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Financing higher education: some special features of formerly socialist Europe

Summary

Universities and higher educational systems throughout the world including in formerly Socialist Europe are experiencing a financial dilemma as costs both to the individual institution and to the national system rise faster than the available public revenues. The source of the dilemma is threefold: (1) inexorably rising per-student costs; (2) increased demand for university places; and (3) rising competition for scarce public revenue from politically and socially compelling competing needs. Solutions involve some mix of lowering per-student costs (if possible) and supplementing public revenue with tuition fees and other private sources. The challenge is how to maintain accessibility in the face of almost inevitable rising expenses to both parents and students.

Key words: *Higher education (or university) costs, cost sharing, tuition fees, access (or accessibility).*

JEL: I210, I220, I280

1. Introduction

Underlying many of the financial issues in higher education in all countries is the surging demand of the past three or four decades, driven by a belief in higher education as a principal engine of social and economic advancement, both for the individual and for the larger society and economy. Most countries in Europe (with some differences among countries in Western, Central, Eastern and Southeastern Europe) and their higher education systems have grown, or *massified*, dramatically since the mid and late 60s, nearing in some countries a possible effective saturation, at least of the *classical university* form of tertiary education. Most countries are still attempting to accommodate this increasing participation, possibly with some form of more effective *sector diversification*. Several countries, with low or even declining birth rates and at or near this apparent saturation, are actually facing the possibility of significant declines in enrollments, at least of traditional-age first degree students. At the same time, some of these same countries are still struggling to accommodate the massification that has already happened (that is, to restore some of the former per-student revenues for their universities and to "catch up," as it were, on the enrollment surge that has already occurred).

This demand, whether still surging or "flattening," is accompanied by the second element of higher education's financial dilemma, which is the *rapidly increasing per-student cost pressures*, fueled throughout Europe and worldwide by a resistance of the higher educational enterprise to the kinds of ongoing productivity enhancements typically associated with the goods-producing sectors of the industrialized economies (mainly substituting capital for labor). At the same time, governments in nearly all countries seem increasingly unable to keep pace with these cost pressures through public (that is, tax and/or deficit generated) revenues. This inability goes considerably beyond a mere unwillingness to tax. Taxation and even deficit financing are nearly as difficult technically as they are unpopular politically.[1] Globalization and the virtually unlimited mobility of capital and productive facilities leads multinational goods producers to seek a combination of political stability, low wages, and low taxes, which limits the ability of the advanced industrial countries to maintain high taxes and thus limits the size of their public sectors (including their publicly-financed universities). The so-called transitional countries of Central, Eastern, and Southeastern Europe, long dependent on relatively easy *value added* taxes on state-owned producers, have had to devise new

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[1] Deficit financing, once at least a "fall back" method of raising public revenue, is highly constrained by the rules of the Euro community.

means of taxation, none of which have been particularly successful. And to the extent that any of these countries were able to increase their taxes significantly (and to do so year after year), there would remain all of the other compelling public needs (e.g. elementary and secondary education, ageing populations, unemployment and the need for an economic safety net, public health, public infrastructure, and the restoration of the environment) that compete with higher education for these limited additional revenues.

What emerges from this confluence of (1) high and rapidly increasing demand; (2) commensurately high and rapidly increasing costs; and (3) increasingly limited public revenues are two large, complex, and interrelated issues pressing upon higher educational institutions and governments worldwide. **First,** ***how can the demand for greater (but still high quality) higher educational capacity be met at a lower per-student cost (especially at a lower per-student cost to the taxpayer)?*** The policy responses to this dilemma include: (1) those that attempt to *lower costs* (e.g. merging institutions for economies of scale, increasing student/faculty ratios, etc.); and (2) those that attempt to *supplement limited public revenue with private revenue* (e.g. with tuition, fees, philanthropic donations, and institutional and faculty entrepreneurship). The higher educational reform agendas of most countries, including the mature economies as well as the countries of the transitional and the developing worlds, contain elements of both.

Second, ***how can higher education resist (and possibly reverse) its natural inclination to reproduce, and even to exacerbate, existing social disparities and inequalities, whether by parents' social class, ethnicity or kinship affiliation, language, region, or religion***? Access to higher education everywhere is limited by the level and quality of the secondary education, including whatever combination of family cultural capital and private tutors can further enhance the academic preparedness of the aspiring student. Parental income is virtually certain to be a predictor of higher educational participation, especially where means-tested financial assistance and generally available student loans are limited or non-existent. And because parental income is generally correlated with white collar or professional occupation, membership in a dominant ethnic and linguistic group, and access to the best secondary schools (that is, *other predictors of academic preparedness and ambition*) higher education can reinforce and even accentuate existing social stratification, even while some of the very brightest and luckiest of the poor or the rural or the linguistic or ethnic minorities are able to use higher education to escape from their social and economic marginalization.

2. Internal and external efficiency

Both parts of system of funding higher education – state funding of educational institutions and state financial support to students – have important impacts on both the internal and the external economic efficiency of higher education. A very low price of instruction (i.e. low or no tuition fees) does not stimulate students to efficient study. In combination with fellowships as the only direct state financial support to students, such a system results in very high private returns to higher education compared to social returns. Thus, the internal economic efficiency, which includes the efficiency of study, or learning, is as a rule, low in institutions and countries without tuition fees. In many European former socialist countries, private rates of return are high (and have been increasing since the 90s) compared to social returns and also compared to the rates of return in the highly industrialized countries of the OECD.

3. Cost-sharing

Worldwide, the most common approach to the need for increasing revenue is some form or forms of ***cost sharing***, or the shift of some of the higher educational per-student costs from governments and taxpayers to parents and students. This trend in the mature economies can be seen in the high and rapidly increasing tuition fees in the US, Canada, Japan, Australia, and New Zealand; more recently in the early beginnings of tuition fees in the West European countries of UK, Portugal, The Netherlands, most recently (2001) Austria and (2006) Germany (some Landers); and finally in the so-called *dual track tuition fees* of post-Communist Russia, Czech Republic, and other East and Central European countries.

The economic rationale behind the case for *students* bearing a portion of the costs of their higher education is that there are substantial private benefits, both monetary and non-monetary, that accrue to the student from higher levels of education and that these benefits justify a tuition, especially one that can be deferred and repaid through some form of loan or a surtax upon income or current earnings. The case for *parents* bearing a portion of the costs of their children's higher education (via an *up front* tuition, but almost always with the caveat of means-testing, or the presumption that the parents actually have the financial ability to pay) is driven partly by the same assumption of private benefits extending to the parents, reinforced by the fact that parents all over the world do pay, and partly by the aforementioned fact that public needs seem almost everywhere to be outrunning the available public revenues. Thus, there seem to be few alternatives to some tuition fees (short of denying the universities the revenue that they seem to need and losing either higher educational quality or higher educational capacity or both) to the principal detriment of the poorest or most marginal students, who have such limited options. In fact, at least in the abstract, most economists maintain that some tuition fees—assuming some means-tested grants and/or sufficient available student loans—is actually more equitable than free higher education in that students everywhere are disproportionately from the middle and upper classes and the taxing systems in most countries tend to be proportional or even regressive.

Europe remains the last bastion of genuinely free higher education, although three decades of massification, overcrowding, persistent under-funding, and the generally slow economic growth of the 1990s have been placing great pressures on the universities for alternative revenue sources. The UK throughout most of the 90s dramatically reduced its once very generous student grants, and in 1997 for the first time imposed a tuition fee (interestingly, under a Labor Government), although this "up front" tuition fee has since been converted to a deferred tuition, not unlike the Australian Higher Education Contribution Scheme, which is repaid through a surtax on the incomes of graduates after their incomes exceed a threshold level.[2] France in the early years of the 21st century continues to provide nearly free university education to every graduate of their academic secondary schools, but Austria abandoned free higher education in 2001 and Germany offered possibility to introduce tuition fee in 2005; many observers believe that the rest of the continent will one day follow.

The US presumes both a *parental* contribution based upon the income and some of the assets of the parents (which necessitates some way to test parental *means*, or financial *need*) and a *student* contribution, either from loans or term-time or summer earnings. Scandinavia officially rejects the proposition that parents should be financially responsible for the higher education of their children, but it accepts the notion of a student responsibility for living expenses, born by extensive student loans. Russia, along with most of the rest of the countries of the former Soviet Union, and most of Eastern and Central Europe (all of which have political/ideological legacies of higher education as another entitlement) albeit one that the governments can no longer afford to honor—attempt to have it both ways, with regular, or *governmentally-sponsored*, students entitled to a traditionally free higher education (presumably selected by competitive examinations), but all others charged tuition.

4. Sector diversification

A related issue, still largely financial, in higher education is the form and extent of sector diversification, or the creation and effective use of shorter cycle, more accessible, and more vocationally-oriented alternatives to long (3 or 4 to 6 or 7 year) first degree associated with the classical, research-oriented university. These alternatives—such as the German and Austrian Fachhochschulen, the Dutch HBOs, the French IUTs (Institutes Universitaires Technologies), the Japanese public and private junior colleges, and the American community colleges (to which most US higher educational observers would add the public and private four year and comprehensive colleges and universities)—attempt to provide tertiary level education that is shorter in term, more practical, less academically rigorous, and less costly.

Some countries, such as Spain and Italy, have resisted the non-university movement altogether. Britain actually erased what was once a clear *binary line* dividing the classical research universities, both old and new, from the non-university polytechnics and now exhibits the *research drift* so prevalent in the US, where colleges and universities that once featured bachelors and master degrees and a teaching emphasis now strive toward research and advanced degrees. Sector diversification will continue to meet resistance from university students and faculty, who frequently see alternatives to the classical university as lower in status and designed mainly to *track* less well-prepared students (therefore more likely to be from poor or otherwise marginalized families) into forms of tertiary education that will limit their opportunities. Nevertheless, sector diversification will likely remain prominent on the agenda of international higher education reform.

[2] Interestingly, what appears to be an unintended consequence of the UK's shift from an up front to a deferred tuition fee is not a shift back to governmental funding, but a transfer of cost burden from the middle and upper middle class parents (low income parents did not have to pay the means-tested up-front tuition fee) to all students.

5. Private higher education and privatization of public higher education

Private higher education has always been important in the US, as it has been in much of East Asia and Latin America and is rapidly emerging (albeit in very fragile forms) in Russia and the other newly independent countries of the former Soviet Union. This importance can be quantitative, or *demand absorbing*, as in the relatively low cost, less selective institutions of Philippines, Japan, Korea, Thailand, Brazil, and elsewhere in Latin America that permit the maintenance of a smaller, costlier, more selective, and generally more elite public university sector. Such private institutions are typically highly responsive to the market—that is to the interests of both students and their potential employers (e.g. featuring business, computer science and English language instruction). Or as in the United States, but less often in the rest of the world, they can be elite and leading edge. (The US also has a significant number of the low-cost, non-selective, private non-profit colleges, as well as a large, non-selective, proprietary or for-profit, sector).

Considerably more significant in Europe than the rise of privately *owned* institutions of higher education is the *privatization of the public institutions*: e.g. charging tuition fees and encouraging entrepreneurship on the part of institutions and faculty alike, granting increased autonomy to institutional management (and diminishing the influence of the faculty), and taking on private sector norms such as marketing and the emphasis on accountability. The issues emerging from privatization include all of the controversies associated with cost-sharing plus the issues associated with the clash of traditional academic values and faculty authority and the newer managerialism.

6. Globalization and the conformance of academic standards

Globalization refers to an internationalization of production, of capital (and therefore the ownership and control of this production), of information and knowledge, and of culture itself. Globalization is often associated with the worldwide ascendancy of market capitalism and a perceived increasing hegemony of the OECD nations, and in particular of the United States and the other English language-speaking countries. Higher education is an important engine of globalization, and is in turn profoundly affected by it. The modern university is among the most international of all institutions, and research and scholarly creativity, especially in science and technology, are among the most international of human endeavors. At the same time, critics decry the extent to which globalization weakens local culture, literature, and language, and the intentional or unintentional complicity of higher educational institutions in this process. Finally, even as globalization generates wealth, it also diminishes the ability of states and other governmental units to tax that wealth, thus diminishing the sectors—including public higher education—that depend financially upon public revenue.