Some thoughts on how to implement income-contingent student loans in a context of **mobility**

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Context

Mobility is one of the factors forcing European governments to reexamine the current model where tertiary education is free at the point of use, and the cost of education is paid via general taxation: a mechanism which, to some extent, works like an **implicit** loan (ie. students rapidly become taxpayers, and pay more taxes than the average citizen).

Mobility, particularly of the asymmetric sort, puts the implicit loan part of such a system at risk, as there is no guarantee that all former students will become regular taxpayers.

This is one of the factors pushing decision-makers to contemplate the possibility to make students/graduates' contribution more **explicit**. One promising way to implement this idea is to *i)* raise tuition fees upon registration for all students, *ii)* but defer their payment via loans (to avoid liquidity constraints and to be capable to assess ability to pay) and *iii)* make repayment income-contingent (to limit the risk of non take-up due to debt/risk aversion, in a context where the income of graduates becomes more heterogenous and volatile; and to account for the ability to pay of graduates).

But income-contingency seems to be difficult to implement when more and more individuals are internationally mobile.

How to keep track of graduates' income[1] when they are moving abroad? Individual countries can collect loan payments (conditionally on income being above a certain threshold) via the income-tax system on their territory, but have no mandate to do so abroad.

[1] Note that the problem is not just to keep track of individuals (what you need to collect installments on a standard loan) but of their actual income (which is required by income-contingency)

One possible conclusion is that income-contingency must be residence-contingent; like in Australia where foreign students are not eligible, and must pay tuition fees upfront. But would that be accepted by the EU court of Justice of Strasburg?

Another option is to create a pan-European collection mechanism that would use every EU country's tax administration to collect payments. But is it realistic?

A third option would be to decentralize the problem, i.e. to empower (and entice) educational institutions. The loan could originate from them, and they would be in charge of payment collection (each university would be de facto a student loan company/bank). These institutions would then, for sure, engage into systematic follow-up of their graduates (alumni desks would become key).

One variant would be to also make graduates responsible for proving their no- or low-income situation (i.e. properly document their right to no- or postponed loan repayment). An aside would be to agree on a pan-European set of income thresholds (that would be degree- and country-specific) to help educational institutions parameter and collect installments on their income-contingent loans.

Finally, to limit the risk of cream-skimming upon registration, the cost of (properly documented) income contingency could be (partially) transferred to a central agency. The latter would subsidize the cost of the insurance imbedded into the income-contingent loans.

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