On the Financial Reform In Russia's Higher Education

By

Tatiana Klyachko
Center of Continuing Education Economy, Russian Presidential Academy of National Economy and Public Administration (Moscow, Russia)

Sergey Sinelnikov-Murylev
Rector, Russian Foreign Trade Academy (Moscow, Russia);
Academic Director, Gaidar Institute for Economic Policy (Moscow, Russia)

ABSTRACT

The article deals with higher education reform in Russia. Special attention is paid to the innovations after the Federal law No 83 was adopted (2010). The authors analyze whether the reforms lead to financial self-dependence of universities, whether they do create a more competitive environment (which promotes a better education), and how the normative per capita financing affects the higher education system. Analysis of the first reform steps shows: the results are contradictory, many applied methods do not lead to the desired effect. The main obstacles are other institutions: first of all the system of higher education institutions accreditation and licensing. For further efficiency growth of higher education political (administrative) methods are needed. Only after application of administrative methods the economic methods will work properly. During the reforms it is also necessary to account for the social situation in the country.

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On the Financial Reform in Russia's Higher Education[1]

The subject of higher education funding and of increasing its effectiveness has been discussed for the last 15 years. According to experts, in order to increase the effectiveness it is necessary to ensure the economic independence of higher education institutions (HEIs), create conditions for competition between HEIs for funding and to introduce normative per capita funding. In 2010 Federal Law No.83-FZ[2], on reforming state and local government institutions, was adopted. Will it increase the efficiency of higher education and contribute to the fulfillment of the tasks faced by HEIs?

This law may promote the development of inter-university competition. HEIs obtain funding for the provision of a state service (i.e. the education of state-subsidized students) calculated on a per-head basis, which means payment for each student studying on a state-subsidized basis. Thus, HEIs are beginning to operate in a quasi market environment where some students' education is paid for by the state whilst the education of others is paid for directly by the immediate consumers of the educational service — the public themselves.

A normative per capita basis of funding is considered to be one of the key measures of the announced reform. The law sets forth almost identical principles for financing budgetary and autonomous institutions.

While a budgetary institution is financed through the Treasury and its purchasing activities are subject to Federal Law No.94-FZ[3], an autonomous institution is entitled to carry out purchasing activities without following the procedures set forth in the law on state purchasing, to open accounts in credit institutions and to take out loans. Furthermore, autonomous institutions may participate in the share capital of business entities. In this respect budgetary HEIs are limited by the options provided for by Federal Law No.217-FZ[4]. Moreover, instead of a budget estimate, a three-year financial and business plan is provided for both types of institutions and this must be approved by

[1] The original version of this article was published in Russian in the journal *Voprosy ekonomiki*. 2012, № 7.

[2] Federal Law of the Russian Federation dated 8 May 2010 No.83-FZ on Amending Certain Legal Acts of the Russian Federation for the Purpose of Improvement of the Legal Position of State (Municipal) Institutions.

[3] Federal Law of the Russian Federation dated 21 July 2005 No.94-FZ on Placing Orders for Delivery of Goods, Performance of Works and Provision of Services for State and Municipal Needs.

[4] Federal Law of the Russian Federation dated 2 August 2009 No.217-FZ on Amending Certain Legal Acts of the Russian Federation Concerning Issues of the Creation of Business Entities by Budgetary Scientific and Educational Institutions for the Purpose of the Practical Use (Implementation) of Results of Intellectual Activity.

the founder in the budgetary organizations and by the head of the institution (with the consent of the supervisory board) in the autonomous institutions[5].

The principles of payment for an educational service by the state are also laid out in Federal Law No.318-FZ[6] adopted in 2011. In accordance with this Law the educational activities of private educational institutions accredited by the state may be financed by budgetary funding.

Thus, at the moment both state and private HEIs accredited by the state may compete on equal terms for the right to provide a public service for educating students. Hence, the following funding mechanism takes place: the state determines the standard budget funding per student and the number of state-subsidized students and then the HEIs compete for the right to provide this service. So, the principles of distribution of the state assignments between HEIs, the determination of the standard cost (the cost of education of a state-subsidized student) and the number of state-funded places in HEIs become key issues in the development of higher education.

It could be assumed that the cost per state-subsidized student in HEIs administered by any particular founder (or a body performing its functions) would be averaged. This did happen in many respects, with the exception of HEIs under the jurisdiction of the Ministry of Education and Science.

On 2 April 2012 the Ministry of Education and Science announced a public competition for state-accredited higher professional educational institutions. Based on the results of this competition the admission quotas for education funded by the federal budget the 2012/2013 academic year was set for each area of training (specialty).

The competition drew entries from 313 state HEIs, 85 private HEIs and 1 Russian Federation HEI. According to the Explanatory Memorandum to Federal Law No.318-FZ, the number of private HEIs which may participate in competitions for distribution of admission quotas should not exceed 40, and the number of state-subsidized students allowed to study in such HEIs should not exceed 4,500 [7]. However, based on the results of the competition admission, quotas were set for all the 313 state and for 54 private HEIs. All state HEIs participating in the competition are under the jurisdiction of the Ministry of Education and Science which itself ran the competition.

For the first time, the standard costs for implementing the main professional educational programs of higher professional education (for first-year students in the 2012/2013 academic year) were determined. These normative expenses were determined by specialty (area of training) and differentiated, primarily, by the level of higher education — undergraduates, masters, postgraduate. Furthermore, the standard funding levels differ by specialty (area of training), depending on whether they require laboratory equipment or not. Separate standards were set for specialties characterized by particular teacher/student ratios (1:4, 1:5, 1:6) and for priority fields.

It is unclear how the above normative standards take into account the considerable differences between the asset portfolios of different HEIs. The size of the

[5] A supervisory board of an autonomous institution issues an opinion on a draft financial and business plan the copy of which is sent to the founder. The head of the autonomous institution makes a decision on the basis of the above-mentioned opinion issued by the supervisory board (see paragraph 3 of Article 11 of Federal Law of the Russian Federation dated 3 November 2006 No.174-FZ on Autonomous Institutions).

[6] Federal Law of the Russian Federation dated 16 November 2011 No.318-FZ on Amending Certain Legal Acts of the Russian Federation Relating to the Determination for Educational Institutions of High and Higher Professional Education of the Admission Quotas for Citizens to Be Educated for Account of Funds of Relevant Budgets of the Budgetary System of the Russian Federation.

[7] This Explanatory Note to the Law was, in its essence, a sentence on the existing HEI accreditation system, on the one hand, and on private HEIs, on the other hand. Indeed, according to the Law, amongst all HEIs accredited by the state only 40 could be given permission to educate state-subsidized students. This clearly illustrates both the “value” of state accreditation and the quality of the private higher education sector existing in Russia.

normative costs also raises some questions: for example, for specialties not requiring laboratory equipment the normative standard is set at 60.2 thousand rubles, for those requiring laboratory equipment — 63.8 thousand rubles and for those requiring complex laboratory equipment — 66.2 thousand rubles per student.

The subject of the competition itself is doubtful: since all participants in the competition were accredited HEIs, where one would expect that the quality of education is already certified by the very fact of state accreditation.

Economic independence of HEIs

The 1992 Law of the Russian Federation on Education[8] was aimed at ensuring economic independence of all educational institutions, including, naturally, the HEIs. It declared normative financing rates per student and provided educational institutions with an option to carry out income-generating activities, including the provision of educational services on a fee-paying basis. However, later the Budget Code considerably limited the economic freedom of the educational institutions. It did not take long for the implementation of Treasury-based budget execution, institutions were prohibited from obtaining loans and all non-budget funds were declared as the non-taxable income of the budget system. This meant the introduction of a unified (budget and non-budget) income and expense estimate which was to be approved by the founder and could be modified only with its consent. This limited the freedom to use both budget and non-budget funds. However, in practice, HEIs were provided with a fair degree of freedom to dispose of non-budget funds. Moreover, once the Budget Code was introduced, measures began to remove the limitations provided by the Code.

For this purpose the number of organizational and legal forms of institutions was increased. In 2006, according to Federal Law No.174-FZ[9] a new type of institution was introduced — the autonomous institution. Such institutions were to be financed, not on the basis of a budget estimate, but on the basis of a subsidy, so they could open accounts in credit institutions and take out loans, but the state was no longer secondarily liable for their debts. Furthermore, such organizations were able to establish business entities and participate in the share capital of profit and non-profit organizations. The form of an autonomous institution not only provided development possibilities but also created certain risks for both the establishment and its founder. As a result, by the beginning of 2012 only 0.35% of federal state institutions[10] had become autonomous and among educational institutions under the jurisdiction of the Ministry of Education and Science there were only 12 out of 1157, i.e. just 1%.

Whether easing restrictions on spending budget funds will lead to an increase in the efficiency in the use thereof will depend greatly on how strictly the founder controls the process of formation and execution of the financial and business plan of the HEI. It should be noted that even now, for HEIs with quite substantial volumes of non-budget revenues, the strictness of the budget estimate alongside the possibility, almost entirely freely, to dispose of non-budget income is not a serious restriction. By using such funds HEIs can increase the quality of their educational services.

To increase independence is reasonable only when there are serious prerequisites for it (which are absent in most cases). Greater freedom is justified if the activities of the HEI are aimed at achieving public goals because the removal of restrictions will create additional possibilities for

[8] Federal Law of the Russian Federation dated 10 July 1992 No.3266-1on Education.
[9] Federal Law of the Russian Federation dated 3 November 2006 No.174-FZ on Autonomous Institutions.
[10] Ministry of Finance of the RF, www1.minfin.ru.

short-term gain without increasing efficiency in organizations where the management is striving to gain the maximum income during a relatively short period. In order to ensure appropriate goal-setting it is necessary radically to reform the system of licensing and accreditation of HEIs and to ensure that the founder concludes an effective, stimulating contract with head of the higher educational institutions and develops reasonable indicators for the evaluation of their performance. Furthermore there is a requirement for the development and improvement of procedures for public control, including on the basis of the formation of objective ratings of HEIs.

Competition for budgetary funding between HEIs

One of the tasks was to develop competition between HEIs for budgetary funds in order to increase the efficiency of their activities. The two following mechanisms may be used to complete this task.

Normative per capita financing means implementing the principle of "the money follows the student". The normative per capita funding without any determination of a state assignment for HEIs (cancellation of admission quotas) requires the establishment of a general quota for the number of first-year students admitted to study on a state-funded basis. The Unified State Examination (USE) was supposed to become the basis for the selection of state-subsidized students. A "cut-off score" was set based on USE results with HEIs not able to admit students with lower scores to state-funded education.

However, several problems arose. How to set the "cut-off score" — by averaging of 3 or 5 subjects; by averaging mandatory subjects; or by setting an average rating on the basis of an aggregate of all the scores obtained? Each of the methods has its pros and cons. Are scores in physics equivalent to scores in social sciences? All these questions can be resolved but it will be hard to explain the solutions chosen to the interested public because in each case there will be winners and losers.

In setting a cut-off score a great variety of situations is possible depending on the selected scheme. Let us assume that the scheme for setting a cut-off score is based on an average of three subjects. One student obtained 50 points in maths, 60 points in physics and 60 points in Russian so his average score is 56.7. Another student obtains 90 points in maths, 40 points in physics and 30 points in Russian and his average score is 53.3. If the cut-off score for state-subsidized students is set at a level of 55 points, the first student will be able to study on a state-funded basis at the faculty of mechanics and mathematics (if he can be admitted) but the other student will not obtain the right to study on a state-funded basis although his suitability for studying at the faculty of mechanics and mathematics is obvious. If only the scores in major subjects (mathematics and physics) are taken into account and there is a "pass" grade for Russian, the first student will get 55 and the other student will get 65 and if the cut-off score is set at the level of 60, the second student will be admitted to the faculty of mechanics and mathematics and the first one will not get the right to study for free. For HEIs the scores in major subjects should be of greater importance, so the second scheme is preferable.

Equally important is whether the scheme chosen will be invariant or will vary depending on the USE pass-rate in a specific year. Until 2011 the scheme was quite flexible but it has started getting harder. For example, in September 2011 the minimum test scores for the mandatory subjects (Russian and maths) were set and in 2012 any lower scores will be considered as a "D". Previously, such scores were determined based on the results of the examinations passed in these subjects at USE.

Remember that some of the applicants who, based on their USE scores, will be eligible to study on a state-funded basis in certain HEIs may prefer to enter others on a fee-paying basis to study in their chosen disciplines. The discrepancy between the preferences of applicants and the existing structure for training qualified personnel in HEIs, as reflected in the number of state-funded places, may be considerable.

Let us assume that the cut-off score is set at the level of 60. Some students will obtain average USE scores of 65-70. They may not obtain state-funded places for the socio-economic or humanities faculties in prestigious HEIs but choose to enter them to study on a fee-paying basis, rather than entering, for example technical HEIs to which they could have been admitted on a state-funded basis. This follows from the HEI rankings compiled over the last few years by the National Research Institute at the Higher School of Economics.

It is also necessary to take into account the objective differences in the funding requirements for different educational programs because the training of engineers and medical doctors is certainly more expensive than training economists and lawyers. Taking this into account makes the determination of a cut-off score even more difficult.

A legal contradiction also arises. All students who have passed the USE with a “C” and obtained a high school certificate have the right, in accordance with current law, to enter HEIs, including on state-funded places. The introduction of a cut-off score deprives them of this right at the outset, even before they apply to HEIs. It turns out that such applicants may study only on a fee-paying basis or they will not be able to enter any HEI at all (in the case of the introduction of two types of cut-off scores, as was previously stated). This will require amendments to the legislation and at the same time will question the very existence of the high school certificate itself and, hence, the link between the school and university curricula.

External evaluation. The state may distribute state assignments between different HEIs based on an evaluation of the efficiency (or quality) of their activities. However, in the case of a centralized distribution of state assignments (as in the case of the introduction of a cut-off score) a whole range of problems will arise. The first question to answer will be how to organize an independent efficiency assessment and how to determine the efficiency criteria for HEI activity.

It is generally believed that all HEIs accredited by the state comply with the federal state educational standards, i.e. perform at a high level (i.e. ‘effectively’). Hence, if the public (citizens, employers, professional associations, etc.) is not satisfied with the performance of HEIs, either the standards have to be changed or the accreditation system has to be tightened, or both.

Another alternative for assessment is an independent exam, like the USE, or qualification exams for undergraduates to be held by special commissions independent of the HEI and comprising representatives of employers and professional associations.

It should be noted that all of the above measures have been proposed for many years and are only discussed seriously by the experts but not by decision-makers. We might conclude that such measures affect the interests of certain groups (especially the public HEI) which block the implementation of these measures in some way or another.

The problem of standards

There is a point of view that it is necessary to move to either unified or differentiated by groups of HEIs funding standards as soon as possible. However, the determination of normative standards by averaging the existing individual standards will be beneficial for weak institutions and disadvantageous for strong ones. One of the possible options is to differentiate standards in accordance with the USE scores of applicants.

However, in this case the above-mentioned problems relating to the non-feasibility of following the short-term preferences of applicants will arise. Furthermore, this approach will postpone complex political decisions on the restructuring of the HEI network: the closure of HEIs which do not comply with licensing and accreditation requirements, the merging of weak HEIs with strong ones, the opening of new HEIs based on the asset base of liquidated ones, the implementation of support programs for weak but necessary HEIs, the replacement of management in weak HEIs, etc. What will occur in this case is a simple reduction of funding for those HEIs which are less popular with applicants (usually the really weak ones) to the benefit of popular HEIs (often, but not always, the really strong ones). However, it is unlikely that a slow extinction of weak HEIs due to the lack of funding will become an effective method of restructuring the network of educational institutions because it contradicts the principles of the rational use of state property. Moreover if HEIs subject to reduced funding move to renting out their real estate either by the HEI (or personally by its managers) this will hinder the restructuring processes.

Normative financing aimed at implementing the state assignment is considered as a mechanism to increase the objectiveness in the allocation of budget funds amongst HEIs compared to their funding in accordance with, for example, their individual budget estimates.

Indeed, if the financing normative standard is set as '*N'* and the amount of state assignment for the i-th HEI is 'G'; , the volume of budget financing *'S '*, which the i-th HEI receivers will be *S {= N x G}*. Thus, this creates an impression of transparency of budgetary allocations to each HEI. However, this is an illusion. All the problems are moved to the allocation of the state assignment for qualified specialists between HEIs, which will be determined either by the consumer choice or by centrally established efficiency criteria[11].

The process of redistribution of funds towards strong HEIs is difficult from the political point of view; hence, this cannot be resolved using just economic means ("the money follows the student"). Weak HEIs subject to reduced funding still have to complete educating their existing students and maintain their state property. Furthermore, applicants' preferences may not coincide with the priorities of the state educational policy and the forecast structure of the labor market, which is why some HEIs must be maintained despite low public demand. It is also necessary to allocate funds to those weak HEIs which need restructuring and a change of management. The need to teach weak students remains (schools are mainly liable for the existence of this need because they provide education of poor quality and poor motivation to learn) and sometimes this requires more funding than teaching strong students. This may question the basis of the funding mechanisms for example, in

[11] It should be noted that in the distribution of the state assignment on a competitive basis the effectiveness criteria are also established centrally.

respect of state registered financial obligations which would ensure the priority of strong HEIs in obtaining budgetary funds.

Thus, the principle "the money follows the student" will be effective where few HEIs compete with each other and may, with an increase of funding, increase the supply and quality of educational services. However, this situation is not always observed.

The restructuring of the HEI network for the purpose of closing ineffective institutions and the introduction of a funding mechanism based on the principle of "the money follows the student" may be implemented on the basis of the application of unified standards of budgetary funding or on the basis of differentiated standards.

Normative standards may be differentiated using many criteria. These could be educational programs conducted by the HEIs — undergraduate, masters and postgraduate programs or training programs for teachers, medical doctors, engineers, architects, etc. The grouping of normative standards is also possible by types of HEIs: federal HEIs, national research institutes, other high-profile HEIs (for example, Russian Federation HEIs, the RF President's HEIs and strategic regional HEIs) and non high-profile HEIs, taking into account regional peculiarities or funding requirements relating to the training of qualified personnel. Normative standards can also be differentiated through the USE scores, by type of state registered financial obligations. In practice complex differentiation schemes will result: for example, the HEI status and the type of program as well as regional peculiarities (regional salary rates, cost of property maintenance) will be taken into account. The necessity to attract highly qualified personnel will require the registration of academic degrees and the ranks of teaching staff.

The simple solutions, such as to take into account only the total USE score and to introduce only two categories of state registered financial obligations (for example, one for scores of 85-100 and the other one for scores of 64-84, while all students with scores of 35-60 will study on a fee-paying basis), will probably not satisfy most of the HEIs but is likely to lead to substantial corruption.

State assignment and state orders

Discussion of the issue of the engagement of non-profit organizations, including private HEIs, to provide social services, perhaps, should be continued but the effectiveness of this measure seems strongly exaggerated. This is especially clear with the example of education. State institutions are in an advantageous position in the market, principally because of their "free" fixed assets and other property, rather than due to their state funding.

For the same reason the access of non-profit organizations to resources which are allocated for the execution of public assignments but take into account only current expenses, will prevent most non-profit organizations from competing with state institutions. It is significant that, private HEIs are, as a rule, unable to compete with state institutions so they occupy the low-quality segments of the market for educational services and this often leads to non-compliance with state standards.

Therefore, the recently adopted law on the admission of private HEIs to state assignment and, hence, to budgetary funding will work effectively only after a radical reform of the system of licensing and accreditation of HEIs. Out of several hundred private HEIs only a few will be able to follow these procedures once they have been tightened (this could also be said about many state HEIs).

It should be noted that under this law the role of state assignment, as a tool of state policy, is seriously discredited, as opposed to the state order distributed on a competitive basis. This is a very important aspect because, in accordance with Federal Law No. 83-FZ, the budgetary and autonomous institutions may not refuse to fulfill a state assignment. In other words, the state assignment is imputed by the founder (or a body performing its functions) to an institution under its jurisdiction. Private HEIs are not under the jurisdiction of state authorities so the latter may not distribute the state assignment between themselves. *The transition to a competition-based distribution of admission quotas means the effective replacement of the 'state assignment' by the 'state order'*.

First of all, based on the above, the conclusion can be drawn that the relevant regulation of Federal Law No. 83-FZ ceases to operate so the law should be amended. However, this has not been done and, generally speaking, it is quite hard to achieve as, for all institutions other than HEIs, the state assignment is determined by the founder. Furthermore, in the case of the replacement of the state assignment with the state order the distribution of the latter will be subject to Federal Law No. 94-FZ[12], which is hardly justified in the educational field. The replacement of the state assignment with the state order means that state HEIs may avoid it just by not participating in the competition. But then the reasons behind the introduction of the new funding mechanism for institutions are completely broken and there is the risk that the necessary volume of state services will not be provided.

Development of reform

The example of higher education, which has the most obvious characteristics of the market system among all institutions in the state and municipal field, shows that the transition to the principles of normative per capita funding itself solves neither the problem of increasing the quality of socially important services nor the problem of increasing the effectiveness of management in the social sphere.

However, the use of normative per capita funding standards along with administrative restructuring of the network of institutions will become an additional instrument for accelerating it and facilitating the redistribution of budgetary funds. The normative method brings a more formalized character to the process which is why changes in funding, in the case of changing the state assignment, as has been indicated, are easily forecast. The normative method provides more certainty for institutions because it ensures a longer planning horizon. However, this can be reached only in the case of certainty of the state assignment.

The transition from existing customized normative standards to common standards unified across groups of HEIs (technical, humanities, economic, educational, medical, etc.) — and perhaps differentiated by the ratings of the HEIs which reflect, amongst other things, the number and quality of students entering them — should be carried out gradually due to the extremely high spread of actual funding per student in higher education institutions.

In the very near future, it will be possible to introduce uniform "variable cost" funding standards related to state-subsidized education. Variable costs are the salaries of teachers and auxiliary educational staff, library costs and scholarships. Such standards may be unified for all categories of state HEIs (although naturally, taking account of regional differences in salaries). It is feasible to leave the fixed costs

[12] Currently a draft law on the federal contractual system (FCS) which is supposed to be adopted by the end of 2012was referred to the State Duma for consideration. The FCS should replace Federal Law No.94-FZ, but this will not resolve the problem in question.

individualized. Fixed costs may include: expenses on property maintenance per unit area of floor space; expenses relating to the payment of salaries to administrative and management personnel (the issue of inclusion of the salaries of administrative and management personnel in the normative funding standard for the execution of a state assignment, in our opinion, is open and requires additional discussion). Gradually, while restructuring the network of HEIs and carrying out an inventory of property, it is possible to move towards normative standards, unified across groups of HEIs which are similar in the types of property attached to them.

Consideration of all the expenses of an HEI when setting a normative standard complies with the principles according to which the state pays institutions a set price for the provision of the same given service. In the past both the student/teacher ratios (one teacher per 10 students, sometimes per 6 students, sometimes per 4 students and in art-related HEIs sometimes per 2 students[13]) and the required standard for educational space per student (13 square meters of total space) were taken into account. The space normative standard is not included in the licensing requirements for HEIs. However, in practice these ratios have changed drastically while the condition of HEI property is so variable that it is hardly possible to maintain it on the basis of unified standards.

Sometimes the feasibility of setting unified standards per state-subsidized student in the near future is justified on the basis that this measure will dramatically reduce the funding of less popular HEIs and will serve as a tool for restructuring the HEI network. However, this approach is irrational both from the point of view of a long-term HR policy and from the point of view of managing state property. We believe that, at the first stage, the restructuring of the HEI network should be carried out on the basis of strict enforcement of licensing requirements and accreditation, using forecasts of the needs of the labor market. The licensing and accreditation procedures themselves require a radical reform.

Thereafter, the redistribution of the state assignment between HEIs should be mainly administrative[14]. Certainly, it is necessary to increase the feasibility and objectivity of this process of redistribution. In the case of the redistribution of the state assignment within a given group in favor of the strong HEIs, their "power", which is determined by their assets and highly-qualified teachers and professors, will be a serious limitation.

A backup here is the possibility for reducing fee-paying admissions to strong HEIs and increasing the number of state-funded places, i.e. to move them under state control in some way. However, one should bear in mind that a reduction in the number of state-funded places in weak and medium HEIs will inevitably lead to a sharp deterioration in the overall level of students (due to the increase in the number of students studying on a fee-paying basis who, as a rule, have lower USE scores) and an even sharper drop in the quality of education. That is why the transfer of state assignment exclusively to strong HEIs may occur only if, within the next 3-5 years, the weak HEIs are removed (for example by absorption by the stronger HEIs). If we do not aim to reduce the number of HEIs, a

[13] These ratios were also taken into account in the above mentioned normative expenses on the implementation of the main professional educational programs of higher professional education (bachelors, masters, postgraduate programs) by specialty (area of training) per state service unit for admission in 2012/2013 academic year.

[14] The competition procedure for distribution of the state assignment between HEIs, as was shown above, conflicts with the ideology of Federal Law No.83 and means a transition to the state order.

program of reorganization of the weak HEIs will become necessary, including increased funding for change management.

There has been little discussion of the important question of how to support low-income students. This problem should be solved both from the point of view of social justice and in order to ensure stable economic growth. The latter will not be possible if a part of the population cannot get out of the poverty trap because they have no access to high-quality higher education. A radical solution is to check whether students admitted to state-funded places need state support or not. In this case all applicants for free education who obtain the required USE scores will have to provide evidence that the per capita family income does not exceed a certain amount in relation to the cost of living. As a result the number of state-funded places available for low-income students would increase sharply. However, the making of such a decision, which violates the constitutional right of all citizens to obtain free higher education on a competitive basis, is unlikely in the foreseeable future.

So, remedial actions are required: an increase of social scholarships, extension of the scale of provision of educational loans, the provision of grants to poor families and a modification of the procedure for the provision of places in dormitories (at the moment a dormitory place is provided on the basis of USE scores without verifying the need). In this case it would be a requirement to provide free dormitory places to low-income students. Moreover, for children from low-income families free preparatory departments could be created in HEIs. Educational grants provided to students by future employers should become more wide-spread.

When discussing the normative funding of HEIs we must take into account that HEIs, especially strong ones, obtain substantial budgetary funds for scientific research. The transition to normative funding is hardly possible here. Therefore the calculation of the financial resources required for achieving particular results in applied research should be included at the planning stage, according to a budget estimate for the implementation of the specific plan. In this case a subsidy mechanism can be applied. In the funding of fundamental research the necessary property should be financed on the basis of a budget estimate or individualized normative standards while current expenses should be financed by the provision of quite long-term and stable grants.

Summing up

The adoption of Federal Law No. 83-FZ has again drawn attention to issues of the distribution of public assignments between HEIs and the principles involved in the calculation of normative costs. It may seem that a choice simply has to be made between administrative and economic methods. But the problem of reforming budgetary institutions is substantially more complex and has institutional aspects. The main questions are: what should be the speed of reform, and which mechanisms should be used for implementation of the reforms? When some public institutions are absent and others are underdeveloped, economic methods may lead to a decrease in the quality of higher education rather than to an increase in the effective use of budgetary funds. So the reform of institutions should be the top priority. In the higher education system this means the licensing and accreditation of HEIs.

For example, only accredited HEIs (both state and private) are allowed to take part in the competition for setting admission quotas. Thus, HEIs providing education, the quality of which is formally confirmed by accreditation and which complies with state standards, pass this competition. Does the use of such a competition in addition to the accreditation procedures mean that HEI accreditation has already become a sham in many ways? The competition has not provided answers to the following questions: should the HEIs which did not pass be closed? Do HEIs which won, educate at levels above the state standards? Why did all federal state HEIs pass whilst one third of the private HEIs and the only regional one did not? We believe that everything that happened discredits the institution of the competition.

The principle of “the money follows the student” may be interpreted in different ways and the implementation of Federal Law No.83-FZ illustrates this vividly. The state assignment (the number of state-subsidized students) may be set for the HEI by the founder and then the “money will follow the student”. However, many experts believe that it would be more reasonable to set the state assignment, not for a specific HEI, but across the higher education system in general (to educate a set number of state-funded students in accordance with particular budgetary funding standards). Students who obtain the right for a budget-funded education should be selected on the basis of their scores in a unified state examination. After that the applicants can make their choices and the money will follow them. In this case everything will depend on the USE quality and on the cut-off score chosen. But in the event the system cannot provide for high-quality selection of applicants, it will further undermine confidence in the USE as a means of assessing the quality of school education. This, in turn, will lead to a search for alternative routes into HEIs.

Thus, in education (or in the wider social sphere) the market works in a very peculiar manner because the price for budgetary services is determined, not by the service provider, but by the founder or by the state as a whole. If there are just a few founders who determine the prices for “their HEIs” and at the same time in one of the segments of this quasi market there is a contest for service providers, while there is no such contest in other segments, we can only speak of the relative effectiveness of the economic mechanisms in such conditions.

Moreover, there are also social problems to be solved by the state — the support of low-income students, the maintenance of HEIs which are not in demand at the moment but will be in demand as the economic and/or demographic situation changes (because it is quite difficult to restore HEIs). How to ensure stable regional development should not be forgotten either: HEIs play no small part in regional development. This is why the higher education system needs, on the one hand, to accelerate the process of modernization and, on the other hand, to ensure the finest alignment and balancing of different interests.

We believe that the right moment for reforming the higher education system using solely economic instruments (even without taking into account the imperfections thereof) has passed. Russian universities are rapidly losing their positions in the world ratings of HEIs. We can talk a lot about the injustice of such ratings, or the fact that the publications of Russian scientists in Russian are not taken into account, etc. but the language barrier exists for Chinese HEIs as well, and they are climbing higher and higher in the world ratings with each passing year. So, first of all, it is necessary to reform the system of licensing and accreditation of HEIs and to improve the level of management in higher education.

Differences in the material and technical base of different HEIs should also be taken into account. The adoption of a resolution on the inclusion of the major part of expenses relating to property maintenance into the normative standards of per capita funding will not facilitate a redistribution of state property (which was the target) but will lead to a worsening of the conditions of its maintenance. Premises will not be repaired, they will be rented out. Initially, in order to prevent such a scenario, administrative measures should be taken. Property should be inventoried after which a decision should be made on whether to preserve the “excess” capacity in the higher education system despite the demographic reduction or to find other uses for it. Only after these problems have been solved, can economic mechanisms be used.

Thus, in the higher education system (as in the social sphere in general) political decisions must not be replaced by economic ones. Right now, it is necessary to discuss, not the tools and mechanisms — they are widely known — but the political and social consequences of particular decisions.