDP (2011)*

	Total	Private
United States	2.7%	1.8%
OECD	1.6%	0.5%
Germany	1.3%	0.2%

\* (OECD, Education at a glance, 2014, p. 303)

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There is also great potential for private universities in Germany: Thus, at 129 institutions their number has almost multiplied by five since the year 1995 and the number of those studying there has multiplied by ten in the same period. In the meantime 7 percent of German students are studying at a private university. By comparison: in the United States this number is 25 percent. The demand for highly-qualified personnel in Germany reveals a significant and growing shortage of university graduates by 2030 amounting to 700,000 skilled workers. This shortage can only be met with immediate further expansion in the university system.

Private universities provide a valuable contribution to this. Their programmes cover subjects that are not at all or only inadequately offered at state higher education institutions. This includes the growing academic development of former professional training occupations, the provision of very practically-oriented degrees or of continuing education programmes which enable part-time studies and extra occupational opportunities. Furthermore, their students benefit from a global network.

### **Thesis 2: Private higher education institutions provide an essential contribution to the future sustainability of the German economy**

Calculations show that approximately 100,000 more people than currently forecast have to start a degree in order to cover the future recruitment demand of the German economy in the long-term. However, Germany currently sees itself confronted with a counter trend. Subsequently, for the study year 2014 the number of students starting to study for the first time at a German university fell by 1.9 % from 508,600 to 498,900 compared to the prior year. As a result of the demographic development, according to the experts this trend will continue and be reinforced in the next few years in the Federal Republic. In the United States the trend is different. The demographic researchers expect the annual number of students to start to increase from the current number of 17.5 million to 19.6 million by the year 2024.

Germany will be dependent on young talent from abroad in the long-term. One advantage here is that, after the USA and Great Britain, it is the most popular guest country for foreign students. The private institutions play a key role here. Thanks to their more flexible admission conditions and English-speaking and vocationally-oriented courses they already now act as a magnet for talented foreign students. At the Jacobs University alone 75 percent of those studying come from abroad, the average for all higher education institutions across Germany is only 11.8 percent.

The success of the private institutions speaks for itself; on average the young people here complete their studies faster and drop out less frequently. In the United States the nominal four-year bachelor studies at public higher education institutions takes an average of 6.2 years and at private ones 5.3 years. At the Jacobs University in Bremen 90 percent of the – mainly international – students complete their studies thanks to an excellent tutoring ratio of 1:15, most of them in the regular study period of 3 years. By comparison: At the state

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universities the average success rate of German students is at 67 percent and for foreign students 59 percent.

### Thesis 3: Every investment in higher education is worthwhile long-term.

Investment in private higher education is profitable on a number of counts. The Jacobs University especially shows a significantly better cost-benefit ratio compared to the state average. Whereas a bachelor degree at the Jacobs University costs around EUR 73,500, the cost of a bachelor student at a state university amount to more than EUR 100,000 (see Fig. 2). However, this total cost calculation is not performed by anyone in Germany.

*Fig. 2: Annual expenses of educational institutions per student (2011)*

	State University		Jacobs University
State costs	15,369 EUR p.a.* 16,723 USD	Tuition / Room & Board	24,500 EUR p.a.*
Living costs	10,020 EUR p.a.**		
∑ Cost p.a. x years	26,743 EUR p.a.**	∑ Cost p.a. x years	24,500 EUR p.a.*
<b>Total costs</b>	<b>= 101,556 EUR</b>	<b>Total costs</b>	<b>= 73,500 EUR</b>

\* (OECD, Education at a glance, 2014, p. 284)

\*\* (20th Social survey by the German Student Association {Deutsches Studentenwerk}, 2013)

Long-term the expense of a university education pays off for all participants – the state, the economy and the students themselves. The average lifetime salary of a graduate with a university or technical college degree at around EUR 2.32 million or EUR 2 million is clearly higher than that of someone with vocational training and no academic qualification. Furthermore, the unemployment rate for academics remains constantly low in Germany – currently at 2.4 percent. Here the state benefits from lower social security costs and higher tax income. As additionally determined by a study commissioned in 2014 by the Jacobs Foundation, the Federal State of Bremen receives EUR 2,90 back for every euro invested in further education due to the value-added effects. Overall, the private universities relieve public spending in Germany by more than EUR 300 million.

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### **Thesis 4: We need the same opportunities for all.**

Germany wants to be the education republic. In order to fulfil this Federal government's stated goal, above all, the financing of higher education has to be reformed. The figures of the German Student Association show that of 100 children of academics 77 take up studies and, on the other hand, of 100 children from families without an academic background only 23 take up studies. And, because 90 percent of all students are still supported by their parents, it cannot be expected that this will change in the near future.

The financing situation is also challenging, for those from abroad urgently needed by Germany and waiting to study: they have to prove that they have at least EUR 670 per month (EUR 8,040 per year) available to cover their living costs themselves. There are many possibilities for support from which German students benefit but which are not available to foreigners. As a rule they do not receive education advancement grants and have access to only a few scholarships.

Through public-private partnerships in the area of student financing the state can gain financial scope in the area of further education without having to reduce courses offered. The Jacobs University supports 95 percent of its bachelor students with an appropriate grant or loan. In order to motivate young people from all over the world to study in Germany also in the future, it is essential to establish new financing possibilities across the country which can be used independent of origin, financial situation and place of study. The result would be more equal opportunity and quality in the German higher education system.

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Total of 1.421 words / 8.876 characters