Funding model changes at Hungarian universities: Greater autonomy?

Balázs Szent-Iványi[1,2] and András Tétényi[2*]

[1] Aston University, Birmingham, UK

[2] Corvinus University of Budapest, Hungary

*corresponding author, email: andras.tetenyi@uni-corvinus.hu

This paper examines the financial aspects of the recent funding model changes at Hungarian universities, using Corvinus University of Budapest (CUB) as a case study. While the broader political implications of these model changes have received much media attention, discussions on their potential financial impacts have been sidelined. The paper argues that the model change in the case of CUB would allow it to increase its financial resources (and thus its autonomy), but the university would need to actively manage the investment portfolio of its endowment.

In recent years, the Hungarian government has made attempts to exert greater control over academic institutions in the country. Its successful campaign to push the Central European University out of the country has been well documented (Enyedi, 2019), and it has also eroded the independence of the Hungarian Academy of Sciences' research institutes. These actions have been labelled as government attacks against academic freedom by critics (HRW, 2019). Given this context, it is seemingly surprising that the government has simultaneously increased the autonomy of other academic institutions, starting with a "model change" at CUB, announced in 2018. CUB's restructure was to be the pilot in the government's broader ambitions to transform the structure and funding of higher education in Hungary. CUB, previously known as the Budapest University of Economic Sciences, has generally been seen as the country's leading higher education institution in social sciences, economics and business studies with especially strong programmes in International Relations dating back to 1969.

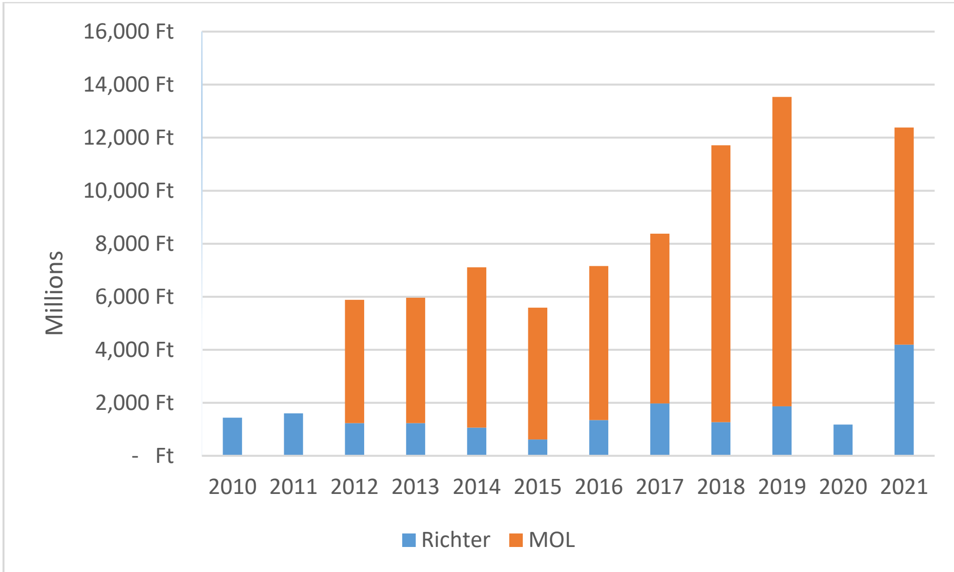
Since 2018, two types of funding models have been explored by the Hungarian government, which were codified into the law in 2021, affecting 11 public universities (Euronews 2021). In the case of CUB, a foundation was created to oversee the running of the university. This foundation was gifted an endowment by the state, composed of shares of two leading Hungarian companies, Mol, a multinational oil and gas company, and Richter, a pharmaceutical. The foundation, Maecenas Universitatis Corvini Foundation (MUCF), now owns 10% of both companies, roughly worth 1.13 billion USD.[1] This endowment is quite generous even in international comparison: well-known American universities such as Rutgers, New Brunswick or Indiana University Bloomington had comparably sized endowments in 2018 (NCES, 2019). The second type of funding model change also involves the creation of similar foundations, but these were gifted real estate instead of shares (which does not provide any meaningful revenue (Zsuppán, 2021)) and the promise that universities will receive long term state contracts based on student numbers and research criteria (Biró and Fábián, 2021). A key aspect of the restructuring in both types of funding models was to incentivize higher education institutions to give business-related considerations a greater role in their strategy, and thus increase their competitiveness.

Even before these reforms, Hungarian higher education funding, following the Higher Education Act of 2011, stood out in the region, as it gave a large role to “self-funded” students, and thus tuition fee income for universities. While exact funding structures differ, in Czechia, Poland and Slovakia, public university education is generally free, or involves only very minor fees for most students. This means that the overwhelming share of university funding in these countries comes from the state budget, allocated according to various criteria, such as student numbers and research activity. There are no indications of any of these countries moving to similar funding structures as Hungary has, and in fact Poland’s 2018 university funding reform entrenched public funding even further by subjecting the state budget to annual indexation (Eurydice 2021).

CUB was exceptional in a sense, as there was a further rationale to sever the institution's dependence on state funding and allow it to use the resulting greater autonomy to increase the quality of its teaching and research, and ultimately turn the university into the leading institution in business and social sciences in the Central and Eastern European region (Károly, 2021). CUB's funding model change has been accompanied by a vast number of reforms. The university was restructured into a more streamlined organization and its academic programmes were redesigned, with a stronger emphasis on employability and internationalisation. New career structures were put in place, allowing academics to choose between teaching-focused and research-focused pathways (with the teaching-focused pathway featuring a relatively larger teaching load but lower research requirements compared to the research-focused one). Furthermore, an incentive (bonus) system based on pre-agreed key performance indicators was also introduced, to motivate staff to produce higher quality research. Once CUB ceased being a state university, it was allowed to diverge from public service pay scales and offer more competitive remuneration for its employees. To achieve these goals, CUB's leadership argued that a budget of 30-35 billion Hungarian forints (HUF; roughly 100-116 million USD) per year was required, up from 17.8 billion HUF (59.3 million USD) in 2019 (Károly, 2021).

Is this goal realistic given the new funding structure? Figure 1 shows the hypothetical amount of dividend CUB would have annually received since 2010, had it been gifted the shares earlier. On average, between 2010 and 2021, the annual dividend income would have amounted to about 6.8 billion HUF (roughly 22.6 million USD, not taking inflation into account). This more or less corresponds to the amount of state funding received by the university during this period, but it certainly does not represent additional funding for improvements. Furthermore, as shown in Figure 1, there were three years when Mol did not pay any dividend, which implies a greater degree of uncertainty than under state funding.

Figure 1. Annual dividend income from the 10% of Richter and Mol shares in Millions of forints, 2010-2021



Source: authors' calculations, based on data from https://bet.hu/; 2021 is a projection.

We calculate that the annual dividend yield over 12 years was approximately 2.39%, and the value of the shares had increased by 28% since 2010 in absolute numbers, which is a little over 2% annually.[2] If we compare this annual growth plus the dividend from the shares to the returns achieved by American university endowments, the difference is striking. Ennis (2021) shows that the average US endowment had an annualized return of 8.4% between 2010 and 2019, while Sedlacek & Jarvis (2010) found that a non-profit institution's spending rate typically falls between 4.0 and 5.5 percent of its endowment.[3] They also argue that the endowment's investments need to be diversified and that investment decisions should be made in a portfolio context.

This brief comparison carries some lessons for CUB. If the trustees of MUCF decide to diversify the endowment, there is a strong potential that in ten years' time the payouts will increase significantly. Take the following hypothetical scenario as an example. Assume CUB already owned the Mol and

Richter shares in 2010 and sold them to diversify its portfolio to mimic the US endowments analyzed by Ennis (2021). The value of the shares of Mol and Richter in 2010 was about 266 billion HUF (886.6 million USD), and calculating with 8% annual growth (Ennis's estimate of the return of American endowments) and 4% as annual payouts, by 2021 the endowment could have provided about 16 billion HUF (53.3 million USD) as payout. However, Mol and Richter shares performed worse, and the actual payout from dividends was only 6.8 billion HUF (23.2 million USD) as mentioned above.

The model change therefore may represent greater financial autonomy for CUB, provided the endowment is diversified. However, despite the improved financial freedom of the university, the state still has strong mechanisms for control. Government control is maintained through informal or more indirect links. The trustees of MUCF include the CEOs of Mol and Wizz Air (a low cost airline), a deputy-minister from the Ministry for Innovation and Technology, the Rector of Corvinus University, a Hungarian executive director of the International Monetary Fund, and a former foreign minister in Prime Minister Viktor Orban's government (Corvinus, 2021). The Senate's role and responsibilities have become more limited. The government also continues to have influence over the university through the regulatory environment. The Ministry for Innovation and Technology and the Hungarian Accreditation Council make decisions on programmes, and the latter also evaluates promotion applications to full professorship, which allows the government to impact the careers of individual academics.

These lines of control question the government's intentions of providing greater autonomy to CUB or any other Hungarian university for that matter. Critics have argued that the new funding structure allows Orban's party to retain influence over CUB and other universities, even if it were voted out of power (Euronews, 2021). While this paper argues that a diversification of assets is necessary to ensure financial sustainability and greater independence for CUB, critics have also argued that the workings of the new foundation managing universities, are less transparent, and assets could be “offloaded at reduced prices to politically connected insiders” (Euronews, 2021).

In conclusion, CUB’s new funding model replaces state funding with less certain private funding, but a lower degree of state control is still maintained through both formal and informal channels. Theoretically, the university’s financial autonomy could increase, if the endowment were transformed into a more diversified portfolio, similar to that of American universities. Until this happens, government funding will have a role to play if the university is serious about the reforms needed to boost its competitiveness. Furthermore, CUB’s case illustrates how an institution may be made nominally and financially more independent from the state, yet the state may still find ways to influence the institution and potentially limit its academic freedom.

References

Biró, Marianna and Fábián, Tamás. 2021. ‘Úgy érzem, átalakulóban van a Fidesz, Orbán próbálja újraformálni a környezetét.’ https://telex.hu/belfold/2021/02/09/stumpf-istvan-interju-egyetemi-modellvaltas-orban-viktor-fidesz (Accessed 28 June 2021).

Corvinus University of Budapest. 2021. ‘Board of Trustees.’ https://www.uni-corvinus.hu/main-page/about-the-university/maecenas-universitatis-corvini-foundation/foundation-leadership/board-of-trustees/?lang=en (Accessed 28 June 2021).

Ennis, Richard M. 2021. ‘Endowment Performance.’ *The Journal of Investing* 30(3): 6-20.

Enyedi, Zsolt. 2019. ‘Democratic Backsliding and Academic Freedom in Hungary.’ *Perspectives on Politics* 16(4): 1067-1074

Euronews. 2021. ‘Hungary's parliament overhauls higher education amid outcry.’ https://www.euronews.com/2021/04/27/hungary-s-parliament-overhauls-higher-education-amid-outcry (Accessed 20 September 2021).

Eurydice. 2021. ‘Poland - Higher Education Funding.’ https://eacea.ec.europa.eu/national-policies/eurydice/content/higher-education-funding-56_en (Accessed 20 September 2021).

Human Rights Watch. 2019. ‘Hungary Renews its War on Academic Freedom.’ https://www.hrw.org/news/2019/07/02/hungary-renews-its-war-academic-freedom (Accessed 28 June 2021).

Károly, Gábor. 2021. ‘Anthony Radev: Az egyik fenntartó felváltotta a másikat’ https://index.hu/gazdasag/2021/04/09/anthony-radev-corvinus-modellvaltas-egyetem-oktatas-interju/ (Accessed 28 June 2021).

NCES. 2019. ‘Endowment funds of the 120 degree-granting postsecondary institutions.’ https://nces.ed.gov/programs/digest/d19/tables/dt19_333.90.asp (Accessed 28 June 2021)..

Sedlacek, Verne O. and William F. Jarvis. 2010. *Endowment Spending: Building a Stronger Policy Framework*. Commonfund Institute.

Zsuppán, András. 2021. ‘Jó reggelt! Alig maradt állami egyetem Magyarországon.’ https://www.valaszonline.hu/2021/02/12/felsooktatas-modellvaltas-maganositas-hatter/ (Accessed 28 June 2021).

[1] Financial data for Mol and Richter taken from https://bet.hu/ (11.04.2021). All data on the HUF/USD exchange rate is from 09.04.2021.
[2] For purposes of comparison, the ex-dividend date was used in the given years for measuring the value of the companies.
[3] For a more detailed discussion on spending practices see Sedlacek and Jarvis (2010: 6)