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## **The Current University Funding System – an Overview**

***German – Australian Conference on Higher Education Financing  
Berlin 24 – 25 October 2003***

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*Es gilt das gesprochene Wort.*

*Expansion of the  
higher education  
system*

Your Excellency, Distinguished guests, Ladies and gentlemen,

The German higher education system has dramatically changed its character over the past decades. While universities educated only a minor proportion of the population some decades ago, university education has become a mass phenomenon today. In the 1960s some 300,000 students altogether – i.e. 4% of the relevant age group – were enrolled at German institutions of higher education. Currently there are about 2 million students at German universities. Every new academic year sees 300,000 freshmen starting their university career. This equals about one third of the relevant age group. The Federal Ministry of Education and Research (BMBF) is determined to raise this figure to 40% within the next years, a challenge to our universities and HRK as their representation at national and international level.

In 2000, net expenditure on higher education in Germany equalled 1.0 % of the GNP. Compared to the OECD average of 1.3%, this figure is relatively low. One has to keep in mind, however, that tertiary education is almost exclusively publicly funded. While the *Länder* covered about 90% of the costs, the Federal Government contributed about 7 %. Only

about 3 % of the costs were born by private parties.

Also in the year 2000, the United States spent 2.7 % of their GNP on tertiary education, but two thirds of this sum originated from private sources. Also in Australia almost half the expenditure on higher education is from private sources.

*Changing  
government –  
university relations*

It is apparent that the financing of the higher education sector has not kept up with the considerable expansion of the system. Since the beginning 1980s, the higher education budget has not been adequately adjusted to the increase in student figures. Economic recession, unemployment and increasing financial requirements in the health care and pension system have been the main reasons for the stagnating cash inflow.

Both, universities and the government have realised that the system needs to be adapted to a rapidly changing environment. Thus, German institutions of higher education are currently in the midst of a far-reaching reform process. In order to underscore the scope of the reforms, let me outline the German higher education system in a few words:

While autonomous in academic matters, German universities have always been financially dependent on the state. Since the Second World War responsibility for the education system has been determined by the federal structure of the state. The *Länder* or states of the Federal Republic are fully responsible for the entire domain of education. Consequently, German higher education institutions are, for the most part, public institutions under state legislation.

This state-controlled system was created in the conviction that the state shares responsibility for the well-being of its citizens. It enabled universities to expand and develop freely, relying on the states' provision of services, financial funds and administrative know-how.

But, on the other hand, the institutions' financial dependency has effected a highly regimented higher education system:

- German institutions of higher education are, as a rule, corporate bodies under public law and, at the same time, state institutions in the sense of subordinate authorities.

- The state accreditation of institutions extends not only to the academic degrees they confer, but also to their curriculum planning, internal organisation and accountability. Even study and examination regulations are subject to ministerial approval.
- Though nominated by the institutions themselves, professors, heads of administration and rectors or presidents are formally appointed by the responsible ministers.
- Student admission is subject to state regulations and judicial scrutiny.
- The state decides on the number and kind of academic and non-academic staff. Even their remuneration is subject to rules and regulations of the ministries of education or finance.
- The external control of institutions by means of staff budgets is supplemented by detailed stipulations as to the use of earmarked funds. In the majority of the German *Länder*, institutions do not draw up budgets on their own, but submit a proposed plan for their section of respective fiscal budget of the ministry of education and science, which in turn is part of the state budget.

Since institutions of higher education have become more autonomous over time and the role of the state governments has changed to that of an administrator, reform is inevitable. Much has been achieved in the ongoing reform process, but nevertheless we still have a long way to go.

*Paradigm shift in  
the German  
system*

Initially the German government has been hesitant to loosen state control on higher education institutions. Varying laws, rules and regulations were passed in order to secure quality education with scarcer resources. However, this kind of bureaucratic controlling has failed: The efficiency and effectiveness of the higher education system is still not satisfactory, neither from the state's point of view nor from the universities' or the students' perspective. A drop-out rate of more than 30%, an above-average duration of study in international comparison and the relatively old German university graduates show that there is room for improvement.

The reasons for these problems are manifold: Important influencing factors are the overcrowding at universities and a lack of competitive

elements and cost-determined steering mechanisms in the higher education system.

Deficits in higher education management are especially apparent in the allocation of financial resources. This is mainly due to the habitual periodic updating of draft budgets without performance-oriented allocation criteria and a lack of monitoring with regard to system output.

*HRK stipulations  
for a modern  
financial  
management*

In view of the situation, it became obvious that an optimal allocation of resources could only be achieved by increasing the institutions' autonomy while at the same time introducing competitive elements into the system.

In keeping with HRK's conviction that education is a public good, we consider the financing of institutions of higher education to be first and foremost a public responsibility.

Nevertheless, already in the mid-90s HRK demanded the implementation of the following points:

- The state should strengthen the autonomy of the higher education institutions by providing a reliable framework for higher education and a stable legal environment.
- The state should confine its role to a general controlling function. It should set up long-term goals for institutional development in close collaboration with the individual institution. Target agreements between institutions of higher education and the state should define performance targets and assure the corresponding financial funds.
- Higher education financing should not follow the principle of indiscriminate all-around distribution. It should rather be distributed according to transparent, objective and performance-oriented criteria. The cameralistic budget system should be abolished.
- The legal framework for the remuneration of academic and non-academic staff should become more flexible, incorporating competitive elements.
- Higher education institutions should be able to build up financial reserves. They should also be able to own property and to be

responsible for the long-term management of their property.

- Last but not least, institutions should be able to make revenue.

*Implementation of financial reforms*

Considerable progress has been made in the last years: The autonomy of universities regarding the management of their financial funds has considerably increased. Individual stipulations – such as the mutual eligibility of individual budget items to serve as cover, the transferability of funds into the following fiscal year and more flexibility in the staff planning – were implemented in various *Länder* in the framework of more flexible budget plans.

In about half the German states, at least part of the financial allocations are now distributed according to performance-oriented criteria. On top of a basic provision, part of the funding is allocated according to performance-dependent criteria, such as the number of undergraduate students, the number of graduate students, the number of graduates, the drop-out rate and the student-staff ratio. Another part of the funding rewards outstanding performance in terms of the acquisition of third-party funding for research, the international dimension of teaching and research and the support of female students and staff, to name only a few. Secondly, the salary scheme for university professors has been reformed, at least in part, to include performance-dependent elements. Thirdly, in some *Länder* the detailed controlling of the universities' each and every decision has been replaced by "target agreements" between the higher education ministries and the individual institutions. Block grants have replaced the old cameralistic accounting system in some states.

*Further-reaching reform: The example of Lower Saxony*

Nevertheless, further-reaching reforms have only been implemented to a limited extent: Here we talk about long-term contracts between institution and state, universities autonomously managing their real estate or institution of higher education acting as employer of their academic and non-academic staff.

A new model is currently being tested in the state of Lower Saxony: The new Lower Saxony Higher Education Law adopted in 2002 paved the way for transferring higher education institutions into the legal status of foundations under public law. While a large part of the budget of these new institutions will still be provided by the state of Lower Saxony, the

reform enables universities to become autonomous. So far, the Universities of Göttingen, Hildesheim and Lüneburg as well as the Tierärztliche Hochschule Hannover and the University of Applied Sciences Osnabrück have opted for this new model.

*Transparency as a prerequisite for competition*

In line with the implementation of performance-oriented controlling mechanisms, institutions of higher education have been improving transparency in terms of costs and performance output. Clearly, competition can only function on the basis of transparency. Universities disclose information on the number of university entrants and graduates, the average duration of study, the number of PhDs awarded at individual faculties and on the internal usage of resources. They report on cooperation with industrial partners and fundraising activities, on the number of publications and scientific awards and on the assignment of tasks by the *scientific community*. Institutions – or rather faculties and departments – face comparison and competition on the basis of these data.

In addition, regular external peer reviews have been introduced. Evaluation has quickly developed in recent years. For evaluation to have the desired quality-improving effect, however, it has to have consequences. In a system that is not regulated by price, such as the German system, financial ramifications of evaluation can only be expressed in the performance- and quality-oriented allocation of state funds. This, in turn, effects changes in the internal allocation of university funds. Universities have to allocate their resources in a way that best serves research, teaching and study.

*Autonomy as a prerequisite for competition*

But competition does not only require transparency; it also requires autonomy. Institutions have to be able make autonomous decisions in order to shape their individual profile in research and teaching.

The shift from the state-dominated study and examination regulations to an accreditation system within the shared responsibility of state and institutions is a step into the right direction. The recent changes in admission policy with institutions being able to select a larger quantity of their student body also support university autonomy.

*Revenue as a prerequisite for ...*

A third prerequisite for competition is the capacity of institutions of higher education to earn revenue. Also in this respect some reforms have been

*competition* implemented: Universities have been enabled to earn an increasing part of their budget through commercial activities, such as the sale of services and continuing education programmes.

*Student contributions to higher education* Until today it is not possible, however, to acquire revenue in one of the main activities of the universities, in teaching. Studying in Germany is free. (Exceptions to the rule are courses in continuing education geared towards students with professional experience.) Naturally, it cannot be the ultimate target to ask students to cover the full cost of a course of study. Since society as a whole benefits from the educational efforts of the individual, state investment into higher education is justifiable. Nevertheless, the individual student personally benefits from his or her university education. Universities should be able to take in a proportion of the considerable income return of the individual that is generated by the education.

HRK is currently discussing an interesting approach to tuition fees. HRK does not consider the charging of fees for specific study situations (e.g. long-term studies) – as it is currently practiced in some states – a modern approach to a competition-oriented higher education system. This is incompatible with real competition, as is a general prohibition of fees. We want to pave the way for institutions of higher education to be able to set tuition fees for individual courses of study, if they wish to.

It has to be ensured, however, that access to educational opportunities is open and that anybody who wants to enter university can do so. By no means do we want to deter young people from choosing a university career due to financial constraints.

That means we have to find a way – in cooperation with banks, insurance companies and businesses – to provide grants and loans to prospective students. This approach is still heavily debated among university heads. Nevertheless, I am convinced that we cannot do without tuition fees in the long run.

This being said, tuition fees are only helpful if one important prerequisite is fulfilled: It is critical that fees do not become a further excuse for hidden budget cuts by the higher education ministers. If universities do charge fees, they have to be able to keep the revenue in order to invest it into the quality of research, teaching and study.

*The specific mission of a university*

The modernisation of higher education makes considerable demands on the institutions' capacity for self-determined management. It is all very well with applying management methods that have been tried and tested in the business community. But instruments, criteria and procedures have to account for the specific mission of higher education institutions: Firstly, a university is, by all means, an output-oriented organisation but its output does not necessarily consist of measurable and immediately exploitable results. Secondly, education does not only impart knowledge, but develops social competence and builds personality. Lastly, research takes time and needs a certain leeway. The one-sided evaluation of research results according to criteria such as utility and immediate applicability is counterproductive. Without free basic research we would not have the necessary amount of – often unexpected and unhoped-for – insights and findings we need as a solid basis for our application-oriented research, for practicable problem solutions and for marketable innovations.

*Collegial responsibility vs. individual accountability*

In Germany, the core concept of the *universitas* has always been the *Verantwortungsgemeinschaft*, the principle of collegial responsibility, with the individual member pursuing his or her own interests while, at the same time, feeling responsible for the institution as a whole. While this concept of collegial responsibility is worthwhile keeping, it is clear that modern institutions of higher education need transparent and accountable management with clear responsibilities. The recent strengthening of the universities' core management positions such as the rector or president and the faculty deans are first steps into this direction.

Adapting John F. Kennedy' famous quote, we should keep in mind that every member of a higher education institution – from the leading executive managers to the administrative staff and from the professors to the individual student – should not only ask what their university can do for them, but what they can do for their university.

Thank you for your attention.