nancial sacrifice. This development has pervaded North American higher education for much of the 20th century, but it is an idea that has taken hold in East Central Europe only in the last nine years. The extent to which the concept of short-term personal sacrifice for long-term benefit becomes part of the educational culture of these countries will impact how many of these private institutions flourish and how many die.

Another factor in the long-term viability of the private sector of higher education involves the extent to which the institutions are so closely tied to the character and personality of their founders. The majority of these institutions were the creations of one or two persons of vision and energy. However, there are major questions about what will happen to these institutions when the founders decide they want to pursue other interests or simply to retire from an institutional leadership role.

In summary, the issues and concerns of the new private institutions of higher education in East Central Europe are remarkably similar to those faced by many private-sector institutions in North America and elsewhere. The chief difference lies in the political, social, cultural, and economic circumstances. Indeed, the new private institutions of East Central Europe tend to be even more hierarchical than those in North America, with an established pecking order of institutions that is largely resistant to change. As they wage a daily battle for both viability and legitimacy, many of these fledging institutions will remain highly vulnerable to market and policy forces. The extent to which these institutions are able to surmount the operational challenges of their infancy will determine whether the privatization movement will be one of growing importance for the region or one that is relegated to a footnote in the annals of European higher education.

Notes
1. Mean annual tuition and fee charges for the 1997–98 academic year for private institutions in the Czech Republic, Hungary, and Poland were U.S.$1,406.
Officials in countries thinking about imposing tuition fees at their public institutions for the first time or raising their fees substantially may want to consider using the fees paid by more well-off students to finance the loans for students who need assistance. This kind of internal financing of student loans is, of course, similar to what private, nonprofit institutions in the United States have been doing for decades—recycling a portion of their tuition revenue into student aid discounts for their needy and/or meritorious students. Officials at many of these U.S. institutions have been particularly aggressive over the past two decades in using a high-tuition/high-aid strategy to improve the diversity of their student bodies, while increasing the net revenues from fees and other charges. More and more public institutions in the United States, as well as many private and public institutions around the world, have begun adopting the practice of using student aid to offset the effects of higher tuition levels.

A key component in any student loan program is the source of capital.

The key to this discounting approach is that only a portion of the tuition increases are devoted to student aid and that the institutions end up with more net resources than if they had pursued a less aggressive strategy. The same logic applies to the internal financing of student loans. While some of the tuition fee revenues could be devoted to providing loan capital, the remainder is available to augment revenues to the system.

While many similarities exist between institutional discounting and internally funded loans, there are at least two key differences. First, we are suggesting that the recycled tuition fee revenues be used to finance loans rather than grants—which is what most institutions provide in the form of discounts. Second, the proposal here is that the government, rather than the institutions, set policies for who borrows, to ensure that the revenues generated from tuition are in fact used for the purpose of making loans.

Why should countries think about using tuition fees to finance student loans? First, internally financed loans can offer students a better interest rate than either government-financed or privately financed loans, without requiring a government subsidy. For example, a country could charge 5 percent on a student loan financed through tuition and still make a “profit” through the repayment process. Under this internal financing plan, the government would come out ahead when compared with the alternative of a grant that does not require repayment or a situation in which tuition fee revenues go instead to pay for operating expenses at the institutions.

Second, internally financed loans can help to establish a revolving fund to finance new student loans in the future. One of the principal problems with most student loan programs is that they are not self-sustaining. The repayments by student borrowers must be used to pay the cost of government borrowing or private lenders. With an internally funded student loan program, repayments can be used to make student loans, thereby reducing the proportion of tuition payments needed in the future to finance loans.

These advantages of internally financed loans also define the conditions under which they work best. Internal funding of student loans is perhaps best suited for instances in which tuition fees currently do not exist. In this situation, the tuition revenues net of the funds that are used to finance student loans will still be viewed as an increase over current resource levels. However, where tuition already exists, the creation of internally funded student loans will be perceived as reducing the levels of tuition net of aid that are collected. Another condition that can contribute to the success of internally financed student loans is the presence of enough students who can afford to pay the tuition that is going to be charged. The fewer people who need to borrow to enroll, the more likely an internally financed student loan program will be able to generate net fee revenues.

One objection to internally financing student loans is the problem that both educational institutions and governments are notoriously bad at student loan servicing and collection. This valid concern can be addressed by having banks or other private-sector organizations service the loans on a contract basis.

Another objection is that policymakers may prefer having institutions retain the tuition their students pay rather than have these fees turned over to the government for the purpose of making student loans. This concern is also valid but can be addressed fairly directly through alternative arrangements that produce the same results. For example, institutions could be allowed to retain the tuition they charge as a means of providing them with an incentive to enroll more students than they would if their allocation were unaffected or minimally affected by enrollment levels. The government funding agency would partially reduce the allocation to the institutions to reflect the tuition fee revenues they collect and then use those proceeds to make student loans. While this arrangement would appear on the books as a government-financed student loan program, the loans effectively would be internally financed.

In short, countries that want to offer low interest loans to students to help pay new or growing tuition fees without increasing government costs should keep internally financed student loans high on their list of options. To be most effective, governments should retain the authority to set policies for these internally financed loans while private-sector entities should be primarily responsible for their servicing and collection.