

**FUNDING UNIVERSITIES FOR EFFICIENCY
AND EQUITY:
RESEARCH FINDINGS VS. PETTY POLITICS**

George Psacharopoulos

**21-24 November 2007
Portorož, Slovenia**

Italian University circa 1350



The funding wall

Research findings



Actual allocations

Result

Inefficiencies:

- Internal
- External

Inequities:

- Access
- Outcomes

Less human capital formation

Lower rate of economic growth

Lower per capita income

More unequal income distribution

Europe vs. the rest of the world

Europe



Rest of the World



The stakeholders

- Minister of public works
-
-
- Minister of Education
 - . University rector
 - . Department chairman
 - . Professor
 - . Student
- The population at large

The social welfare function

Social well-being = f (Efficiency, Equity)

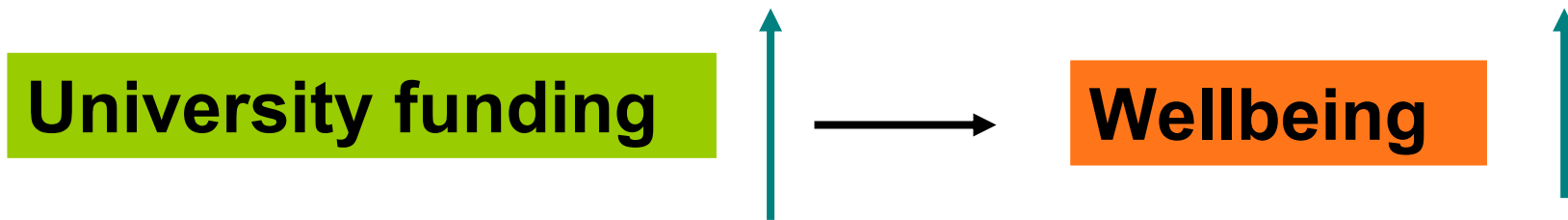
$$\text{Max SW} = (Y)^\alpha (1 - \text{Gini})^\beta$$

Subject to public spending ≤ Tax revenue

α & β values????

The big assumption

Increased university funding would lead to increased wellbeing



Wrong approach!

If maximizing social wellbeing is the issue,

one should take a more holistic approach

Funding level is immaterial

Initial conditions result of long term historical and cultural events.

Change of funding at the margin is what matters,

distinguishing between **public** and **private** sources,

and assessing the implications of such funding **change on efficiency and equity.**

Current initial conditions in the EU

Preschool: **Low preschool coverage**

Lower secondary: **Low cognitive learning**

Upper secondary: **Early school leaving**

Universities: **Not in in Word's top**

Unknown externalities

High returns to higher SES

Regressive public financing

Lifelong: **Mid-Summer dream**

Preschool problem

Far from universal coverage:

- EU average 73.5% of 4 years and under**
- Less than 30% in Ireland and Greece**

Lower secondary problem

Uneven quality:

- **Scandinavian countries best in PISA**
- **Mediterranean countries lower in PISA**

Upper secondary problem

Early school leavers:

15% EU average, vs. 10% Lisbon target by 2010

- **Highest in Malta and Portugal ($\approx 40\%$)**
- **Lowest in Slovenia and Croatia ($\approx 5\%$)**

Best Universities in the World

Out of top 20: 17 in the United States
2 in the United Kingdom
1 in Japan

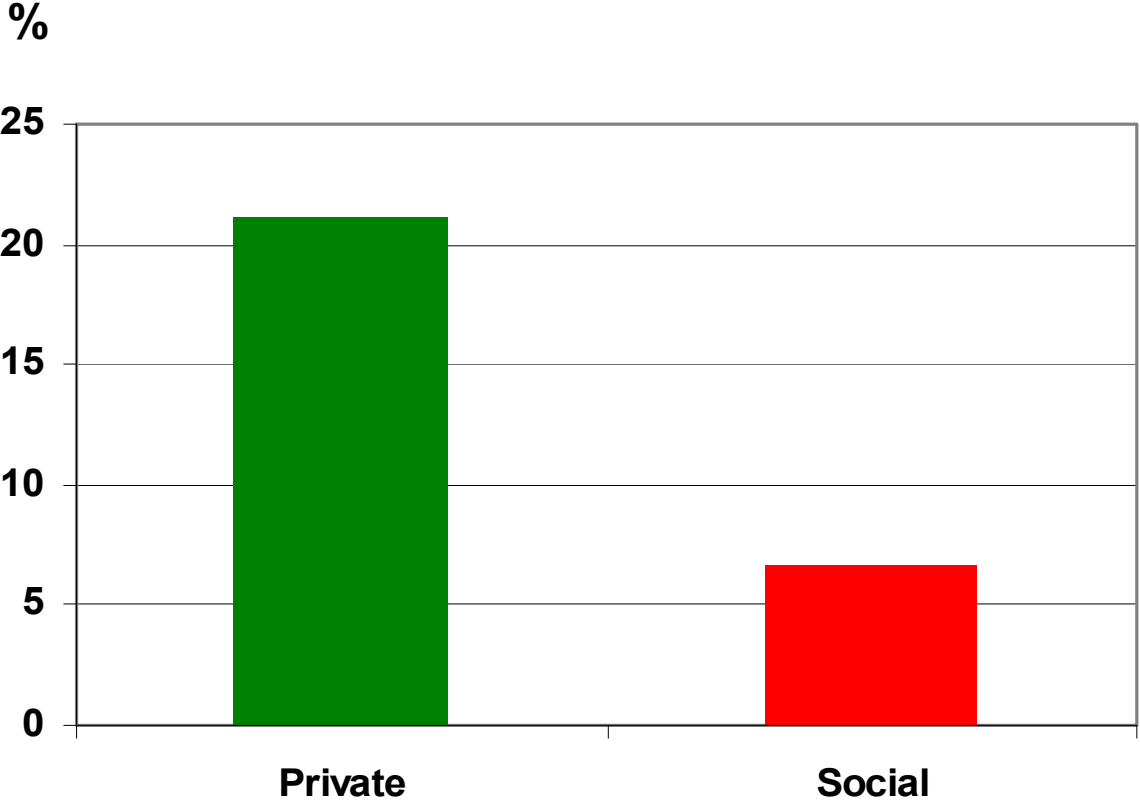
**Rank 39 : First appearance of a continental EU
university**

Rank 64: Heidelberg

University problems

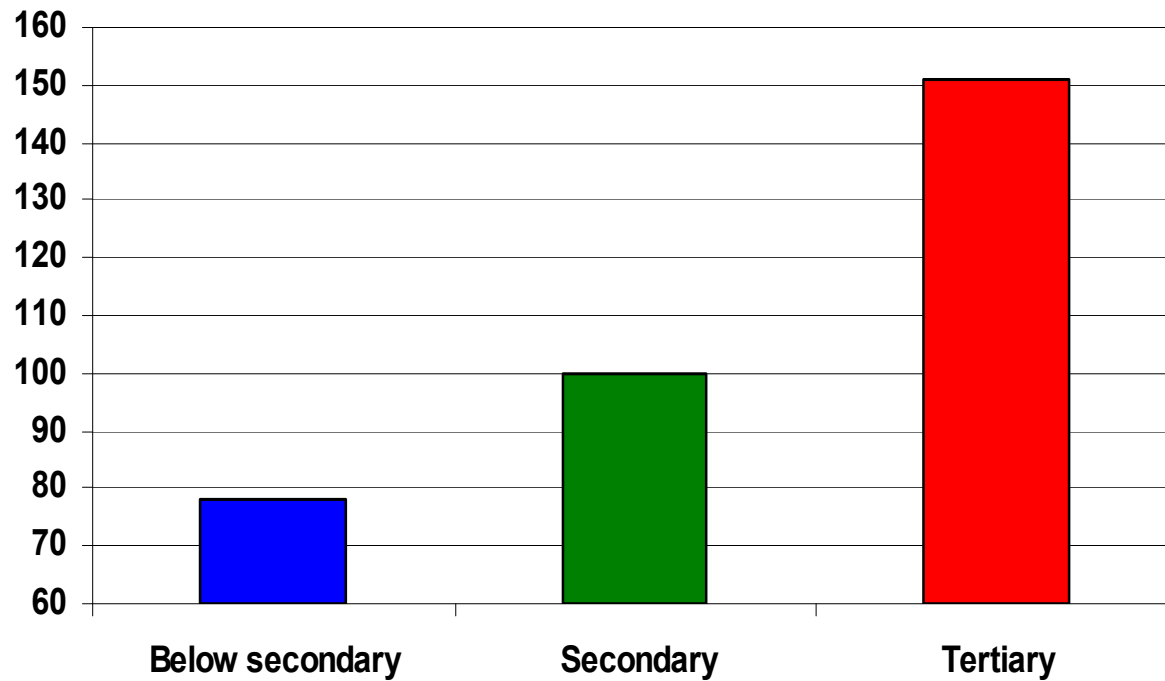
- **Heidelberg and Sorbonne??**
- **Museum pieces**

Returns to investment in education (OECD)

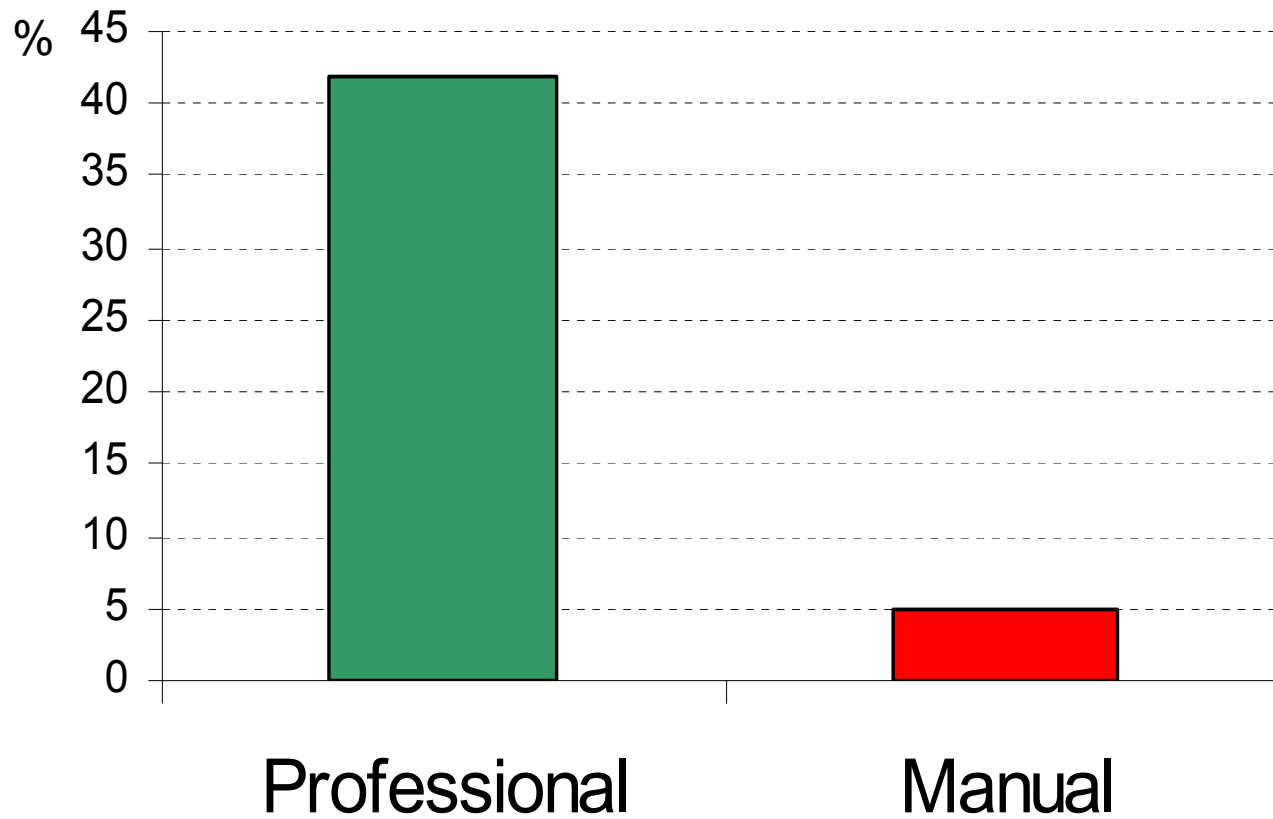


Equity

Relative earnings index



Probability of obtaining a university degree by father's occupation, UK



Distributive incidence

The general taxpayer (average income)

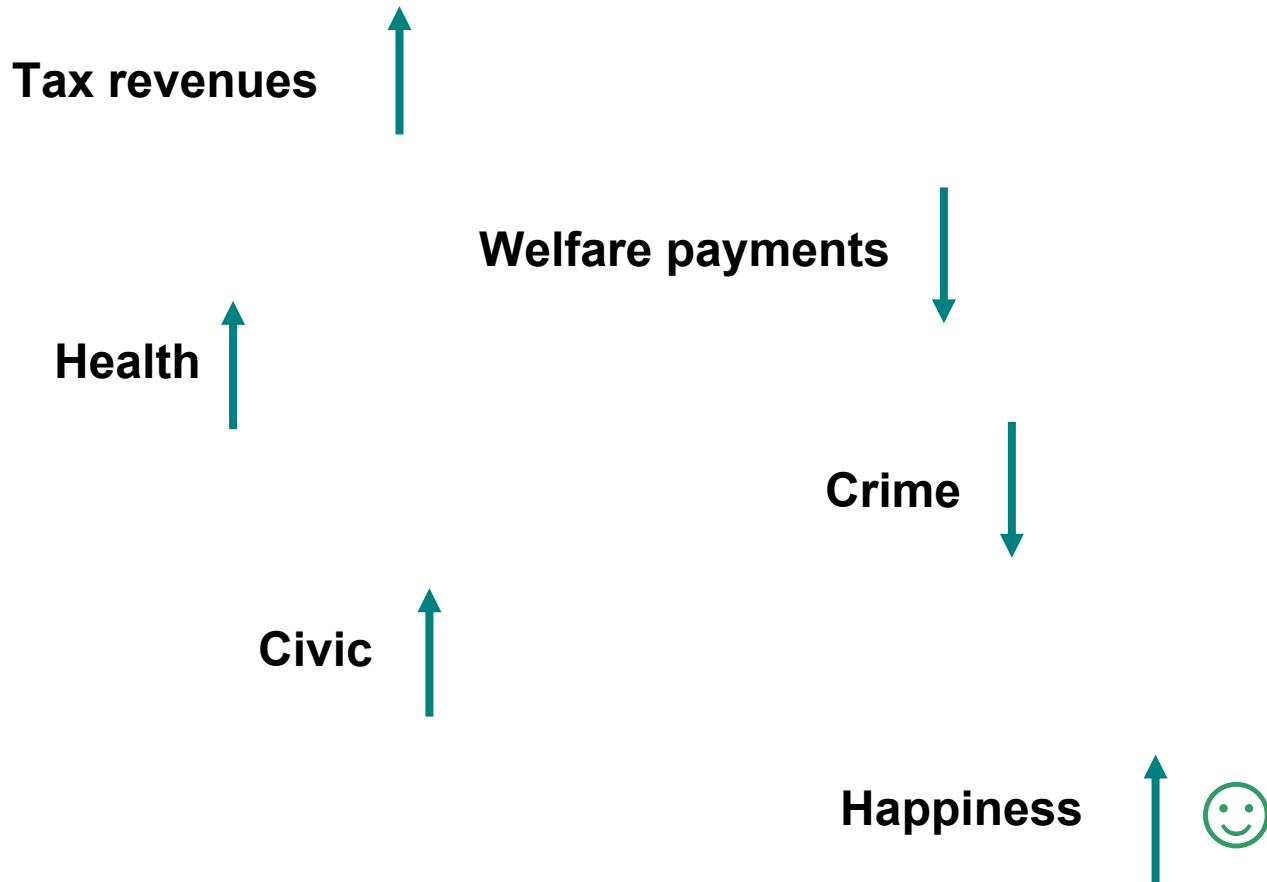
pays for the education of

the rich (above average income)!

Social (in)equity

- **Regressive public financing**
- **The poorer finance the education of the rich**
- **Same (zero) price for all is inequitable**
- **Higher earnings of graduates relative to the average population**
- **Higher education benefits appropriated by the graduate**
- **Higher education is NOT a “public good”**

Education has wider social effects



Social returns for policy

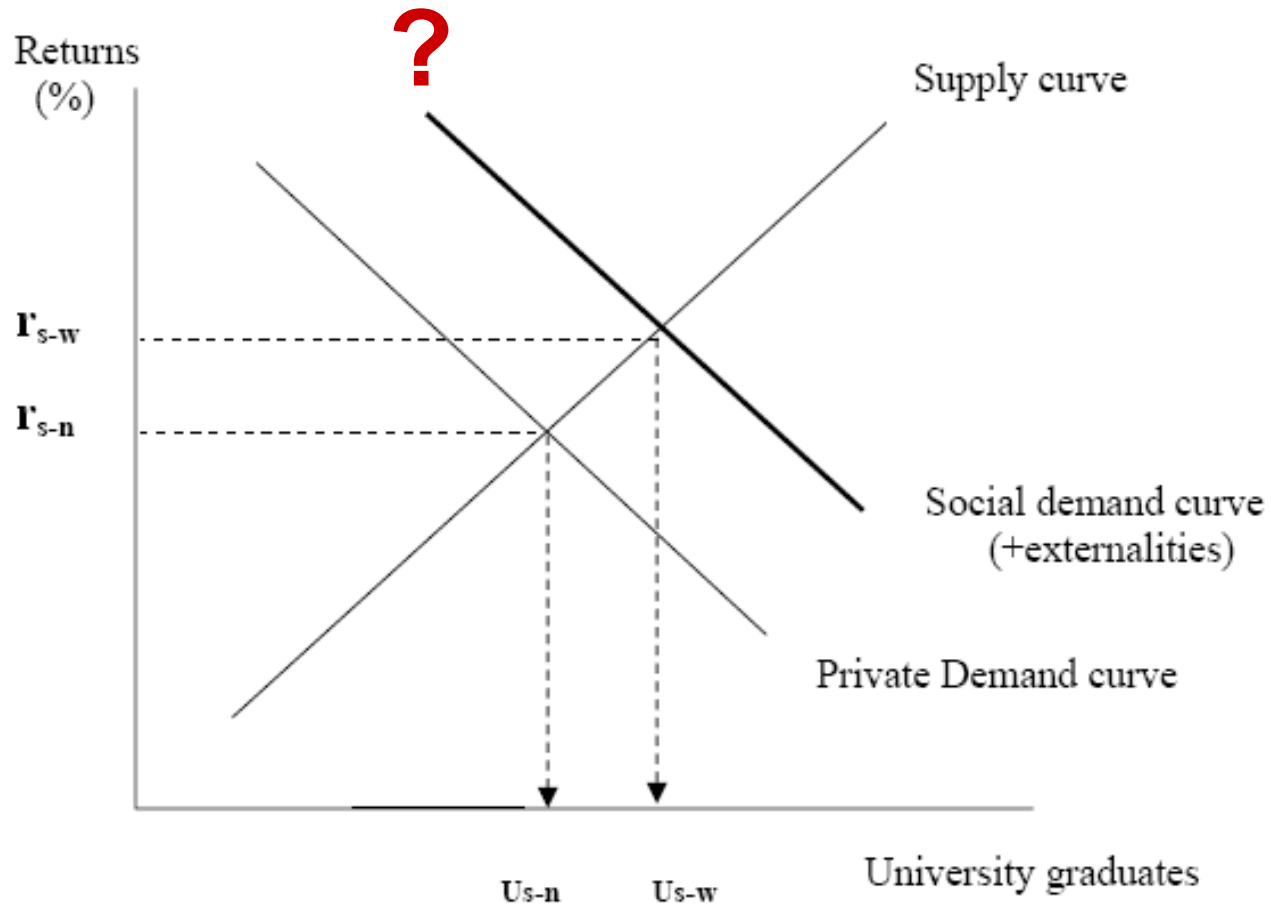
➤ **Narrow** social returns,

- ✓ incorporating direct market effects

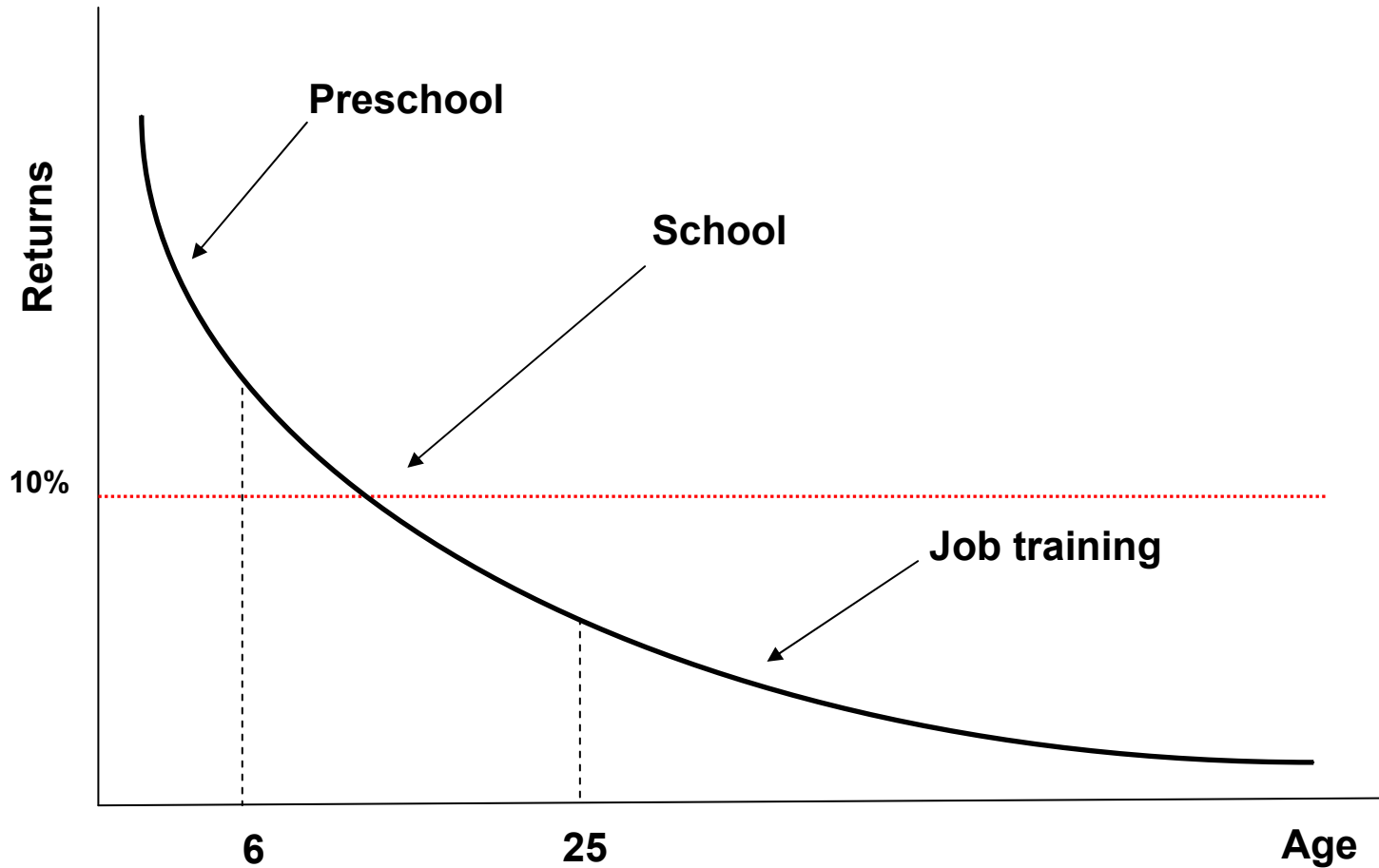
➤ **Wide** social returns,

- ✓ incorporating external and non-market effects

Narrow vs. wide social returns



A grand summary



Distinguish between private and public funding

Private funding

Virtual zero-sum game for efficiency
Implications on equity

Public funding

Important for efficiency and equity

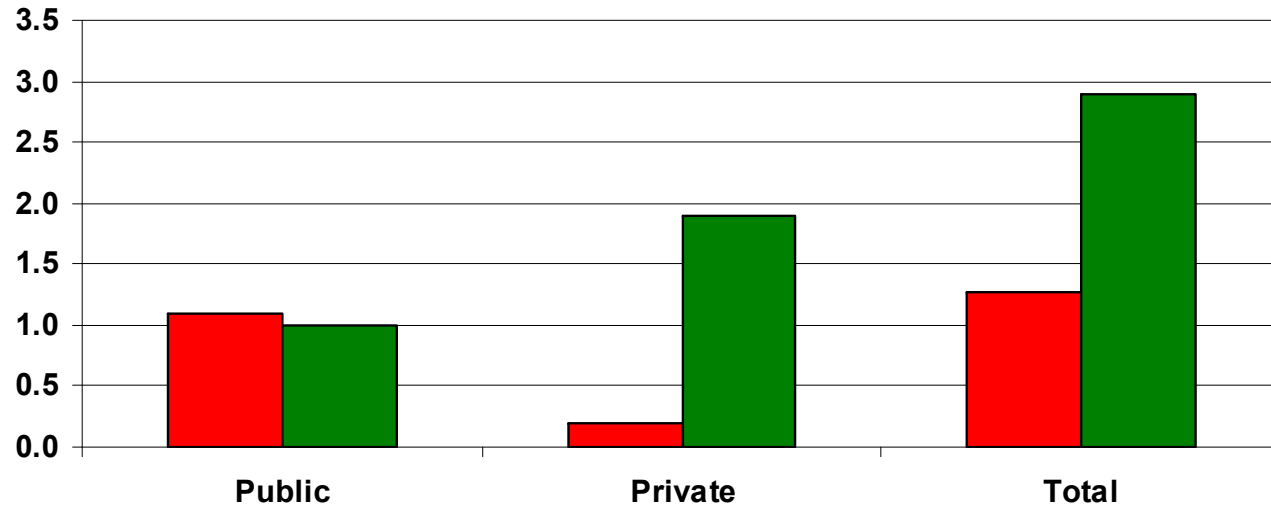
Swings in university control and finance

- **Ancient Greece: Students**
- **Medieval Europe: Church**
- **Recent centuries: State**
- **Today: Students, industry, philanthropy, state**

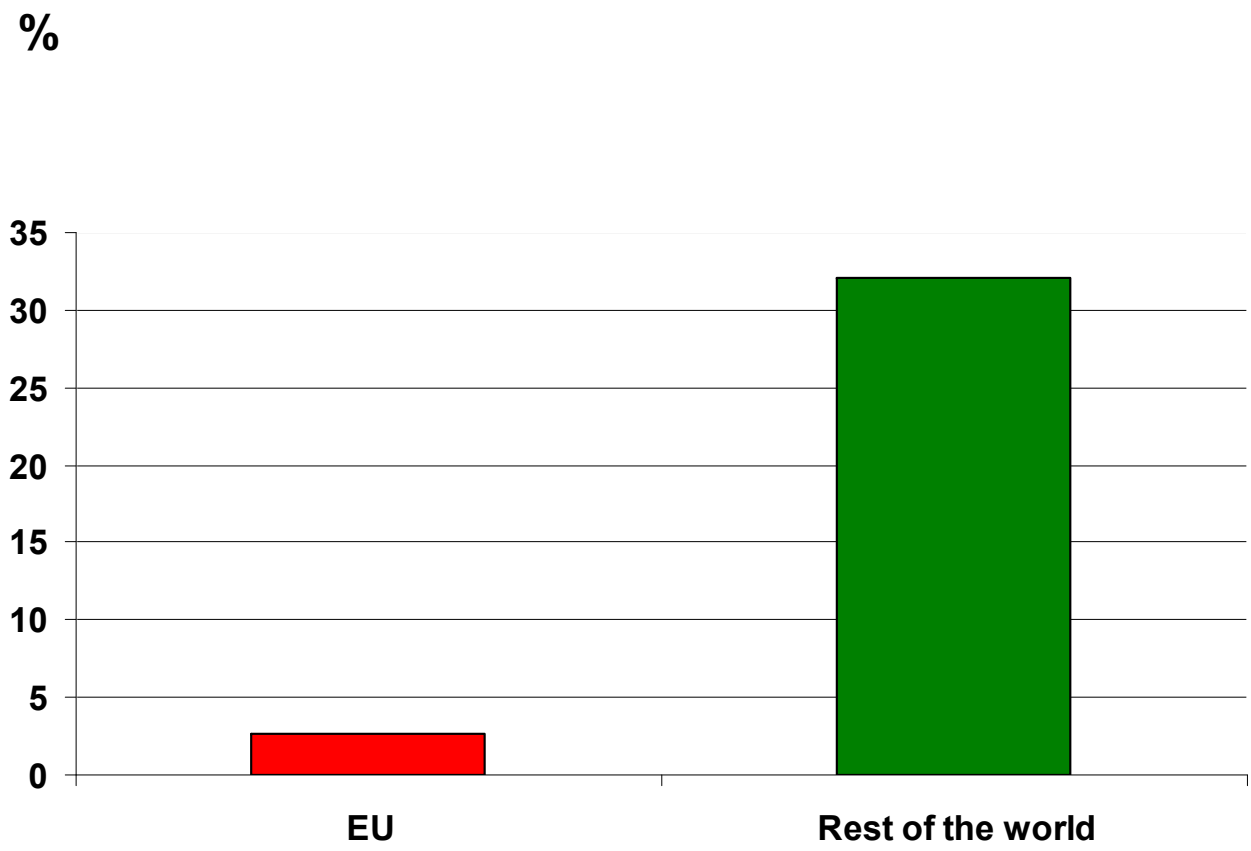
GDP share of tertiary expenditure

%

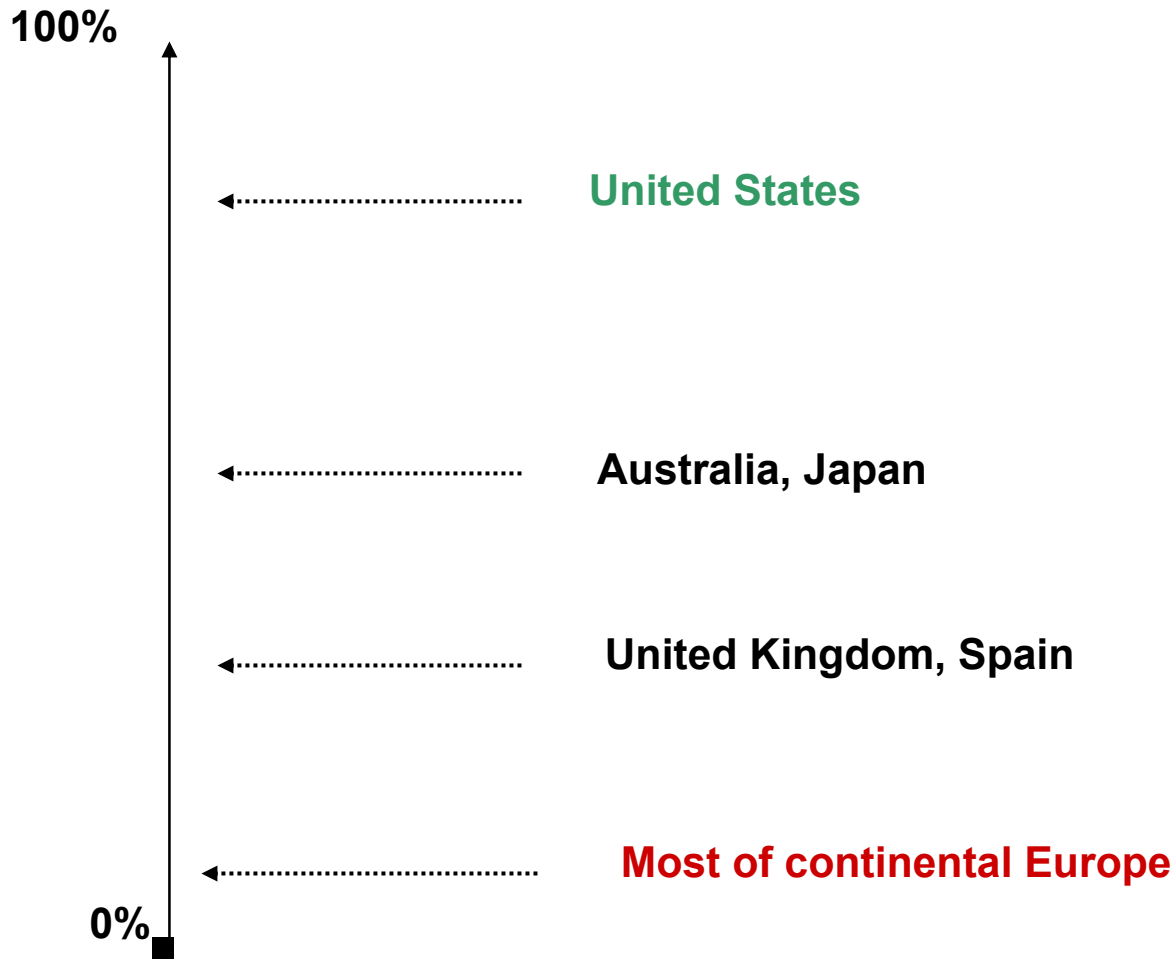
EU vs. USA



Cost recovery

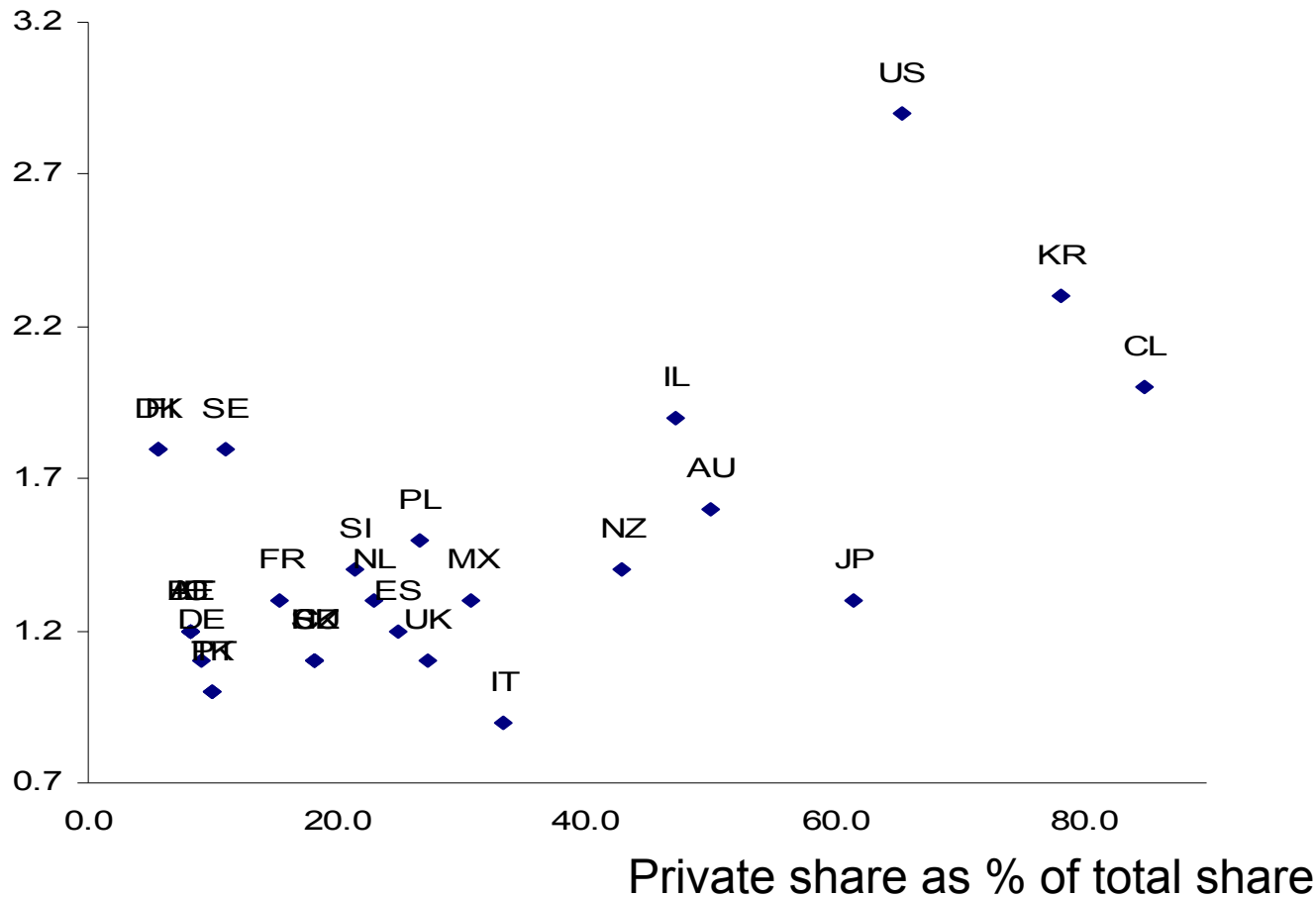


Private share of tertiary education financing



GDP devoted to higher education: Total and private shares

Total share (%)



Policy indicators

Argument	Indicator	Policy
Internal efficiency	University ratings	Close down university or assist to improve?
External efficiency	Wide social rate of return Differential externalities	Intersectoral reallocation Education intrasectoral reallocation
Equity	Private rate of return Distributive incidence	Subsidies Fees

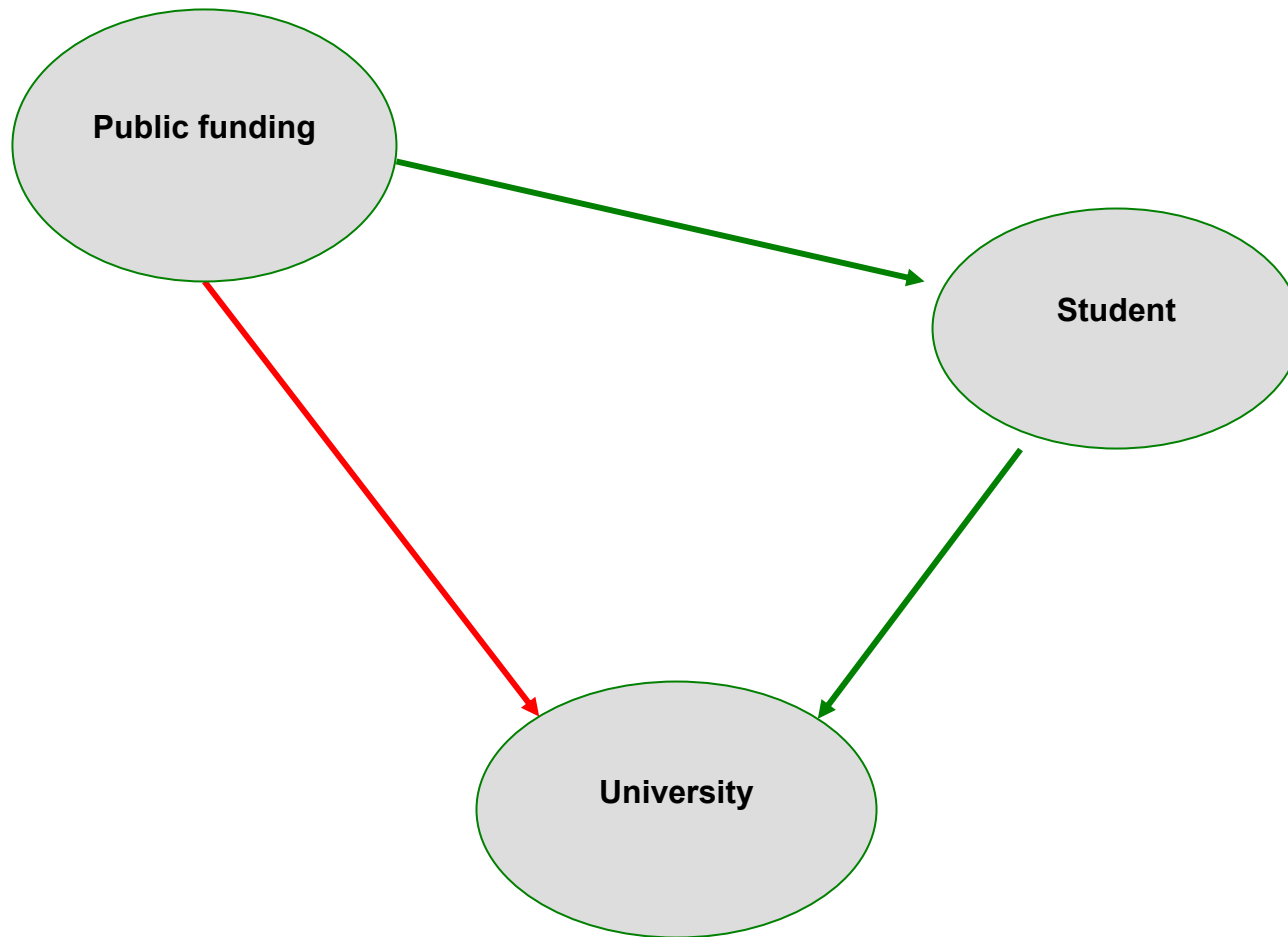
Ways out?

Before increasing university funding, plant incentives for efficient and equitable use of funds

For efficiency: Institute **selective** fees near the social cost

For efficiency and equity: Institute student loans, how repaid is a detail (e.g., graduate tax, income contingent)

Direct vs. Indirect University Funding



Outlook

Further university development/quality divide:

- **Anglo-Saxon pluralistic finance style**
- **Old European state finance style**

The future of the university in Europe

Bleak!!

- **Limited public funding**
- **Misallocated public funding**
- **Overregulation by the state**
- **Prevention of private funding**
- **Non-competitiveness**
- **Lack of incentives**

Why?

Cherchez les votes!

A major contradiction

- **Lisbon's competitiveness and**
- **State education monopoly**

- **No common education policy (Treaty of Rome)**
- **Need ECOFIN equivalent in education?**
- **2010 targets already missed.**
- **Lisbon, Bologna “nice”, but.....**
- **Lifelong financing?**

EU university circa 2010

~~Italian University circa 1350~~

