Financing higher education in Europe: issues and challenges

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Abstract

The wealth of the world will depend more and more of its knowledge capital. The governments will need to continuously support innovation, relying on the importance of investing in knowledge and skills. Higher education systems that offer excellent research, training, cultural and civic experiences, will be perceived as significant geopolitical. Increasing investments in order to finance higher education in Europe from private and public funds remain a challenge especially in the context of the economic crisis. The initiatives from some European Union member states with respect to growth of the financial resources and their focus on higher education are welcome. In this context, higher education institutions should receive incentives in order to develop proper curriculums, flexible attendance modes and to extend the validation of prior learning. Increasing the autonomy of universities and improving their management systems and accountability are crucial for allowing them to be open to all potential students, especially to those who did not follow the traditional system of education; thus also helping them to diversify their source of income. University – Corporate Partnerships can create adequate conditions in order to increase the participation of corporations and other businesses in financing higher education. This paper will highlight some of the current issues in financing higher education and the long term challenges in the context of current economic recession. An act of trust in regards to the resources of creativity and adaptability of higher education in Europe is needed in order to see change in the future.

Keywords: financing higher education, Public expenditure on education, Private expenditure on education

JEL Classification: A12; I25

1. Introduction

The evolution of society, including its economic system development, is closely related to the changes from the system of values that underline all its manifestation. (Fritjof Capra, 2004).

Education and training are central objectives of Lisbon agenda for growth and jobs and they are essential for their continuation to 2020. Creating a “knowledge triangle” formed from education, research and innovation that work properly and help everyone to improve their skills, it is essential in terms of growth, employment, equity and social inclusion. The economic recession has highlighted the importance of further long-term changes challenges. Public and private budgets are subject to significant constraints, exiting jobs are abolished, and the newly created ones often require different skills and to a higher level. Therefore, education and training system should become more open and relevant to citizens’ needs, demand on the labor market and social needs in general. (Official Journal of the European Union 06.05.2010 C117/3).
The current global crisis is a profound imbalance between revolution of means and revolution of expectations (Popescu, Constantin, 2011).

2. Indicators and performance contracts

About half of the countries use performance indicators that focus on the results obtained by students in order to determine the amount of funds allocated for teaching and service. The most common indicators of teaching performance and teaching focus on and are measured taking into account the number of graduates. Accordingly, the performance indicators used by the member states of the European Union are: Indicators on students’ results, Decrease of costs with the staff, Level of training, Results of institution evaluation, Quality of infrastructure, Management and academic Community Services.

In twelve countries, the direct public funding allocated for higher education institutions is entirely or partly allocated based on “performance contracts” between the state and the institutions. In addition to allocating a base budget, the contracts are based on the principle of defining strategic objectives for that particular higher education institution. These contracts also represent a tool for measuring the achievement of performance targets set by institutions. Therefore, for public authorities the performance contracts represent a powerful mechanism that allows them to guide the strategic institutional policies.

However, there are differences between countries in regards to the importance of “performance contracts” for public funds allocation, contracts affecting the most substantial part of public funding being concluded following a negotiation. In situations where the performance contracts represent the principal mechanism for allocating public funds to higher education institutions, they include strategic objectives set by the institutions themselves, but also based on national strategic goals involving much of the institutional activities. In Romania and Iceland these goals are established separately for each institution. Contracts are concluded for a period of three years in Austria and Finland, three-four years in Denmark, four years France, five years in Iceland and one year in Romania. European higher education institutions have a high enough degree of freedom in using these funds, especially when they receive global subsidies which cover several categories of expenditures. There are, however, more ways for controlling public funds spending: the accountability measures and regulations that institutions subject to the carryover of unspent funds from one year to the next. The accountability measures of the institutions on the use of public funds allow public authorities to guide the financial and strategic policy of the higher education institutions.

A funding formula based on the number of enrolled students make institutions vulnerable to fluctuations in the number of students, which has a direct and unavoidable impact on their source of income. This poses an issues as some basic institutional costs (such as infrastructure) cannot be reduced from one year to another. In order to cope with this situation, institutions can adapt the programs they offer to fit students’ preferences so they can attract more students. Although this strategy can offer more guarantees that these courses will meet the short term educational needs of the society, it can lead to a limited diversity of courses and to the disappearance of some important, but less popular, academic disciplines. In this context., the funding formulas can include incentives for preserving vulnerable academic subjects.

Another issue related to the financing formulas is the gap which public authorities must accommodate to budgets in situations where there is a significant increase of participation. If there is no change in allocated budgets, when the number of students increases significantly, the amount allocated per student decreases, resulting in negative financial consequences for the affected institutions. In many cases, the basic cost per student is calculated differently depending on the funding formulas for the study. This system is under debate in several countries, because of the lack of consistency and the imbalance between subjects in certain formulas. In many countries, public institutions for higher education are still predominantly funded from public sources and, to a small extent, from private funds. However, in the last decade, many countries have tried to diversify the funding sources for higher education systems. Whatever the current level of public funding in different countries is, the political messages from the education authorities from everywhere encourage new ways of financing higher education. This raises the following questions: How big is the autonomy of higher education institutions in what concerns the tuition fees paid by the students? Which are the changes that higher education institutions need to make in order to obtain private funds and to form partnerships with the private sector? What restrictions and controls exist in these areas? What are the rules for private funds spending? Can they be used by higher education institutions for commercial purposes or
just for objectives related to teaching and research? To what extent must institutions report on the private funds spending? What are the incentives implemented in each country to support higher education institutions in their attempt to obtain private funds?

3. Funding Formulas

In almost every country, funding formulas are based on the input, which refers to the amount of institutional activities. Institutional activities can be estimated according to the amount of resources (number of staff, staff salaries, number of enrolled students, buildings, etc.) that higher education institutions use for their educational activities. In many cases, funding formulas include performance criteria, which correlate the results obtained by an institution during a specific period. Funding formulas can be an incentive for higher education institutions to better streamline their resources, as they create the link between the amount of public funds and the institution’s ability to use resources in the most “advantageous” way during a specific period.

The funding formulas for teaching subsidizing are based on input criteria and current operational needs which vary from country to country. Most commonly used criterion is the number of enrolled students in the current or prior year, taken also into account field of study. In some of the countries, the number of students for institutions that meet the eligibility criteria for public funding, it is determined in advance by or together with the national authorities.

Less frequently, other than the number of students criteria, which can sometimes be a guarantee for the stability of the allocation model are be considered. These include, for example, variables related to rental costs of universities (Finland), the area of campus buildings (France), in the location – if they are located in capital cities (United Kingdom – England), the number of staff members (Greece, France, Poland – public institutions and Portugal) or criteria related to educational activities (France and Slovakia). In most funding formulas, the number of students taken into account is calculated together with the fixed unit cost per student. These costs are analyzed based on students’ field of studies, the level of studies, whether the studies are of actuality and on other factors. Depending on the country considered, the basic cost per student counts to a different degree in the total costs of the institution. The costs can be calculated based on actual costs of the institution in a specific period (Greece) or they can correspond to a national average, based on statistics, as it is the case of most countries.

4. Financing and learning outcomes throughout life are still problematic

Increasing investments from public and private sources remains a challenge, especially in the context of the economic crisis. The initiatives from some EU member states in increasing resources and guidance to investments in higher education are welcome; and the diversification in mobilizing additional funds should continue. Also, the efficiency of investments by strengthening quality assurance mechanisms, supported by enhanced cooperation as envisaged in the strategic “ET 2020” should be increased.

Public expenditure on education (% of GDP) indicator shows the proportion of the annual state allocation to education in a financial year. This indicator reflects the importance placed by the state on education in comparison with other public services provided by the state.

As presented below, the Public expenditure on education (% of GDP) from 2004 to 2008, in the 27 EU member countries and Turkey shows range from a minimum of 2.82 of GDP and 8.43% of GDP.
Data analysis shows that EU member country with the lowest public expenditure on education (% of GDP) was Luxemburg, which in 2008 had allocated 3.15 (% of GDP), down from 2004 when it had the biggest share of expenditure (% of GDP) 3.87, while still under the EU level. The country with the biggest share of expenditure (% of GDP) was Denmark which from 8.43 (% of GDP) in 2004 slightly declined and in 2008 it had 7.75 (% of GDP), well above the EU level, followed by Cyprus and Sweden.

Private expenditure on education (% of GDP) from 2004 to 2008, in the 27 EU member states and Turkey had seen range from a minimum of 0.08 % of GDP and 1.75 % of GDP.

Analyzing Public expenditure on education (% of GDP), it has been found that the countries with the lowest level of Private expenditure (% of GDP) are: Finland 0.14 % of GDP, followed by Sweden 0.18 % of GDP, , and the countries with the higher share of expenditure (% of GDP) are: United Kingdom 1.75 % of GDP in 2007, followed by Cyprus 1.35 % of GDP in 2008 and the Netherlands, on average more than 0.90 % of GDP.
Conclusions

Based on facts presented above, out of the 27 member states of the EU, Denmark has the highest level of Public education expenditure (% of GDP) and Private education expenditure (% of GDP): 4.283 (% of GDP), and 16.49 % financial aid to students as % of public expenditure on education, for all levels of education combined, followed by Cyprus with 4.056 (% of GDP).

The lowest level of Public education expenditure (% of GDP) and Private education expenditure (% of GDP) registers in Slovakia with 2.236 % of GDP, followed by Czech Republic with 2.412 % of GDP (and 4.08 % Financial aid to students as % of total public expenditure on education, for all levels of education combined). Note that for Estonia, Greece, Luxemburg, Hungary and Romania not all data is available for comparison.

Higher education is crucial to Europe's ambitions to become a world leader in the global knowledge economy. The Europe 2020 Strategy aims to support the further modernization of European higher education systems and to allow higher education institutions to reach their full potential as drivers of human capital development and innovation. In order to respond to the demands of a modern knowledge-based economy, Europe needs more highly skilled higher education graduates, equipped not only with specific subject knowledge, but also with the types of cross-cutting skills – such as communication, flexibility and entrepreneurial spirit – that will allow them to succeed in today's labour market. At the same time, higher education institutions must be able to play their full part in the so-called "knowledge triangle", in which education, research and innovation interact.

Europe 2020 has established the headline target that 40% of 30-34 year olds should have tertiary education qualifications by 2020. Closely correlated to this objective is the headline target that Europe should spend 3% of GDP on research. Other EU-level objectives for higher education include the education 2010 benchmark to increase the number of mathematics, science and technology graduates by at least 15% over 2000 level and the Bologna process objective that, by 2020, 20% of all university graduates should have undertaken learning mobility as part of their university education. When it comes to funding, the European Commission has proposed an objective that 2% of GDP should be spent on higher education.

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Jurnalul Oficial al Uniunii Europene 6.5.2010 C 117/3
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