The Political Economy of Higher Education Tuition Fees and Subsidies

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As I am about to submit the book to a major press soon, comments are very welcome

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Abstract
Why do students in some countries pay so much for college while students in other countries study free of charge? Why do some governments provide financial aid to students while their fellow students elsewhere remain empty-handed? My dissertation provides an answer by analyzing the politics of higher education tuition fees and subsidies. Applying cluster analyses to a genuine dataset of 33 OECD-countries, I demonstrate in a first step that “Four Worlds of Student Finance” can be distinguished: a low-tuition-low-subsidy regime (continental Europe); a low-tuition-high-subsidy system (Nordic Europe); a high-tuition-high-subsidy world (Anglo-Saxon countries); and a high-tuition-low-subsidy regime (some Asian and some Latin American countries). What are the political and economic driving forces that shaped and sustained these regimes? This question is especially puzzling because the higher education systems in most countries were very similar in the direct post-WW-II period.

My argument is that the partisan composition of government and especially the sequence and duration in which leftwing and rightwing parties were in office explain the Four Worlds of Student Finance. Extending standard partisan hypothesis, I label this explanation “Time-Sensitive Partisan-Theory”. Empirically, I test my model in a multi-method design: I begin by illustrating my arguments in qualitative case studies and use systematic process analysis to trace the developments in four diverse cases (Germany, Finland, the U.S., Japan) over the entire postwar period. Second, I exploit an expert survey to investigate party positions on higher education finance to probe my argument’s assumptions for a large country-sample. Third, I conduct cross-sectional and TSCS-regressions to test the explanatory power of my Time-Sensitive Partisan-Model for all OECD-countries. Finally, analyses of survey data demonstrate that the existing tuition-subsidy regimes feed back on individual preferences, which makes them immune to change once they are established, explaining why the systems have hardly changed anymore during the last decades. In sum, the dissertation offers an explanation of the politics of tuition fees and subsidies, explaining both change and stability in this policy-field.
The Political Economy of Higher Education Finance – A Comparative Analysis of the Politics of Tuition Fees and Subsidies

Introduction

When a student graduates from college in the U.S., she probably shoulders a debt of $40,000, due to loans she took out to cover tuition fees and living expenses. Even amounts exceeding $100,000 are not uncommon. Suppose this student (let’s call her Hannah) had studied in Denmark, instead. Here, Hannah would have paid no tuition fees at all and probably she would have received a high governmental grant to cover living-costs during her studies. We can also imagine that Hannah had studied in Berlin, Germany, where no tuition fees would have been charged – presumably, however, she also would not have received any public financial support either. Finally, consider Hannah went to a typical Japanese university. The tuition amounts charged would be similar to those in the U.S.; in contrast to the U.S., however, public grants and subsidized loans would hardly be available.

Why do students in some countries pay tremendously high tuition fees, often leading them into substantial debt after graduation, while students in other countries study free of charge? Why do some governments support their students financially with grants and subsidized loans while other governments abstain from such support? What (re-)distributional consequences do these different systems have? This dissertation provides answers to these and related questions by analyzing the political economy of higher education finance, i.e. the politics of higher education tuition fees and subsidies.

Understanding the political economy of higher education finance is relevant for both theoretical and broader societal reasons: After a long period of neglect in political science, education systems and education policies have recently experienced a massive increase in scholarly attention – often under the headings of “skill formation” or “human capital investment” (Busemeyer/Trampusch 2011; Iversen/Stephens 2008; Jakobi et al. 2009). Several core contributions to the field have pointed out the fundamental importance of patterns of skill formation. Most prominently, the Varieties Of Capitalism-approach (VoC) (Hall/Soskice 2001), that led to a paradigm shift in both the political economy and the welfare state literatures, places skill formation at the core of politico-
economic systems by demonstrating that neither production regimes, nor welfare states, nor social policies, nor demands for or supply of redistribution, nor the effects of structural changes such as globalization, deindustrialization, or skill-biased technological change can be understood without taking into account the design of the education systems (Estevez-Abe et al. 2001; Iversen 2005).

Scholars in this new VoC-tradition have placed particular emphasis on vocational education and training (VET), which is regarded as one of the defining features of the respective production regimes (Busemeyer 2009, 2012; Busemeyer/Trampusch 2012a, 2012b; Crouch et al. 2004; Estevez-Abe et al. 2001; Thelen 2004). Higher education, in contrast, features much less prominent in this literature (exceptionally: Ansell 2008, 2010). Thus, despite the novel prominence of education in political science, we still know surprisingly little about one of the key elements of skill formation systems, namely higher education. More specifically, we even know less about higher education finance. In fact, as this dissertation's literature review shows in detail, we lack both comparative and systematic descriptive analyses on the variety of systems around the world as well as compelling causal explanations for this variety.

Against this background, this book provides both a descriptive overview (Chapter 2) as well as an explanation for the large variety of systems across the advanced democracies (Chapter 1 theoretically, and Chapters 3 through 6 empirically). It thus fills a research gap in the existing literatures linking skill formation systems to the analysis of welfare states and production regimes.

But studying the political economy of higher education finance is not only relevant for theoretical, but also for broader societal reasons: In our time, which is often characterized as “the knowledge society” (Bell 1973; Drucker 1993; OECD 2008a, 2008b), centered around “human capital” formation (Becker 1993 [1964]; Schultz 1961), (higher) education is of enormous importance due to its immense economic, political, and societal consequences. This is all the more true for the financial aspects of higher education, as two examples illustrate: Firstly, higher education finance affects patterns of socio-economic inequality, because students who paid high tuition fees are likely to expect larger wage premiums after graduation (to repay their debt and to make

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1 Interestingly, Drucker identifies the G.I. Bill, which will be pointed out to be of great importance for my analysis of the U.S. case in Chapter 3, too, as the potential "starting point of the shift to the knowledge society" (1993: 2).
up for the missed income during their years of study). Higher education finance thus affects the wage structure, attitudes towards redistribution, and socio-economic inequality (Garritzmann unpublished).

To give a second example, countries' tuition-subsidy systems have an impact on patterns of socio-economic mobility, because – as a broad psychological and sociological literature shows – children from different socio-economic groups perceive the costs and benefits of higher education differently contingent on the tuition-subsidy system: In many studies children from lower socio-economic strata (SES) have been found to be more risk- and more debt-averse and to overestimate the costs while underestimating the potential benefits of higher education (Archer et al. 2003; Becker/Hecken 2009a, 2009b; Callender/Jackson 2005, 2008; Hesketh 1999). Put bluntly, considerable tuition fees might scare off children from lower socio-economic strata, pushing them towards cheaper, less prestigious, or shorter study programs, or discourage these students completely from achieving any form of higher education. To be sure, there is nothing wrong per se about short study programs or about not perceiving higher education in the first place. The topic becomes socially and politically relevant, however, as the effects are asymmetric across different societal groups.

Thus, depending on its design, the tuition-subsidy system can foster socio-economic and educational upward mobility but can also contribute to persistent or increasing inequality. As these two examples illustrate (Section 1.4 of the dissertation sketches more potential consequences), the makeup of the tuition-subsidy system has far-reaching political, social, and economic consequences and is, accordingly, a very relevant object of study. Thus, understanding higher education finance is crucially relevant for both theoretical and broader societal reasons.

Research Question I: How do the tuition-subsidy systems differ across the advanced democracies?

This book poses and answers three research questions that build on one another: Firstly, how do the tuition-subsidy systems differ across the advanced democracies? As a systematic comparative descriptive overview on the variety of tuition-subsidy regimes is still absent in a literature dominated by single case studies largely lacking a comparative angle, I have compiled all publicly available comparative data on the tuition-subsidy systems in 33 OECD-countries to provide such an overview. Chapter 2 summarizes this data, which comprises information for more than 70 characteristics of
the respective tuition-subsidy systems, and provides information on questions such as: How many students pay tuition fees? How much do students pay? Do all students pay the same amounts? Who determines the level of fees? How much do governments spend on subsidies? What kind of subsidies do they offer? Do they, for example, offer grants, that students do not have to pay back, loans, that students have to repay, or tuition tax reductions for students’ parents? How much debt do students on average have at graduation?

The chapter then proceeds by applying cluster analyses to reduce the empirical complexity and finds that we can distinguish – what I label, adapting a term from the welfare literature (Esping-Andersen 1990; Iversen/Stephens 2008), – Four Worlds of Student Finance: In some countries (mainly in continental Europe) tuition is low, but subsidies also largely inexistent: the low-tuition-low-subsidy regime. A second group (comprising the Nordic European states) is characterized by low tuition and very generous public subsidies: the low-tuition-high-subsidy regime. The U.S. and other Anglo-Saxon countries form a third high-tuition-high-subsidy regime, as most students are charged considerable tuition amounts, but also often receive public grants and/or publicly subsidized student loans. Finally, we also find the – prima facie potentially most surprising – combination of high tuition fees accompanied by a sparse public subsidy system. Japan, Korea, and other Asian countries, as well as some Latin American countries such as Chile constitute this high-tuition-low-subsidy regime.

**Research Question II: How can we explain the emergence of the Four Worlds?**

The second – and major – aim of this book is to explain the variety of the Four Worlds of Student Finance. *How can we explain the emergence of the Four Worlds? Why do countries differ so considerably with regard to their higher education finance systems?* This question is particularly puzzling, because when one goes back to the prewar- and immediate post-WWII-period, all these countries’ tuition-subsidy systems looked very much alike: As Chapter 3 shows, systematic public subsidies were inexistent in all countries and tuition was comparably low (cf. also Eicher 1998; Nakata/Mosk 1987). Moreover, enrollment levels were also very humble, as hardly five percent of each age cohort enrolled in higher education (Trow 1972; Windolf 1997). The question thus is: How and

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2 As Rothstein (1998), Iversen (2005: 15), and others have pointed out, the same holds true for social policies welfare spending. Busemeyer (2015) also shows a similar pattern for secondary and vocational education.
why have countries developed from a low-tuition-low-subsidy regime in the immediate post-WWII-decade to today's four highly distinct regimes? Why have countries taken these very different paths?

I claim, challenging a literature that so far has largely focused on either economic or cultural determinants (see Section 1.2 for references), that the main reason for these diverse developments lies in politics. More specifically, as I substantiate in Section 1.3, I use partisan hypothesis (Hibbs 1977; Alt 1985; Tufte 1978) as the starting point and claim that the partisan composition of government matters fundamentally for the development of the advanced democracies’ tuition-subsidy regimes: I assume (as most scholars do) that the core goal of leftwing parties – and in fact their defining feature – is realizing equality of opportunities and social upward mobility in order to achieve a socially, economically, and politically more equal and just society³. Thus, left parties establish policies to accomplish these goals. I argue that higher education subsidies (to financially needy students) are one means of achieving equality of opportunities and socio-economic as well as educational upward mobility, because they set incentives for students from lower socio-economic or educational backgrounds to begin and continue studying (Section 1.4 of the book provides evidence that subsidies indeed have these effects). Thus, I claim that left parties will seek to establish public subsidies and to expand their generosity.

Rightwing parties, in contrast, can be expected to oppose public subsidies for four reasons: Firstly, their constituencies, generally assumed to stem mainly from higher socio-economic groups, pay disproportionately much for and benefit disproportionally little from this progressive (redistributive) spending. Secondly, as access to higher education is de facto stratified by parental income in all countries, the rights’ constituency of higher income groups might fear that the exclusiveness of ‘their good’ higher education might decrease or get lost as the share of students increases. Put differently, right parties and their constituencies prefer elite higher education over mass higher education. Thirdly, right parties and their constituencies can be expected to prioritize high quality in higher education over broad access and equality of opportunities. Thus, they might fear that the quality of higher education decreases when

³ Chapter 4 offers a theoretical discussion and empirical test of which parties belong to “the left” and “the right”. To simply matters in this outline, I abstain from discussing this and remain with these two simple and abstract terms.
funding on institutions remains constant, but more students study due to subsidies. Finally, right parties, at least of a conservative and Christian democratic type (though less true for liberal parties), ideologically place much emphasis on the family and its responsibility in supporting its children (Esping-Andersen 1990; Heywood 2007: Ch. 3; Iversen/Stephens 2008; Kalyvas/van Kersbergen 2010; van Kersbergen 1995, 1999). It follows from their interpretation of the subsidiarity principle that mainly families – and not the state – should be responsible for enabling their children to attend higher education. In sum, for these ideological and constituency-based reasons, an ideal-typical pure rightwing government can be expected to refrain from installing any kinds of public subsidies, preferring to spend tax money elsewhere or reducing taxes in the first place.

What expectations can we deduce from partisan hypothesis with regard to parties’ positions on tuition fees? For very similar reasons as those discussed already for subsidies I argue that left parties will oppose tuition fees while right parties will favor them (when they see the quality of higher education threatened due to increasing student numbers). For left parties and their constituencies, tuition fees are (or symbolize!) another threshold to entering higher education. A by now broad sociological and psychological literature has demonstrated that children from lower socio-economic groups tend to be more debt- and more risk-averse than children from richer backgrounds, i.e. they over-estimate the costs and underestimate the benefits of higher education, consequently enrolling at lower rates, in cheaper (worse) institutions, or in shorter study programs (Archer et al. 2003; Becker/Hecken 2009a, 2009b; Callender/Jackson 2005, 2008; Conner/Dewson 2001; Forsyth/Furlong 2000; Hesketh 1999). So even if broad subsidy systems exist, (substantial) tuition fees will have a negative effect on enrollment decisions of potential students from lower socio-economic backgrounds (see Section 1.4 below). Consequently, left parties will oppose tuition fees in order to avoid setting another hurdle for their constituency. In order to generate equality of opportunities, left parties will argue, tuition fees need to be absent or at least low, so that (financial) deterrence effects are as small as possible.

Children from higher income-groups, in contrast, are less responsive to tuition fees, because the financial contribution that their families can provide are larger; consequently, the same tuition amount has a smaller or no discouraging effect on children from higher socio-economic groups. Accordingly, right parties and their constituencies are – in contrast to left parties – less concerned with effects of tuition and
subsidies on participation rates, equality of opportunities, or social mobility, but more with the *quality* of higher education: Right parties prioritize high quality (elite) higher education over (potentially lower quality) mass enrollment and equality of opportunities. Thus, when fearing that the quality of higher education might decrease (due to increasing student numbers), right parties will look for additional revenue sources and use tuition fees as one means to generate additional funds. Taken together, right governments can be expected to install and raise tuition fees (when concerned that the quality of higher education might decrease), while left governments can be expected to charge no tuition from higher education students.

To summarize, we can deduce from partisan hypothesis from both a ‘top-down’ ideological and from a ‘bottom-up’ constituency perspective that left parties will favor generous subsidies and oppose tuition fees while right parties conversely oppose subsidies and favor tuition fees (when fearing that the quality of higher education might decrease due to rising student numbers).

Yet, partisan theory alone cannot explain the full range of outcomes, but only two of the Four Worlds: Constant predominance of conservative parties can explain the high-tuition-low-subsidy regime (e.g., Japan), while stable predominance of parties fostering equality of opportunities explains the low-tuition-high-subsidy cluster (e.g., Finland). The qualitative case studies in Chapter 3 trace the developments in these two countries and demonstrate this relationship and the respective mechanisms in-depth. In order to understand the evolution of the other two regimes (low-tuition-low-subsidy as, e.g., in Germany, and high-tuition-high-subsidy as, e.g., in the U.S.), we need to go beyond partisan hypothesis in its ‘simple’ form.

Drawing on key contributions in the recent historical institutionalist literature (Abbott 2001; Collier/Collier 1991; Jacobs 2008, 2011; Mahoney et al. 2009; Pierson 1993, 2000a, 2000b, 2004; Rueschemeyer et al. 1992; Skocpol 1992; Thelen 1999), I extend simple partisan hypothesis by claiming that we need to take time and timing seriously, particularly the sequencing and duration of parties in government. My argument is that only a ‘time-sensitive’ analysis of the partisan composition of government can explain why countries’ tuition-subsidy systems have developed from a highly similar starting point in the mid-century to today’s very distinct Four Worlds of Student Finance.

As argued above, when left parties are in office, they will aim at establishing subsidies and keep tuition absent or low. Whether they are successful with this strategy in the
long-run, however, depends fundamentally on how durable their government is. Put simply, we can imagine two scenarios: In some countries, left parties achieve a majority only for a short time. Thus, we can theorize that they would try to establish generous subsidies; yet, once right parties would take over office again, the new rightwing government can be expected to retrench the left’s subsidies again, as they and their constituency prefer the low-tuition-low-subsidy state to the low-tuition-high-subsidy regime. Consequently, where left parties achieve some government responsibility, but never manage to govern for a longer period of time, we can envisage that they attempt to install subsidies, but will be unsuccessful with this strategy in the long-run, because right parties will retrench the financial support as soon as they take back office. To illustrate, one case study in Chapter 3.1 will demonstrate this path by focusing on Germany, where the first leftwing government (SPD-FDP) during the 1970s first introduced far-reaching subsidies but was unsuccessful in extending them due to a relatively short office term (plagued, moreover, by an economically weak situation), so when a rightwing (CDU/CSU-FDP) coalition took back office in the early 1980s, they retrenched the system almost entirely and returned to the low-tuition-low-subsidy track. To re-iterate, when left parties govern only for a short period, they will not be successful in establishing subsidies and subsequent right governments will retrench the support systems, resulting in the low-tuition-low-subsidy regime.

We can also imagine a second group of countries where left governments receive a robust and durable majority for a longer time period. Here, we can theorize that the left will be much more successful with their attempt to establish subsidies, because the establishment of subsidies over time might lead to positive feedback-effects, i.e. broad public support (as I will argue in the next section and show empirically in Chapter 6), shifting the system towards a low-tuition-high-subsidy regime. As public support for generous subsidies becomes greatly popular among students, their families, and potentially the general public at large, abolishing these subsidies becomes electorally increasingly costly if not impossible for right parties, because beneficiaries and supporters of subsidies might switch to support left parties instead. (I develop the feedback-argument and its mechanisms in length in Chapter 6). Consequently, I argue, right parties switch to a second-order preference and pursue a different strategy: As abolishing subsidies becomes electorally too costly, but as they are also discontent with the subsidy-induced growing student numbers and fear that the quality of higher education might decrease and the exclusiveness of the good higher education be lost (as
derived above), right parties will argue that higher education institutions should charge tuition fees to generate additional revenues to provide better quality education and research. Thus, once subsidies are established by left parties, right parties can be expected to switch from opposition to subsidies to grudging support for subsidies accompanied by strong support for installing and raising tuition fees.

To give an example of this path, consider the development in the U.S. (cf. Chapter 3.3): As the Democrats successfully introduced and extended broad subsidies to students, the Republicans became increasingly unwilling and unable to abolish these subsidies due to potential electoral costs and instead switched to their second order preference of demanding tuition fees. Accordingly, the U.S. developed a high-tuition-high-subsidy system and has followed along this path ever since.

In sum, I posit that development of countries’ higher education finance systems from the low-tuition low-subsidy (low-enrollment) starting point in the immediate postwar period to today’s Four Worlds of Student Finance can be explained by the sequence and duration of parties in office: Constant leftwing predominance set countries on the low-tuition-high-subsidy path. Constant rightwing predominance led to the high-tuition-low-subsidy regime. Thirdly, in countries where left parties governed only for a short duration before they were subsided by right governments, left parties tried to establish subsidies, but were unsuccessful in the long run, as the right governments retrenched them again – the result is the low-tuition-low-subsidy regime. In a fourth and final group of countries, left parties governed longer and were successful in establishing subsidies, so right parties responded by installing tuition fees instead; this fourth path explains the high-tuition-high-subsidy path.

Section 1.3 in the dissertation develops the full argument and derives several empirically testable implications of the model that the empirical parts of this book (Chapters 3-6) then engage in testing, using a multi-method approach (as described below).

**Research Question III: How can we explain the increasing stability of the Four Worlds?**

The third and final research question that this book approaches arises from the fact that during the last roughly twenty years, hardly any country has departed from its path and
changed from one tuition-subsidy regime to another⁴. In fact it seems to be the case that the advanced democracies’ tuition-subsidy systems have largely been formed during the first four or so postwar decades, while the developments in the aftermath have largely only continued along their respective paths, i.e. high-tuition countries have kept increasing tuition while low-tuition countries have not durably installed tuition; high-subsidy countries have kept subsidies at a high level or extended these even further, while low-subsidy countries have hardly made attempts to install any serious public financial support⁵. Thus, I thirdly ask: *Why is it the case that countries do not change their tuition-subsidy systems anymore? Why are the higher education finance systems so immune to any radical policy and institutional changes?*

The argument I bring forward to explain this empirical puzzle is grounded in recent work on “positive feedback-effects” and “path dependencies” (Pierson 1993, 1994, 2000a, 2000b, 2004, 2005; Campbell 2012; Korpi/Palme 1998; Kumlin/Stadelmann-Steffen 2014; Rothstein 1998; Skocpol 1992; Svallfors 1997; Thelen 1999, 2004). In Section 1.3, I claim theoretically and demonstrate empirically in Chapter 6 that radical policy and institutional change in the tuition-subsidy systems has become increasingly difficult if not impossible over time, as the existing institutions generate their own support by shaping people’s attitudes, bringing them in line with the status quo via increasing returns, thereby making radical change electorally extremely costly for political parties. As over time the group affected by higher education has grown, because an increasing share of the general public participated directly (i.e. themselves) or indirectly (i.e. a close family member) in higher education as enrollment levels matured (mainly as an effect of generous subsidies), their preferences for the status quo becomes stronger, thereby limiting governments’ leeway in departing from the respective regime paths.

In less abstract terms, I argue that individuals who have (not) paid tuition fees for their own or their children’s education will also expect of others (not) to pay for their own education, thereby reinforcing the high-tuition (low-tuition) path. Likewise, individuals who have (not) received generous subsidies will support that other students also (do not) receive these benefits, thereby strengthening the high-subsidy (low-subsidy) path.

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⁴ A condensed version of this chapter is forthcoming in the *Journal of European Social Policy’s* 2015:2 issue.

⁵ England, introducing fees in 1997 and raising these ever since, is the noteworthy exception. I spend some time discussing this seemingly outlier in Chapter 4 and demonstrate how even the English case underpins my claims.
As I will show in Section 1.3, this follows from both a rational choice perspective, as well as from sociological approaches.

Taken together, I argue that positive feedback-effects become stronger over time as the group affected by higher education increases and as the topic gains political salience. This limits governments’ room for maneuver, as departure from the respective tuition-subsidy paths becomes electorally more costly, and sets high incentives for governments to follow further along the embarked paths. Consequently, the Four Worlds of Student Finance are solidified over time.

Research Design

Methodologically, I use a *multi-method design* (Lieberman 2005; Rohlfing 2008) to test my time-sensitive partisan theory model. That is, I combine various quantitative and qualitative analyses: comparative historical case studies (Chapter 3), quantitative and qualitative analyses of party positions (Chapter 4), cross-sectional and time-series-cross-sectional regressions on policy-outputs, and multilevel model analyses of people’s attitudes exploiting survey data.

The multi-method approach has at least three advantages here vis-à-vis simpler designs: Firstly, the combination of qualitative and quantitative work allows using as much data and information as possible, which is important because the quantitative analyses are constrained by data availability and data quality (high-quality data is only available from 1995 onwards, but my argument makes crucial statements for already much earlier decades) whereas in-depth qualitative analyses are very time-consuming and not feasible for a large number of countries. Consequently, the quantitative and qualitative investigations can support each other by allowing more thorough testing for a large group of countries over time. A second advantage of the multi-method design is that the strengths of both ‘styles’ of research are combined: Quantitative analyses are usually assumed to be much better in determining effect sizes while qualitative investigations are much more suitable to probe causal mechanisms. Third, the multi-method design is suitable because my time-sensitive partisan model has implications on various levels (individual preferences, party positions, government behavior, policy-output, public opinion); applying quantitative and qualitative tools on various of these levels thus

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6 Of course, I do not claim deterministically that there will never be any (radical) change again. The argument only claims that *ceteris paribus* the incentive structure for policy-makers is to reinforce the status quo.
allows to test as many of these implications as possible. Taken together, by drawing together data from various sources and on several analytical levels, the multi-method design allows testing many implications of my time-sensitive partisan theory.

**Empirical findings**

Empirically, I begin testing my arguments in Chapter 3 by investigating the developments in four country case studies over the seven postwar decades, applying *systematic process analysis* (Hall 2003, 2008). Germany, Finland, the U.S., and Japan are selected for in-depth study as “diverse cases” (Seawright/Gerring 2008), i.e. they cover the whole range of empirically possible outcomes and represent the countries comprised in each of the Four Worlds. The analyses of the development of the tuition-subsidy systems in these four countries reveal strong support for my *time-sensitive partisan theory*, demonstrating that not only the partisan composition of government, but particularly the sequence and duration of parties in office played important roles in the countries’ developments.

More specifically, the analysis of the *Finnish case* traces in-depth how predominant leftwing parties use subsidies as a means to enhance socio-economic and educational equality and to foster socio-economic upward mobility. The analysis shows how leftwing parties, predominantly the Social Democratic Party (SDP), continuously pushed for the extension of subsidies during the entire postwar time. To name a few key critical junctures: The SDP established first student support already in the mid-1940s and step by step increased their scope and generosity further. For example, in 1969 they introduced far-reaching subsidized student loans for a large proportion of the students; in 1972 they combined the existing subsidies (grants and loans) into a unified program (*opintotuki*); in 1977 they installed housing allowances to cover students’ living expenses; and in 1992 they switched to a pure grant system. At the same time, the leftwing governments kept private education spending at a minimum. The analysis of the historical development of the Finnish higher education system thus illustrates impressively how leftwing predominance leads to the low-tuition-high-subsidy regime.

The *Japanese case* illustrates the opposite constellation: As is well-known, Japan has been dominated by a fiscal-conservative party (the Liberal Democratic Party, LDP) throughout its entire postwar history. My case study thus analyzes how the LDP has used its power to shape the higher education system according to their preferences. The process tracing analysis reveals that and how the LDP designed a highly elitist education
system by restricting access to higher education to a few students and by not offering any kind of financial aid to students. When demand for higher education among the general public and the industry increased during the 1960s’ Wirtschaftswunder, the LDP channeled the entire expansion into the private sector to avoid increasing public funding. As the public higher education institutions were almost entirely dependent on private contributions, tuition fees skyrocketed. The case study shows, moreover, how the governing LDP continued to install its ideal policies by keeping public institutions elitist and ‘outsourcing’ expansion to tuition-dependent private institutions. The Japanese case thus uncovers impressively how rightwing predominance explains the emergence of the high-tuition-low-subsidy regime.

I analyze Germany as a third case, representing the low-tuition-low-subsidy cluster. Until 1969, Germany was governed by rightwing parties (CDU/CSU/FDP). My analysis shows that this resulted in first no and later only a very lenient subsidy system (Honnefer Modell): The rightwing governments attempted to keep higher education as elitist and qualitative as possible and avoided setting incentives for (low-income) students to begin studying. This changed radically, however, when a leftwing government took over office in 1971: The SPD/FDP-government installed very generous subsidies (BAföG), providing considerable grants to 45 % of all students. However, the economic recession during the 1970s hindered further expansion and the SPD was not able to remain in office for a long time. When Kohl’s rightwing government took over office in 1982, they cut back BAföG in every respect and reduced the subsidies again in scope, amounts received, and changed the system to a purely loan-base. The German case thus illustrates very well how important the timing, particularly the duration of parties in office, is for policy-making: The combination of a short left government, trying to establish subsidies, followed quickly by a rightwing government, trying to retrench the benefits, explains the low-tuition-low-subsidy regime.

The final case study in the dissertation traces higher education policy-making in the U.S. I show here that we can distinguish two phases: During a first period (1944-1980), politics was mainly dominated by the Democrats, who held more supermajorities and whose presidents were more years in office. My analysis shows how the Democrats used their majorities to install and extend far-reaching financial aid to students, the most important steps being the 1944 G.I. Bill, the 1965 Higher Education Act, and the 1972 Pell Grants. I find that leftwing governments are a sufficient and necessary condition for subsidy-expansion in the U.S. During a second phase (1981-2015), however, the
Democrats lost electoral ground to the Republicans who now often held veto-powers. The Republicans used their veto-power to exhaust the Democrats’ subsidies and to shift the focus from generous grants to loans and tax-deductions (which are more beneficial for higher socio-economic strata). At the same time, the Republicans led tuition fees increase considerably, almost exponentially. The U.S. case thus illustrates vividly how the combination of longer leftwing government followed by rightwing control leads to the high-tuition-high-subsidy regime.

Chapters 4 to 6 continue the analyses in a (quantitative) large-n setting. Chapter 4 provides the empirical groundwork for the causal analyses by investigating parties’ positions on higher education finance empirically for a larger number of countries in order to test whether parties hold distinct positions on higher education finance in the first place, whether these vary in line with my expectations, how important the topic is for parties, and whether parties alter their positions over time – as theorized – due to positive feedback-effects. The analyses utilize data from a recent expert survey (Rohrschneider/Whitefield 2012) and own re-codings of all publicly available manifestos of the British parties from 1964 until 2005 (Busemeyer et al. unpublished). The findings are strongly supportive of my argument: The most important results of the analyses in Chapter 4 are, firstly, that parties do hold distinct positions on higher education policies. Secondly, parties’ positions vary by ideology as theorized: Parties of the left (greens, socialists, social democrats, and left-leaning liberals) favor publicly financed higher education and oppose private contributions. Right parties (i.e. Christian democrats, conservatives, and economic liberals), in contrast, are more state-averse and prefer a mixture of public and private contributions or even purely privately financed tertiary education. Thirdly, contexts, i.e. the setup of the tuition-subsidy regime, matter for party positions because they feed back on parties’ preferences: When subsidies are generous and ‘universal’, as in the Nordic welfare states, parties’ support for public spending and opposition to tuition fees is almost consensual, i.e. right parties are more ‘leftist’ in high-subsidy states. Vice versa, when tuition fees are high and a recognized source of funding, left parties become less opposed to tuition fees than left parties in low-tuition countries. This supports my claim that parties adapt their positions due to positive feedback-effects.

Finally, the analyses of Chapter 4 show that parties pay more attention to and place higher emphasis on higher education policies than skeptical readers might expect: on
average across all countries and parties, higher education finance is estimated by the experts to be at least as important for parties as issues such as “EU market integration”, the “design of the political system of the EU”, “environmental protection”, and “minimum wage laws”. Hence, readers, who do not believe that higher education finance is important for parties also have to believe that these other policy fields are not important – a rather heroic standpoint. Taken together, the Chapter provides crucial support of my arguments on the meso-level by demonstrating that my assumptions about parties’ positions are strongly supported by empirical data.

The analysis of party positions in Chapter 4 thus provide the starting point for Chapter 5, which utilizes cross-sectional regressions and time-series-cross-sectional regressions to all publicly available tuition-subsidy data in order to test my time-sensitive partisan theory. The quantitative results underpin the qualitative findings and put them on a broader basis by demonstrating that the time-sensitive party hypothesis argument receives wide support in a large-setting. More specifically, the results show that the partisan composition during the first roughly four postwar decades had enormous effects on the development of countries respective regime types: In countries where leftwing parties governed during the early development period, they launched generous subsidy systems and kept tuition low, whereas rightwing governments at this time led to much lower subsidy spending and considerable private education spending. Moreover, the results uncover that parties’ leeway to affect the systems has decreased over time, as the statistical estimations do not reveal any partisan effects during the more recent period anymore, potentially – as I underpin empirically in Chapter 6 – due to positive feedback-effects.

The final empirical chapter (Chapter 6) applies multilevel models to survey data for 21 countries over 15 years to investigate my arguments about positive feedback-effects on the micro-level, i.e. that the existing tuition-subsidy regimes feed back on individual preferences, making the systems increasingly immune to radical change. I focus in the empirical analysis on subsidies (and do not investigate preferences towards tuition fees) for reasons of data availability and because – as I demonstrate in the theory section – subsidies provide the “stronger test” (Van Evera 1997) for my arguments, as it is more difficult to make arguments from a rational choice perspective than for attitudes towards tuition fees. Again, the empirics are largely supportive, showing, firstly, that
voters of left and right parties do hold different preferences on this issue, and secondly, that positive feedback-effects seem at work, as respondents in high-subsidy countries are more supportive of even higher subsidies. These results are robust to a large number of robustness tests.

**Conclusion**

This dissertation analyzes the political economy of higher education finance, i.e. the politics of tuition fees and subsidies. I developed and tested a novel theoretical model, which I label Time-Sensitive Partisan-Theory, to explain the Four Worlds of Student Finance. Overall, the empirical multi-method results provide brought support for my explanation on the micro-, the meso-, and the macro-level. Thus, by bringing together arguments from party politics, welfare state analysis, political economy, and public opinion research, routed in a meta-theoretical combination of rational choice and historical institutionalism, and by testing these arguments in a multi-method design drawing on a large variety of empirical material, this book offers an explanation of the politics of tuition fees and subsidies, i.e. the political economy of higher education finance.

The introduction outlined why understanding the politics of higher education finance is of crucial importance for both theoretical and broader societal reasons. This is mainly so because of the enormous (re-) distributional consequences of the higher education finance regimes, which not only affect student behavior, but also patterns of socio-economic and educational mobility and therefore society at large. In more abstract terms, the book moreover contributes to the literature by extending the omnipresent ‘partisan hypothesis’ by a time-dimension. My time-sensitive partisan-theory could easily be applied to other policy fields, where it might have equally much explanatory power. This is one (of many) potential extension for future research.

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