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International Inequalities in the Local Economic Impact of Universities: The Case of Hungary and France

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***International Inequalities in The Local Economic Impact of Universities:
The Case of Hungary and France***

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Abstract

Nowadays the realization that certain economic units, universities or other objects have impact on the economy of their region comes more and more into prominence. A growing demand appears to generate more precise studies regarding the quantification of economic impact of these entities. The topic of the examination of economic impact is especially interesting and exciting when we can compare regions with different level of development, but with the presence of an internationally successful university. The local economic impact of a large tertiary education institution such as a university is an issue which has attracted considerable attention in literature. Different methods used in literature make results hardly comparable, we use the same method to investigate universities in different countries: in the lack of regional input-output matrices a multiplier based approach for first and second missions (education and research), while an application of Jongbloed's indicator set for third mission. Generally, there are four substantial problems. First, the definition of impact, second, measuring and estimating first-round expenditures and avoiding double-counting, third, estimating the correct value of the multiplier, fourth, the quantification of the third mission activities.

The economic impact study has become a standard tool used by Western universities to persuade state legislatures of the importance of expenditures on higher education. As economic impact studies become a political tool in the review of education, conservative assumptions and methods should be used to promote objectivity in the research process.

The goal of our study is to unravel the effects and impact of the University of Szeged (Hungary) and the University of Lorraine (France) regarding their local economy. The topic is quite unique, as the NUTS2 regions in which the examined universities are located in a lagging behind region compared to national average, but per capita GDP is 3.6 higher in Lorraine. On the other hand these universities have the institutional ranking around the 500th place as published on the Academic Ranking of World Universities and employers of about 7000 employees. The socio-economic welfare of the region supposedly depends on the university in Hungary, nevertheless the same amplitude in France. The goal of the study is to attempt the quantification of this presumption.

As our results show, the impact per student is in the same magnitude in both countries, however third mission is much more implemented in France. The reasons of this difference can be found in historical facts and in different level of economic development.

Keywords

local impact, university, Hungary, France

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INTRODUCTION

Nowadays the realization that certain economic units, universities or other objects have impact on the economy of their region comes more and more into prominence. A growing demand appears to generate more precise studies regarding the quantification of economic impact of these entities. The topic of the examination of economic impact is especially interesting and exciting when we can compare regions with different level of development, but with the presence of an internationally successful university.

The roles of universities are also changing in time. As Wissema (2009) suggested, there are three generations of universities, while Pawlowski (2009) already mentioned fourth generation universities. The characteristics of these universities are summarized in Table 1.

Table 1. Characteristics of first, second, third and fourth generation universities

| Aspect | First generation universities | Second generation universities | Third generation universities | Fourth generation universities |
|------------|-------------------------------|--------------------------------|---|--|
| Goal | Education | Education and research | Education, research, and utilization of knowledge | Education, research, R+D+I, utilization of knowledge, and proactive economic development |
| Role | Protection of truth | The cognition of nature | Creation of added value | Local economic accelerator, strategy determination |
| Output | Professionals | Professionals and scientists | Professionals, scientists, and entrepreneurs | Professionals, scientists, entrepreneurs, and competitive local economy |
| Language | Latin | National | English | Multilingual (national and English) |
| Management | Chancellor | Part-time scientists | Professional management | Professional management and local experts |

Source: Based on Lukovics-Zuti, 2013 and Lukovics-Zuti, 2014

University generation are often mixed up with university mission, as education is considered the first, research is the second and developing the economy and enhancing competitiveness as a third mission (Zuti-Lukovics, 2014).

The local economic impact of a large tertiary education institution such as a university is an issue which has attracted considerable attention in literature. Different methods used in literature make results hardly comparable, *we use the same method to investigate universities in different countries*: in the lack of regional input-output matrices a multiplier based approach for first and second missions (education and research).

Generally, there are four substantial problems. First, the definition of impact, second, measuring and estimating first-round expenditures and avoiding double-counting, third, estimating the correct value of the multiplier, fourth, the quantification of the third mission activities.

The economic impact study has become a standard tool used by Western universities to persuade state legislatures of the importance of expenditures on higher education. As economic impact studies become a political tool in the review of education, conservative assumptions and methods should be used to promote objectivity in the research process.

The structure of the paper is the following. In the first part, we take a theoretical overview of the impacts of universities. In the second part, we focus on measurement methods, solutions and problems. The empirical evidence for the two universities are shown in part 3, followed by a conclusion including a summary of open questions.

THEORETICAL OVERVIEW

The local economic impact of a large tertiary education institution such as a university is an issue which has attracted considerable attention in literature. *Beck et al* (1995, 246) define economic impact as „the difference between existing economic activity in a region given the presence of the institution and the level that would have been present if the institution did not exist.”

Florax (1992) and with modifications Garrido-Iserte and Gallo-Rivera (2010) showed that the regional and local effects of a university can be observed in many fields beyond economy (see Table 2).

Table 2. Classification of regional/local impacts of universities

| Impact on | Example |
|------------------|---|
| Politics | Changes in the political structure, an increase in citizen participation, improvement in the organization of political processes |
| Demography | Impacts upon population growth, population structure and upon mobility |
| Economy | Impacts upon regional/local income, industrial structure, job market, labor mobility |
| Infrastructure | Impacts upon housing, traffic, healthcare services, retail |
| Culture | Greater offer in cultural goods, influence upon cultural environment |
| Attractiveness | Influence upon the region's (local) image, regional (local) identity |
| Education | Impact upon participation rate, changes in its quality |
| Social aspects | Impact upon the quality of life, the influence of the students, influence upon the region's (local) image and regional (local) identity |

Source: After Florax (1992) and Garrido-Iserte – Gallo-Rivera (2010)

Dusek (2003) sorts the impact into input and output side effects (with students on both sides, see Table 3 and 4). He highlights the role of budget links as an important (economic) factor; the main financial source of the university is the government budget. These classifications are not far from the Segarra I Basco (2003) model, who divided backward and forward effects. Among the forward effect localization factors (instead of attractiveness) he also mentions foreign investment and high-tech companies (that are typical actors of technopolis type clusters).

Table 3. Regional/local impacts of universities on the input side

| Actor | Changes |
|-----------------|---|
| Households | + income + employment + consumption |
| Local authority | + tax base + services |
| Business | + volume of business |

Source: After Dusek (2003)

Table 4. Regional/local impacts of universities on the output side

| Factor | Changes |
|----------------|--|
| Human capital | + qualification + new firms + migration |
| Knowledge | + university-business relations + extensive use of resources |
| Attractiveness | + location choice of households and firms + cultural and social possibilities |
| Business | + research and development, exhibitions |

Source: After Dusek-Kovács (2009)

Huggins and Cook (1997) transferred the keywords into drivers and outcomes, and in their approach, one cannot find hard measures on the driver side, while hardly have soft outcomes.

Brown and Heaney (1997) concluded that the input size effects may be better measured than output side effects, while the third mission of universities, the knowledge transfer has mainly social impacts. Notwithstanding, Beck et al (1995) argues that social (human capital) factors must be heeded, unless the major part of impacts would not be incorporated. We share that even the volume of the third mission activities is tough to recognize, the measurement of their impact on local economy can be correctly only through complex dynamic economic models.

Pellenbarg (2005) modified the table of Lambooy to achieve a complete list of economic impacts (see Table 5). However, this classification is a wide mixture of impacts of the three main missions of universities (education, research and university-enterprise cooperation) and has many double countings.

Table 5. Regional/local economic impacts of universities

| Economic impacts of a university | Example |
|---|---|
| Employment at the university | Number of university jobs and related institutions |
| University income | State contributions, fees, benefits arising from entrepreneur activity, etc. |
| University expenditure | Purchase of goods and services by the university |
| Income and expenditures of the university employees | Wages and salaries, social security costs |
| Effects on the job market | Qualified job provision effect upon productivity; flexible working supply of the students |
| Generation of business | Companies created by university students and employees, with or without employment knowledge and technology |
| Knowledge marketing | The sale of knowledge in a variety of ways: from ideas, courses and patents |

Source: Pellenbarg (2005)

Lengyel (2008) gives a more complex system on economic effects, including many elements of the previous literature:

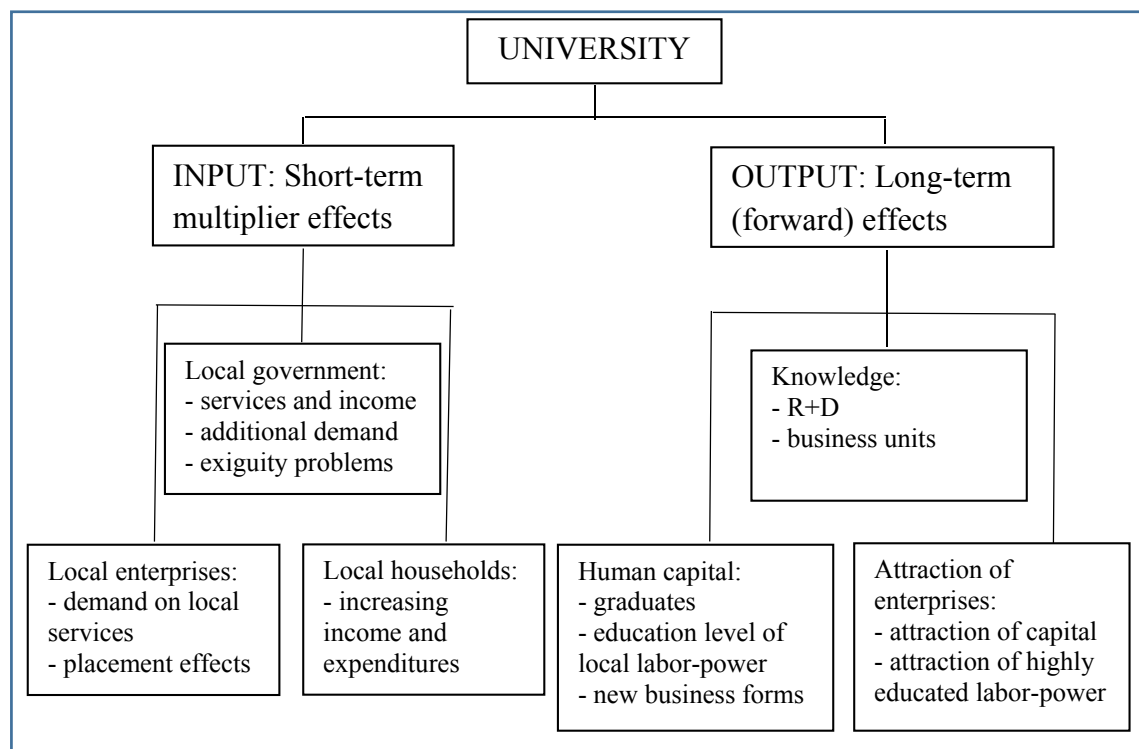


Figure 1. Local economic effects of universities

Source: Lengyel, 2008

Garrido-Iserte and Gallo-Rivera (2010) also attached importance to the separation of short and long term effects, and constructed a matrix of impacts (see Table 6). This version is the most complex rethinking of impacts and consideration of economic impacts of originally social phenomena.

Table 6. Classification of the economic impacts of the universities

| Impacts upon | Short term | Long term | |
|--------------|---|--|---|
| Expenditures | Increase of the regional GDP Salaries Employment Taxes | Steady increase of regional GDP Investments on equipment | |
| Knowledge | Changes in the job market Development of human capital | <u>Subjective</u> Externalities Workers productivity Increase of income throughout life | <u>Objective</u> Patents Research and development |

Source: Garrido-Iserte and Gallo-Rivera (2010)

Brown and Heaney (1997) compare two approaches of the computation: the skill-based approach and the economic-based approach. These approaches are close to the logic of the knowledge and expenditures based classification.

Johnson (1994) argues to divide local and non-local (it is better a choice on which territorial level we identify impacts), direct and indirect impacts (see later), but he also attends to various negative impacts of universities and to the necessity of a net approach (i.e. individuals could spend more, if the government did not tax them to be able to pay the expenditures of universities – the double net question would be that people from where are taxed to pay the expenditures of the given university). The question of gross or net impact can be analyzed from many starting point. Generally, gross impact is easier to define and compute, as such questions arise that in the lack of the university

- what and where the staff would work,
- where students would pursuit their studies (if at all),
- how large the difference of knowledge in the local economy would be, or
- what would be the difference of house prices.

We cannot forget that these questions are also linked to the choice of territorial level. The process can be observed when newly founded universities are investigated: e.g. most of the academic staff is coming from other (national) universities, while non-academic staff can be hired locally. Local house prices change slowly, so only complex comparative analysis (e.g. panel regression analysis) can detect the differences due to the presence of university.

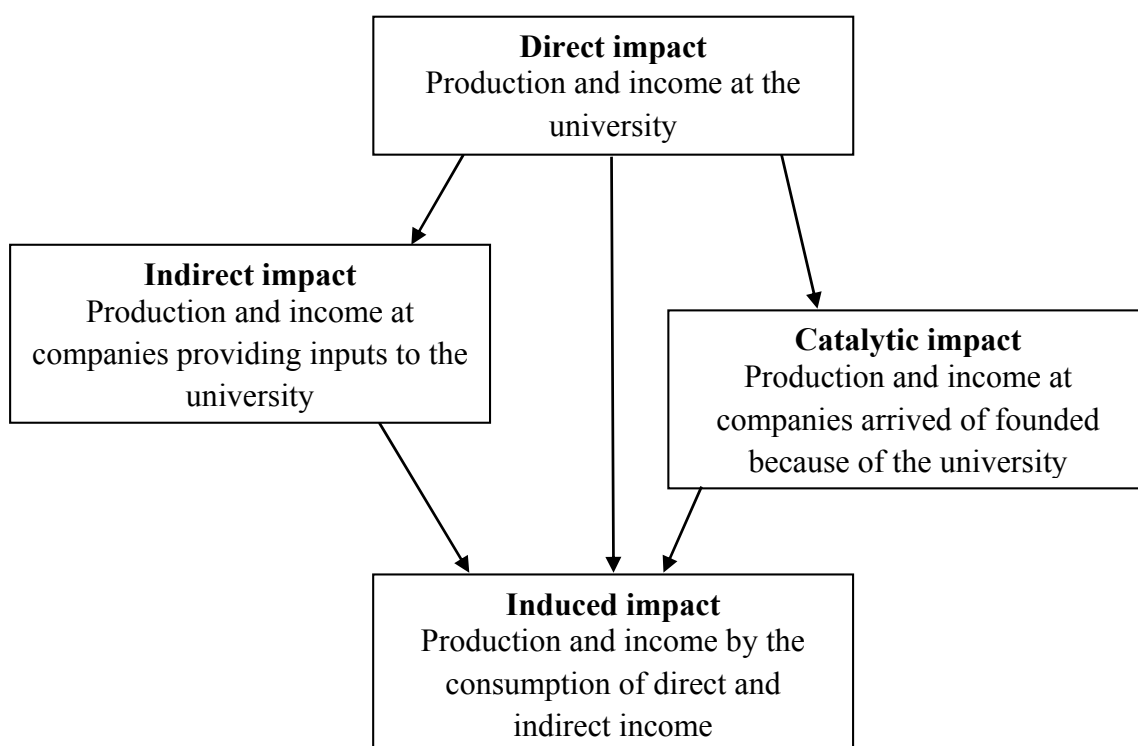


Figure 2. Direct, indirect, induced and catalytic effects

Source: own construction

The classification of impacts from the point of view that how directly the impact is related to the activity of the university is widely varied in the literature. We can find twofold, threefold, and fourfold classifications. The common point is the separation of direct and indirect impacts, where direct impacts include the expenditures of the university, the staff and

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the students. In a larger classification, we have induced impacts (Koophaus, 2008), while in the fourfold version, one can also find catalytic impacts (for these impacts see Lukovics-Dusek (2014a) and Lukovics-Dusek (2014b) for university-related research, or Dusek-Lukovics (2011) for business service). The modified version of these classifications stands for universities as:

- direct impact: output, income and workplaces created on-site owing to the investments and operation of the university,
- indirect impact: income and employment generated in the companies providing inputs for the university,
- induced impact: income and employment generated with the multiplier impact owing to spending the incomes,
- catalytic impact: productivity growth achieved through the operation of the university, the income and employment created through the companies settling because of the university and the spending of the visitors arriving because of the university.

The contradictory and sometimes misleading *mélange* of the impacts can be well shown by juxtaposing (see Table 7) those of the Garrido-Yserte-Gallo-Rivera (2010) and the French school represented by Gagnol-Héraud (2001) and Baslé-Le Boulch (1999).

Table 7. Regional/local economic impacts of universities

| Impact | Meaning | |
|----------|--|---|
| | <i>Garrido-Yserte-Gallo-Rivera</i> | <i>Gagnol-Héraud</i> |
| Direct | related to the local expenditures of the university, staff and students of the university | consumption of the university, staff and students of the university |
| Indirect | multiplied income (each euro spent at the location by the university community (university, staff and students) generates indirect transactions in the location linked to businesses that do not have a direct relation to the university | impact through education of the work-power, development of synergies of R&D with regional enterprises |
| Induced | the expenditures of the people that visit the university, the effects upon financial institutions, the effects upon property value, and the impact upon location of new companies and so on | multiplier effect |

Source: Garrido-Yserte-Gallo-Rivera (2010) and the Gagnol-Héraud (2001)

In this confusion, we would recommend to use induced impact to all effects that are generated by the multiplication process. In the Lukovics-Dusek classification, the separation of direct and indirect impacts is artificial (practically, we separate personal expenses from purchase of assets and investment, its cause can be the local analysis: on-site created income is always local – nevertheless not necessary locally spent). The catalytic impact of Lukovics-

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Dusek, the indirect impact of Gagnol-Héraud and the induced impact of Garrido-Yserte–Gallo-Rivera have almost the same content. While it is not widespread in the literature, the catalytic expression better describe the content of this category than indirect or induced (induced seems to be the worst choice).

METHODOLOGY

The main methodological possibilities are the use of input/output matrix based models or the Keynesian multiplier model family. As up-to-date local or at least regional level input/output matrices are not available (neither for France, nor for Hungary), we could not use the first type of models. The use of such models are typical in the USA where such matrices are accessible in state level, but these models have a territorial scope of state level.

The territorial scope of our analysis was local. In Szeged, the university is dominantly in the city (with one small faculty out of the city), in France we had the possibility for the survey only in Metz, and so a regional estimation of the impact of one campus would not be meaningful. Using a larger territorial scope would increase the absolute gross impact, but per capita or per GDP impact may be smaller.

Whenever it was possible, we used data for 2014.

In Bleaney et al (1992) we can find a mathematical deduction of the formula of the Keynesian regional multiplier. This method is the most often used one for computation, with a series of disadvantages and deficiencies. Its simplicity makes it so popular, as a relatively narrow scale of data is necessary. In our comparison, we will follow a version of regional multiplier model. The method we applied in Figure 3 and 4 is modification of Caffrey – Isaacs (1971) and Bridge (2005) models, we can also call as a simplified ACE model in the terminology of Garrido-Yserte–Gallo-Rivera. The original Bleaney-model was modified at two points: (1) we use and apply local consuming habits (with rough estimation of local marginal propensity to consume), (2) we calculate primary production and consumption effect in two steps. The latter methodological background is described in Felsenstein (1997).

In our paper, we followed the computations made in our earlier works (see Kotosz, 2013 or Zuti-Lukovics, 2015), using the same methodology, model and primary research agenda, so our results are fully comparable.

The multiplication effect is the function of the following factors:

- Personal income tax rate (average rate) [t]
- Value added tax (average rate) [n]
- Marginal propensity to consume [c]
- Local consumption proportion of students [d]
- Local consumption proportion of employees [e]
- Local consumption proportion of the university [b]
- Local consumption proportion of the local economy [f]

Armstrong-Taylor (2000) and Lengyel-Rechnitzer (2004) supposed a fix amount of spending of visitors and an equivalent local consumption proportion of students, employees and the university. Instead of the latest, we applied a two-step estimation, so different proportions could be used. Thereby the formula of the multiplier is:

$$\frac{1}{1 - f \cdot c \cdot (1 - t) \cdot (1 - n)}$$

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Expenditure data of the universities can be reached from public information (profit and loss statements). In the case of multi-campus institutions, allocation of expenditures by campus has been based on our estimation (when expenditures cannot be definitely allocated, we used keys related to relevant activities: number of students, number of academic/non-academic staff, area, etc.). We supposed that employees have an additional income of 20% over their salary at the university. Estimation of visitors' expenditures is based on conferences and other events attracting visitors. Otherwise visitors affect barely the total economic effect.

To map expenditure of student, we asked them to fill in a questionnaire (in 2014 in Szeged, and in 2015 in Metz). This element was based on a representative sample, we multiplied the sample mean by the number of students enrolled at the university/campus.

To estimate the locally valid consumption function, we can follow two different ways. From one part, we can use national statistics, as by empirical evidence (see Árvai-Menczel 2001, Vidor 2005) local and national functions are not significantly different. From the other part, local sample surveys can also serve as starting point. Our computations also showed that national or regional cross-sectional and time series data give largely different results, between 0.45 and 0.7 in both countries. We have local, survey-based results only for students. While Dusek (2003) found a high marginal propensity to consume in his survey of students (over 0.7), our results in Hungary are below 0.5, while in France around 0.5. In the model, we use a unique marginal propensity to consume, we applied the most reliable national and regional estimations with a consensus value of 0.6.

The lack of reliable geographical knowledge of students (in many cases they did not know in which county the university was working), pushed us to choose the local level as the city where the university is located (Szeged and Metz). By extending the geographical area, higher rates a local consumption data is taken, increase is not proportional with distance.

The local consumption proportion of students varied around 70-80% based on our survey data (in accordance with previous data from other surveys). This number is always higher than the rate of local students, which is around 30-40%. In our estimations, we used the value of 0.7 in Metz, and 0.8 in Szeged, as the results of the surveys.

Estimation of employees' local consumption proportion is one of the most problematic point of the process, as in neither cities we had not the right to ask employees by a questionnaire similar to students' one. As a result of the suburbanization process, we supposed that local consumption proportion is lower than students', we used 75% in Szeged, but only 60% in Metz.

Local consumption proportion of public universities in Europe is typically determined and restricted by national law. Well-known estimation problems arises with the limitation of local level (see e.g. Székely 2013), but this question is beyond the goals of the paper. We analysed the official documents of the universities and estimated these impacts by separating local and non-local items. We used a 70% value for Szeged and 80% for Metz.

For the average tax rates, we used recent estimations of the Hungarian National Bank for Hungary, and Ministry of Finance data for France. While average VAT rates are similar (16% in France, and 20% in Hungary), NUTS3 level average personal income tax rate is only 6% in Lorraine, while the national statistics of Hungary was 20.1% (for methodology, see Benczúr-Kátay 2010). This difference can be explained by inclusion of some social security contributions.

Generally, in scientific papers on impact studies, there are detailed *theoretical* comparisons of previously applied methods, but we cannot find international comparative studies where invariable method has been used. Even with deficiencies, we can internationally compare the impact of the analyzed universities.

EMPIRICAL EVIDENCE AND RESULTS

Even if the theoretical background is not unanimous, but well-known, estimation methods are wrought and discussed (see Siegfried et al, 2006 for a general comparison), and many international empirical example can be found in the literature (Armstrong 1993, Blackwell et al 2002, Bleaney et al 1992, Bridge 2005, Brownigg 1973, Carroll-Smith 2006, Cooke 1970, Huggins and Cooke 1997, Jabalameli et al 2010, Lewis 1988, Love and McNicoll 1988, Ohme 2003, Pellenbarg 2005, Robert-Cooke 1997, Simha 2005, Tavoletti 2007), until 2010 only one finished case study was known for Hungary, the case of the university of Győr (Széchenyi István University) (Dusek-Kovács, 2009). Some steps were also made in Pécs (Mezei, 2005), but this research has not reached the level of having at least one numerical result. An intensive phase of research started after 2010, the first results have been published in Kotosz, 2012 and Kotosz, 2013 for small colleges and in Zuti-Lukovics (2015) for the University of Szeged. In Dusek-Lukovics, 2014 we can also find an example impact study of a research-oriented future object.

In France, three scientific impacts studies are known, for the case of Strasbourg (Gagnol-Héraud, 2001), for Rennes (Baslé-Le Boulch, 1996), and for the University of Littoral (Mille, 2004). These papers can handle only partially the questions, without an expressed amount of euros (francs) as impact (except for Baslé-Le Boulch, 1999 where multiplier effects are also determined).

The higher education system in the two countries are similar in the sense that originally they are based on state-owned/state-financed universities, complemented by smaller private schools where education is more accentuated than research. As a soviet heritage in Hungary, an independent (from universities) academic research center network survived. In France, research centers are more integrated in the universities, often creating a matrix system of education and research. Education divisions may run under different names (faculties, education and research units, institutes). While in the Hungarian system, faculty positions are also divided to lecturers and researchers, France academic staff members are lecturer-researchers. These characteristics do not help the separation of education and research-related expenditures and incomes.

The higher education in Hungary went through determining changes in the 1990s, which on the whole had an impact on the entire Hungarian society. Since the regime change the number of students has risen significantly, has nearly quadrupled. This tendency was noticeable both in the OECD and in the EU countries on longer period. However, in Hungary after the 2005/2006 academic year a decrease can be perceptible regarding the number of students. On the basis of data of 2008 Hungary lags behind all examined OECD countries, concerning the number of state-funded students per one million inhabitants. While this datum in Hungary was 21 324 heads until in Germany 24 639 heads, in Austria 28 974 heads and in Norway 38 409 heads (Harsányi-Vincze 2012). From the perspective of our study, it is essential to review the Hungarian higher education's system of institutions. Since 2011 in Hungary the administration of higher education's institutions has transformed appreciably, and with this the organizational and administrative autonomy of the institutions, too. First, the appointment of rectors and economic directors was become the authority of the ministry, after that, budget commissioners were ordered to the institutions. In 2014 chancellery system was implemented.

The French higher education system had not realize such shocks, and the number of students has a growing trend with more than 2,400 thousand students in 2014. The

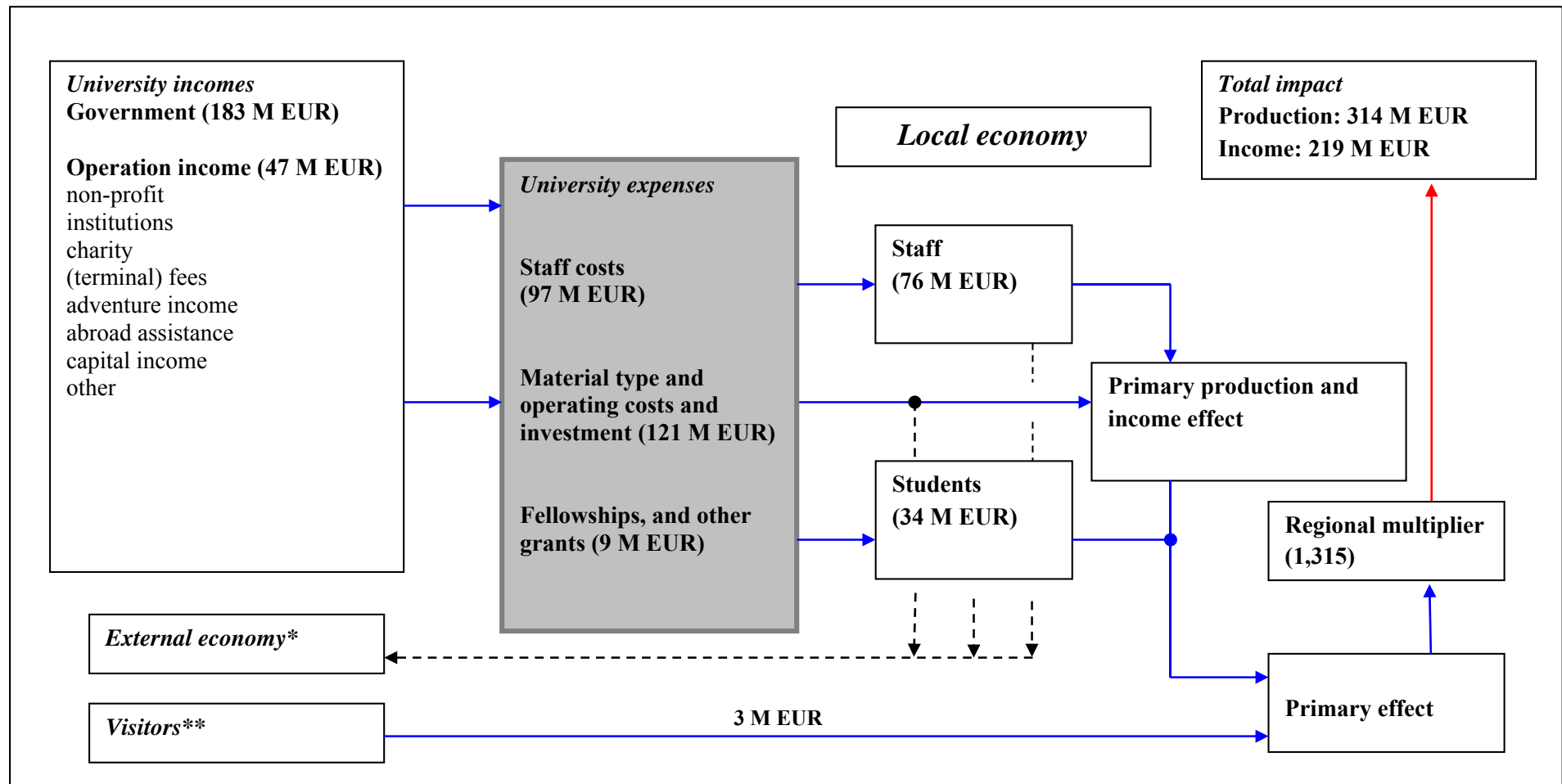
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significantly higher wage level in France can be observed in a dominance of personnel costs in the budget of public universities.

The University of Szeged was founded in 1872, and has about 25,000 students and 12 faculties. After various historic events, in 2000 it has unified almost all faculties working in the city. The Faculty of Medicine integrates a clinical center (hospital) with activities that cannot be separated (financially) from the university. Szeged has around 170,000 inhabitants, in a region which is among the 20 poorest regions of the European Union (measured in per capita GDP).

The first university in Metz was founded in 1970 based on smaller higher education institutions already existing in the city. In 2012, the universities of the Lorraine region have been unified to create the University of Lorraine which is the second largest university of France (by the number of students). The university has more than 50,000 students, 13,000 of them located in Metz where 6 faculties can be recognized. As our research concerns only the city of Metz, university budget items had to be divided by keys. The city of Metz has about 120,000 inhabitants, in a region less developed than the French average (but over the EU average).

The main findings of our research for Szeged and Metz can be summarized in Figure 3 and Figure 4, respectively.



—————> Cash-flow in local economy
 - - - - -> Money outflow

* Non-local economy
 ** Expenses of visitors

Figure 3: Cash-flow in Szeged

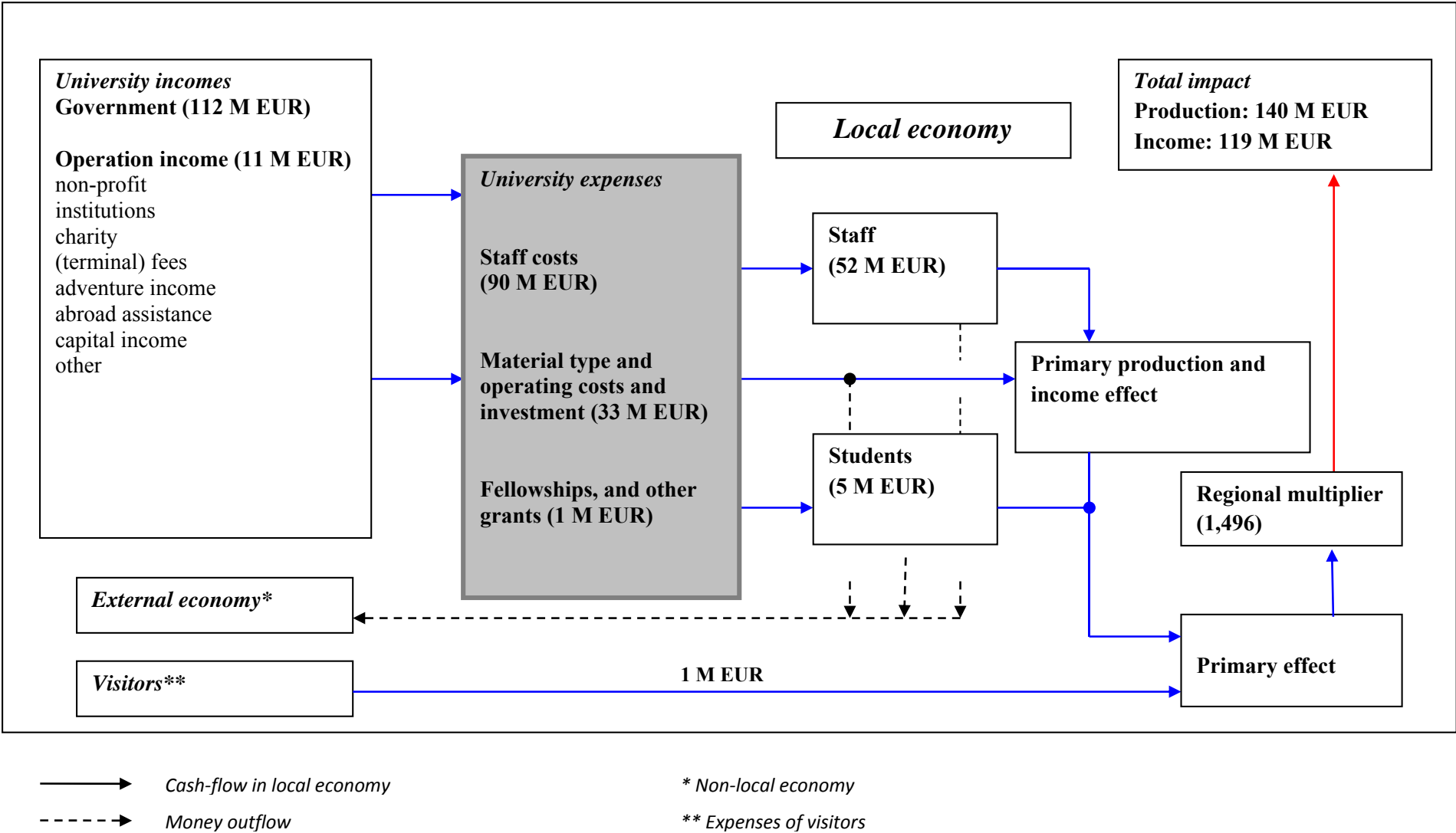


Figure 4: Cash-flow in Metz

CONCLUSION

In the level of comparable results, we can analyze the impact per student or the impact per regional GDP.

The total impact per student is in the range of 15-50 thousand euros in the USA, in the range of 10-20 thousand euros in Western Europe, while between 5 and 10 thousand euros in Eastern Europe by benchmark studies. The results around 10 thousand EUR in our target cities can be explained by the fact that the University of Szeged has a clinical center where medication activities requires expenditures in the order of education and – out of clinical – research of the whole university.

In the percentage of the regional GDP, the impact in the USA is generally in the range of 0.1-3.0%, while in Europe only 0.02-0.10%. Our results of 4% in Szeged and 0.02% in Metz are extremities. The first can be explained by the clinical center, while the second would be higher, if we consider the whole University of Lorraine (around 0.1%).

It is important to see that direct and multiplied (induced) income impact of these universities are in the order of the sum of money invested by different levels of governments. Thereby their third mission activities and/or catalytic impacts are crucial in their local/regional added value. It is proven by Varga (2001) that agglomeration matters, the impact of third mission activities is larger in large universities than it could be explained by their relative size. However, the estimation of the impact of third mission activities is not developed in the literature. The intensity of these activities can be measured by a set of indicators, but it is not clear how we can turn these numbers to euros of economic impact.

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