designed to be competitive with other higher education institutions in meeting the needs expressed by private business and public bureaucrats. Teaching programs will typically consist of tailor-made short courses demanded by business clients and professional studies required by the state. All research will be applied research responding to the information needs of the public and private market. There will be no tenured positions and hardly any need for philosophers, sociologists, or critical political scientists and economists. Most staff will be part-time or specialists under contract. The university leadership and administration will have similar competencies as successful business corporations.

The Academic Service University

In this scenario, the university has acknowledged the new ideological and financial reality—in particular, the unfaithfulness of the state. Unlike the "degenerating university," it has succeeded in finding other funding sources. It has been able to maintain the best possible relations with the state as an on-going important client. It has also successfully competed for the research programs offered by foundations and been able to identify niches in the market for its research and education products. By its own initiatives, it has achieved financial independence. It is able to produce competitive revenue-generating services for public and private clients, resulting in a budget that makes it possible to sustain independent research and educational policies and programs. Different from the "supermarket university," it consciously uses its budget to keep up with international academic standards. Teaching programs in the arts and sciences are maintained, and its researchers are free to carry out critical research on the state bureaucracy and corporate life. Professors' salaries are decent and competitive, signaling a continued high social status for research and higher education. The "academic service university" has been able to strike a balance between individual academic freedom, institutional autonomy, and accountability toward taxpayers and business. At the same time as it is serving these clients, it is creating the financial independence that enables it to carry out its critical function in a democratic society.

Research on the Service University

At present there is an international network of 14 universities in 10 countries attempting to produce case studies of the level and character of service university development in their countries. At the Oslo and Stockholm universities specific projects concerning the relationship between the university and its clients, university leadership, budgeting, the role of professors and continuing education—in a comparative perspective—are ongoing. ■

Linking Funding, Student Fees, and Student Aid: An Alternative to Cost Recovery

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In the past quarter century, most developed and developing countries around the world have moved toward a system of financing higher education that is based on the principle of cost recovery. Under a cost recovery approach, tuition fees are set as a proportion—typically less than half—of the educational cost per student. Most or all of the remaining costs per student are then covered by government funding.

Cost recovery represents a significant improvement over the process it replaced in most countries where government allocations were largely based on the political strength of the institution. Fees were low or zero reflecting the philosophy that higher education is strictly a public good. One problem with the low or no tuition fee approach, however, is that it fails to reflect the private benefits college students receive in the form of higher incomes by virtue of their college attendance and graduation. In addition, a minimal tuition fee strategy may result in lower levels of college participation if it is combined with relatively low levels of government support for higher education. Cost recovery addresses these problems by increasing student fees to more nearly reflect the private benefits that students receive and by increasing resources devoted to higher education.

But for all of its advantages, cost recovery creates its own set of problems. For instance, the procedures tend to encourage institutions to raise funds privately and build these funds into their expenditure base as a means for increasing the revenues they receive from student fees. For this reason, cost recovery creates incentives for institutions to increase their costs rather than moderate them. Similarly, setting fees as a percentage of costs per student may encourage institutions to restrict their enrollments—thereby increasing their costs per student—and thus possibly augmenting the public revenues they receive. In short, cost recovery can lead to higher costs per student and less access.

Another criticism of cost recovery is that it tends to reinforce the inequities already existing in a country's higher education structure. Under cost recovery, institutions with high levels of resources per student tend to receive the most funds, while traditionally underresourced institutions continue to get shortchanged in the funding process. In that regard, cost recovery is more reactive than strategic in that it accepts financing structures as they are rather than providing strategic direction as to where they should go.

The question of whether the financing structure for higher education is strategic or reactive extends beyond the issue of cost recovery. Most countries tend to be incremental in their approach to financing higher education and thus reinforce the structure that already exists. The distribution of public funds to institutions mirrors previous patterns. As a result, very little strategic planning occurs in the financing process.

Moving Toward a More Strategic Model

The lack of a strategic approach in most countries is also reflected in the lack of coordination among the various public policies for funding institutions, setting student fees, and providing student financial aid. Institutional funding and fee setting are usually viewed as processes to maintain or improve the quality of institutions, whereas student aid bears the burden of improving access. As a result, governmental policies for distributing funds to institutions and setting student fees often work at cross-purposes with student aid policies and programs designed to provide greater access to disadvantaged students.

In the past quarter century, most developed and developing countries around the world have moved toward a system of financing higher education that is based on the principle of cost recovery.

To address these shortcomings, countries should consider moving to a more strategic model of financing higher education that links funding, tuition fees, and student aid policies with overall economic trends. It is also important that government policies for higher education finance take economic trends into account and remain flexible enough to respond to changing economic conditions. A more strategic model along these lines might include the following features:

- It would reward those institutions committed to addressing areas of high national priority rather than providing the most funding to institutions with the highest cost per student. In most countries, the funding of institutions is based on government funds in combination with student fees. A strategic model would have governments establishing funding formulas that reflect the setting of priorities based on national and regional needs.
- Overall tuition levels at public institutions would be set as a percentage of measures of ability to pay—such as median family income or income per capita—rather than on the basis of cost per student. Fees are typically thought of as a means for financing institutions. As a result they are likely to increase over time at a rate that is different from people's ability to pay for college. Under a strategic approach, fees would increase over time in line with economic conditions rather than institutional growth.
- If tuitions vary by field of study, the variation would be a function of national priorities and labor force needs more than cost differentials. In countries where fees are not uniform across all fields of study, they typically are set on the basis of which programs cost the most. But cost differentials among fields of study may bear little relationship to relative labor force needs and shortages. In a strategic model, countries would set fee differentials to encourage students to enter fields of high national priority, including meeting current and projected labor force shortages.
- Institutions should receive more funds for the disadvantaged students they enroll than for higher-income students. Most countries make no distinction among groups of students in the funding of institutions, relying instead solely on student aid to provide access to disadvantaged groups of students. More progress on access would be achieved if a portion of institutional allocations were access based as well.
- Government officials would explicitly consider what proportion of public funding for higher education should be devoted to student aid. Typically, student aid levels are now a residual of many other decisions. To be strategic, fee increases should be accompanied by some policy that explicitly reduces the amount of government funding of institutions and at the same time deliberately increases student aid funding.
- Student aid policies should be designed to provide a safety net for the most disadvantaged students when tuitions increase for whatever reason. The formulas in most student aid programs do not fully match the increase in fees, thus adversely affecting access for the most disadvantaged students. Student aid policies should instead be designed to protect the most disadvantaged students from the adverse effects of higher fees.
- Countries should recognize the impact of the economic cycle on higher education funding by reserving a portion of funds in good economic times to be used when less public funds are available. The financing of higher education in most countries essentially ignores the reality of the economic cycle by failing to plan for economic downturns. Conversely, countries should consider borrowing funds during economic hard times to be repaid once the economy recovers.

The steps listed above would constitute a much more strategic approach to the financing of higher education than the systems currently in place in most countries and would thus significantly enhance the ability of countries to finance higher education. ■