

Slovenian Presidency of the EU Conference on
Quality of Tertiary Education and the Economic Policy Agenda

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Comments in closing panel discussion

First, as someone who has come here from a state which is not in the Euro zone or in Schengen, I would like to say what a pleasure it is to come from the periphery of the EU to its core?

I should also introduce myself by saying that although I am an economist, I come to this subject primarily as a practitioner, having been Vice-Chancellor of the University of Sussex for almost 10 years; and my perspectives derive from the experience of the UK higher education system rather than from systematic empirical study of higher education systems internationally.

1. Difficulty of the issues

My first comment on the issues raised in this exceptionally interesting conference is that they are very challenging scientifically. Rigorous empirical study is particularly hard when you are trying to make links between features of systems and economic outcomes – too many things change at once, so it's hard to identify what are the forces that really matter, and to distinguish between cause and effect. Just take the classic, and apparently straightforward, question of the links between economic openness and economic growth. Many of us approach that question with a strong presumption that openness is pro-growth, but from the work of Dani Rodrik and others we have to admit that it's hard to say that the empirical evidence provides clear backing for our views. The issues we've been considering today are even harder.

2. Teaching v. research

We were reminded at several points to think about the economics of both teaching and research. This is an important reminder. Many discussions about the economic impact of universities focus entirely on research and on the spin-offs from research, but the flow of graduates from universities into the economy is the biggest economic impact of the tertiary education system. Policy should encourage universities to deliver good teaching as well as good research; and indeed encourage different universities to go in different directions. Unfortunately, 'mission drift' is a pervasive feature of university systems, as all institutions pursue the research path – partly because of academic culture, but mainly because we know how to evaluate and to reward research, but it is genuinely hard to identify and therefore reward high-quality teaching.

Earlier Peter Van der Hijden talked approvingly of the spread of quality assurance bodies across the EU. I'm afraid that I do not think that the UK experience justifies his approval. The Quality Assurance Agency for Higher Education failed to develop a system of teaching evaluation that commanded credibility. The Agency still exists of course, because bureaucracies have impressive life-support systems, and it still conducts institutional audits; but the role of assessing the quality of the student experience has effectively been passed to a national student survey, itself a somewhat crude mechanism.

I think we have to rely on the student market to provide incentives to universities to deliver good teaching, though this proposition does beg the question of how the student market is to be informed. If informed prospective students have the freedom to choose the universities that they think will provide them with the best teaching **and funding follows the students** then universities will have a real incentive to teach well, and in turn will provide real incentives to academic staff to teach well.

3. Liberalising the student fee regime – the UK experience

An obvious way of ensuring that funding follows student numbers is to allow universities to charge significant fees to students. This also addresses one of the main themes of today's discussion – the need for a significant increase in the funding of tertiary education in all EU states. The EU-US comparison suggests strongly that private rather than public funding should be the main way to close the funding gap, since there is little evidence of a political will elsewhere in the EU to follow Denmark, Sweden and Finland in funding higher education at US levels with public expenditure. More private funding offers the prospect of more autonomy for institutions, and more autonomy for students too.

The UK has seen a recent move in this direction, with the new student funding regime introduced in 2006 in England, in which fees were substantially increased, the public student loans scheme was extended so that the payment of fees can be deferred, and additional financial assistance was offered to students from poorer family backgrounds. (Note that the change applied only to England, and the other parts of the UK have different arrangements.) I think this was a significant move in the right direction, and I would like to be able to tell you that it was an easy and successful change.

However, politically it was far from easy. In its second parliamentary term, Tony Blair's government had a large majority. It went to war in Iraq, and it raised student fees. The hugely unpopular Iraq war was approved by parliament without undue difficulty; while the higher education bill came within three votes of being defeated.

Furthermore, in retrospect the 2006 reform looks quite modest. The increase in fees has made a significant rather than a dramatic difference to university funding. The student loans system has a subsidised interest rate (the real interest rate is zero), and since most student loans are long-lived, over the years the cost to the taxpayer is very significant – about 40% of the additional funding to universities actually comes from the public purse not from the individual student. Universities do not have any incentive to differentiate their fees, since it makes sense for all to charge the maximum permitted fee, in the knowledge that students can take out a subsidised loan to pay the fee, and universities can selectively give financial support to students. There has been very little real increase in university autonomy. And no doubt any next step to move towards more liberalisation, including removing the indiscriminate student loan subsidy, will be greeted with just as much political opposition as the 2006 changes.

4. University autonomy

As I said in an earlier discussion, I think there is a tension, almost a paradox, in some of what has been said here about what we expect of our universities. We want the tertiary education system to change, so that it can do much better at delivering social and economic objectives across the EU, and one of the main changes suggested is that individual universities be given much more institutional autonomy. The political masters of the tertiary education system will have to display an unusual degree of sophistication to bring off this act.

For example, we have heard the proposition that the EU needs high quality doctoral schools, that doctoral schools can be of high quality only if they are large, and that therefore there should be few of these schools. How do we reconcile this with the proposition that universities should have more autonomy? Suppose a large number of newly autonomous universities decide to establish doctoral schools – should politicians

intervene to tell them that autonomy has its limits? The answer is surely that the funding system for these doctoral schools should be designed so as to produce the right outcome, not that politicians or bureaucrats should impose the desired outcome.

More generally, in all this discussion about autonomy the fundamental issue is about incentive systems. University autonomy is not a good in itself – it is good because it is conducive to creating effective incentives. Universities are creative organisations, and therefore depend on creative and innovative individuals, most of them young. It is important that these creative and innovative individuals work in an environment where they are encouraged and rewarded; and that their enthusiasms and ideas are not stifled by politicians, administrators, and elderly professors.

The funding regime for tertiary education must therefore reward enterprise, innovation and excellence in both teaching and research; and it must not reward rent-seeking, political connections, and incumbency.

There is one aspect of this that I find particularly persuasive, having been head of a relatively small university – the role of scale. It is argued that there are economies of scale in many academic activities – a large engineering department can better afford the equipment needed for good research and so is likely to do better research than a small department; a large graduate school is more likely to have the range of expertise that its students need and so is likely to be better than a small school. But the funding mechanisms should not be biased in favour of size per se: give funding to the best engineering departments and if economies of scale really do matter, you'll find that you are funding large departments; give graduate funding to the best students, let them choose where to take their funding, make sure that they are well informed about the quality of competing schools, and if the larger schools do provide a better student experience, you can rely on the students to converge on a limited number of centres of excellence.

5. What's the role for the EU?

It may seem inevitable that an EU conference of people mostly associated with the tertiary education system will be a forum for arguments in favour of more EU funding for tertiary education; just as a conference of farmers would argue for more funding for the CAP. Google refuses to remind me who it was who said "If the Archbishop of Canterbury tells you he believes in God, that's what you'd expect in the ordinary run of business; but if the Archbishop of Canterbury tells you he doesn't believe in God, you really take notice." I want to argue that the role of the EU in funding tertiary education should be strictly limited, supporting the line taken by Jean Pisani-Ferry in an earlier session.

There is a case for the EU in mobility and competition in tertiary education, and maybe taking some role in improving student information to enhance mobility and competition. There is a role for supra-national agencies in supporting large facilities which are too expensive for single countries to support, and much of this goes on already.

I also agree with Jean that a case can be made for EU funding of graduate schools (including post-doctoral study), where the necessary degree of concentration of talent cannot be achieved by national funding systems. But, as I have already argued, above, we need to pay careful attention to the design of the EU funding scheme to achieve a concentration of funding in centres of excellence.