Reform in Higher Education: Moving Beyond Transition

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I. Introduction

President Parvanov, Ambassador Saint - Geours, Rector Bioltchev, President Hirigoyen, Professor Chobanov Honored guests; ladies and gentlemen.

It is a great honor for me to be here today to give the Ken Koford Memorial lecture. There is also great sadness. Ken was a close friend and colleague for twenty-five years at the University of Delaware. We worked on several research projects together, team taught courses together and perhaps most importantly worked together on an economics and management project here in Bulgaria. Ken was the initiator of the idea of applying for the grant that brought us here. He later came to Sofia University on a Fulbright fellowship where he exhibited the same kind of intellectual energy that I had observed as a colleague over these many years.

Ken was devoted to higher education so when I was asked to give this lecture, I thought it would be appropriate to bring more attention to the issues surrounding higher education.

When Ken and I first came to Bulgaria in 1991, we found a country recognized the importance of higher education. We also found an educational system very different from the system in the US. This was not entirely a surprise since educational institutions under communism were designed to serve a society which was very different from our own. It also meant, however, that the educational system had to be reformed if it was to properly serve the newly emerging democratic market society.

As Gur Ofer, the founder of the New Economics School in Moscow has put it:

The required changes were first of all in content, but also in organization, approach, didactics and methodology. An added difficulty to the shift was also due to the fact that the change was not an isolated scientific shift; it came along with radical changes of the regime, - political, social, mental, as well as economic. (Ofer, 2005, p. 4) (emphasis added)

To make changes in a system along all these dimensions is, indeed, a challenge.

While the *acquis* has provided a detailed successful blueprint for institutional development in many areas where the institutions need to work well together, in my presentation I am going to argue that there are some aspects of the American system which can still provide useful guidelines when thinking about further reform of higher education in Bulgaria.

Suppose for a moment that a country were to use the US system as a model for a future higher education system. Which aspects of the American system should a country like Bulgaria adopt? The American system is far from perfect so clearly there are some aspects of the American system that Bulgaria would not want to adopt. Secondly,
Bulgaria is a much smaller country than the United States and the income levels in Bulgaria are much lower than in the US.

I will not try to answer this question directly since the institutions that should be adopted here are very much a function of the special circumstances that exist here. What I will do is outline some particularly important features of the American system which I will argue can provide guidelines for a reform of the system here.

In particular, I will discuss four features that distinguish the American system. First, it is a decentralized system where the drive to enhance reputation provides the proper incentives to encourage higher education institutions to serve the educational goals of society. This parallels the argument of Adam Smith that the profit motive will provide the necessary incentives for business firms to serve their customers. Secondly, research and teaching are combined. This creates a better atmosphere for learning than the separation of research and teaching in different institutions. Thirdly, government, in much the same manner it must provide a structure for business to flourish, government needs to provide a structure for educational institutions to evolve in ways to better serve the public. Finally, US institutions have diverse sources of funding. This has enabled them to draw on more resources to accomplish their mission than in other countries where institutions of higher education are more dependent on declining state support.

As I just mentioned some of these changes will be difficult to implement in Bulgaria because income levels are much lower here. I would like to suggest, however, that this might not be an insurmountable obstacle as I discovered this spring when I taught in Turkey - a neighboring country with an income level close to that of Bulgaria. I will discuss what I learned there in the last part of my talk.

Higher Education in the US

Let me begin my discussion of the features of the US system by looking at:

Decentralization

In the US the federal government plays a very limited direct role in higher education. The governance of state universities falls to the states and private universities have even more independence. In many ways the system seems unplanned, but many structural features have evolved. For instance, the degree structure of four years for a bachelor’s degree, followed by a master’s degree of varying length and finally a PhD is pervasive. The number of years of study varies in different fields, but there tends to be general consistency within a field. At least at the undergraduate level, reasonably general transfer of credit is possible. This is something that the EU is striving for through the Bologna Process.

Many states have also adopted the basic structure that was first put in place in California for its publicly supported institutions. This is a three-tiered system of research
universities at one tier (Berkley, UCLA), state universities which are more teaching universities on a second tier (Cal State University at Northridge, …etc) and two-year community colleges as a third tier. The community colleges perform a dual function. On the one hand, they can be two-year programs that are designed to prepare students for an additional two years at the other four-year schools. On the other hand, they provide a finishing program with a strong focus on vocational skills. By providing a wide array of options higher education is able to serve a large population with diverse goals. This is important in a world where the workplace demands higher skills from so many workers.

Institutions of higher education have the freedom to design their own programs and hire their faculty, largely without interference from the State. As in any decentralized decision-making environment, this freedom allows institutions to move more swiftly and adjust to changing circumstances. For example, the university can make the decision to start a Women’s Studies program or a Management Information Systems program without consultation with the State. This freedom has led to a wide diversity of new programs, many in response to changing needs within the workplace for new skills. It has also, as you might imagine, led to some programs which have only limited value.

But in many ways this is how a market system works. People come up with new ideas and test them in the marketplace. Some ideas take off and produce new expanding markets; most do not and eventually disappear. A university is not exactly like the marketplace so some new program last longer than they should, draining university resources until they are finally abandoned.

For this system to work properly, however, leaders of higher education institutions have to have the right incentives. Here is where reputation plays such an important role, for it is reputation that affects the viability of the institution. It affects the recruitment of students, the recruitment of faculty, and financial support from outside donors. It gives the university standing within the community.

Let’s take, for example, hiring and firing faculty. While there are exceptions, the usual expectation is that a new faculty member will have completed his or her PhD. In almost all cases the PhD will be completed at a university different from the university where the student studied. In many fields the market for new PhDs is well-organized with a prescribed time for applications, initial interviews at the national meetings and campus visits. These markets are now becoming international markets with applicants and universities coming from many different countries. As I will point out again later, Sabanci University in Istanbul, where I spent the spring semester, recruits new faculty in this market. The market for economists is becoming global!

New faculty members are expected to teach, do research and provide service to the department, university and the community. Emphasis on teaching, research and service varies with the institution. At large research institutions expectations for research performance can be very high. Normally at the end of six years, the faculty member is evaluated and a decision is made as to whether tenure will be granted. Tenure is a long-term contract of lifetime employment. Tenure has been criticized, for once tenure is
granted the incentives to work hard are clearly lower. In America where there is very little job security in other jobs, tenure is becoming more and more an anomaly.

On the other hand, the decision to grant tenure is taken very seriously at most schools. It is a decision either to promote the candidate or end their employment, often referred to as an “up or out” decision. In the economics department at Delaware only about one-third of newly hired faculty are promoted. At Harvard almost no one makes it through this process. That is, at Harvard, almost all new junior faculty can be expected to be fired.

These promotion decisions are reviewed by faculty and administrators, and usually include input from academics outside the university who are knowledgeable about the candidate’s research. Sometimes these decisions can be very controversial, for they affect the direction of the departments and the university. In other words, they affect the reputation of the department and the university.

To see another aspect of how reputation works consider the situation of a new PhD entering the marketplace. PhDs are granted by the institution, not the State. From the perspective of the person receiving a new PhD, the value of this degree depends heavily on the reputation of the degree granting institution. In Istanbul I met a Turkish economist teaching in the US. When he applied to PhD programs in the US, he chose not to go to Rochester, which has a strong reputation in economics because so many other Turks were there. Instead, he went to a program with a weaker reputation. When he entered the job market, he found that his choice of PhD program was a real problem when he applied for jobs. Most job openings receive several hundred applications so most candidates are eliminated before the interview process begins. Coming from a program with a weak reputation can make it very hard to get an interview at many schools.

In some ways reputation acts as a proxy for profits in the marketplace. Adam Smith argues that government intervention was not needed because economic agents acting in their own self-interest would take the correct actions. In the higher education marketplace in America, reputation plays a similar role. Government needs to provide a supporting framework, much like it does for business in the economic sphere, but higher education institutions are motivated to serve the community by trying to enhance their reputation and extensive regulation is not needed.

For this system to work properly, the public needs to be informed about how well these institutions are actually functioning. Information is provided through accreditation agencies and various rankings of institutions. For example, US News and World Report, a weekly magazine, annually publishes a ranking of colleges and universities. The method for establishing this ranking is explicitly stated and the rankings are considered to be unbiased. University presidents pay attention to these rankings because they know that these rankings will affect the reputation of their institutions.

For academic graduate programs, articles periodically appear with rankings of departments. The criteria are usually heavily weighted towards research output. These
rankings are important for recruiting graduate students. As I just related, these rankings can also be important to graduates seeking a job.

Will such a decentralized system work in Bulgaria? The first law on higher education, the Academic Autonomy Act passed in 1990 provided for a very decentralized structure with full autonomy for higher education institutions. There was a tremendous expansion of programs, and five private universities were established. Student enrollments grew from 127,000 to 248,000 between 1990 and 1995. This law was replaced by the Higher Education Act of 1995. The new law reflected a feeling that the 1990 law had gone too far in decentralizing the system. (OECD, 2004) I see this as a normal learning-through-doing process. It is not so different from a large firm which alternates between periods of more and less decentralized internal arrangements.

The discomfort with the more decentralized arrangement may also reflect another point. To have a decentralized higher education system, the institutions need to have the proper incentives. As I have argued, in the US, reputation plays the role of providing these incentives. For Bulgaria in the early 1990s, the structure to provide such incentives was not in place.

Decentralization has many advantages in terms of allowing institutions to adjust to new situations. A key question for Bulgaria is whether the right incentives for universities can be created within a decentralized environment.

Research and teaching

Combining research and teaching has significant benefits if the purpose of the instruction is to provide students with an analytic framework for future endeavors. To quote again from Gur Ofer:

As an analytical science economics thrives best when teaching is combined with research, as is the case with respect to most other sciences… The combining of teaching and research is not only about the proximity and the speed of dissemination. It is also about the investigative approach to teaching, teaching that encourages searching for solutions to unresolved issues, which promote the analytical way of thinking, skills, creativity and curiosity. (Ofer, 2005, p. 5)

Bringing strong researchers into the classroom, thus promotes a more analytic approach to instruction itself. Given the limited resources available for both teaching and research in Bulgaria, having researchers spend more time teaching should be particularly beneficial.

Also creating an atmosphere where research is rewarded by the universities would be one way to encourage Bulgarians who are strong researchers to return to Bulgaria to teach – and encouraging Western-trained economists to return is important to the future viability of Bulgarian higher education.
**Government’s Role and Promotion of Competition**

Competition can take many forms in higher education: competition for students, for faculty, for research funds and competition from new institutions. Many of these types of competition already exist in Bulgaria and in that sense Bulgaria is moving forward more quickly than other accession countries. As in other areas of the economy, government plays an important role in defining how competitive this environment will be.

In the economic report to the President last January, there is a section that points out that to advance the Lisbon program, higher education must respond to the challenge. Furthermore, the report anticipates that there will be more competition in the higher education sector as Bulgaria becomes further integrated into EU.

In the early 1990s Bulgaria passed a liberal higher education law which allowed new institutions to be established. Some institutions that took advantage of this law were the Varna Free University, the New Bulgarian University and the American University. Varna Free University and American University are now locally accredited. This may not appear at first to be so surprising, but some “centers- of—excellence” started by various international funding agencies have had great difficulty getting local accreditation – a method that local authorities have used to limit competition. An example can be found on the website of Central European University in Budapest:

> In addition to the MA and doctoral degrees already accredited for a long time in the United States, CEU offers the following degrees accredited in Hungary. (emphasis added) (http://www.ceu.hu/)

Elsewhere on the website, it describes local accreditation was acquired in April 2005. The school opened in 1991.

As this illustrates, accreditation can be used to encourage minimum standards and inform the public, but it can also be used to limit competition.

Competition for students can also be important. Bulgarian universities already face stiff competition for the best students. When I speak with professors in the US and tell them I have been working in Bulgaria, a very common response is that they have had a wonderful Bulgarian student. These bright students are going abroad for their education, and many are not returning.

Faculty play an essential role in improving university performance. The professorate in Bulgaria is aging and the number of students in higher education in Bulgaria has expanded dramatically over the past fifteen years. This should be an opportunity for recruiting young faculty.

Many potentially good Bulgarian faculty are working abroad. What can be done to bring these people back to Bulgaria? An important step would be to lower the entry barriers
into university teaching positions in Bulgaria. In the US there is an open market for new faculty and universities have the right to hire whomever they believe will perform well. There is no state interference. To teach at an American university you do not need a US degree, you only need to impress the hiring committee at the university. Presently the same is true in Turkey and some Turkish universities are enticing Turkish scholars to return.

I believe that a key to enticing Bulgarian scholars to return is to convince them that they will make a difference in establishing a world class scholarly community in Bulgaria. The point is that these scholars are out there. A few have returned but universities would benefit if more returned. The challenge is to bring them back.

Another essential condition for bringing young faculty back to Bulgaria is pay, and not just the level of pay. To attract world class faculty, you also have to pay faculty for performance, not just for seniority. People who work hard expect to be rewarded for their efforts. As long as pay is very low, it will be hard to attract good faculty. This brings me to the fourth issue: financing.

*Financing*

Financing of universities in the US is perhaps best summarized by the following quote from a university president:

> As one American university president put it, his university has evolved from being a “state institution” to being “state-supported”, then “state-assisted”, next “state-located” and now “state-annoyed”. *Economist*, (2005).

Universities no longer rely on state support. This is creating a stark difference between financing of American and European universities. While America spends approximately 2.7% of GDP on higher education; Europe spends only 1.1% (*Economist*, 2005). Funding now comes from tuition, donations from alumni and friends and support from the private sector.

Tuition funding has been important in Bulgaria as well. The tremendous expansion in the number of students obtaining higher education degrees would not have been possible without tuition. Bulgarians understand the importance of education and are willing to pay for it.

American universities price discriminate to maximize their income flow from tuition. They announce very high tuition levels and then give scholarships to students who cannot afford the high tuitions.

Price discrimination also plays another role. It makes it possible for almost any student to attend a prestigious university. Although prestigious private universities charge much higher tuition than state schools, after ‘scholarships’ (i.e. price discrimination) are
included, it is often less expensive for a student of limited means to attend a private university. The result is that admissions is based on merit, not income.

Because, in almost all instances, there are no controls on what tuition they can charge, tuition is an important revenue source. The more prestigious the school, the more they can charge. Reputation plays an important role.

Corporations are financing research activities, although there are problems associated with freedom of dissemination of the research results. The Technical University in Sofia has entered into agreements with corporations to finance research.

Some universities like Harvard have huge endowments. Harvard’s endowment exceeds $20 billion dollars, this gives Harvard approximately $1 billion a year to spend on its operating expenses over and above other sources of income; this is almost twice the total budget of the University of Delaware, a university of 20,000 students. ¹

If we take the University of Delaware as an example of funding for a US state research university, it can be seen that less than 20% of the budget comes from State funding. About 10% comes from endowment (listed here as investments). The federal government also plays a role here since ‘contracts’ are research grants, much of it from government agencies.

The US is not alone in using the private sector to obtain support for higher education. As Table 1 illustrates. Many countries rely on private sector support, but European countries are not among them.

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¹ Harvard’s total budget is approximately $2.6 billion and the actual expenditures from the endowment was $961 million. See “Better-than-balanced books” Harvard Magazine, November-December 2005 http://www.harvard-magazine.com/on-line/110527.html
REVENUE ($556.3MM)

- Tuition & Fees*: 34.3%
- State Appropriations: 18.5%
- Contracts & Other Exchange Transactions: 19.7%
- Room, Board & Other Auxiliaries*: 12.6%
- Investments & Gifts: 11.9%
- Other: 2.8%

*Net of Scholarship & Fellowship Allowance

Source: [http://www.udel.edu/IR/fnf/opref/index.html](http://www.udel.edu/IR/fnf/opref/index.html)
Higher Education in Turkey

Thus far I have talked about the US and Europe. These are countries with much higher per capital income levels than Bulgaria. A more appropriate comparison might be Turkey, a neighbor with income levels much close to Bulgaria’s. While the general education level in Turkey is much lower than in Bulgaria, there are some interesting developments in higher education in Turkey which I observed last spring when I had the pleasure of spending a semester in Istanbul at Sabanci University.

While Turkey is not a transition economy in the formal sense, its economy has been going through an economic transformation which has many parallels to the transition process in former communist countries. Heavy involvement of the State in the economy began to change only in the 1980s. A process of privatization of state enterprises is now underway, but some estimates still place government employment in the non-agricultural part of the economy at 60%.

Beginning in 1986 when Bilkent University (in Ankara) admitted its first students, there has been a movement to establish private universities. Several of these universities, for example, Koç in 1994 and Sabanci in 1999 were founded by families controlling large holding companies. Bilkent, Koç, and Sabanci, in particular, have been seeking to
achieve a high standard of academic excellence by recruiting faculty with degrees and, if possible, teaching experience in Western universities. Instruction is in English which gives students and faculty access to the global academic community.

These changes in higher education did not just happen. It took the initiative of important people in Turkey. Ihsan Dogramaci, a prominent physician and educator, played a pivotal role when, as the head of an education committee given the task of writing a section of the new constitution in the early 1980s created a loophole for foundations to establish universities. He then started Bilkent in 1986. He later had to fight again in parliament in 1990 to get full recognition. As elsewhere, higher education in Turkey needed government support and proper regulation to prosper.

The story of the founding of Sabanci University is also interesting. Sakıp Sabancı, the president of the Sabanci Holding company, was approached about the founding of the university. He was asked if he had ever heard of Stanford. Of course, he replied. Had he every heard of Leland Stanford, the railroad magnate? The suggestion was that if he wanted to be remembered, then the best way to do this was to start a prestigious university. So he did. Perhaps it is a better way for an oligarch to be remembered than buying a football team.

These three universities, Bilkent, Koc and Sabanci expect their faculties to teach and do research. As they see it, their reputation will depend on publication records in Western journals. They pay their faculty salaries that are competitive in the global marketplace, while salaries at other universities are only a fraction of these wages. These economics’ departments recruit in the US job market, just as an American university might do.

Since I was teaching in the economics program at Sabanci, let me focus on the economics’ programs. One striking feature of these programs is that talented economists are returning to Turkey, and in this process instruction and the understanding of market economics is improving. The competition from these universities is also increasing the pressure on other universities to raise their standards.

Since they have been able to attract good faculty, the economics department at Sabanci is first rate, so far there has been relatively little research on the Turkish economy. This may change over time as the department matures (recall the university is only six years old and the faculty is young), but the pressures to publish in Western journals will still encourage work unrelated to the Turkish economy.

An important aspect of the growth of the Turkish universities is that they are indigenous organizations that have grown up to meet needs as perceived by the local community. There is a strong interest in these institutions from the business community which have brought not only financial support but have also been intensely involved in the actual management of the universities. For example, the head of the Sabanci holding company has been very much involved as an overseer of the university’s development.
Sabanci is also the first university in Turkey to adopt an American style liberal arts undergraduate curriculum where students can change their concentration after they have started at the university.\footnote{This has actually been difficult to do because admission to Turkish universities is based on a national exam and a sorting process where students are asked to identify a university and a program within that university. This process assumes that students will stay within a certain field of study once they enter a university.} Sabanci demonstrates that new institutional arrangements can evolve through a process of entry.

As the preceding discussion illustrates, just as in the US, reputation matters a great deal to Sabanci. For me, evidence that they are succeeding came when I met a recent graduate of Sabanci whose sister had gone to college in the US; indeed to the same college my son attended. For this family at least Sabanci now represented a good alternative to sending their children to college in the US.

**Conclusions**

What I see for higher education in Bulgaria, and what I have tried to outline above, are real challenges ahead, but when I think back over the past fifteen years, especially the past eight years, I also see what has been accomplished in Bulgaria.

I have subtitled my talk “Moving Beyond Transition” because I feel that this is how Bulgaria needs to think about the future of higher education. There are, for instance, many world class Bulgarian economists who can contribute to the education mission here and help bring the economics education up to world standards.

If Ken Koford were here with us today, I am sure that he would have critiqued what I have said. He always had interesting insights on any topic, and he cared deeply about higher education. He also respected ideas that seemed to push the envelope of what was possible, since he always tried to push the envelope himself. I recall when we first came to Bulgaria in the summer of 1991 and met with George Chabanov. Unlike the rest of us at the University of Delaware who were hesitant, Ken believed that we could get our program started in the summer of 1991, even though the funding from the US government was not secured until mid-June. With his initiative we started teaching classes at the beginning of June in Varna, two weeks after obtaining final funding approval. By fall we had a full set of courses going under Chabonov’s direction here at Sofia University.

In further reforming higher education Bulgaria has some important advantages which Ken always appreciated. Bulgarians understand the importance of education and what it means in the global economy. What is needed is the institutional reform that will provide the world class higher education that Bulgarians seek. Bulgaria has started down that path, and I believe has already made some institutional changes that have moved it beyond some of its neighbors who have already acceded into the European Union. More radical change is needed, however.
For these changes to be successful, the government needs to consider how regulations should be changed so that universities have the right incentives to serve the community and can grow. The private sector needs to lend more support, both moral and financial, to higher education so that workers, new and existing, can receive the training they need to compete in the global economy.

Given Bulgaria’s successful economic record, Bulgaria is now being seen as a model for other Balkan countries. I just returned from teaching in Sarajevo where I have been repeatedly asked the question: “How did Bulgaria do it?” Given the challenges that Bulgaria has already met and the difficult times that the nation has experienced, I am confident that these challenges to higher education can also be met, and some day, let us hope, people will look at the higher education system in Bulgaria and ask: “How did Bulgaria do it?”

Bibliography

