

FINANCING HIGHER EDUCATION: PUBLIC AND PRIVATE SOURCES

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Content

- The economic foundation of university financing
- Diagrammatic view of the potential sources
- Public sources
- Private sources
- Expenditure side

THE ECONOMIC FOUNDATIONS OF HE FUNDING

- **HE is an investment** (nearly exclusively)
 - Private
 - Better jobs, salaries and life
 - Reduced risk of unemployment
 - Collective
 - Contribution to economic growth and development (of increasing importance the closer a country is from the technology frontier)
 - Necessary – but not sufficient – condition for the promotion of democratic values, social cohesion, cultural development and individual security and well-being

- Is HE&R a private (divisible) or a collective (public or indivisible) good?
 - There is a continuum from collective to private:
 - Fundamental, curiosity driven research
 - National research programs – applied research
 - Basic teaching and learning (private + external benefits)
 - Specialized training within firms and public organizations
 - Life long learning
 - These differences should be taken into account in the way education is funded

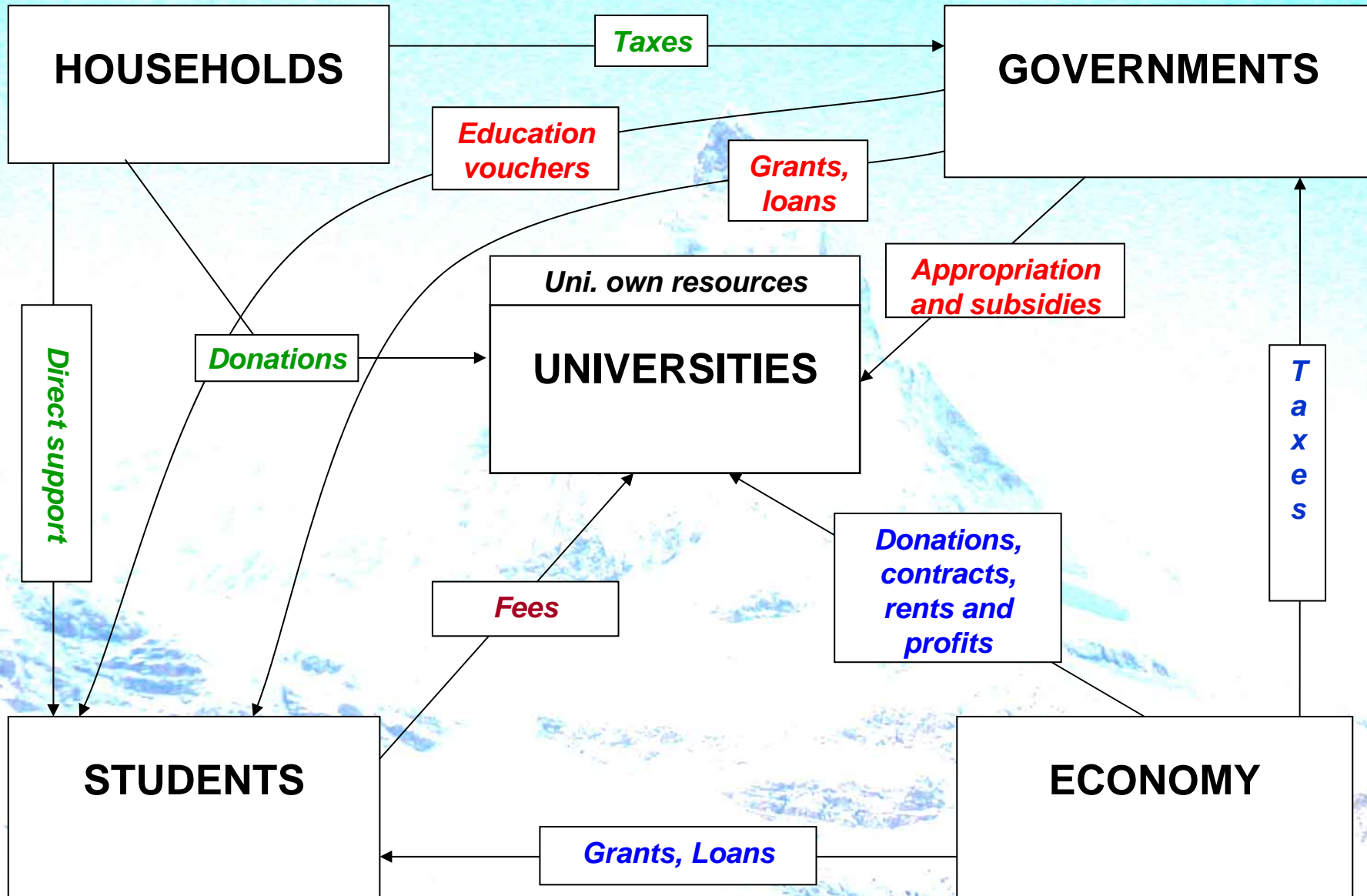
- **University financing cannot be based on the sole criterion of economic efficiency**
 - The State should secure equal access on the basis of merit (no financial barrier to access)
 - A puzzling question: setting the framework for equal access is insufficient due to a high correlation between the level of education of parents and students' participation. The policies for equal access should be pro-active

- Teaching and learning, continuing education and many research activities can be “produced” by **public** or **private** organizations
 - Public production: in principle, funding is mainly public (this is less and less the case in the USA!), however this does not prevent to levy students fees, to sell services or even for the State to fund students instead of institutions
 - Private production: funding is mainly private (fees, donations, contracts); however, private institutions often receive substantial aid from state entities

- **The price mechanism is the best known system for allocating scarce resources**
 - On the supply side:
 - Individuals are encouraged to pay greater attention to the quality of the service
 - It contributes to prevent excess supply, because it encourages openness on the cost of university services
 - On the demand side:
 - (young) people are encouraged to weight more carefully their decision to undertake further studies against the expected benefits

- In summary,
 - HE&R is both a private and a collective investment
 - HE&R are a public responsibility for equity as well as efficiency reasons
 - HE&R can be “produced” as well by public as by private institutions
 - It is advisable to introduce elements of the price mechanism in the system

DIAGRAMMATIC VIEW



PUBLIC SOURCES

- Funding of HE institutions is a public responsibility!
Main questions are:
 - **How much?**
 - HE&R institutions should receive an increasing priority = increasing share of GNP (crucial for economic development)
 - Should take into account the increasing
 - demand for HE&R due to an rising participation rate
 - cost of good teaching and learning, as well as good research
 - Should also avoid fixed blocked grants which create a unhealthy competition between institutions
 - **How?**
 - Main question: who should be subsidized: the institutions or the individuals (vouchers)? The practice is favorable to the former; however, the later is certainly recommendable to guarantee equal access

- **Basic funding according to a measurable “funding formula”** which should be
 - “Output” orientated
 - Based (essentially) on the teaching missions
 - Number of students and grades
 - Level (BA, MA or PhD)
 - Type of disciplines (strong differentiation between “cheap” and “expensive”)
 - Based also partly on the general quality level of research done
- **Project funding**
 - Contract to finance specific projects at institution level (to be renewed every 4-5 years)
 - Research projects on a competitive basis (Research council)

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- **Strong delegation of competences to institutions** thanks to block grants (no line items in the State budget; no system of authorizations). This results from the fact that institutions should be autonomous and accountable
 - Rigorous
 - Training of the university leaders
 - Ex-post controls (accounting veracity and justification of expenses)

PRIVATE SOURCES

- In public institutions:
 - **Students fees**
 - Advisable (5 to 25% of the average cost of the study program)
 - Why
 - Take advantages of the price-mechanism
 - It is not true that gratuity is just
 - Corollary: the State should set up a grant and loan system to avoid the financing barrier to access
 - Dangers:
 - Substitution to State effort
 - Greatest burden for the middle class

- Promote donations (fund raising)
 - Alumni
 - Donations from firms and individuals (from inland and abroad) (imply tax incentives)
- Encourage the creation and development of private institutions (private investment in HE)
 - National investment or investment from abroad
 - Tax exemption, land concession, work permits for foreign teachers

EXPENDITURE SIDE

- A much too neglected aspect of HE funding
- Funding can be made more generous in spending wisely; this imply
 - Good governance allowing for change (instead of avoiding it!)
 - Good management
 - Implementing management tools
 - Making everyone directly interested in the management of the funds available to them
 - Rigorous ex post control

THANK YOU

Reference: Luc E. WEBER, “Financing the Research University: A European Perspective” in (chap 13) Weber & Duderstadt (eds) “Reinventing the Research University”, ECONOMICA, Paris, 2004