they are well established in the labor market. The solution, already adopted by many countries, including England and Australia, is a well-designed universal income-contingent loan repayment system.

Human capital development among undergraduates is a serious problem. Apart from a motivated minority of 10–15 percent, US undergraduate students are not learning as much as they could. The onus for change is on faculty members and administrators. States could trade off additional funding for conscientious efforts to professionalize college teaching. Thanks to cognitive science and thousands of well-designed learning studies, the basics of effective college-level instruction are now well known. Instruments such as the Weinman–Gilbert Teaching Practices Inventory allow instructors to rate themselves on practices that the sciences of learning have shown to be valuable for student comprehension and mastery of subject matter. Accountability measures such as online reading quizzes prior to class meetings also make a difference.

The mass employment of poorly paid and often poorly prepared part-time instructors is a major drawback in the current US system. Research evidence indicates that these people tend to be less effective instructors, and that on many university campuses their work conditions and pay are deplorable. More institutions could follow the lead of the University of California by replacing these positions with permanent lecturers with security of employment, based on rigorous evaluation of candidates’ teaching competence and knowledge of the literature on effective practices in college teaching.

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**Performance Funding as Neoliberal Policy**

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Neoliberal ideas—whether new public management (NPM), principal-agent theory (or agency theory), or performance management—have provided the rationale for sweeping policy reforms in the governance and operation of higher education. One such policy is performance-based funding for higher education, which has been widely adopted in the United States, Europe, and elsewhere. Around 35 US states now provide performance-based funding for higher education, in which some portion of government funding for public higher education is based not on enrollments and previous funding levels, but instead on institutional performance reflecting student outcomes measures such as persistence, degree completion, and job placement. Performance-based funding is also quite common outside the United States. Australia, Canada, and many European countries (19 as of 2010) fund their higher education systems based on output-related criteria such as degrees produced, credits earned, and research effort and quality.

Two kinds of performance-based funding programs can be distinguished. Performance funding 1.0 provides a bonus above regular government funding for higher education and is often no greater than 1 to 5 percent of total government funding. Performance funding 2.0 is not provided in the form of a bonus but instead is part of the government’s base funding for public institutions of higher education. The proportion of government funding tied to performance in 2.0 programs is often much higher than in 1.0 programs, and may be up to 80–90 percent of government funding. With other institutional revenues such as tuition, fees, and research grants taken into account, performance funding 2.0 can amount to a quarter of a US public institution’s total revenues.

**Intended Impacts**

The champions of performance-based funding aim to realize outcomes such as higher graduation rates and improved research productivity by changing the values and incentives of higher education institutions and, in turn, their organizational practices. Indeed, performance funding in the United States and Europe has influenced institutions to make changes to their policies and programs for the purpose of improving student outcomes. These include, for example, redesigning their academic programming and teaching practices and reforming their student advising and tutoring services.

However, the impacts of performance-based funding on student outcomes are often weak. For example, US performance funding has resulted in more students receiving
certificates from programs of a year or less in length, but it has had very little impact on baccalaureate and associate degree reception. Performance funding for higher education outside the United States has likewise not evidenced a significant impact on student completion.

With regard to the impact of performance-based funding on research productivity, the evidence is positive but not conclusive. There is evidence that performance funding in Europe is associated with higher rates of faculty research productivity. However, many of these findings come from studies that do not rely on research designs that adequately control for causes other than the advent of performance funding.

Obstacles
The limited impact of performance-based funding on student outcomes may be due in part to obstacles that institutions encounter when attempting to respond to performance demands. US government officials and higher education personnel have discussed a number of obstacles that hinder their ability to respond effectively to performance funding requirements: many incoming students arriving in higher education lacking college readiness; performance funding metrics that do not align with institutional missions and student-body composition, which can vary greatly across institutions; and insufficient institutional capacity and resources to respond effectively to performance funding. The obstacles related to capacity and resources are due at least in part to inadequate government effort to build higher education institutions’ capacities to analyze their own performance, identify deficiencies in that performance, determine appropriate organizational responses, allocate resources for implementing those organizational responses, and evaluate how well those responses worked.

Unintended Impacts
As with any policy intervention, while policy makers pursue certain objectives when adopting performance funding, there are also likely to be unintended consequences. Indeed, government officials and institutional staff often report impacts of performance funding that were not intended by policy designers. The fact that institutions are funded at least in part on student outcomes raises the prospect that institutions may resort to illegitimate methods if they face both strong pressure to perform well on outcomes metrics and major obstacles to producing such performance. Those most frequently cited are institutions restricting their admission of less prepared students and lowering their grading standards and graduation demands in order to increase their program completion rates.

Policy Implications
As discussed in our working paper, governments should act to address the negative impacts of performance-based funding. Governments should protect academic standards and counteract the temptation to restrict admission of less prepared and less advantaged students. Academic standards may be monitored through learning-outcomes assessments, mandatory reporting of changes in grade distributions and degree requirements, and anonymous surveys of faculty as to whether they feel pressured to lower academic standards. Governments can also incentivize the enrollment and graduation of disadvantaged students by including metrics for their access and success and by taking account of institutional missions and student demographics when assessing a particular institution’s student outcomes. Governments should also endeavor to overcome the barriers to effective institutional responses to performance-based funding, which may prompt institutions to resort to illegitimate means. To do this, governments can provide extra funding to higher education institutions with many disadvantaged students and help institutions to improve their capacity to devise and implement changes that respond effectively to performance accountability requirements.

Free Tuition in Chile: A Policy in Foster Care

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Four years into its implementation, nobody in Chile seems to want to “own” the free tuition policy instituted in 2016. This is surprising, for the most universally acknowledged virtue of the idea of free tuition is its over-