

Obstacles and opportunities: Financing Europe's more unified Higher Education Area

Carlo Salerno
Senior Research Associate
Center for Higher Education Policy Studies (CHEPS)
University of Twente
The Netherlands

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Europe has taken significant steps in recent years to create structures that strengthen its Higher Education and Research Areas

– on the one hand to strengthen and support its increasingly unified internal structure and, on the other hand, to protect itself against growing global competition from existing and emerging competitors

The facts:

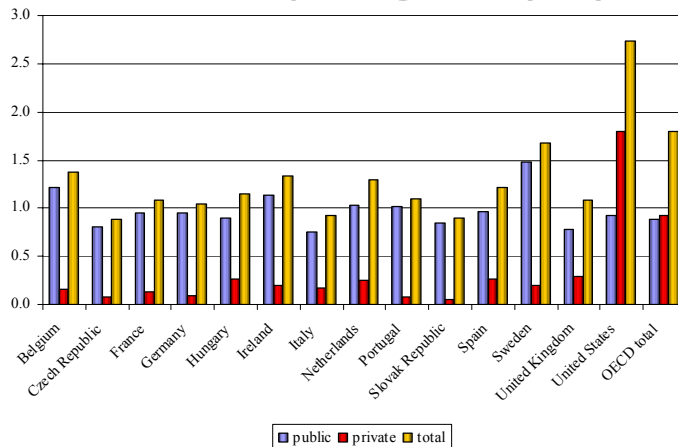
Most European countries' cannot afford to increase higher education investment through the tax base

Private funding for education (and research) activities is remarkably low in comparison to places like the United States

Funding and allocation schemes are still largely centralized, both at the institutional and system levels



Public, private & total expenditures on education institutions as a percentage of GDP (2001)



— The goals:

The Bologna Declaration (1999) seeks to

1. Eliminate obstacles to faculty member and student mobility.
2. Develop a framework of readable and comparable academic degrees.
3. Build a European dimension into quality assurance.
4. Develop a uniform credit transfer system
5. Introduce common undergraduate and post-graduate degree structures.

In essence, the objective is to create a set of fluid pan-European higher education input and output markets



— The basic problem:

How to coordinate the efforts of multiple higher education systems to increase aggregate resources, diversify the income base and ensure resources are used efficiently towards meeting Bologna-style goals

Balancing the use of market and government coordination mechanisms



The basic solution:

If the objective is to promote smoothly functioning markets then greater effort must be put into employing *market mechanisms* and intelligent policies that can be used to redress equity imbalances that will arise as a result



A brief note on

Internal Funding



— **University internal allocation**

Attributes of:

Emphasis on institutional mission

Emphasis on market forces

Incentives for entrepreneurialism

Incentives for efficiency

Difficulty of decision making



— **University internal allocation (2)**

	Line item	Block Allocation	Resp. Centered Management
Mission	high	high	low
Market forces	low	low	high
Entrepreneurialism	low	medium	high
Efficiency	low	high	high
Decision complexity	high	medium	low



— **University internal allocation (3)**

Even in market-oriented systems the “typical” internal financing model will tend to incorporate one or more of these philosophies



— **Decentralized funding**

Advantages:

- Allows for using expertise on the shop-floor level**
- Increases accountability**
- Provides incentive for cost-effective resource use**
- Increases speed of decision-making**
- Empowers staff (is close to clients)**
- Encourages innovations**



Decentralized funding (2)

Disadvantages:

Little coordination

Allows some units to “free ride”

Promotes costly bureaucracy through service duplication

Makes it difficult to support university-wide services like library and other centralized facilities

It is difficult to determine fair internal prices



Obstacle 1

Low or no tuition fees

It is inequitable because individuals' returns to education exceed those received by society.

It unfairly subsidizes students in programs that are more expensive to provide.

Prices are an important signal of program/institutional quality. This makes it more difficult for students (and their families) to discriminate between providers.



Obstacle 2

Home tuition rates across EU member states

Though the policy of charging students "home" tuition rates when they come from another EU-member country is designed to promote pan-European mobility, growing inter-institutional competition and desires for greater prestige create a conflict between state-subsidized education providers and those who they are meant to serve.



Obstacle 3

Charitable giving

Philanthropy is increasingly becoming recognized as a viable source of private revenue.

However, current country regulations make it difficult for individuals to make charitable donations across countries.

Social factors make Europeans less apt to make philanthropic donations in general and to universities in particular.



Obstacle 4

Research is too heavily funded through state appropriations

Exclusionary at the margin (hinders less research-intensive institutions' faculty members' chances of fairly securing public research funding).

Provides faculty members with little incentive to diversify institutions' revenue bases (e.g. establishing industry-university partnerships)



Obstacle 5

European-wide research is financed in a very fragmented way

Excluding foreign scientists from competing for national research council grants reduces the quality of the science done and allows mediocre academic units to persist.

Fragmented national research council agendas are macro-inefficient and the current form of the proposed European Research Council (ERC) does little to rectify the problem.



Obstacle 6

Performance-based funding

While intuitively appealing, there is little empirical evidence to suggest it is effective.

The main problem lies in the fact that universities do not control education production and that research is always an inherently risky gamble.



Obstacle 7

Internal brain drain

Prestige, competition and initial endowments have created significant wealth imbalances between EU-countries' higher education systems and institutions

Greater competition for available wealth is likely to exacerbate the problem and channel considerable sums of funding to higher education institutions in Northwestern Europe at the expense of other EU-regions.



Obstacle 8

No systematic research on European higher education

Meaningful cross-country comparisons are difficult to produce owing to the absence of uniform, European-wide indicators

As a result, it is difficult to assess whether one country's financing/funding scheme is any more efficient/effective than another's



Strategy 1

Introduce more diversified tuition fee structures

Consumers must be well informed, introduction must be gradual and financing mechanisms **MUST** be put into place simultaneously to redress distributional inequity problems that will arise.

No concrete empirical evidence to suggest their introduction harms access... provided that they are accompanied by a comprehensive loans and grants scheme. HECS (AU) probably offers the best model.

Provide **institutions** with the freedom to set their own fees (a sub-optimal solution would be to allow flexibility within limits such as in New Zealand or Italy).



Strategy 2

Make funding more competitively allocated

Crucial, both at the system and pan-European level. The primary vehicle for financing research should be national research councils or, more preferably, the proposed European Research Council.

Ensures funding goes to those units most capable of doing the task

The tradeoff is that it gives rise to an unevenly funded system



Strategy 3

Introduce policies that financially support infrastructure development

Example: the Experimental Program to Stimulate Competitive Research (EPSCoR) in the United States.



Strategy 4

Keep performance-based funding as a marginal percentage of state appropriations

Used in this way, it will not penalize institutions for students' poor performance.

In small doses can be effectively used as "incentive-based" funding.



Strategy 5

Raise scientific staffs' promotion and tenure standards to encourage income diversification

More uniform and rigorous promotion and tenure standards will encourage faculty to seek out new revenue streams while simultaneously raising research output quality.

It is critical that standards be made clear to faculty in advance.

The major concern here is that such an approach will force faculty to shift attention (and available funding) away from education activities.



Strategy 6

Collect European-wide data on higher education & research

Such information is absolutely necessary for monitoring the development of the European Higher Education and Research Areas.

In contrast to many of the other strategies, data collection will need to be centralized.

The absence of a federal structure makes such a task difficult. Instead coordination can be achieved through the use of funding incentives.



Conclusion:

Implicit in the Bologna objectives is that the current mode of financing European higher education institutions will have to change.

In many ways this will benefit Europe in the long run but not until substantive structural changes are put into effect. The crucial changes will only occur when Spanish, Dutch, French and Estonian citizens see themselves as Europeans first.

Marketization and competition will invariably create imbalances. These should not be seen as failures!

