

Financing of Higher Education – A Nordic Perspective

by

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Introduction

In the context of changing relationships between national authorities and public institutions, and the developing international market for higher education, Nordic higher education institutions find themselves, like their counterparts in most other parts of the world, subject to financial pressures from two main directions. On the one hand, government ministries and other public funding agencies are themselves expected to support more activities with less, unchanged or (at best) only slightly increasing financial resources. They therefore expect publicly funded institutions to do likewise. On the other hand, these institutions are expected to respond to new needs arising from, among others, the implementation of policies for lifelong learning and for widening access to higher education for new groups of students, and the impact of globalisation and advances in information and communications technologies.

In addition, however, political climate and history in all the Nordic countries make the idea of charging tuition fees for higher education, even continuing education for adults, highly controversial.

In such circumstances, what options are open to higher education institutions to obtain resources to supplement reducing state funding and/or to support the increased range of activities expected of them, while at the same time continuing to achieve their own academic objectives and missions and maintaining the highest standards of quality in education and research?

These were the central issues discussed recently at a two-day seminar in Helsinki, Finland by university representatives and higher education policy-makers from more than 20 different countries and territories. Although the majority of the participants naturally came from the Nordic countries, others came from as far afield as Australia, the USA, Portugal, Spain, Slovenia, the Slovak Republic and Israel. This paper draws on the presentations and discussions at this seminar, which was, both by design and in fact, very international in outlook.

Programme

Following introductory remarks by representatives of the three sponsoring bodies, day one opened with a keynote speech by the Finnish Minister of Education, Maija Rask. A second keynote by Prof Nicholas Barr, London

School of Economics, was followed by presentations and discussions on financing of higher education mainly in an international context. Day one concluded with an invited keynote by special guest, Prof Sheldon Rothblatt, University of California at Berkeley.

Day two opened with presentations on both macro-economic and specific institutional perspectives in the Nordic countries, followed by brief invited presentations from participants from other countries, and further general discussions.

Documentation

Prior to the seminar the IMHE programme secretariat circulated five articles on financing of higher education:

Wagner, Alan (1996) Financing Higher Education: New Approaches, New Issues *Higher Education Management* Vol 8, No 1 pp 7-17 Mar 1996

Strøm, Geir (1996) Financing Higher Education in the Nordic Countries *Higher Education Management* Vol 8, No 1 pp85-99 Mar 1996

McPherson, Michael & Shapiro, Morton Owen (2000) Financing Lifelong Learning, Trends and patterns of Participation and Financing in US Higher Education *Higher Education Management* Vol 12, No 2 pp 131-156 2000

Barr, Nicholas (2000) A Strategy for Financing Higher Education – Submission to the Education and Science Select Committee Inquiry into the Resourcing of Tertiary Education July 2000

Dobson, Ian (2001) Go Forth and Diversify: The Rise and Fall of Government Contributions to Australian Higher Education *Higher Education Management* Vol 13, No 1

Papers presented at the seminar were mostly made available to participants during the seminar.

Presentations

Setting a very positive tone for the seminar, Ms Maija Rask, the Finnish Minister for Education, categorically asserted in her opening keynote speech the importance of higher education for fostering economic growth and social progress. She indicated the Finnish Government's strong and continuing support for higher education as an investment in human and social capital.

However, Ms Rask also warned of economic pressures forcing universities to look for alternative sources of funding – not tuition fees, which she described as “unthinkable” in Finland, but other external sources of funding – and the dangers associated therewith. She said that she expected Finnish universities

to deliver education focussing on “beauty, truth and goodness”, but she also made it clear that current levels of public funding should be adequate for the universities’ needs. It appeared that she was gently reminding the local universities of the political reality of funding constraints and warning of the prospects of outcomes-based funding mechanisms.

Other significant themes in her speech were the importance of universities developing “distinctive profiles”, in terms of the balance between teaching and research and in terms of their responses to the joint challenges of globalisation and information and communications technologies (ICT), as well as the maintenance of university autonomy and quality assurance.

These themes resonated with participants from all countries and regions. Questions mainly focussed on the longer term feasibility of maintaining and increasing access without contributions from students in the form of tuition fees. It was accepted, however, that a broader portfolio of resourcing would help to ensure universities’ freedom and autonomy.

Overall the minister’s remarks were, of course, not untypical of views expressed by government leaders and politicians in many places. On the one hand they warn of declining public funding for universities, on the other they express concern about the impact on universities’ priorities of their accepting funding from commercial or other private sources. They also expect these same institutions to maintain and improve standards while increasing enrolments and widening access, and threaten to monitor their performance in increasingly proactive, even intrusive ways.

Prof Nicholas Barr of the London School of Economics then presented his views on paying for higher education and the lessons to be learned from economic theory. He strongly advocated the adoption of a system of flexible cost-related fees and a well-designed income-contingent loan scheme with repayments through the taxation system, like that implemented in New Zealand in 1993, until the reforms in early 2000, and that being considered for adoption in Hungary. He argued that only by these means can the objectives of access and quality be achieved at reasonable cost.

His exposition aroused much interest and he received support for his proposed approach in theory. However, it was felt that any system that involved the payment of tuition fees would be difficult, if not impossible, to implement in most Nordic countries. Moreover, concern was expressed about the already apparent political infeasibility of such a system as described by Barr in practice. For example, it was noted that, in response to political pressures, New Zealand’s government had introduced changes to their system recently. These changes had, as already noted by Barr, increased the cost and administrative complexity of the system while reducing its effectiveness in terms of its stated objective of promoting access.

In response Barr outlined the causes of the failure of New Zealand's policy of deregulation viz inadequate follow-through and support for the new policy. As a result, he described it as "a classic case of bad implementation discrediting sound policy."

Gregory Wurzburg, Principal Administrator of the OECD's Directorate for Education, Employment, Labour and Social Affairs, then introduced a series of panel presentations on international practice in financing of higher education. Wurzburg raised three fundamental questions:

- Are enrolment trends financially sustainable?
- Does it really matter who pays?
- How does "lifelong learning" affect tertiary finance issues?

Drawing on OECD statistics, he showed fairly convincingly that strong economic performance and GDP growth cannot be counted on to support the increased levels of higher education expenditure necessary to meet mass or universal access targets. In most OECD countries the shift towards reducing absolute and proportional public funding of universities has resulted in a trend towards consumer sovereignty and hence shifts in the balance of accountability.

Added to this trend is the promotion of lifelong learning as an important objective in its own right and as a policy objective of governments. This requires, Wurzburg argued, a radical reappraisal by universities of both their financing and their education approaches if they wish to be a player in lifelong learning.

Expanding on the theme introduced by Wurzburg, Ian Dobson of Monash University in Melbourne, Australia, Don Thornhill, Chairman of Ireland's Higher Education Authority and Hans Weder, President of the University of Zurich, Switzerland outlined recent developments and current trends in the financing of higher education in their countries. Common to all these presentations was a feeling that overall funding, especially public funding, for higher education was increasingly inadequate for the achievement of the diverse objectives set by universities themselves and their various stakeholders. Not surprisingly this met with considerable support from Nordic participants.

A change of emphasis was introduced by Gudmund Hernes, Director of the International Institute of Educational Planning in Paris. He noted that universities are probably victims of their success. As the second oldest public institution, the university has, after all, survived for more than 800 years, expanded, diversified, developed in a wide range of different environments and influenced significantly those same environments. It has also developed successfully under a variety of different regimes and political systems. Why then should there be such concern about its continued financial success, even survival?

Hernes invited participants to consider the main funding issues affecting higher education institutions today, including

- achieving ever wider and more equitable/socially-inclusive access;
- maintaining institutional support for teaching and research in the face of a declining unit of resource;
- responding to demands for transparency and greater accountability for institutional effectiveness and quality assurance;
- responding appropriately to student-based funding;
- managing institutional performance in relation to performance-related funding models;
- meeting the challenges presented by private and commercial providers;
- developing funding formulae that facilitate life-long learning.

He then asked whether in fact there was one optimal solution or optimal state as a response to these issues. He suggested that, in fact, it was more desirable to maintain diversity of approaches - echoing Maija Rask's earlier support for "distinctive university profiles" - and that such diversity also required diversity of funding.

Turning to questions of student support and fees, Hernes (like Nicholas Barr) pointed to the New Zealand pre-2000 system of flexible fees and income-contingent loans repaid through the tax system as an example of a good theoretical model. The New Zealand experience indicated that effective reforms need strategic policy design, sound implementation and political skills to sell and maintain support for them over a period of time. Such reforms should therefore be regarded as a process rather than an event. It was, however, questionable how sustainable such a process could be in current political circumstances.

As an alternative to income-contingent loans, the idea of a graduate tax was mentioned. Although this avoided the cultural and sociological problems associated with loans, it was noted that a graduate tax based on a percentage of earnings could also give rise to inequities for very high earners (described by Nicholas Barr as "the Mick Jagger problem") and would fail to attract private financing. Moreover, in a European context, any scheme dependent on the taxation system would need to contend with the differences in these systems across the European Union.

Subsequent discussion from the floor and on the panel focussed mainly on ways to persuade governments to fill the resultant "funding gap" and/or to present student fees in a more acceptable light.

Closing the seminar's first day, Sheldon Rothblatt, Professor of History at UC Berkeley, presented an historical survey of the financing of higher education.

Having traced the development of the university as an institution from the religious and exclusive foundations of the Middle Ages to the massive expansion of the late twentieth century, Rothblatt concluded:

“There is not a nation in the world, including the richest countries like the United States, that can afford a higher education system based on the most prestigious and costly model of a university that evolved from the medieval university,..... “

...namely, the research university. Therefore, it was essential to find ways of encouraging/preserving institutional diversity and developing systems with multiple entry and exit points and different learning pathways for students and appropriate career pathways and reward systems for faculty. Such systems were, he argued, too complex to be within the capacity of governments to control or plan. Therefore the institutions themselves needed to have the maximum possible degree of freedom of action, including considerable diversity of funding sources.

Turning to the position of students, Rothblatt considered that, as a result of the massification of higher education and the increasing role of “virtual” universities, the majority of students could no longer expect to enjoy the socialisation and maturation experience of a campus life away from home. Moreover,

“..passing some of the costs of education on to families and students is inevitable. The only questions will be the actual amounts for each kind of institution and who has the final authority to set those fees and make subsequent adjustments in the case of individual students, adjustments possible through scholarships.”

This last point was picked up at the opening of the second day with presentations from rectors of two Nordic universities, one from Norway and one from Sweden. They described how, despite the somewhat different economic circumstances of their countries, the universities in both were faced with resource constraints arising mainly, in their view, because their governments were unable or unwilling to provide sufficient additional public funding to support the increases in student intakes and other new activities expected of them. They further noted that, despite the overall inadequacy of funding for the university systems in their countries, the introduction of tuition fees was practically unthinkable - not to say virtually a “heresy” or “taboo subject” - for political reasons.

This position was felt to be unsustainable in the long term and there were calls for early and meaningful dialogue between the universities and the governments of all the Nordic countries with a view to developing a realistic and sustainable higher education funding system(s).

Speaking from the perspective of one of these governments, Johnny Åkerholm from the Finnish Ministry of Finance described the macro-economic environment facing governments wishing to respond to arguments for increased public funding of higher education. The effects of the growing demands on social services resulting from ageing populations and the reducing proportion of economically active people in the population as a

whole meant that public finances were already, and would increasingly be, over-stretched. Governments therefore had to limit the supply of resources for higher education while at the same time calling for more output. The call to “do more with less” was not an idle slogan, but an inevitable result of macro-economic and social pressures.

Subsequent interventions by participants from Denmark, Iceland, Norway, Slovak Republic, Poland, Germany, Slovenia and Portugal underlined the fact that, despite the different economic and socio-political circumstances in their home countries, universities currently share a strong sense of frustration with the squeeze on resources (particularly public funding), especially when this coincides with pressures for increased access as well as greater accountability and quality assurance.

Discussion

Throughout the seminar, discussion tended – naturally enough – to focus on the situation of the Nordic universities, albeit seen from an international as well as regional perspective. Although it was recognised that these institutions are situated in countries with generally high economic performance and public wealth (including some of the highest percentages of GDP spent on education in the OECD), the public funding squeeze was no less acutely felt. Pressures to “do more with less”, improve efficiency and reduce dependence on public funding were very real, as were concerns about maintaining standards in the face of declining units of resource.

Looked at in a wider international context this was not surprising. Throughout the developed world, universities and other higher/tertiary education institutions are facing the same pressures. Similarly, less developed and emerging economies are facing the challenge of finding or devising alternatives to increased public funding (which is simply not available) to meet expanding demand and need for higher education.

It seemed to be generally accepted as inevitable that some of these costs will have to be passed on to students and their families. The question was how and to what extent. Tuition fees and some form of income-contingent loans were felt to be the basis for a good answer, albeit politically a highly sensitive one.

Rather less attention was paid to means of increasing funding from other sources. Commercial and other non-governmental support for research was recognised as important, subject to appropriate safeguards with respect to intellectual property and academic independence. However, little prospect was seen for increasing private support for the teaching/learning enterprise. The success of the United States in “institutional advancement” (ie the professional activity aimed at the development of alternative non-specific revenue streams from alumni, individual and commercial philanthropists, etc) was noted, but it was felt to be difficult if not impossible to emulate in

Europe (or indeed anywhere outside the USA), at least in the short to medium term.

Moreover, even if there were some prospect of generating increased private (non-government) funding for universities, concerns were expressed by some participants about the implications of such a radically changed funding regime in their countries. While the increased autonomy accruing to institutions in such circumstances might be superficially attractive, they were concerned about how their governments would respond if some of these institutions faced financial difficulties or even bankruptcy. In this connection, Sheldon Rothblatt noted that US experience with more market-oriented higher education systems was that there could be no guarantee of institutional continuity. He recalled for example, that some 250 colleges had disappeared across the USA during the 19th century.

Another area barely touched on was the question of costs and institutional effectiveness at managing them. The point was made that universities are notoriously bad at knowing, let alone managing, what their activities cost. External pressures in some countries, notably the UK, Australia and China, have led universities to become more aware of their costs and to find new ways to raise money. Sharing of resources, outsourcing of various activities, better use of existing resources, use of students as support for faculty, etc. can and have all been explored. Often, however, institutional perceptions are that innovations and new developments must be supported by new resources or fresh money without reconsidering the use of existing resources. On the other hand, experience in some places has shown that closer examination of internal processes, resource management and priorities in universities can yield significant savings.

A third area little touched upon in discussion was the growth of commercial higher education. The speed at which new types of higher (or, to use an even wider term, post-secondary) education providers are appearing on the scene is staggering. Ranging from the for-profits like the University of Phoenix, through the purely commercial like the Jones International University of the Web to the corporates like Motorola and Disney universities. They all see business opportunities in higher education which traditional campus-based universities have generally been slow to grasp. The implications of these developments for the future financing of higher education are intriguing, but were little explored during the seminar.

Finally, the financial implications of the use of the Internet and information and communications technologies more generally for teaching as well as for research were hardly addressed. It is now widely accepted that advances in the use of ICT and the Internet offer many opportunities for enhancing the quality of education and the student experience. There remain considerable question marks over the cost implications of these advances and their exploitation in a higher education context. Nevertheless, the possibilities of using ICT and the Internet to meet the growing demands for higher education

and lifelong learning opportunities would seem to have barely been broached.

It would appear that further discussion of these last four areas would be useful, possibly in the context of a continuation of the series of IMHE seminars on Financing of Higher Education. Meanwhile, on behalf of all participants, I would like to thank all the sponsors and particularly the OECD IMHE programme for organising the Helsinki seminar.

This paper draws on the presentations and discussions at a seminar on the financing of higher education held in the Hanaholmen Conference Centre, Helsinki, Finland on 30-31 August 2001. The seminar was organised by the OECD Programme on Institutional Management in Higher Education (IMHE) in collaboration with the Association of Nordic University Rectors' Conferences (NUS) and the Nordic Association of University Administrators (NUAS). The seminar followed on, indirectly, from two previous OECD/IMHE sponsored seminars on financing of higher education – one in Tokyo, Japan in March 1994 and the other in Vilnius, Lithuania in May 1995 (as reported on in Wagner (1996)).