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The state of Europe's higher education is a long-term threat to its competitiveness

THOSE Europeans who are tempted, in the light of the dismal scenes in New Orleans this fortnight, to downgrade the American challenge should meditate on one word: universities. Five years ago in Lisbon European officials proclaimed their intention to become the world's premier "knowledge economy" by 2010. The thinking behind this grand declaration made sense of a sort: Europe's only chance of preserving its living standards lies in working smarter than its competitors rather than harder or cheaper. But Europe's failing higher-education system poses a lethal threat to this ambition.

Europe created the modern university. Scholars were gathering in Paris and Bologna before America was on the map. Oxford and Cambridge invented the residential university: the idea of a community of scholars living together to pursue higher learning. Germany created the research university. A century ago European universities were a magnet for scholars and a model for academic administrators the world over.

But, as our survey of higher education explains, since the second world war Europe has progressively surrendered its lead in higher education to the United States. America boasts 17 of the world's top 20 universities, according to a widely used global ranking by the Shanghai Jiao Tong University. American universities currently employ 70% of the world's Nobel prize-winners, 30% of the world's output of articles on science and engineering, and 44% of the most frequently cited articles. No wonder developing countries now look to America rather than Europe for a model for higher education.

Why have European universities declined so precipitously in recent decades? And what can be done to restore them to their former glory? The answer to the first question lies in the role of the state. American universities get their funding from a variety of different sources, not just government but also philanthropists, businesses and, of course, the students themselves. European ones are largely state-funded. The constraints on state funding mean that European governments force universities to "process" more and more students without giving them the necessary cash-and respond to the universities'

complaints by trying to micromanage them. Inevitably, quality has eroded. Yet, as the American model shows, people are prepared to pay for good higher education, because they know they will benefit from it: that's why America spends twice as much of its GDP on higher education as Europe does.

The answer to the second question is to set universities free from the state. Free universities to run their internal affairs: how can French universities, for example, compete for talent with their American rivals when professors are civil servants? And free them to charge fees for their services-including, most importantly, student fees.

The standard European retort is that if people have to pay for higher education, it will become the monopoly of the rich. But spending on higher education in Europe is highly regressive (more middle-class students go to university than working-class ones). And higher education is hardly a monopoly of the rich in America: a third of undergraduates come from racial minorities, and about a quarter come from families with incomes below the poverty line. The government certainly has a responsibility to help students to borrow against their future incomes. But student fees offer the best chance of pumping more resources into higher education. They also offer the best chance of combining equity with excellence.

Europe still boasts some of the world's best universities, and there are some signs that policymakers have realised that their system is failing. Britain, the pacemaker in university reform in Europe, is raising fees. The Germans are trying to create a Teutonic Ivy League. European universities are aggressively wooing foreign students. Pan-European plans are encouraging student mobility and forcing the more eccentric European countries (notably Germany) to reform their degree structures. But the reforms have been too tentative.

America is not the only competition Europe faces in the knowledge economy. Emerging countries have cottoned on to the idea of working smarter as well as harder. Singapore is determined to turn itself into a "knowledge island". India is sprucing up its institutes of technology. In the past decade China has doubled the size of its student population while pouring vast resources into elite universities. Forget about catching up with America; unless Europeans reform their universities, they will soon be left in the dust by Asia as well.