

Taxes and Benefits in an Internationalised Economy – The Case of Tuition Fees in Higher Education

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Introduction

The world economy has evidently entered into a new phase. Within the European Union goods, services, capital, enterprises and persons now move about freely. But even on a global level the obstacles to such free movements are gradually removed. This puts the tax system in a welfare country like Sweden under heavy pressure to reduce its taxes. In such a situation the relation between taxes and benefits has to be carefully considered. If important aspects of the welfare system are to be preserved when there is heavy pressure to reduce taxes then there must be a strong correlation between taxpayers and the recipients of the benefits of the welfare state.

We have certainly already witnessed such a development. The national pension system in Sweden has been reformed in such a way that pensions are dependent on the contributions made. In Sweden a substantial part of the welfare costs, that is costs for hospitals, child care, elementary and secondary schools and old age care are paid by the municipalities and financed by municipal taxes on income. This means that for the national government the costs of higher education and research are an important part of the national budget.

In Sweden university¹ tuition is basically free.² The state also pays a part of the living costs of the students. Most of the living expenditure is, however, financed by the undergraduate students themselves in a national student loan system. In the case of the doctoral students a substantial part of them are paid a salary for four years.

¹ In the Swedish system higher education is provided by universities and university colleges. The difference is in principle that universities but not university colleges are free to have graduate students. University colleges may be given the permission to have graduate students in specific branches of science (vetenskapsområden). If a university college meets certain quality requirements it could be promoted to the state of university.

² Chapter 1 section 10 The Higher Education Ordinance (1 kap. 10 § högskoleförordningen).

In principle no distinction is made between Swedish and foreign students, e.g. tuition is free even for foreign students. In a world where education is a scarce resource and where tuition is expensive in many countries there could be a tendency to come to Sweden for its free education and then leave Sweden for another country where incomes of educated persons are higher and/or taxes are lower than in Sweden. Such a tendency may exist also for Swedish students. If you look upon the question from a purely economic point of view it would not be a bad idea for a student to study in Sweden but to be gainfully employed after that in a country where the after-tax income is higher than in Sweden.

But human beings are not influenced by taxes alone. It is therefore an important question to try to analyse which obstacles there are which prevent a development which seems to be economically rational. If these obstacles are weak it must be discussed which measures that can be taken to preserve the most valuable parts of the Swedish system.

According to Swedish scientific traditions you should present your own value basis in order to show that there is no hidden bias in your discussion. Therefore, let me state at this time, for reasons that will become apparent, that I am in favour of free tuition for higher education for Swedish students. I also believe that due to the fact that the number of students in Sweden has increased in the 1990's from 200.000 to 300.000³ and that our university system for different reasons is under-financed that there is a substantial risk for a "British development" where tuition fees were introduced overnight by a Labour government.

Financing Higher Education Tuition in Sweden

For undergraduate students tuition is free in Sweden. Sweden has, however, a system of *numerus clausus*.⁴ Students applying for a university education are accepted on merits. The merits are either high school grades or the results in a national university aptitude test. The universities are paid by the government both according to the number of students registered for its courses and on the credits taken by its students each year up to a certain limit decided by the government for each university. If the university does not meet the requirements it has to pay back money to the government. On the other hand if it exceeds the limit it will not be paid for the surplus. It could be said therefore that there are tuition fees but that they are paid by the government and also regulated by the government. They vary based upon the subject. The university receives much less for students of the humanities, law and social sciences than for students of technology, medicine and the natural sciences.

In Sweden only doctoral students are regarded as graduate students. Tuition is free for them, too. They have to apply and be accepted to be able to pursue doctoral studies.

³ 300.000 the autumn semester 2000 (Universitet & högskolor. Högskoleverkets årsrapport 2002 at 18).

⁴ Chapter 4 section 3 The Higher Education Act (4 kap. 3 § högskolelagen).

Financing the Living Expenses of Students in Sweden

The present system in Sweden was introduced after strong pressure from student organisations. Since students are grown up citizens who have reached the legal age of majority their position should be regarded as independent from that of their parents. Previously students from low-income families received government financed scholarships, while the rest got nothing.

According to the present rules (revised 1 July 2001) students in Sweden today receive financial support each month for a maximum of 240 weeks (that is roughly six years, excluding the summer months) in a system of government sponsored financial support for students (in Swedish *Studiemedel*).⁵ The amount is 7.195 SEK⁶ per month. Of this amount 34,5 % (about 2.500 SEK) is a scholarship that does not need be paid back. 65,5% (a little less than 5.000 SEK) is a loan that has to be paid back. Students older than 51 years are not eligible for financial support.⁷ Repayment is due after finishing the studies normally during 25 years⁸ until the loan (with interest) is paid back. Normally the loan should be paid back before the age of 60. If the loan is not paid back when the former student is 67 or dies the rest is written off.⁹ Financial support is not limited to students of Swedish universities.¹⁰ If a Swedish student studies abroad an extra support may be granted.

Foreign students studying at Swedish universities do not receive support from the government sponsored financial system.¹¹

The students have to be successful in their studies to receive financial support. If they do not take at least 75 % of the credits a full time student is supposed to take they will not receive financial support for the next semester. There are also limits to the amount that they can earn from employment. Due to the fact that the cost of renting a student room is quite high, especially in the big cities, the economy of the student is quite strained.

Financial aid is not taxable since it is either a scholarship or a loan. Nor is the repayment tax deductible. Repayment of a loan is never deductible. The interest

⁵ Chapter 3 section 8 The Financial Support for Students Act (3 kap. 8 § studiestödslagen).

⁶ SEK = Svenska Kronor (Swedish Crowns, the Swedish national currency). Ten SEK is roughly one USD.

⁷ From 41 years of age the number of weeks is reduced, Chapter 3 section 9 (The Financial Support for Students Act (3 kap.9 § studiestödslagen).

⁸ Chapter 4 section 4 The Financial Support for Students Act. (4 kap.4 § studiestödslagen).

⁹ Chapter 4 section 25 and chapter 5 section 6 The Financial Support for Students Act (4 kap. 25 § & 5 kap. 6§ studiestödslagen).

¹⁰ In 2001 the number of Swedish students studying abroad as free-movers were 21.000. The possibility to obtain government financial support for studies abroad was introduced in 1989. The number of students increased substantially (Universitet & högskolor. Högskoleverkets årsrapport 2002 at 22-23).

¹¹ There are two basic requirements for studying in Sweden (for non-EES members). The student must apply to a Swedish university and be admitted. The student must also be able to prove that he or she has the financial possibilities (at present at least 63.000 SEK per year) to cover his or her living costs in Sweden. The student then applies for a residence permit at the Swedish embassy in his or her country.

is not deductible either¹² This is an exception to the general principles of Swedish tax law and has been a subject of much discussion.

Doctoral students are either employed by the university or recipients of a scholarship used to finance their research studies. Without this financing for a full four years they will not be accepted for doctoral studies.

An Easy Solution that Should be Avoided

The easiest solution to our problem would of course be to have students pay the full amount of the cost of tuition. Because Swedish universities are rather cost effective the fees would no doubt be lower than at most private U.S. universities. Students could borrow the money necessary for the fees in an enlarged government loan system. In such a case it would not make any difference if the students were Swedish or not since the costs of the universities would be covered in any case.

The Case for Free Tuition

There are, however, several arguments for free tuition.

1. Tuition fees would most likely inhibit students from underprivileged groups from studying. In order to avoid this generous scholarships would have to be granted. In such a case they will probably be based on parents income. If so, grown-up persons are not regarded as independent persons. Another problem is that in a system based on income some will always be just below the line, some will be just above it. Especially when the differences are small the rules will be felt to be unfair. In measuring income, taxable income would probably be used as this is readily attainable. Anyone with a knowledge of taxation will know how unsatisfactory taxable income is in measuring real economic strength. Adjustments will then have to be done, for example for number of children supported by the parents. The more adjustments the greater the bureaucracy. Apart from that it will increase the incentives of tax planning.
2. A system with tuition fees and scholarships for students from underprivileged groups would put more pressure on the middle classes. To rich people the fees will not be a problem. To the poor there are the scholarships. As can be seen in the United States the problem of financing higher education for their children dominates the lives of middle-class families. This must be especially true for large families. If students do not rely in any way on family income but only on a loan system the total debt (including the debt for living expenditure) will be quite high. If the debt is going to be repaid the repayment annuity will have to be increased.

¹² Chapter 9 section 10 The Income Tax Act. As the interest is not deductible the interest is reduced. In 2001 and 2002 the interest is 3, 1 %, prop. (government bill) 2001/2002 at 11.

3. The savings in government expenditures is not big initially since repayment of the loans occurs in small amounts at a later stage but the costs must be born immediately.
4. One argument for tuition fees often heard is that higher education enables some people to earn higher incomes. Seen from the point of view of the individual he or she makes an investment in education which will reap rewards in the future. There are, however, not many fields in Sweden today where the income differences are that big. If this argument is to be true the wage differentials have to increase substantially. If there are wage differentials the fees will be recovered by the government as our income tax system is progressive. Education is thus profitable from a government point of view.

The Restraining Factors – How Strong are They?

The hypothesis in this article is that if there are no tuition fees for higher education in Sweden and people from all countries in the world could move freely to any university it would be rational for foreign students to come to Swedish universities if education is not free in their native countries. Then they would seek employment in another country where persons with a qualified academic education could earn a higher net income. Evidently this has not happened this far, except for in odontology. The question is then why this is so. If there are restraining factors the question is if they will increase or decrease in the future.

1. An obvious restraining factor is the Swedish language. It takes some time to learn Swedish especially if your own native language is not similar to Swedish as German or Dutch are. In order to facilitate university student exchange agreements, such as the European Erasmus Program, several Swedish universities are now giving courses in English. Such courses are open to both foreign and Swedish students. At Stockholm university about 10 % of the courses are given in English. There is no reason to believe that this number will decrease. If for any reason it was decided that the number of courses in English should be reduced it would of course deter foreign students from coming here. Such measures, however, would also kill the exchange programs and isolate Sweden academically.
2. The merits of foreign students are now evaluated either by the university to which the student has applied or by the National Agency for Higher Education (Högskoleverket) in order to make sure that foreign students meet the entrance requirements of Swedish universities and that they compete with Swedish students on an equal footing. It would be possible to demand more from foreign students, for example a good working knowledge of Swedish. But such measures are clearly discriminatory and could not in any way be used for European Union students. As the universities give courses in English

and most of the Swedish population is English-speaking, the arguments for such requirements would be superficial.

3. Living costs in Sweden are rather high compared to the costs in developing countries because the exchange rates of their currency is rather unfavourable. It is difficult to judge what the future will be in this respect, but our living costs are certainly a deterring factor. It is a difference which offsets some of the advantages of free tuition, especially since foreign students do not get any benefits from the government sponsored financial system.
4. The Swedish *numerus clausa*. Students received by a Swedish university first must meet certain basic requirements that are rather modest. Secondly they have to compete with their grades with other applicants for a limited number of places. Popular studies such as medicine, psychology and law have many more applicants than available slots. In the nineties, however, there has been a rapid expansion in Swedish higher education and in several fields of study the requirements are much lower today than they used to be.
5. It is sometimes assumed that the Swedish climate would deter foreigners from coming to Sweden since there are some months with rather chilly weather. But I doubt that this deters any serious student.
6. An important factor is the development in other countries. If education is free for non-EES¹³ member students in most European countries the pressure on Sweden might not be that big. If other European countries follow Great Britain, Australia and Canada in introducing tuition fees the situation might change.

How Free is Swedish Higher Education?

Even if the Swedish system is based on a system of free tuition in combination with a limited entry to Swedish universities there are exceptions. Swedish corporations and national and municipal authorities are entitled to buy courses from universities. Universities are neither allowed to make a profit on these courses nor to subsidise them. It is explicitly stated in the regulations that such courses must bear their own costs. This means that the cost should not be calculated on a marginal cost basis but on an average cost basis. The courses can take place on university campus and the students may be given credits if examined by competent university teachers. The advantage from the point of view of the buyer is that it is the buyer that chooses the participants. The participants must fulfil the basic requirement for university studies but do not need to compete with other students to be accepted. For the university such

¹³ European Economic Space. According to European Union rules citizens of EU member states must be treated as nationals in all EU states. In most cases this is true for all countries belonging to EES that is not only the EU countries but also Norway and Iceland. Thus if tuition is free in Sweden it must be free for all EES citizens.

courses are advantageous if the university has surplus capacity in buildings and/or teachers. Some teachers also find it stimulating to teach students with practical work experience for the sake of variety.

This means that foreign students have three possibilities to study at Swedish universities:

1. Exchange agreements. Swedish universities have entered into student exchange agreements with foreign universities to an important extent. At Stockholm university the agreements in Europe, that is the Erasmus scheme on a European Union level and the Nordplus scheme between the Nordic countries, are on a departmental level. Outside Europe the agreements are generally on a university level. In principle there should be a balance between outward-bound and inward-bound students. This is not the case at present. At Stockholm university the number of inward-bound students has been about twice as big as the number of outward-bound students during the last years. Students coming on the exchange agreements have the advantage that a certain number of student rooms are reserved for them.¹⁴
2. Foreign or Swedish corporations and foreign governments, other foreign authorities and foreign corporations could buy courses from Swedish universities. If the buyer is inside the EES the rules are the same as if the buyer and the students had been Swedish. If outside the EES a permission from the government is needed.¹⁵
3. Foreign students could come here as free movers. In that case they compete with Swedish students to enter the universities and have to find accommodation themselves. Tuition is free. It is not known how many free movers there are in Sweden.

Advantage Sweden – Report of a Government Committee

In the year 2000 a report “Advantage Sweden”¹⁶ was published on the recruitment of foreign students to Swedish universities. The report suggested that the number of students from outside the EES-area should be increased by 1.000 per year during a five year period. Swedish universities should give more courses in English. The visa rules should be more generous. Foreign students should be allowed to work in Sweden during their studies and to be employed in Sweden after finishing the studies.¹⁷ The report suggested the introduction of a

¹⁴ Stockholm university had 494 inward-bound exchange students and 265 outward-bound students in 2001 (Årsredovisning 2001. Stockholms universitet). For Sweden the number of in-bound exchange students was 8.500 and the number of outbound exchange students 6.000 the year 2000/2001 (Universitet & högskolor. Högskoleverkets årsrapport 200, at 25).

¹⁵ Section 3 Ordinance on paid education at universities and university colleges (3 § Förordning (1997:845) om uppdragsutbildning vid universitet och högskolor).

¹⁶ SOU 2000:92.

¹⁷ SOU 2000:92 at 96-97.

new degree “International Master”, requiring at least two semesters. The students should possess a foreign degree requiring at least three years of study. It was also suggested that no government permission should be necessary for foreign national authorities or corporations who would like to buy education from Swedish universities.

As for tuition fees the report discussed three alternatives.

1. No tuition fees for non-EES students and no new resources to the universities, that is status quo. The report did not recommend this solution.
2. No tuition fees for non-EES students, but government subsidies covering the cost of 5.000 new students to the universities.
3. Tuition fees for non-EES students – both undergraduate and graduate-covering costs.

The report took no position on the choice between alternative two and three.

For all alternatives the report suggested the introduction of grants for living expenses for 10 % of the new non-EES students, that is for 500 students. In alternative three they should also cover the fees.

The government responded to the committee report in a government bill on higher education.¹⁸ In the bill the government stated that foreign undergraduate and graduate students, teachers and researchers are assets at Swedish universities. Foreign students could after leaving Sweden be “good ambassadors” for Sweden. They could be recruited by Swedish cooperations both for employment abroad and in Sweden.¹⁹ More courses should be given in English.²⁰ Tuition fees for non-EES students should not be introduced. The government was particularly afraid that Sweden would lose foreign students as our Nordic neighbours and Germany had no tuition fees.²¹ Anyway the government promised to abolish the rule according to which a government permission was necessary if a Swedish university sold education to foreign governments or corporations.²²

Conclusions

Sweden has thus got a mixed system for covering the costs of the education of university students. Tuition is free. As for living costs Swedish students pay them themselves but enjoy the advantages of a system of financial support consisting of both scholarships and loans. Foreign students are not entitled to financial support either by scholarships or by loans. If they are not EES-students

¹⁸ Prop.(government bill) 2001/02:15. Den öppna högskolan. (The open university).

¹⁹ Prop. 2001/02:15 at 185.

²⁰ Prop. 2001/02:15 at 185.

²¹ Prop. 2001/02:15 at 187.

²² Prop. 2001/02:15 at p 189.

they need a residence visa which does not give them the right to earn their living by working in Sweden.

The position of the government towards Swedish universities is that an increase in the number of EES-students would be an advantage. It would give a more international atmosphere to the campuses of Swedish universities and promote contacts between Swedish and foreign students to the benefit of both. The question is if such a development would be stimulated or hindered by the introduction of fees for non-EES students.

A strong argument for tuition fees for non-EES students is the fact that such fees exist in many countries such as Australia, Canada, the United Kingdom and the United States. These countries have the overwhelming majority of the foreign students of the world and it is even in for example a country as Australia an important source of revenue for the universities. These countries enjoy the benefit of being English-speaking and it is of course not certain that universities in other countries would be as effective. Nevertheless the fees do not seem to have prevented students to come if the level of education is high. There is also a substantial experience of the consequences of different fees for national and foreign students. In the U.S. there is at state universities even a substantial difference in the fees of students from the state and the students from other states. Such differences do not seem to create overwhelming problems.

I believe that the introduction of fees for non-EES students would create a powerful incentive for Swedish universities to attract such students by international marketing, creation of new courses in English and so on. In the present system Swedish universities only have an interest in attracting foreign students if they lack applicants. If the universities could enlist Swedish (or EES-students) up to the limit which the government is prepared to pay for and non-EES students up to the capacity of the university the recruitment of non-EES students would be much more interesting for the Swedish university. This would in particular be the case if the universities were allowed not only to cover their costs but also make a profit.

The international exchange of students would also be stimulated after the introduction of fees in another way. At present several Swedish universities have exchange agreements with non-European universities where the students have to pay substantial fees in their home country. In an exchange agreement the principle is that the student pays tuition fees in his or her home country. This means that the foreign student has to pay the ordinary fees in his home country while studying in Sweden where fees do not exist. There are of course substantial advantages for foreign students which free movers do not enjoy. The exchange student does not have to compete with Swedish students to enter the university. This is especially important for some very popular subjects. The Swedish university generally provides accommodation, which is very important considering the shortage of student rooms, particularly in Stockholm, but also in other university towns. In spite of this I believe that it would be much easier to increase the number of student exchange agreements with countries having tuition fees if there were fees on both sides that could be waived in an agreement. In such a case further international exchange would be stimulated.

The case against tuition fees for non-EES students is that such fees do not exist in Denmark, Norway and Finland. It is therefore possible that foreign

students would prefer our neighbours to Sweden. It is, however, not impossible that they would also introduce fees if Sweden did. Another argument is that many foreign students could not afford the fees and that scholarships must be created to a large extent. This problem could be met to a certain extent if the present restrictions preventing foreign students from working in Sweden were to be abolished. Anyway, if scholarships are created they should be on the foreign aid budget and their importance should be evaluated in comparison with other foreign aid. It is not unlikely that such a comparison would be favourable to scholarships. A third argument is more of a political or psychological nature. If non-EES students were charged with tuition fees would that not be the first step to introduce fees for Swedish (and thus all EES-students), too? It could, however, turn out differently and strengthen the case for tuition-freedom for Swedish students, who or whose parents have paid taxes in Sweden.

This brings us back to the question of principle that is the relation between taxes and benefits. There is, of course, no direct relation between a tax and the service provided by the state. If it were, the beneficiary of the service would have paid a fee, not a tax. The question is if there is an indirect relation strong enough to motivate a difference between Swedish and foreign (non-EES) students offering education at Swedish universities tuition-free for Swedes but for tuition to foreigners. Such an indirect relation could only be that the tuition for Swedish students in one way or the other has been paid for by taxes but not for foreign students. If we look at the beneficiary of education it is possible that the Swedish student has paid some taxes. In Sweden students of the humanities and social sciences generally work a few years after high school and begin their university studies on the average at the age of 25. It is, however, extraordinarily rare that they have been able to pay taxes to such an extent as to cover the expenses of their tuition. If we look at the situation after finishing the studies it is probable that Swedish students stay in Sweden and pay taxes to a greater extent than foreign students. In the individual case this is, however, not certain at all. It may well be that the Swede emigrates to some country with higher salaries than Sweden and the foreign student stays in Sweden.

A real difference, however, is the situation of the parents of the student. If resident in Sweden they have generally paid taxes in Sweden for many years. It is very unlikely that the parents of the foreign student have done so. But is it not against one of the fundamentals of the Swedish system that the position of the parents are taken into account when benefits are given to their children if they have come of age? I have earlier described the position of the government financial support system.

It could be said, however, that there is a difference between taking the position of the parents in an individual case and on an over-all basis. It would be offensive if a student paid tuition fees or not depending on the amount of taxes paid by his or her parents. It is different if the relation between all taxpayers of a country and the country's tax system is taken into account. It could be said that it is the responsibility of each country to provide their citizens with an education according to their abilities and the financial possibilities of that country. It is not the task of other countries, if not a part of their international aid programs.

The situation is somewhat different for doctoral students. They are basically paid a salary in Sweden. Since there are not enough salaried position quite a few

are instead financed by scholarships. In my opinion this fact reflects the difference between undergraduates and doctoral students. The doctoral students are really working, basically with research activities. It would thus be unfair to demand payment from them.