

IMPACT OF THE ECONOMIC CRISIS ON EUROPEAN UNIVERSITIES (MAY 2010)

OVERVIEW

EUA has been monitoring the impact of the economic crisis on European higher education systems since its onset in 2008. The subject has been of great concern to EUA, which has been following developments through regular consultations with its collective members, the National Rectors' Conferences, as well as individual universities and national governments. Continuous feedback from the National Rectors' Conferences has helped understand the evolving effects of the crisis on universities' financial sustainability as well as provide an up-to-date picture of the overall impact on higher education systems across Europe.

The monitoring has focused on the impact of the crisis on universities' public funding, which is a major income source for most European universities. This means that any reduction in public funding can potentially generate the highest impact. EUA has also looked at the impact of the crisis on universities' private funding, but the lack of available data in this area makes it more difficult to identify clear trends. Importantly, the analysis has tried to look not only at the effects of the crisis on universities' finances, but has also aimed to gain a wider understanding of how the crisis has affected their autonomy and ability to fulfil their core institutional missions. Specific attention was placed on identifying whether the crisis has contributed to changing the nature of university funding, especially in ways which would curb the ability of universities to manage their funds freely.

Such a broad overview of the effects of the crisis seems necessary since the analysis has shown that nationally collected data on the depth of budget cuts often only gives a partial overview of the situation. This is because in many cases data does not reflect changes in inflation or increases in the costs of universities' activities, making general comparisons difficult.

EUA's monitoring has also shown that the crisis has so far affected European higher education systems very differently, to some extent reflecting impacts on their national economies. Some countries have benefited from the extra funds offered through the stimulus packages at the beginning of the crisis, though these have not necessarily been used to relieve the effects on teaching and research. Moreover, different countries have been affected at different stages of the crisis; some countries reported impacts on their institutions already at the start of 2009 while others have so far not yet been affected directly. This situation can however still change and EUA's analysis has found that many universities are faced with uncertainty, expecting the crisis to affect them more in 2010 and years to come. Another important factor to consider here is the delay with which cuts in public spending translate into higher education budgets, making further monitoring and more in-depth analysis essential.

OVERALL TRENDS IN PUBLIC FUNDING

An overview of the impacts on the European higher education systems so far shows emerging trends in how public authorities have responded to the crisis.

Major cuts have been introduced in Latvia, where an initial cut of 48% in the beginning of 2009 was followed by a further cut of 18% in 2010 stemming from the recommendations of the International Monetary Fund and the World Bank to reduce drastically public funding of higher education. The cuts have put serious pressure on the Latvian higher education system, demanding major changes and structural reforms to be introduced in the forthcoming years.

Other countries which have experienced **heavy cuts ranging from 5–10%** include Italy with 10% (albeit over 3 years), Estonia 10% in 2010 (in addition to the 7% of 2009), Ireland with a cut of 9.4% in 2010 (following a 5.4% in 2009), the UK with 6.6% (between 2010 and 2013) as well as Lithuania with 8% and Romania with 10%.

Cuts of up to 5% of Higher Education budgets were introduced in many countries in Eastern and South Eastern Europe including the Czech Republic, Poland, Croatia, Serbia and Macedonia.

No direct cuts have so far been reported by the Nordic countries, including Norway, Sweden, Finland and Denmark, or by the Netherlands; despite accounts that universities across these countries face indirect impacts on their funding structure. In some cases increased student numbers have not been reflected in correspondingly higher budgets, which can put universities under financial pressure and affect their different activities.

In a number of countries, **governments discarded previous commitments to increase funding**. In Hungary for example, the government has cancelled plans announced in 2007 to increase overall university funding, leaving universities with 15% less financial support than previously expected. Similar reports have also come from the Flemish Community in Belgium, which has seen a funding freeze replace a previously promised increase of approximately 10%. Spain and Austria also report that changes in their funding structures will affect their universities' research capacities. In Austria, ongoing negotiations with the authorities point to a stagnation of higher education funding after 2013, leading to cuts in real terms.

In contrast, some European **governments have upheld their commitments** or, indeed, provided new investments to fund higher education. In Germany, where financing of higher education mostly comes from state authorities, the federal government has increased investments to support the financial security of German higher education and research institutions. These investments will provide an additional 800 million EUR under the renewed Higher Education Pact which will support growing student numbers until 2015. The federal government will also invest a further 2.7 billion EUR from 2012 – 2015 into the German Excellence Initiative and provide a funding increase of 5% per year until 2015 for the Innovation and Research Pact. France has also increased its overall higher education funding by investing almost 30 billion EUR in 2010 into key priority areas. From this amount, 11 billion EUR will be invested to improve the overall quality of higher education, 8 billion EUR will go towards developing research while the remaining funds will be used to create new university campuses of excellence or towards restructuring existing ones. In the case of Portugal the situation is mixed, as a recent agreement between the government and rectors will provide a greatly

needed investment of a 100 million EUR for higher education which will alleviate the burden of cuts from previous years.

ALLOCATIONS OF PUBLIC FUNDING

Furthermore, looking at how the crisis has affected funding allocations across university missions, EUA's analysis reveals a complex picture showing teaching and research are often affected unevenly.

According to EUA's monitoring, **teaching** has been more affected in the UK, Belgium (Flanders), Estonia and Hungary. The cuts in teaching budgets are already causing individual universities to offer fewer study programmes, or to resort to lowering their employees' salaries where this is possible, which has been the case in Greece, Ireland and Latvia. Some countries have reduced their academic and managerial staff numbers, either through redundancies, like in the UK, or by introducing hiring freezes, like in Estonia and Latvia. Such measures, in combination with rising student numbers represent a major concern for maintaining the high quality of higher education. Governments are faced with conflicting policy priorities: the need to improve access to higher education while, at the same time, having to balance public budgets. The UK government, for example, has introduced a cap on available student places, though this has somewhat been relieved by a commitment of the government to fund an extra 20,000 students in 2010 on a full cost basis. On the other hand, Ireland plans to foster participation in higher education through funding re-qualification schemes for the unemployed. Such schemes aim to provide more people with the chance to gain relevant new skills, although their desired effect on higher education might be diminished by the impact of the high overall budget cuts which have put pressure on Irish universities.

Research funding, on the other hand, has been affected more in Poland and in Austria. Although Austrian universities received an increase in their general funding for the current period, cuts have been made to the budget of the Austrian Science Foundation, which has now ceased to fund indirect costs. This is a worrying setback in the development of sustainable funding of Austrian universities' research activities. In addition, Austrian universities expect funding to shift significantly towards applied research and this is likely to further impact universities' research missions, especially in relation to basic research.

The above examples clearly show how **funding is increasingly targeted to achieve specific objectives**, usually in line with strategic national priorities. Reports of such developments come from Austria, Portugal, Finland and the UK, where in the latter case specific funds have been designated to increase participation in the STEM subjects (science, technology, engineering, mathematics). The move towards more targeted funding has given governments increasing steering power over universities, which can lead to curtailing universities' ability to act more autonomously. Such shifts in funding have a significant effect on European universities, indicating that the crisis has had a wider structural effect on European higher education systems.

Funding authorities also seem to resort increasingly to **competitive funding tools**, a development fostered and accelerated by their reduced investment capacity. In order to achieve positive effects, such competitive funding schemes need to be introduced carefully and should consider the complete funding system. On the other hand, when coupled with reduced university funding, they can endanger universities' financial sustainability. This is especially the case when competitive funding does not cover the full costs of an activity, requiring co-funding from universities' other vital sources.

Adding to this uncertainty is also the threat of excessive fragmentation of funding sources, which, when combined with time-consuming application and reporting processes, can harm both the financial sustainability and autonomy of universities.

PRIVATE FUNDING

EUA's monitoring has also collected some evidence on the impacts of the crisis on universities' private funding. Private income sources are becoming an increasingly important part of universities' financial structures, helping to diversify their income streams and contributing to their overall financial sustainability.

In some countries the economic crisis has fostered a public debate on the financial contribution to higher education from households. Heated discussions are currently taking place on the introduction or increase of **tuition fees** to help universities reduce the funding gap which has been created by decreasing levels of public funding. This has been met by resistance in particular from students arguing that Europe should protect its higher education as a public good. Nonetheless, changes are now occurring, even in the Nordic countries where there was previously broad agreement among society and politicians that higher education should be exclusively publicly funded. Finland, Sweden and Denmark have all started to introduce tuition fees at least for some offered programmes and/or will charge tuition to foreign students. The UK, which already has tuition fees, is also currently considering an increase.

The impact on other types of private funding is less clear for now as data is more complex to collect and analyse. Although EUA's monitoring showed no direct impact on current collaborative projects **between universities and industry**, individual accounts from Austria, Belgium, Finland, Germany, Netherlands, Norway, Portugal and Switzerland report difficulties in starting new projects.

Furthermore, reports from **foundations**, which offer another potential source of income for higher education institutions, show that their funding base has also been affected by the crisis. Despite measures being taken to spread out the impact on their funding over the coming years, this will have a prolonged effect on universities' budgets and their ability to diversify their income streams in the future.

CONCLUSIONS

EUA's analysis has shown the crisis has affected European higher education systems differently, although some trends can be detected. In many cases, reduced public funding has put universities under significant financial pressure. What is clear is that this will affect institutions over the long term and these will face continuous change and uncertainty in the forthcoming months and years.

The monitoring has further found that the crisis has affected universities' financial sustainability through changes in the nature of their higher education and research funding. This is especially significant when public funding does not cover the full costs of universities' activities, requiring universities to co-fund these from other sources.

Finally, there are indications that the economic crisis has also had an impact on the development of institutional autonomy. Where authorities resort to direct steering mechanisms, regulations and

increasingly unbalanced accountability procedures, there will be counterproductive effects, preventing universities to fully act as an essential player in overcoming the crisis.

EUA will continue to monitor and analyse these developments.