

**UNIVERSITY OF WEST HUNGARY
FACULTY OF ECONOMICS**

Theory and Practice of Economic Processes

Doctorates school

Public economics sub-program

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Changes in the funding of higher education

PhD Thesis

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Sopron, 2006

THESIS

I. Antecedents and Goals of the Work

Generally, the topic of this Ph.D. is the relation of state to public services and to education policy. More concretely, it focuses on the relation of higher education to the state budget and to the education policy at different levels. The main topic is the research of changes in the funding of higher education.

In the background of the task definition and the way the problem is dealt with, there is a basic question of human societies, which is to be solved again and again, namely: “As one is to furnish the state, that it can secure the outside conditions for the optimum life of its citizens; and as it can out-help the perfection of its citizens.” (Aristotle)

This research tries to find an answer to the general question, expressed in a branch scientific level: what is the cause of the constant problems in the funding of higher education? It also searches for the motivating factors of the frequent changes. Finally, it looks for a solution, which helps the actors of higher education to fulfil their basic tasks more successfully and efficiently.

Three basic models appeared in the funding mechanism of the Hungarian higher education in the 90's. In the last eight years the so-called normative financing was used, with frequently changing parameters. This fact alone would be enough to understand, why the conditions of the Hungarian higher education seemed so chaotic. The uncertainty was strengthened by different, nevertheless important, actual problems, which were not or only partly solved, such as the credit point system, integration of institutes, quality and mass education, colleges and universities, questions of linearity, relation of research and teaching, leading by the academic staff or management etc.

Due to these facts, the need for such a funding mechanism rises, which canalizes the interests of students, institutes, outside actors and government to subordinate them to a fair, regulated competition, where the only way for success is performance and principle equality are

also guaranteed; instead of solving those emerging clashes of interests at the expense of the community or the others. In order to solve the tasks arising in the university sphere, such a way has to be searched and found, which is able to productively mix the efficiency and flexibility originating from the market conditions with the regulating and financing role of the state, amidst the national and international, economic and social circumstances.

II. Materials and Method

The material needed to achieve the goals was supplied by the widely interpreted economical and social development. The higher education (loosing its former relative independent position more and more) is forming embedded in this environment. Regarding the questions of transformation, a significant international and national, primer and adapted special literature is available.

In case of normative financing, basically the departmental orders already existing, the works for the preparation of the orders and the actions started for changing the orders constituted the basis. Many of these can be found on the Internet, as one can see in the References. Regarding the hardly accessible economical data of higher education institutes, the surveys of the National Audit Office mean a very useful source.

Only a limited number of readings are available about the Individual Learning Account in Hungary, which belongs to the fundamental message of the thesis. This was based on an own idea, but after control, subsequent examination, looking for similar solutions, it came to light, that some elements of it are already known in the international literature as the sequel of vouchers and entitlements, and what is more, different solutions has been already introduced in some countries.

Basically the following methods were used in the thesis: *document-processing, contents analysis, subject examination, comparative analysis, statistical processing and press monitoring*. By systematizing the gained experiences and considering the theoretical reflections, the conception becomes specialized in the field of higher education, according to its peculiarities.

The whole research means kind of a combination of economical, economic historical, sociological, politological and legal attitudes and point of views by collecting, interpreting,

arranging, analyzing and evaluating experiences of different levels and depths, because of the complexity of the symptoms under survey. It was aiming to research the questions of details as well, without abandoning complexity by resultants or by effects.

III. Results

The thesis, aiming to explore the environment of its subject, finds such facts and relationships, which confirm that the dynamics of modern societies are characterized by increasing democratization, increasing industrialization and increasing pedagogization.

Reviewing international and national higher education processes, it is proven, that these tendencies influence the higher education more and more. Without awakening to the consciousness of these tendencies, arguments discuss whether they come across or not. Actually, the real question can only be the way they come across. (We don't have to wait for the dam to burst. If we drive, drain off the flood ourselves, it might result in energy and bearing warp.)

Besides politics and the economy, *the accomplishment of the freedom of individuals* increasingly appears in higher education as well. Human rights, anonymity, going to law etc. – these are such concepts, which were unbelievable in this field a few decades ago. This has to be taken into consideration in financing, and we can build upon these changes like on a “resource”. *Extending the financing of higher education by private sources* is important, not only in sake of rounding off the funds from the government budget (although in Hungary this is more important than in richer countries), but mainly *for letting them in on the decisions* about the hardly determinable goals, ways and quality.

Up to know, the industrial revolution meant the most fundamental caesura in the development of mankind. Due to the productive characteristic of the private interest, the division of labour, the technical development and specialization resulted in a great prosperity. The criteria of industrialization (mass production, standard quality, cheapness) spread over to other economical spheres more and more. Recently the field of services of non-material character (professional services) is on the turn. Differentiation, extending the division of labour, innovation needs *highly*

developed money and market conditions and flexible financing possibilities. The funding of the higher education must meet these requirements.

First of all, the importance of *knowledge production, knowledge transformation and knowledge transfer* is growing among professional services, as it can be seen from the development tendencies. These increasingly influence the days of production, thus the processes of work and learning are merged, which has lead to a paradigm change inside and outside education, which is called “lifelong learning” by a comprehensive name. For moving among these relations and fulfilling the tasks of higher education, *financing has to support and arrange the rapprochement of the historically established subsystems instead of conserving their separation.*

This dissertation presents *general descriptions of the funding structure* and the specific funding formulae currently being used for the funding of higher education. Particular attention will be paid to the issue whether differences between disciplines (i.e. academic subject groups) are translated into different levels of grants allocated to the institutions, e.g. by using different tariffs per student across disciplines. Concerning the level of public funding, it can be stated that in Hungary direct government contributions constitute the major share of the funding of universities. Because the major share of university expenditure concerns the payment of salaries, and because the personnel structure is difficult to change, a big part of the university budget in practice is fixed. However universities have the authority to make their own decisions on how to allocate their funds over various departments and tasks, they can attempt to attune their human resources policies towards their own strategies and goals.

Concerning the budgeting the grants allocated to the universities are annually decided upon. This means that some *variation will exist in the universities’ budget every year*. However, the variable part of the allocations is limited. The budget allocated to universities depends on changes in student and graduate numbers in preceding years. Therefore, the budget is roughly in line with the university’s activity level. Nevertheless, *general governmental* saving measures *can generate financial uncertainties* at the institutional level.

Examining the changes in financing, it is proven, that many examples of late governmental reactions, superficial treatment of problems, “pulling and letting” tactics, putsch-like decisions, weaknesses of administrative regulation etc. can be found in this small field as well. Adding the

fact, that the enlargement of public sources has always been narrow compared to the tasks and expectations, and we can't hope this would change in the near future, it would be beneficial for the individuals and for the higher education as well, if we could ***reduce the exposure*** to this source of uncertainty.

Before capital grants are integrated into the general block grants allocated to the universities. This trend is in line with the trend of ***making universities responsible*** for their own infrastructure, incl. Buildings and equipment. Today are funds again allocated for specific purposes, such as education, research and investments.

One of the major trends in the funding of higher education is an increasing substitution of public funds by income from ***private sources***. As national governments are reducing the relative funding level for higher education, universities and other higher education institutions are increasingly involved in getting income from other sources. In addition, the educational market is widening, particularly in the field of postgraduate courses. Therefore, universities are increasing their supply of postgraduate courses and modules which are 'sold' for like profitable market prices. In addition, universities also try to expand their share on the strongly growing consultancy market. Individual academics and research groups are increasingly involved in selling their expertise outside the universities.

The unclear way and measure of the public undertaking of the tasks, lasting for decades, the stagnation between the traditional "paternalist" patronization and business-friendly reforms, the hesitation put the actors of the governmental budget (the executors and sufferers as well) in an undeserved position many times. All of us would benefit from the ***simpler, cleaner and clearer conditions***.

IV. New Results

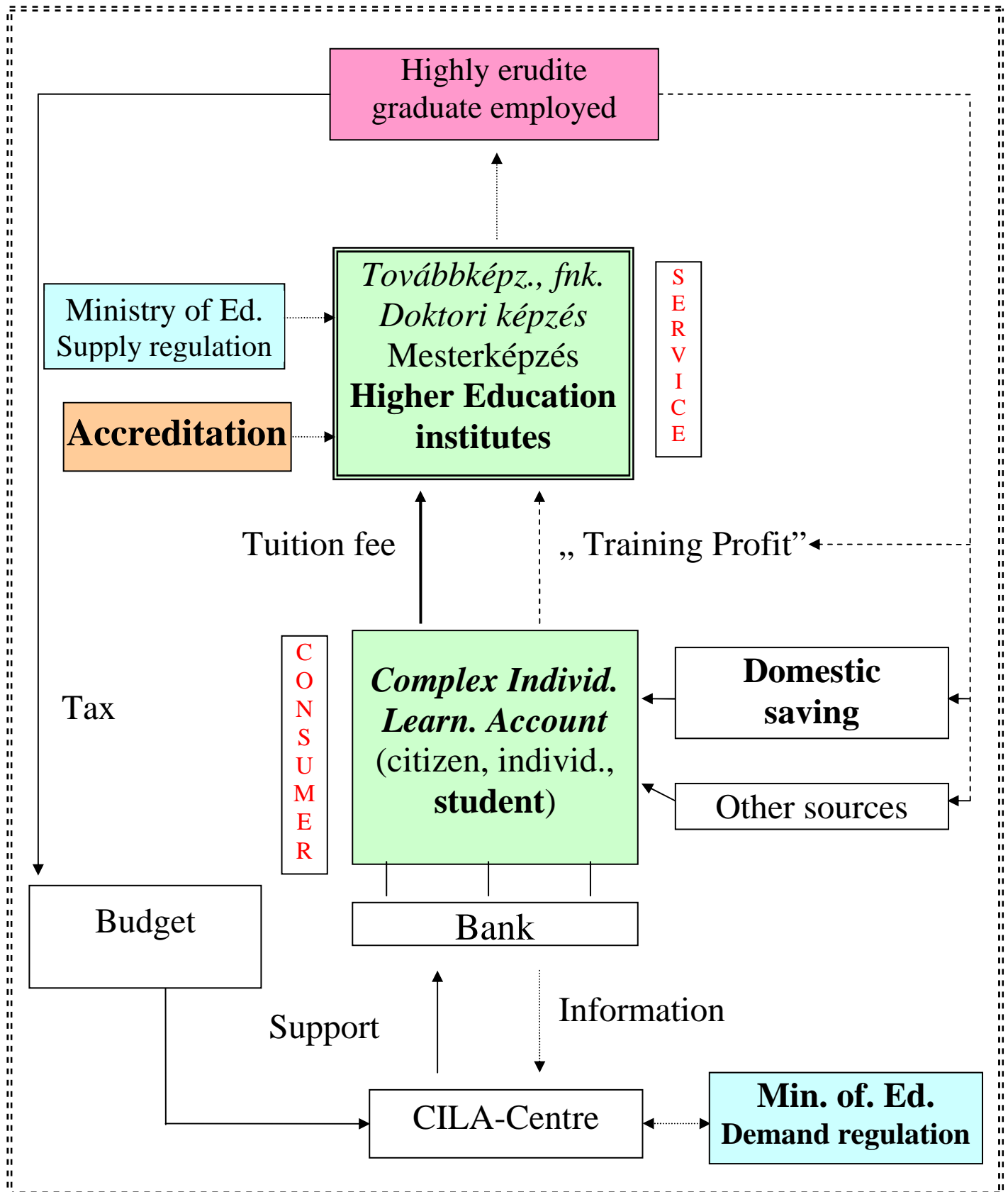
In the world of higher education, although unequally in its factors, the “internationalization” (globalization) is getting more and more stronger. Directly for us, that means the **Bologna Process**, namely the unifying European higher education area. In order to successfully participate in this process, and to avoid falling behind, ***we have to transform our direction and financing system***. This is especially truth, because besides this requirement affecting the whole Europe, we have to eliminate the infrastructural, personal and education technology deficits of the late and vehement expansion of the number of students. A great number of people are stuck to the current financing system, which proven to be unable to fulfil these tasks, because of their interests, routine, illusions, negligence etc. During this process, the majority of these can be and has to be won over by clearly and convincingly presenting the common interests. Meanwhile, such hard problems have to solved, like the “anti-pact” in the politics regarding the tuition fee, which was and is kept suspended, in spite of the fact that all the specialists, almost without exception, agree in (re)introducing it.

The financing proposal introduced in the thesis is based on connected Knowledge Production Cycles (fig. 1). Many types of cycles are known in different parts of our life, in the economy (material goods, enterprises), in biology etc. Only some elements of Knowledge Production, as a cycle, have appeared up to know (e. g. investment), and these are not connected for the time being. In case of financial management, material (intellectual) processes always have a financial reflection as well.

A) According to the suggestion, the ***Complex Individual Learning Account*** would mean this mirror, in which the investing contribution (input) of the family, the state and other social actors is represented in the form of ***advance-saving*** and support.

B) The decisions regarding the way and degree of knowledge expansion are taken finally by the individuals themselves, who are given public support to recognise their skills and the social and economical possibilities, and to assure the financial resources needed. Individuals and institutes become the main actors of knowledge expansion in the higher education.

Figure 1. - Complex Individual Learning Account and Knowledge Production Cycles



C) After the investment has “become productive”, namely after the end of the training, the individuals begin paying off in case of taking income continuously, and are connected to other Knowledge Production Cycles by an output. They “pay back” not only in the strict meaning of the world, namely the credits, but otherwise as well. Individuals with university degrees produce income and profit by their places of employment (1). Paying taxes they begin to repay the public support (given free of charge) (2), joining the organizations and social groups connected to them by means of previous support, these partners can make good use of their higher qualifications (3). In their families, they take part in the knowledge investment of the next cycle by advance-savings (4). Higher education plays an important role in the knowledge society, but the financial cover has to be provided. It is very important, for the higher education to participate in the profit of the “investment established” (rather a common enterprise!) because of its contribution to the efficiency of the human resources and its important role in maintaining the Knowledge Production Cycles. I would like to express this with the so-called *Institute “Training Profit”* (5). Giving 1% of the annual income to the Alma Mater is a symbolic gesture, although after some generations this could mean a non-subordinate financial source. Besides connecting to the knowledge circles of the past and the future, in order to meet the requirements of life-long learning, individuals contribute to the renewal and extension of their knowledge by making payments to their own Complex Learning Accounts (6).

The technical parameters related to the Complex Individual Learning Account suggestion of the thesis contain more elements than it is usual in the international examples. Connecting to the Knowledge Production Cycle, they are more complex in the mechanism of their effects than any other examples I know. Despite this complexity, it can be implemented by a relatively insignificant cost, and it contains only a few number of simple, easy-to-survey elements. Using the information connecting or could be connected to the Complex Individual Learning Account, such a *knowledge base* would be formed regarding the “knowledge”, which is wide-spread, exceeds all the former ones in quality, assures quickly accessible information for monitoring the social processes and for substantiating interventions in case it is necessary. It is a very flexible and selective tool regarding interventions, thus age-groups, social classes, regions, tenants of a specific street etc. can easily be reached.

V. Conclusions and Suggestions

1. ***The current financing system of higher education***, which is based on normative funding of the institutes, ***has to be replaced with a more efficient system***.
2. According to the circumstances and the tasks to be solved, the thesis suggests the creation of an ***output oriented funding method***.
3. ***The core component*** of the new funding method ***is the Complex Individual Learning Account***, which would organically connect the financing of higher education to economical and social processes, ***in connection with Knowledge Production Cycles***.
4. Direct public funding shouldn't be ***the main source of higher institutional income***, neither in the educational field. ***Prices, namely tuition fee***, forming a counter value of the services they provide, covering their expenses (including profit) should be used instead. The state should regulate the prices only temporarily and in exceptional cases, otherwise it should play a role in these processes only by forming the demand and supply.
5. This altogether doesn't mean, that ***the responsibility*** (and financial contribution) ***of the state regarding the higher education*** would become less or could be lowered. Moreover, ***by the evolution of the knowledge society***, its responsibility ***will be increased***.
6. ***It is necessary to develop a*** wide-spread, ***modified student scholarship system*** increased by the former institutional sources, to be able to assure at least the current ratio of participation in higher education, to assure equal opportunities and to improve the training structure:
 - *Basic Scholarship (BS)*,
 - *Academic or Performance Scholarship (AS)*,
 - *Prominent Scholarship (PS)*,
 - *Social Scholarship or Social Benefits (SB)*.
7. In order to increase the efficiency and competitiveness, and to assure the flexibility needed, it is important to monitor the operation of ***higher education institutes*** to a greater extent,

and if their current licenses are not sufficient, then their *economical autonomy should be enlarged*.

8. Transforming the funding method of higher education needs *the transformation of control as well*. As this suggestion aims in the increased appearance of market processes in order to raise the performance of the institutes, that is why such an organization has to be established in the public administration, which is capable of handling market processes regarding their content and structure as well.

VI. Concepts Introduced or Used in a New Sense by the Thesis

- *Knowledge Production Cycle,*
- *Complex Individual Learning Account,*
- *Advance-saving for Learning,*
- *Support of Prominence,*
- *Training Profit.*

VII. Publications Related to the Topic of the Thesis

SCIENTIFIC PUBLICATIONS

- IN FOREIGN LANGUAGE

- Die Zukunft der Universitäten in Ungarn. In: DU! Absolventen Nachrichten, 2005. Nr. 2., S. 13-15.
- National and European Strategies for Removing National Obstacles in Higher Education. In: Education and Training 2010 Conferences. Ministry of Education, Budapest, 2004. 106 – 111.
- Effiziente Wissensproduktion als Voraussetzung für eine Wissensgesellschaft, in: "Info für den Donaauraum und Mitteleuropa", Sonderheft, 8/2003, Wien

- IN HUNGARIAN LANGUAGE

- Hazai és európai stratégiák a felsőoktatás nemzeti korlátainak lebontására. in: Oktatás és képzés 2010 Konferencia. Oktatási Minisztérium, Budapest, 2004. 103 -107. old.
- Humánpotenciál és az életen át tartó tanulás finanszírozása. Emberi erőforrás-menedzsment. Módszertani füzetek, 2004. 6. szám 7-30. old.
- Javaslat a felnőttképzés finanszírozási és szabályozási rendszerére. Magyar Felsőoktatás, 2004. 5. szám
<http://www.ph.hu/ph/mf/24.05/index.html>
- Javaslat a felnőttképzés korszerű és hatékony finanszírozására., in: Felnőttképzésünk az Európai Unióban. II. Országos Felnőttképzési Konferencia. Kiadó: Suliszervíz Oktatási és Szakértői Iroda, Debrecen, 2004. 77-85. old.
- Átalakuló magyar felsőoktatás - Nyugat-Dunántúl – Sopron. Soproni Szemle, 1998/2.
- A felsőoktatási folyamat korszerűsítéséért. (társ szerzővel) - Hozzászólások a „Javaslat a felsőoktatás fejlesztésére” c. tervezethez. Felsőoktatási Szemle, 1984. 1. sz. 10-15. old.
- Elővizsgáztatási rendszer., in: Az oktatáskorszerűsítés helyzete és feladatai a KLTE-n. Debrecen, 1983. 17-20. old.

- DISCOURSIS

- A képzési politika változó törekvései és hatása („A Felnőttképzés korszerű andragógiai rendszere, a képzés andragógiai specifikumainak meghatározása az egész életen át tartó tanulás követelményének szempontjából” című kutatás keretében), 2004. december – PTE, FEFI részére 36 old.
- A magyar felsőoktatásról a normatív finanszírozás tükrében. Debreceni Egyetem, 2003. 47 old. (diplomamunka)

- A kreditrendszer kialakulása a felsőoktatásban, bevezetése Magyarországon, hasznosítható tapasztalatok a szakképzés számára. 2003. november 41 old. (munkatanulmány)
- Közpolitikai kérdőjelek az Országos Gyógyintézeti Központ kapcsán. 2003. 16 old. (ma)
- Az EFE fejlesztési stratégiája 2000-ig. 1994. május (munkaanyag)
- Az oktatói terhek méréséről és a normákról. 1993. december (munkaanyag)
- Az osztrák szocialista kormányzat gazdasági teljesítménye a 70-es évtizedben. MTA VKI, 1982. (munkatanulmány)

- LECTURE

- Der Bologna-Prozeß an den ungarischen Hochschulen. Wissenschafts- und Forschungstag, ASO, Budapest – Gödöllő (Ungarn) am 16. Juni 2005
- Die Zukunft der Universitäten in Ungarn. Am 11. Jahreskonferenz „Deutsche Akademiker aus Ungarn” am 23. April 2005
- Das System der Erwachsenenbildung in Ungarn - mit Blick auf die Agrikultur. Mosonmagyaróvár, 2004. márc. 23-án a határmenti szakmai konferencia keretében tartott előadás
- A tudáslapú társadalom kihívásai, európai és magyar válasz. Debreceni Egyetem, 2003. szeptember 30. Európa-nap keretében elhangzott előadás.
- A felsőoktatás fejlesztési irányai. Szolnoki Főiskola, 2003. április 8-i könyvtárosok konferenciáján elhangzott előadás.