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## Recent changes of financing higher education in Germany and their intended and unintended consequences

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### ABSTRACT

Since the late 1990s, substantial changes of financing higher education occurred in Germany. The total amount of public funding kept pace with inflation and growing student enrolment, whereby the share of *Länder* funding decreased and that of Federal funding increased. Additionally, higher education institutions generated more funds from other sources, but higher education in Germany remained among the economically countries with the highest proportion of expenditures covered by public funds. Efforts to introduce tuition fees were given up after a while. Substantial shifts were visible in terms of reduced basic funding, increased public funding through pluri-annual contracts and growing incentive-based funding. Some changes of funding mechanisms were linked to general higher education policies, e.g. strengthening the role of research and supporting the emergence of a distinct sector of “excellent” universities. Altogether, the public discourse as regards the benefits and risks involved of the changing funding policies remained controversial.

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### 1. Introduction

Financing of higher education in any country, obviously, reflects the dominant philosophy“ as regards the character and the social function of higher education. We would not understand financing of higher education in Germany without taking into consideration that a close link between teaching and research is not merely a lip service, but clearly an integral part of the system. Moreover, the public responsibility for a well-functioning higher education system is held in high esteem in Germany. Finally, emphasis is placed in Germany on a widespread relatively high quality across institutions and regions rather than a steep stratification or any other high concentration at a few segments.

Financing of higher education, additionally, is deeply embedded into the political system of a country. In Germany, we note a close interaction of central and de-central powers – the latter notably on the level of ‘*Länder*’ – in order to ensure a balance between “homogeneity of living conditions” and “cultural variety”. The major funding and supervisory function as regards higher education rests with the *Länder*, but the Federal role has by no means been marginal.

Moreover, financing of higher education is constantly challenged by changes in the context and the inner dynamics of

higher education. The scarcity of resources after World War II and the subsequent economic recovery in Germany, the rapid expansion of the student enrolment all over the world, and the German re-unification around 1990s are certainly features worth mentioning in this framework.

Higher education and policy and financing, finally, is driven constantly by the question how one can anticipate and respond to future challenges. These reflections tend to take into consideration worldwide developments and discourses. Since about the mid-1990s, two issues are in centre of discourse in Germany: What is needed on the way towards the “knowledge society”? To what extent should Germany adapt to presumed dominant international trends – towards stronger marketization and incentive steering and towards more uneven funding, e.g. between individual higher education institutions or individual scholars?

Thus financing higher education – like other key issues of higher education – has to strike a creative balance between national idiosyncrasies, political features and options as well as assumed global trends and challenges (see Teichler, 1988). Under those conditions views tend to remain controversial whether more or less substantial changes would be beneficial.

The aim of this article, first, is to map the system of financing of higher education in Germany and to explain the context in which this system has emerged. Second, a detailed account will be presented of the discourses and measures as regards financing higher education in the recent two decades, e.g. since about the

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mid-1990s – i.e. since financing of higher education has become a more lively public discourse in Germany than ever before. Third, the question will be raised as to how far impacts of the changes of funding can be identified, and how the actual consequences might be evaluated.

Actually, eight major issues have been in the forefront of discussions and measures in recent decades, which might be explained by phrasing them as questions. The first issue touches upon the overall financing and thus the overall role of higher education and research: (1) How much of the public funds should be reserved for the sector of higher education and research—in the light of its future importance as well as amidst competing priorities?

Four further issues refer to the modes of funding and their implications. (2) What role should the Federal government play and what role should the *Länder*—or state governments—play in taking care of the needs, in supervising, and in stimulating change in higher education and research? (3) Which overall reforms of governance of higher education—for example in terms of the roles played by the government, external stakeholders, institutional management, and the academics themselves—are desirable, and how should they be linked to the modes of financing? (4) To what extent should the system of public financing of public higher education institutions become more flexible? (5) What moves towards stronger mechanisms of incentives (and sanctions) in higher education should be taken, and what balance between financial stability and financial risks should be eventually strived for?

Finally, three additional issues are relevant for the character and the functions of the higher education system. (6) To what extent should special funds be provided and the usual basic funds be re-allocated to change the overall configuration of the higher education system? Notably, to what extent should we depart from the German tradition of ensuring the more or less same quality of all universities towards a system of vertical stratification, as internationally hailed in the race for “world-class universities”? (7) To what extent should we change the system of student cost and funding? (8) To what extent and in what domains should funds be allocated for special policy priorities in higher education (internationalisation, technology transfer and innovation, quality of teaching and learning, etc.)?

This national case study was written as a contribution to a comparative project. However, as information on other countries included was not yet available at the time when the case study was written, this study could not yet identify the specific German trends and the specific German causes through comparative analysis. This has to be left to a subsequent comparative analysis.

## 2. Overall allocation of public funds on higher education and research

There is a lively debate in Germany about the public funds that should be allocated to higher education. This debate has persisted for a long time, but it has some specific features in recent years.

In many countries, growing student numbers have been viewed as a major driver of increasing expenditure for higher education. Even if price-controlled unit expenditures per student decreased in many countries for some period, the overall enrolment growth was instrumental for increasing public expenditures.

For several decades Germany has been among the economically advanced countries with a relatively low entry rate to higher education and a relatively low graduation rate. From the 1960s to the 1990s, the public debate was quite controversial whether one should follow the growth pattern of other countries or trust Germany's strong vocational training system where its advanced sectors might serve the demands of the employment system better

than non-university higher education in other countries. Only since the mid-1990s, concern is frequently voiced by various stakeholders that Germany might “lag behind” other countries. Actually, entry rates in Germany leaped forward since about 2005 and have reached almost the OECD average in the meantime (see for example [Autorengruppe Bildungsberichterstattung, 2014](#)).

A closer look at the debate as regards funding reveals that actors and observers view higher education in Germany as being “underfunded.” This critique refers to enrolment figures, student-teacher ratios, resources for research within higher education, etc., but is not driven by a single dominant phenomenon. Concerns voiced might have been helpful in counteracting further reductions, but have not helped to mobilize strong measures against “underfunding.”

Analysis of this debate suggests that the dominance of public funding is more or less taken for granted in Germany. As will be shown below, there have been thwarted efforts to introduce tuition fees as well as successful efforts to raise research funds from private sources. But in 2011, 85% of the financial sources of tertiary education in Germany were public, compared to 70% on average in the OECD countries and only about one third in the United States ([OECD, 2014](#)).

It might be added here that the private higher education sector in Germany is relatively small. In winter 2012–2013, 1.1% of new entrant students enrolled at church-related and 6.2% at private higher education institutions. The latter figure had doubled within two decades, and, actually, the total number of—mostly quite small—private institutions comprised more than a quarter of higher education institutions in 2014. Nevertheless, there are no predictions of any substantial rise in the foreseeable future.

One might argue that the belief in a future which deserves to be named “knowledge society” has been the strongest driver in Germany in recent years for increasing expenditures for higher education. Arguments of that kind played a role in the development of the budget of the Federal government: While expenditures for many sectors hardly grew or even were reduced, expenditures for education and research clearly grew in the first decade of the 21st century. Also the Federal government declared that it supported the policy of the European Union announced in the year 2000 to realize a “European Research Area” by 2010 with a total of public and private research and higher education expenditures reaching 3% of the GDP (see [Commission of the European Communities, 2011; Dunkel et al., 2009](#)).

As will be illustrated below, the Federal expenditures for higher education increased from 2000 to 2010, and the “knowledge society” paradigm was certainly important for that development (see [Germany. Bundesministerium für Bildung und Forschung, 2013](#)). However, the research landscape in Germany—not only according to the available international statistics, but also according to the dominant opinions reflected in the respective discourse in Germany—is characterized by a relatively large small share of expenditures spent inside higher education. Actually, expenditures are high in industry and additionally in public research institutes, notably of the Max-Planck Society, Fraunhofer Society, Leibniz Society and Helmholtz Community ([Germany. Statistisches Bundesamt, 2014](#)). Moreover, private funding of research in (public) higher education is not high, if viewed from a comparative perspective.

Notably, the 3% target of the Lisbon Process was almost realized in Germany. The total rate of research and development expenditures of the gross domestic product in Germany increased from 2.47% in 2000 to 2.82% in 2010. Nevertheless, this did not resolve the problems contained in the “underfunding” argument as regards higher education.

Yet, public funding of higher education has clearly improved between 2000 and 2014. It increased during this period from €17.2

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