

Financing Higher Education

GLOBAL PERSPECTIVES ON HIGHER EDUCATION

Volume 3

Higher education worldwide is in a period of transition, affected by globalization, the advent of mass access, changing relationships between the university and the state, and the new technologies, among others. *Global Perspectives on Higher Education* provides cogent analysis and comparative perspectives on these and other central issues affecting postsecondary education worldwide.

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Financing Higher Education: Cost-Sharing in International Perspective

D. Bruce Johnstone

Center for International Higher Education
Lynch School of Education, Boston College
Chestnut Hill, Massachusetts

International Comparative Higher Education Finance and Accessibility
Project (ICHEFAP), Center for Comparative and Global Studies in
Education, Graduate School of Education, State University of New
York at Buffalo
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This work is a compilation of papers written between 2001 and 2005 within the International Comparative Higher Education Finance and Accessibility Project, a Ford Foundation-financed program of research, information dissemination and networking around the related themes of higher educational cost-sharing, tuition policies, financial assistance, and student loans that I had the privilege of directing through the Center for Comparative and Global Studies in Education at the State University of University New York at Buffalo. Almost any scholarly book carries the contributions of many. In this case, I owe a very special debt to Pamela Marcucci, the manager of the ICHEF Project and a valued colleague and collaborator without whom this book could not have been produced. She was the first author of the critical chapter on tuition fees, but her contributions extend to nearly every other chapter as well as to the production of the book itself and the coordination of the Project agenda as well as of the many international graduate students who comprise the Project Team.

I am also indebted to this stimulating team of international students, numbering at various times in recent years between 10 and 15, who compiled descriptive data on higher educational finance and accessibility in some 30 countries, and participated in an on-going lively graduate seminar on the topic of international comparative higher education finance. Special recognition goes to my former student, Ababayehu Tekleselassie, the first author of the chapter on the importance as well as the great difficulties of *means testing*, or *subsidy targeting*, in so much of the world, especially in the so-called *developing* and *transitional* economies. Philip Altbach, holder of the J. Donald Monan SJ professorship and Director of the Center for International Higher Education at Boston College has been my colleague and mentor in the study of international comparative higher education as well as the art of scholarly publication. Jorge Balan of the Ford Foundation provided financial as well as intellectual and moral support for our project. Finally, my wife Gail, a busy head of our area community foundation, was always supportive, even with her too full schedule and even when my travels called me away too often for too long.

D. Bruce Johnstone
Buffalo, New York
May 2006

PREFACE

This compilation includes papers prepared within the context of the International Comparative Higher Education Finance and Accessibility Project, a Ford Foundation-financed program of research, information dissemination and networking. Many of these have been published previously in journals or books and are available on the project website. They have not been revised for this book and, therefore, may not contain the most recent information available in 2006. Several of the articles have been translated into Arabic, Chinese, French and Russian and several of them are in the process of being translated into Spanish. All translations are available on the project website.

The project and its papers examine the worldwide shift in the burden of higher education costs from governments and taxpayers to parents and students, and the policies of grants, loans and other governmental interventions designed to maintain higher educational accessibility in the face of this shift. The Project, begun in January 2000, and involving graduate students as well as visiting scholars/students and a number of "partner centers," has:

- Created a substantial body of descriptive and theoretical literature on higher educational finance and "cost-sharing" as well as the most complete compilation of country descriptions of the higher education costs borne by parents and students. Most of this is available on the Website as well as in hard copy and many scholarly journals. [See <http://www.gse.buffalo.edu/org/IntHigherEdFinance/>]
- Provided, in part through a successful conference in Dar es Salaam in March 2002, a particularly positive impetus to the concept of "cost sharing" in Eastern and Southern Africa. The project also began (2004-06) a research project focusing on the dual tuition programs characteristic of East Africa in order to examine the impact of these programs on institutional financial health and access to higher education.
- Co-hosted and co-planned conferences in Prague in the summer of 2003, in Moscow in the summer of 2004, and in Wuhan, China in the summer of 2005 that brought together scholars and policy makers to focus on higher education finance in the social, political, and economic contexts of the transitional, or post-

communist, countries of the former Soviet Union, Eastern and Central Europe and Wuhan China.

- Developed a long-range research agenda for the further study of higher education finance and accessibility in an international comparative context that is informed both by a sound theoretical grasp of the economics and finance of higher education and by a practical grasp of the politics and management issues affecting implementation of policy at both institutional and governmental levels.
- Provided fellowships for visiting scholars and advanced graduate students from Argentina, the Czech Republic, Chile, China, Ethiopia, India, Japan, Kenya, Mongolia, Portugal, Sierra Leone, Russia, and Ukraine to spend varying periods of time at the University at Buffalo consulting the documentation center, auditing courses, and working with Professor Johnstone and the other graduate students on the project.
- Compiled, cataloged, and annotated a library of resources (presently more than 500 pieces) on the topics of higher education finance, tuition policies, student financial assistance, and student loans.

INTRODUCTION

Higher education¹ in the 21st century has become increasingly important: not only to individuals, for the sake of enriched lives, enhanced status, and greater earning power, but also to the larger society, for the sake of economic prosperity generally as well as for the advancement of democracy and social justice. However, in spite of this universally recognized importance, and in spite of—or ironically, perhaps in part because of—higher education’s place as a principal claimant on public treasuries everywhere, higher education in most countries, rich and poor alike, is suffering from increasing austerity, manifested in such problems as overcrowding, capacity limitations (which exclude large numbers of qualified potential students from lower income families), declining faculty-student ratios, deteriorating physical plants, and in some countries soaring tuition fees and/or student debts, restive student bodies, and increasingly demoralized faculty and staffs.

This austerity, in turn, may be traced to some combination of rising costs and static or even diminishing revenues. The rising costs are a function of two main factors. The first is the inexorably rising per-student costs of instruction, reflecting an industry (higher education) that has little opportunity for the continuous productivity-enhancing substitution of capital for labor, which is the main engine of rising productivity and economic growth in the manufacturing and construction sectors of an economy.² The second contributor to the rising costs is the expansion of enrollments (or at least the expansion of the enrollment *pressures*), which in turn are a function of the underlying growth in most countries of the university-age population (especially in the so-called *developing world*), greatly accelerated by the rising proportions of these growing university-age populations that are prepared for, and desirous of, higher educational opportunities. Thus, the underlying higher educational cost trajectory in most countries is very sharply upward: to begin with, rising

1 The term *higher education* as used in this introduction and throughout this book usually refers more generally to one of the larger universes of *post-secondary* or *tertiary* or even *post-compulsory* education. (And in any event, the underlying analysis can usefully be applied to these larger sectors.)

2 What may sometimes appear to be improvements in productivity—that is, lower costs per student—can, of course, always be forced upon a university—and indeed has been so forced upon universities in recent years all over the world. This can be done simply by increasing teaching loads and class sizes, failing to replace equipment, renew journals, or purchase library materials, or failing to pay the faculty and staff even the salary increases that are paid to workers in the good producing sectors of the economy. But reducing costs must not be equated with increasing productivity; in the examples given, the quality of the products—whether learning or the creation or application of knowledge—is inevitable diminishing.

at rates above the costs of living generally (as in most labor intensive industries) and accelerated in most countries by the rapidly rising higher educational participation rates of these rapidly increasing youth cohorts.

Higher educational costs—at least in the public sectors that predominate in most countries—have been largely and sometimes entirely dependent on public revenues.³ In fact, even in countries with relatively low higher educational participation rates (much of Sub-Saharan Africa, for example), public higher education takes a very high percentage of the total education budget and indeed, along with basic education, public health, defense, and the costs of government itself, takes a substantial percentage of the entire governmental budget. But these revenues are limited, and in most countries are unable to increase at the same rate as the rapidly rising higher educational costs would have them. The inability of governmental revenues to increase “at pace” may be due to the slow (at times even the negative) growth of the underlying economies, as in so much of the African continent, many of the countries of the former Soviet Union, or much of Latin America.

Where the underlying economies are growing, governments may still be unable to tax effectively—or especially to increase taxes with any degree of progressivity. For countries unable to effectively increase taxes, the option of simply printing additional money and confiscating the people’s purchasing power through the resulting inflation is increasingly limited by their dependence on world capital markets and on international donor agencies. Finally—and this may be the most limiting of all—even if most of the countries of the world could increase taxes (and increase them with some degree of progressivity), there remains the inescapable dilemma of the high *opportunity costs* of additional resources to higher education. Opportunity costs are the foregone alternatives implied by an economic choice, and in most countries—and again, especially in the developing and middle income countries—the queue of yet-unmet needs in oftentimes desperate need of additional public revenues is socially and politically compelling: teachers and classrooms at the compulsory levels of education, public health (including measures to control traditional scourges such as malaria as well as new pandemics like HIV-Aids), public infrastructures such as safe drinking water, transportation, telecommunications—and on and on. In short, even if countries were able to fairly and efficiently increase their taxes (which is highly unlikely in all but the most

³ Even in the United States, which is thought to have one of the most privatized public sectors in the world—and becoming more so—the percentage of full undergraduate instructional costs borne by taxpayers still remains in most states in the range of 60 to 70 percent.

industrialized countries), the likelihood of such increased revenues going in substantial amounts to higher education is remote.

Thus, the fundamental condition of higher education, especially in the low and middle income countries, is dominated by the radically diverging trajectories of higher education costs and available governmental revenues, underscoring the worldwide search for other-than-governmental revenue sources for higher education—with the most obvious, albeit politically contested, sources being some combination of parents and/or students. This is the higher educational austerity rationale for *cost-sharing*—which term reflects both the simple fact that the underlying costs of higher education are shared by governments (or taxpayers), parents, students, and philanthropists, as well as a description of a worldwide policy trend of these costs being increasingly shifted from governments to parents and students.

While the *austerity*, or the *sheer need*, rationale for cost-sharing is the most politically and ideologically neutral (and probably in itself sufficient to account for most of the recently observed shift in costs from governments to parents and students), many economists and policy analysts also see an *equity* argument for cost-sharing. They observe that free higher education (especially when “free” is extended, as it was in most formerly Communist countries, to free tuition, free room, free board, and sometimes even pocket money) is virtually everywhere partaken of disproportionately by the sons and daughters of the elite, who will clearly benefit handsomely in greater occupational choices and prestige, and usually in income, but is in almost all cases (including the centrally-planned countries of the then-Communist world) paid for by the average citizen and worker. Also, *efficiency* arguments have been advanced in favor of cost-sharing: following the principle of market economics, which asserts that having to pay at least a part of the costs of the higher education should make both parents and students more discerning consumers—just as having to charge at least a partial price for the higher education (or the food or the lodging), particularly with some competition, should make the university and/or the government a more efficient and responsive provider.

The underlying theory of cost-sharing as well as the description of its worldwide reach were developed from 1986 through 2006 mainly by the works of Johnstone and his international Higher Education Finance and Accessibility Project at the State University of New York at Buffalo. The principal papers from this project are reproduced in this volume.

The two chapters in SECTION I: COST-SHARING: THEORY, RATIONALE, AND CRITICISM, elaborate on these rationales for cost-sharing and also treat some of the ideological and political opposition to this trend. Some

of this opposition is genuinely ideological—that is, a belief that the costs of higher education ought always to be borne only by governments, or taxpayers. This belief, although substantially cultural and historical, is (or was) particularly prevalent in those Communist economies where government owned the means of production and could therefore claim virtually all of its purchasing power at the enterprise level. There may have been left little for wages, but the worker—although indirectly taxed at a huge rate—neither *felt* taxed, as such, nor in most cases believed that the governmental expenditures had meaningful *opportunity costs*—that is, alternative expenditures foregone, as in better infrastructure, or perhaps lower taxes and more in their individual paychecks.

Some of the opposition to cost-sharing has been understandably centered in the students and the families who have made it into the university—and who can thus be expected to resent the threat of having to pay for what their predecessors obtained for free (or more accurately, at the expense of the general citizenry). Other opposition is based on the belief that tuition fees and other charges for costs that may once have been borne entirely by government may exclude the poor—a fear that is particularly strong where governments may be attempting to introduce cost-sharing in the absence of workable systems of means-tested grants and generally-available student loans.⁴ In other cases, a very different opposition is based not on the notion that some (poor) parents may be unable to pay, but on the notion that no parents should ever be expected to pay, regardless of their financial means: in other words, that all students should be treated like independent adults rather than financially dependent children (as is the theoretical case in the Nordic countries). Still other opposition to cost-sharing may be based not on opposition to the theory of cost-sharing, or even to the theoretically greater equity of *tuition fees cum grants and loans*, but on the formidable technical difficulty of assessing financial means with any validity and reliability, as well as on the demonstrable failure of so many student loan programs and the failure of governments always to match increases in tuition fees with commensurate increases in student assistance. In short, opposition to cost-sharing is both intellectually and ideologically varied, but can always be politically formidable and is never to be taken lightly by politicians or policy analysts.

4 The so-called *equity* case for some cost-sharing is always accompanied by the requirement of sufficient student assistance to essentially equalize the higher educational opportunities for potential students from affluent and low income families.

SECTION II: TUITION FEES, GRANTS AND LOANS takes up the three main policy ingredients of cost-sharing: tuition fees, grants (or discounts, or bursaries), and student loans (or whatever euphemism politicians may choose to call mandatory charges that are deferred and repaid only in the future).⁵ All three chapters in this section combine descriptions of country programs with the underlying economics, finance, and politics of these particular forms of cost-sharing. For example, a fundamental, often overlooked, question or policy issue in cost-sharing is whether the costs that are to be shifted from their former (in most countries) predominate reliance on governments and taxes are to be shifted to parents or to students or to both. Americans tend to see the family as a kind of undifferentiated unit that will somehow sort out the division of cost burdens among parents and students such that parents will pay up front, students will also pay currently through employment, and then students will shoulder a substantial deferred burden via student loans (some of which may in fact be repaid by the parents, and a surprisingly large portion of which will be indirectly paid by the taxpayer in the form of loan subsidies). Some of the different models of up-front tuition fees are examined in the chapter, *Tuition Policies in a Comparative Perspective: Theoretical and Political Rationales*, which examines the many forms and policy rationales for tuition fees and especially the theoretical rationales for variations in tuition fees: e.g., on the basis of differential underlying instructional costs, or varying market demand, or the different financial capacities of the families.

In this same section, *Higher Educational Accessibility and Financial Viability: The Role of Student Loans* takes up the enormously complex issues and varying forms of student lending. Student loans vary not only in their forms but in their purposes, with loans in some countries designed mainly to put money in the hands of the students—with only minimal concern for repayment—as opposed to student loans that are fundamentally about *cost-sharing* and where the success of the program lies in the degree to which most students are to repay most of whatever “share” was assigned to the student in the first place (that is, as opposed to the government or the parents). Even more complex, student loans vary in form along several, frequently misunderstood, and sometimes deliberately obfuscated, dimensions. Much of the complexity is caused by the dimension of *time*: repayments extended over more time are perform smaller and more instantly manageable, but may or may not be

⁵ As in Scotland's decision to refer to tuition fees and loans as “mandatory income contingent contributions to the Scottish University Endowment Fund,” or Australia's Higher Education Contribution Scheme, or Ethiopia's Graduate tax: all mandatory fees that are deferred and to be repaid (albeit income contingently) with some interest rate charged.

actually cheaper (or more expensive) depending on the present values of the alternative repayment streams. Student loans are also almost always at least partially—and sometime substantially—subsidized, and in almost all cases are subsidized by the government or taxpayer. Inevitably, then, there is at least a theoretical trade off: between outright grants (sometimes hidden in tuition discounts) and the *effective grants* implied by streams of repayment subsidies. In this way, tuition fees, grants (or discounts) and the effective grants of loan subsidies are all part of a complex policy mosaic that is theoretically attempting to yield a given present value sum, or share, of revenue from some combination of parents and students, while attempting at the same time to minimize or avoid altogether financial barriers to higher educational participation—and finally to provide institutional (i.e. college and university) incentives to be cost effective and to maximize learning.

The final chapter in this section examines the issue of the *income-contingent* form of student lending, wherein the repayment obligation is expressed not as a fixed schedule of payments due over a defined repayment period, but as a percent of future earnings until the loans has been repaid—presumably at the same “true interest rate” as would have been charged in a conventional, or fixed schedule, alternative. Income contingent forms of student lending have an undeniable advantage in making the repayment burden, by definition, spread out over time, and also in shifting some of the potential subsidization from all borrowers to those borrowers whose higher educations, for whatever reasons, did not seem to “pay off” as much monetarily. At the same time, an income contingent loan—contrary to some claims of its many highly enthusiastic proponents—is not necessarily cheaper to all or even most students, and may or may not be advantageous to other lenders, depending in part on whether the government’s income tax collection scheme is made to collect the income-contingent loan payments in addition to the taxes due. Because income contingent loans seem to appear more advantageous—frequently to both lender and borrower—and because many governments, especially in developing and transitional countries, find student loans (as all elements of cost-sharing) exceedingly politicized and even dangerous, such governments may be especially vulnerable to the idea of a tuition fee that does not have to be acknowledged as a fee at all (since it is automatically deferred), and a loan that does not have to be called a loan (only a “graduate tax” or an income contingent contribution). The final chapter in this section, *Income Contingent Loans and Graduate Taxes: Can They Work in Developing and Transitional Countries?* elaborates on the special difficulties of the income contingent concept in transitional and developing countries.

The final section, REGIONAL AND COUNTRY STUDIES, presents five papers that apply these theoretical perspectives to policy dilemmas faced by five very different countries or regions. No region exhibits the extraordinary need for alternative (i.e., non governmental) revenue sources more than Sub Saharan Africa; yet no region also presents such formidable obstacles. These obstacles are partly *political* (the deep poverty and the legacy of African Socialism), partly *historical* (the legacy of European colonialism, which in addition to all of its other damage, left the model of free higher education), and partly *technical* (the sheer difficulty of establishing means-tested grants and workable student loan programs). Nonetheless, the chapter, *Higher Education Finance and Accessibility: Tuition Fees and Student Loans in Sub-Saharan Africa*, presents the status of cost-sharing in Sub Saharan Africa as of 2002. One of the formidable technical problems alluded to above—namely, the difficulty of assessing family or parental means when so much income (as in so much of Sub Saharan Africa) is from multiple and oftentimes unrecorded sources, or from remittances or is “in kind,” or otherwise unknown to authorities and mainly unverifiable—is dealt with in the chapter, *Means Testing: The Dilemma of Targeting Subsidies in African Higher Education*.

The chapter, *Student Loans in the Russian Federation: Policy Options*, presents some of the practical difficulties in choosing among student loan policy options in a country that has yet to recognize the need for some tuition fees from all, and seems to have little consensus (as of 2005) on the purpose of a student loan program. In an almost ironic sense, the paper about the UK’s struggles with its student loans—*Fear and Loathing of Tuition Fees: An American Perspective on Higher Education Finance in the United Kingdom*—tells a story not altogether dissimilar to the story of Russia and its political struggles with tuition fees and student loans. England’s political Left in the year 2004 was still unable to accept the need for tuition fees, but was financially able only to relieve *parents* of the “up-front” fee, thus pushing that part of the higher educational cost burden not back to the taxpayer, but to *students* in the form of an additional loan burden—albeit disguised in the form of an *income contingent contribution*. (The story may be called *ironic* because the tuition fee that is to be displaced in the year 2006 was means-tested, thus not falling on the poor anyway—such that the main beneficiary of the abolition of tuition fees appears to be middle and upper-middle income parents.)

The final story, also specific to a time and place, but with much wider applicability, is about the politically popular tuition freeze—in the instant case in Ontario. The chapter, *Higher Educational Affordability and*

Opportunity in Ontario: the Illogic of a Continued Tuition Freeze, makes a case for why, once a tuition fee has been accepted and will never be altogether abolished, a tuition freeze is completely irrational—most of all to the faculty of the Ontario universities, whose political stance for a continued freeze on tuition fees was the occasion for the chapter.

Section 1
Cost Sharing:
Theory, Rationale, And Criticism

Cost Sharing In Higher Education: Tuition, Financial Assistance, And Accessibility In Comparative Perspective

Cost Sharing in Higher Education

Recent years have seen a dramatic, albeit uneven and still contested, shift in the burden of higher education costs from being borne predominately by government, or taxpayers, to being shared with parents and students. This cost sharing, as articulated in Johnstone (1986, 1992, 1993b, 2002, 2003) may take the form of tuition, either being introduced where it did not hitherto exist or being rapidly increased where it already does. It may take the form of public institutions charging more nearly break even, or full cost fees for room, board, books, and other costs of student living that may formerly have been covered mainly by government. A shift of the cost burden from government to student and family may also come in the form of a reduction or sometimes a freezing (especially in inflationary times) of student grants. Similarly, it may come in the reduction of the effective grants represented by student loan subsidies as interest rates are increased closer to the costs of money, or market rates. Finally, the shift may come about through public policies that shift enrollments, particularly in rapidly expanding systems, from a heavily subsidized public sector to a much less subsidized, tuition-dependent private sector.

In all these ways and in combinations thereof, albeit unevenly and still ideologically contested, the burden of higher educational costs worldwide

is being shifted from governments or taxpayers to students and families.¹ Thus, we can observe cost sharing entering into the public policies of countries with totally different social-political-economic systems and at totally different stages in their stage of economic development or industrialization or in the expansion of higher educational participation: e.g. China, Vietnam, the UK and Austria.

In light of this shift, this paper explores five questions:

1. What are the theoretical and practical rationales for shifting some portion of the higher educational cost burden from governments and taxpayers to students and families?
2. What are the theoretical, political, ideological, practical, and/or strategic bases for resistance to this shift?
3. What is the impact of increasing cost burdens (mainly tuition and related fees) on student enrollment behavior—that is, enrollment, persistence to a degree, continuation to a higher degree, and the decision of where, or in what kind of, higher educational institution to enroll? (In this connection, we will be particularly interested in whether enrollments might be dampened for those whose access is already compromised by (a) low income; (b) racial, ethnic, religious, or linguistic status; (c) gender (most often “being female”); or (d) isolation—especially from good secondary schools and the cultural enrichment generally associated with urban areas, as well as from institutions of higher education close enough to allow living at home.)
4. What is the higher education cost (or more properly, the *expenditure*) burden currently being borne by the student and family in various countries, and what is the recent increase in these costs being borne by students and families, as opposed to governments or taxpayers? (This question must consider any offsetting effects of means-tested or otherwise targeted grants and student loans.)
5. What policy tools—e.g., need-based grants, loans, loan subsidies, very low or no tuition, subsidized lodging and food—are being employed to increase accessibility, and what is known of their efficacy?

¹ “Taxpayer” includes the general citizen/consumer losing purchasing power to the government via the higher prices brought on by hidden business taxes or through inflation brought about by public deficit financing.

Rationale for Cost Sharing

The principal causes for, or rationales behind, this shift are three, and they differ considerably in their underlying economic, political, and ideological assumptions. The first rationale is the sheer need for other-than-governmental revenue. This need begins with the dramatic increase in most countries in both the public and private demand for higher education, recognized as a major engine of national economic growth and provider of individual opportunity and prosperity. This demand pressure is a function of the sheer demographic increase in the traditional college-age cohort, compounded by the increasing secondary school completion rates, which in turn increases the number of those wanting to go on to higher education, further compounded by an expansion of what may be considered a college-going age cohort to include adults formerly by-passed by the system. This demand pressure is especially felt in low income countries that are still trying to change from “elite” to “mass” tertiary-level participation, at the same time as they are trying to become more economically competitive in an increasingly global economy. But the increase in demand for higher education can also be found in countries already at mass or even near-universal participation rates, as the average student “consumes” ever increasing amounts of higher or (at least postsecondary) education over his or her lifetime.

However, the institutions delivering higher education are also nearly everywhere—and especially in most developing or low-income countries and in those countries in transition from command to market-driven economies—suffering from a severe and worsening austerity. This austerity is a function of at least three forces. First is the demand pressure, mentioned just above. Second is the high—and likely to be increasing—per-student costs on top of the increasing numbers of students.² Per-student costs in higher education generally rise faster than unit costs in the general economy due to the traditional resistance on the part of the academy (institutions and faculty alike) to measures that would increase productivity by substituting capital for labor or by shedding existing,

² Specifying (not to mention making international comparisons between) per-student, first-degree, instructional costs is oftentimes unreliable for several reasons including: (1) the difficulty of attributing costs to first degree instruction as opposed, say, to the costs of research or service or advanced instruction; (2) great variability in the accounting treatment of pension and other so-called benefits expenses, in addition to direct salary costs; and (3) a similar variability in the treatment of capital costs within most of the published international data on the comparative costs of higher education.

but lower priority, programs and their associated labor costs.³

A third cause of increased austerity, especially in the low income and “transitional” countries, is the decline in available public (taxpayer-based) revenue. This decline, in turn, may be a function either (or both) of an increased difficulty of taxation, or of competition from other, oftentimes more politically compelling, public needs. For example, taxes were relatively easy to collect in centrally controlled economies such as the former Soviet Union and Eastern Europe before the so-called collapse of Communism, where purchasing power could be siphoned off at each level of the state-owned production processes via “turnover,” or other forms of value-added taxes. The state could also control—and thus tax—all international trade. Privatization and globalization have essentially eliminated these largely invisible and easy-to-collect taxes, and the alternatives—e.g., taxes on income, retail sales, property, and the sales of luxury goods—are visible, unpopular, expensive, relatively easy to avoid, and technically (in addition to politically) difficult to collect. Furthermore, for the limited taxes that can be collected (or the limited deficit financing that the economy can tolerate), higher education increasingly has a lower priority than other public sector needs such as elementary and secondary education, public health, housing and public infrastructure, welfare and the social and economic “safety net,” and internal and external security.

It is in light of these forces and of the consequent financial struggles that national systems of higher education and institutions nearly everywhere in the world are having to supplement their governmental revenues, not only with “cost sharing,” as noted above, but with entrepreneurial activities such as the sale of faculty services, the sale or lease of university facilities, the vigorous pursuit of grants and contracts, and fund raising from alumni, corporations, and friends. Thus, tuition and other fees from students and families have the potential for substantially augmenting the increasingly scarce public revenues. Tuition also has the advantage of doing so without simultaneously adding new cost or diverting faculty from their core teaching responsibilities (as is the case with supplementing revenues via grants and contracts or other forms of faculty entrepreneurship).

³ The resistance to productivity or efficiency is pervasive in the classical university in most countries, although a kind of “efficiency” is being forced upon many universities in the forms of mandatory enrollment increases, cuts in faculty numbers, and freezes or even reductions in faculty salaries. The more purposeful enhancement to higher educational productivity—e.g., through application of instructional technology, or radical restructuring of instructional styles and faculty workloads—are more likely in entirely new institutions and sectors (such as “distance learning universities,” but it may be debated whether these forms are genuinely “more productive” or are better described as “different albeit cheaper.”

The objection that imposing tuition or increasing it at a rapid rate might exclude potential students from poor or rural or otherwise disadvantaged families can be met, it is argued, by the promise of generally available loans (i.e., loans that do not depend on the creditworthiness—and thus the financial worth—of the family), or by means-tested student grants, paid for, at least in part, by the augmented tuition revenue. In fact, the proponents of cost sharing are likely to argue that the alternative to some form of substantial public revenue supplementation is continued or worsening austerity in the public higher education system, the likely result of which would be limitations on enrollment and/or increasingly shabby and underfunded universities. And because the sons and daughters of the wealthy will always have alternatives (in the private sector or higher education abroad), the students, or potential students, who will be hurt most are the very disadvantaged students that the resistance to tuition is supposed to protect.

The second rationale for tuition and other forms of cost sharing, based less on need or expediency than on principle (however ideologically contested), is the notion of equity: the view that those who benefit should at least share in the costs. The principle is made more vivid and compelling by four observations. The first is that “free” higher education is actually paid for by all citizens, whether or not they know that they have been taxed (or have had their purchasing power effectively confiscated by inflation brought on by the printing of money). Second, most taxes—public policies to the contrary notwithstanding—are collected through regressive, or at best proportional, taxes on sales, production, or individual incomes that cannot be otherwise hidden (or through the even more regressive governmentally-induced inflation, as mentioned above). Third, a very disproportionate number of the beneficiaries of higher education are from middle, upper middle, and upper income families who could and would pay at least a portion of the costs of instruction if they had to—thus demonstrating the value to them of the higher educational opportunity and signaling the benefits that are thought to be private as opposed to public. Such students and families would probably prefer that much or all of this particular benefit be paid for by the general taxpayer. But whether higher education is subsidized or not—that is, whether tuition is zero, moderate, or high—should make little or no difference in the enrollment behavior of the student from more affluent families. In this instance, the higher public subsidy required by low or no tuition can be said (at least by the proponents of “cost sharing”) to resemble a transfer payment from the public treasury to middle and upper middle class families. Fourth and finally, to the extent that there are potential students who would be excluded from

higher education by the presence of tuition, a portion of the tuition collected can easily (at least in theory) fund the means-tested grants and loan subsidies that can (again, at least in theory) maintain and even enhance accessibility.⁴

A third rationale for cost sharing in higher education is the neo-liberal economic notion that tuition—a price, as it were, on a valuable and highly demanded commodity—brings to higher education some of the virtues of the market. The first such virtue is the presumption of greater efficiency: that the payment of some tuition will make students and families more discerning consumers and the universities more cost-conscious providers. The second virtue attributed to the market is producer responsiveness: the assumption that the need to supplement public revenue with tuition, gifts, and grants will make universities more responsive to individual and societal needs. A variation on this theme is directed at the alleged problem of academic malingering—that is, students alleged to be taking more years or more courses (or both) than are necessary or even useful merely or largely because the courses and sometimes even the living expenses are paid for, and because the alternative may be either unemployment or an unappealing job out in the real world. Germany, the Netherlands, and the US have responded in part by eliminating or reducing student aid after insufficient progress toward the degree, and some US states have begun charging the higher out-of-state tuition after so many “excess” credits.

Resistance to Cost Sharing

All of this is contested ideological ground, and not all policy makers, observers, or stakeholders share the notion that increased cost sharing—that is, a further shift of the cost burden to the student and family—is correct, necessary, or even “good expediency.” The shift in the higher educational cost burden from governments and taxpayers to students and families may not be easily accepted, especially in countries with dominant socio-political ideologies that hold higher education to be another social entitlement: to be free, at least for those fortunate enough to make it through the rigorous academic secondary system. This ideology, in turn, can stem from a view that society is the

4 Some classic expositions of this equity argument include W. L. Hansen and B. A. Weisbrod (1969). *Benefits, Costs, and Finance of Higher Education*. Chicago: Markham Publishing; Carnegie Commission on Higher Education (1973). *Higher Education: Who Pays? Who Benefits? Who Should Pay?* New York: the McGraw Hill Book Co.; J. P. Jallade (1978, June). Financing Higher Education: The Equity Aspects. *Comparative Education Review*, 309-25; and G. Psacharopoulos and M. Woodhall (1985). *Education for Development*. Oxford: Oxford University Press for The World Bank; and J. C. Hearn, C. P. Griswold, and G. M. Marine (1996). Region, Resources, and Reason: A Contextual Analysis of State Tuition and Student Aid Policies. *Research in Higher Education*, 37 (3), 241-278.

major beneficiary of higher education, and that this observation ought to override the demonstrably high private benefits received by the graduates and their families.

This economic rationale provides good theoretical cover to student, parent, and faculty self-interest in the preservation of low or no tuition. Students, regardless of ideology, tend (understandably enough) to resist the imposition of, or increase in, tuition. Students can be a formidable political force, particularly in left and radical politics, especially in Europe and Latin America and in some countries in Asia. Also, parents of students and would-be students, especially in low-income countries, may be politically powerful elites who just happen to benefit most from the free higher education. This may explain why many students and families, both affluent and low-income, and both “left” and “right” often tend to oppose tuition, while most economists and many political scientists, including those on both the political left and right, tend to approve at least some degree of “cost-sharing.”

In opposition to efficiency and market responsiveness as rationales for greater cost sharing, many academic leaders assert that a proper higher education is supposed to be removed, or at least substantially insulated, from commercialization and market forces. Slavishly following what students think they want, or what politicians or business think they want students to take, according to many academic traditionalists, is the road to academic mediocrity. Furthermore, there is no evidence, at least in the US, that academic responsiveness, educational quality, or efficiency improves with higher tuition. However, this traditionalist position is increasingly viewed by governments and many citizens as academically self-serving as well as costly to the taxpayer.

The view that higher education ought to be “free” or at least very highly subsidized may also be mainly pragmatic and strategic, regardless of ideology or politics. For example, many opponents to the view of cost sharing, as presented above, accept the notion that means-tested financial assistance and loans might in theory preserve accessibility in the face of rising tuition and diminishing taxpayer subsidies to the “well-off.” However, they claim that children of the poor may not understand that the high tuition can be offset with grants and hence might not aspire to a university education during the middle and secondary years when the absence of such aspiration may effectively preclude the option of any higher education. It is also alleged that children of working class or peasant backgrounds resist borrowing, less from personal economic calculations than from a cultural aversion to debt. Finally, while a policy of high tuition combined with generous means-tested aid might be more efficient, in the sense that the available public subsidies can be

more effectively targeted, the high tuition can be imposed by short-term political expediency, while the high aid requires a longer-term ideological commitment—and the result can easily be a de facto policy of “high tuition-low aid” or “high tuition-high loans only” (Johnstone 1993a).

Resistance to the shift of costs from governments and taxpayers to students and parents may be based on a recognition that scarce taxpayer dollars are allocated by political authorities not necessarily on a rational assessment of the costs and benefits of all competing claims, but on the basis of which claims can muster the greatest political pressure. To *critical* or neo-Marxist opponents of neoliberalism, both the market and the so-called liberal democratic politics prevailing in most of the West mainly perpetuate the existing unequal distribution of power, status, wealth and economic opportunities. A major plank in the critical opposition to higher educational cost sharing and marketization is the assertion that, contrary to the prevailing neo-liberal position, taxes *can* be raised, both substantially and progressively, if there is but the political will and leadership. Doing so, they assert, would obviate the need for tuition and other forms of cost sharing, and would also avoid the danger of losing enrollments (particularly among the poor) and risking failure in possibly ineffective and expensive financial aid and loan schemes (Colclough and Manor 1991; Buchert and King 1995).

In keeping with this strictly strategic resistance to cost-sharing, even otherwise staunch neo-liberals may worry that increases in tuition may lead neither to more resources for the university, nor to additional need-based aid and greater participation among the hitherto by-passed, nor even to a shift in public resources to other socially worthwhile programs, but simply to a shift of taxpayer resources from higher education to some other claims that may be more politically forceful, including tax cuts for the wealthy. Thus, it is not necessarily irrational nor irresponsible for stakeholders (even if they be strong believers in most of the typical neoliberal agenda) to advocate for one particular object of public expenditure—say, high subsidies and low or no tuition for higher education—to the exclusion of other public purposes (or tax cuts), which can be assumed to have their own fierce advocates.

However, if the political authorities do not or cannot provide sufficient public revenue to higher education in spite of advocacy for additional tax funds and resistance to tuition (and this is the essential plank of the prevailing neoliberal, cost-sharing advocacy typified by the World Bank), the continuing austerity at some point will become sufficiently damaging—to the point of severe enrollment limitations and increasingly inadequate numbers and/or quality of faculty, books,

equipment, and physical plant—that more and more parents, students, university rectors, and faculty will accept the inevitability, and even perhaps the desirability, of cost-sharing through tuition and other means.

The Increase of Cost Sharing in Higher Education

For the reasons cited above, some increased costs borne by parents and students are probably both inevitable and economically rational. The tenants of neoliberal economics seemed to be ascendant in most countries at the close of the twentieth and beginning of the twenty first century, including China and much of Eastern and Central Europe, as well as the highly industrialized countries of the West. In the US, UK, and Germany, the embrace of market solutions, privatization, and fiscal discipline—long the hallmarks of conservative parties—have become central to the political planks of what traditionally had been the parties of the left, particularly when these parties took over their governments in the 1990s. Although public higher education in the US is the province of the several states, the 1980s and 90s saw very great increases in public sector tuition in most states. Britain in 1997 under a Labor government, broke sharply with the European tradition of free higher education. Germany, at the turn of the century once again under a Social Democratic Government, in 1999 conspicuously failed to reiterate the traditional Higher Education Framework Law guarantee of free higher education to all successful graduates of the German academic secondary school. And in 2001, Austria became the first German-speaking country to adopt tuition.

The supplementation of higher educational revenues by non-governmental sources—primarily students and family—is one of the major recommendations from the World Bank and most other development experts as one important solution to increasingly underfunded and overcrowded universities in the developing world (Johnstone 1991, 1993b; Woodhall 1992; World Bank 1994; Ziderman and Albrecht 1995; Johnstone, Arora, and Experton 1998). We can see the beginnings of tuition and various kinds of fees in such countries as China, Vietnam, India, more and more countries in Latin America and Africa. We see the dilemma of Russia, East Europe, and the other countries of the former Soviet Union, all struggling with the need for tuition to supplement increasingly inadequate public revenues for higher education, looking for loopholes in their present constitutional guarantees of free higher education (Bain 1997). We see a mature, even if uneven, private higher education sector, mainly tuition-supported, in Japan, Korea, the Philippines, Chile, Brazil, and elsewhere in

Latin America, and private higher education sectors emerging in the countries of the former Soviet Union and the rest of Eastern Europe. Representative public sector tuitions in a number of countries are shown in Table 1.

In the face of these increasing expenses borne by students and parents, national systems and individual institutions face the challenge of maintaining higher educational accessibility, especially for poor, minority, rural, and other traditionally underserved populations. (This challenge is particularly compelling in light of the increasing income disparities being experienced in most of the countries of the world.) In the US and many other countries, the principle of expanding higher educational opportunity and accessibility is being met, among other ways, with means-tested student financial assistance and/or with governmentally guaranteed and generally available student loans (or other forms of delayed payment, such as graduate taxes).

Table 1 Representative College / University Public Sector Tuition (First Degree, Most Recent Available Academic Year, US Dollars)

Country	High Tuition	Low Tuition
Austria	\$746	\$746
Canada	5,000	1,366
China	2,591	518
Japan	2,974	2,974
India	85	20
Mexico	1,159	178
Russia	12,026	0
South Africa	3,293	1,085
United States	6,000	1,600
UK	1,565	1,565

Source: Information by the Higher Education Finance and Accessibility Project, University at Buffalo Center for Comparative and Global Studies in Education. <<http://www.gse.buffalo.edu/org/IntHigherEdFinance>>

What is most problematic about this shift, at least in the developing world and in the nations of the former Soviet Union and Eastern Europe, is that many of these countries may lack (in addition to a sufficiently affluent

middle class that can afford tuition) such beliefs and traditions as:

- A belief in the very appropriateness of tuition: that is, that parents and/or students should contribute to the instructional costs of higher education, at least to the limit of their abilities, even in the acknowledged “public” institutions. (Families in many European Countries expect to pay for their children’s living costs, although not the instructional costs, or tuition—which is why the ability to attend university and live at home is important, and why higher education is so much more accessible in urban areas. Families in Scandinavia expect their high taxes to assure free higher education, but expect their children—as young independent adults to bear the costs of living—through ubiquitous, subsidized loans.)
- The tradition of revealing incomes and assets, honestly, in response to tax laws or requests for the documentation of financial need for the obtaining of student assistance. (The difficulty of income verification is becoming more of a problem in developing and “transitional” economies with the spread of private employment, particularly among the middle and professional class, where employment has traditionally been mainly governmental, and incomes easy to track.)
- The tradition of philanthropic giving to higher education, which can build up scholarship funds at colleges and universities, public as well as private. (Some cultures have strong traditions of charity, or of giving to religion, but not necessarily to higher education, which is considered either a private good, appropriately affordable to the elite, or the responsibility of the government.)

It is because of these traditions (together with the nearly \$56 billion dollars in student aid and loans, most of it “need-sensitive”) that the US, in the face of very high costs of higher education, both public and private, can still hold to the claim that access to higher education, to the limits of a student’s ability and interest, need not be precluded by family financial status. Elsewhere, in the absence of these traditions, and of public policies to maintain accessibility, there is reason to believe that higher education will become increasingly unattainable to all but the affluent.

But policies such as means-tested financial aid and generally available student loans at moderate interest rates are financially, politically, technically, and sometimes culturally difficult. For example, “financial need” is exceedingly difficult to ascertain and verify, especially in

non-Western countries, where private sector incomes may be neither reported nor even recorded (or certainly underreported) and where tax evasion is everywhere prevalent (McMahon 1988). Whatever parental financial responsibility may exist may be limited to sons, or may be handled by extended families. Sections of the population may subsist on largely non-monetary income, making "financial need" even more difficult to assess. Yet without some way of assessing "need," either very large segments of the population must effectively be denied access to higher education, or tuition must be kept zero or low for all students—which, in the absence of alternative public revenue, would mean either that the colleges and universities would have to limit enrollments (and continue to serve only a small elite), or would be maintained at such levels of overcrowding and shabbiness such that all students may be denied a decent higher education.

What is the Right Tuition?

In response to recognition of the need for, and even the inevitability of, greater "cost-sharing"—which frequently is merely a euphemism for the introduction of, or sharp increase in, tuition—ministries and higher educational leaders frequently inquire: "What is the proper level of tuition?" They are generally looking either for a monetary amount, or a percentage of instructional costs, that would be "appropriate," or at least in some kind of international higher educational mainstream.

But the question of "a proper tuition" cannot be given any kind of useful answer apart from a context of other policies and contextual circumstances. The principal ones are the following.

1. The existence of other kinds of non-discretionary "fees" in addition to tuition. These "other-than-tuition" fees may be so-called "up front" or "one time" fees, or other mandatory fees for e.g., application, registration, student programs, athletics and recreation, technology, etc. The state of California was notorious for maintaining very low tuition only because of the very high fees. Japanese universities charge "application fees" as high as \$350, which for the major private universities can provide in excess of \$15 million in operating revenue with almost no offsetting cost. Indian universities are known for their myriad of small fees.

2. The per-student costs of the particular higher educational institution or program in question. Costs vary substantially across institutions and sectors, and especially across programs. If "cost sharing"—generally meaning the charging of tuition—is established by policy as some percentage of per student instructional expenditures, then it matters greatly in making international comparisons how these per-student costs, or institutional expenditures, are calculated. But these costs depend

on assumptions or accounting conventions: for example, how so-called indirect costs, or institution-wide expenditures, are apportioned among first-degree or graduate instruction, or how pension costs, or the costs of health insurance, or the costs of capital are handled. In addition, per-student costs vary considerably among degree programs in accord with prevailing faculty-student ratios, equipment needs, and other program-specific costs—as, for example, among programs in science, history, or undergraduate teacher education.

3. The private benefits believed to be attached to certain institutions or certain degree programs. Regardless of the underlying instructional cost differences, it is commonly thought appropriate (or perhaps merely expedient, or just more feasible) to recover a higher percentage of these costs from those programs and degrees believed to bring the greatest private return to the student (or parents)—either in future earning capacity, or in prestige, job security, or anything else valued in a profession or vocation. Thus in the world of private higher education, and in public higher education where tuition is permitted, tuition and associated fees for medical and other advanced health professional programs are generally high, reflecting not only the greater instructional costs of such education, but the high market value of the degree (in turn reflecting the high income and high status associated with these professions). Also, as much of the world that was formerly dominated by Socialist/Marxist central economic planning has given way to private enterprise and market forces, the demand for higher education in economics, management, law, computer and information science, and the English language has risen greatly—and so, too, tuition in such programs.

The establishment of a “proper tuition” is made even more complicated by the interaction and the inter-country variations between these two factors of (1) instructional costs and (2) the mix of public and private benefits. For example, it is conventionally thought that research, or “classical,” universities are more costly per-student than shorter-cycle, more vocationally-oriented, less research-intensive institutions, so that a common percent of costs to be charged to students and their parents will generally yield a higher tuition in the classical, research university. However, although the presumably higher unit costs of the classical university may be true for medicine, it is probably not true for other programs such as law or business that are frequently higher tuition, but that can be rather inexpensively delivered, at least at the first degree level.

A higher tuition in the classical university is also reinforced by the notion that there is generally greater prestige—and thus greater

private benefits and future income prospects—attached to a degree from the classical university (France, with its *grandes écoles*, being the conspicuous exception). In addition, the university student is more apt to be from a wealthier family, and thus likely to be both willing and able to pay a higher tuition. And if the student is not from a wealthy family, the greater private benefits and income prospects of the student should still be sufficient—in the economically rational world—to support student loans, and thus the payment of the higher tuition.

However, except for the medical and related degrees, which continue to be associated with classical universities, most of programs that are coming under greatest demand in much of the world—economics, management, computer and information science, law, and the study of the English language—can be taught and learned just as (or more) easily in a non-university context. In fact, it can be argued that it is more likely to be the university student—more than the student at a short cycle non-university institution—who is more likely to be bringing substantial public, as opposed to mainly private, benefits. Under this construction, it would be the classical university that needed (or deserved) the greater public subsidy (and the lower tuition) more than the non-university institution that is more apt to be creating predominantly private benefits.

4. The costs of student living (especially room and board). These expenses are in large part a function of the degree to which it is possible to live at home—which, in turn, is a matter of proximity of the college or university to the home, the availability of inexpensive transportation, and to some degree the “culture” of acceptability or non-acceptability of living with one’s parents well into one’s 20s. State policies in America, for example, generally aim at putting at least a community college within the commuting range of nearly every family (which in the US generally assumes automobile ownership). Clearly, this is not possible in rural parts of most countries, where traditional college-going must assume living “in residence.” But even where living with parents is possible, the general cultural acceptability may vary among countries, with such an arrangement allegedly being more acceptable, for example, in France than in England or Germany.

Table 2 Total Higher Education Expenditures Borne by Students and Parents (Various Countries, Academic Year 1999-2000, US Dollars)

Country	Public				Private				Total Costs
	Tuition & Fees	Food and Board	Other Costs	Total Costs	Tuition & Fees	Food Board	Other Costs	Total Costs	
Australia ¹	\$3,760 ²	\$12,100	\$500	\$17,480	\$14,085	\$8,275	\$500	\$22,860	
Austria	\$746	\$10,150	\$560	\$11,455	n.a.	n.a.	n.a.	n.a.	
China ³	\$2,591	\$5,181	\$415	\$8,187	\$4,145	\$6,736	\$518	\$11,399	
Ethiopia	-	\$400	\$83	\$483	\$1,170	\$830	\$190	\$2,190	
France ⁴	\$656	\$6,528	\$993	\$8,177	\$1,685	\$8,450	\$993	\$21,128	
Germany	\$203	\$10,151	\$505	\$10,859	n.a.	n.a.	n.a.	n.a.	
Hong Kong	\$5,155	\$19,151	\$719	\$25,025	n.a.	n.a.	n.a.	n.a.	
Japan ⁵	\$3,013	\$9,205	\$410	\$12,628	\$5,822	\$9,205	\$492	\$15,579	
Korea ⁶	\$7,018	\$8,676	\$1524	\$17,699	\$10,136	\$8,067	\$1,524	\$21,264	
Mexico ⁷	\$1605	7487	250	9342	23,173	7,486	535	31,194	
Netherlands	\$1375	11300	625	13300	1,375	10,725	\$750	12,850	
Norway	\$105	5221	316	5642	4,842	5,221	\$316	10,379	
Russia ⁸	-	797	-	797	4,221	4,946	\$398	9,564	
Scotland ⁹	\$727	8944	1527	11,197	n.a.	n.a.	n.a.	n.a.	
Singapore	\$8858	3466	227	12,551	n.a.	n.a.	n.a.	n.a.	
UK ¹⁰	\$1565	8944	1526	12,035	n.a.	n.a.	n.a.	n.a.	
US ¹¹	\$6000	9000	900	15900	\$23,000	\$10,500	\$800	\$34,300	

Source: Compiled by the Higher Education Finance and Accessibility Project, SUNY Buffalo Center for Comparative and Global Studies in Education. <<http://www.gse.buffalo.edu/org/mntHigherEdFinance>>

¹ 2000-2001 changes for the Higher Education Contribution Scheme (HECS), can be paid upfront with a 25% discount or deferred and paid after graduation on an income contingent basis at zero real interest with the first payment due only after the borrower's annual income reaches a threshold level (A\$22,346 year in summer 2001). Each income range has a repayment rate which increases with the borrower's salary. For fee-paying students, a BA program in 2001 was A\$11,053. Band 3 courses including law, medicine, dentistry, etc. ² From 1988-97, China had a "dual track" tuition system. In 1997, all students began to be charged tuition. ³ Universities and state grandes écoles estimate of fees only. ⁴ Academic year 1998-99. Tuition at the national universities is determined by the Education Ministry and is uniform throughout the country. ⁵ Academic year 2000-2001. ⁶ The National Autonomous University of Mexico became famous for its students having forced the government to rescind an attempt to raise tuition from the equivalent of about \$07 to about \$70.00; however, elsewhere in Mexico, most public universities charge a modest tuition. ⁷ Russia continues to guarantee free higher education to students admitted to the limited number of "government places" on the basis of competitive exams; all others, since 1992, can be charged tuition. Nearly 50 percent of students by 2002 were tuition-paying, contributing more than one-fourth of university revenue. ⁸ Scotland replaced the "upfront" UK tuition with a mandatory contribution after graduation of £500 to the Scottish University Endowment Fund, repayable by an income contingent loan, the present value of which is about \$227. ⁹ The UK first imposed a uniform means-tested tuition in 1997 and has since replaced it, once generous maintenance grants with loans. ¹⁰ 2000-2001 estimates. ¹¹ 2000-2001. ¹² 2000-2001. ¹³ Academic year 1998-99. Tuition at the national universities is determined by the Education Ministry and is uniform throughout the country. ¹⁴ Academic year 1999-2000. ¹⁵ 2000-2001 tuition estimates.

If the student cannot live at home, the cost of student living is most affected by the degree to which residence halls and/or canteens are publicly subsidized or otherwise made accessible at minimum cost. The tradition of institutionally-provided residence halls is a legacy of the British collegiate model of higher education, reinforced in those countries where university attendance was assumed to be properly free of any student or family-financial responsibility. But these residence halls can be Spartan and crowded, as in China, where a very low charges might even cover the very minimal real costs—or quite opulent, as in many US college and university dorms, with air conditioning, private bedrooms, and extensive “common spaces,” in addition to the absence of any governmental subsidy, all of which can make living in a university dormitory in an urban area frequently *more* expensive than in surrounding low-cost, unsubsidized private housing. Table 2 shows the total combined expenses borne by student and parents for selected countries.

5. Parental willingness to pay. The willingness to make financial contributions (even sacrifices) to support the children’s higher education may be a function of *culture* as well as of *affluence*. This is not intended to impute a special nobility to those cultures where parents typically make large sacrifices on behalf of their children’s higher education. But the Swedish parent, for example, has become accustomed to paying very heavy taxes, but then to enjoying the benefit of “free” university education for their children, as well as the Scandinavian convention of students paying for their living costs through subsidized student loans; the imposition of tuition charges in Sweden could well be resisted, even by parents who by most measures could well afford the tuition. In contrast, the Chinese parent, who probably has only one child to begin with, and who has probably always placed a very high value on education (or else the child would not likely be in a position even to contemplate higher education), is apparently willing to make considerable personal financial sacrifices for their child to go to a university.⁵

Parents may be thought to be more willing to pay in countries with substantial private education, where people are more used to paying for the higher (and sometimes the secondary) education of their children. This seems to be the case in the US, where tuition at private colleges and universities may be in excess of \$20,000 a year, and total expenses well in excess of \$30,000, and where undergraduate residential

⁵ This observation was confirmed by conversations the author had with parents waiting outside the higher education entrance examination sites in Wuhan and Chongqing in the summer of 1999, with Professor Shen Hong of Huazhong University.

tuition in the more expensive public universities can now be \$4-5000 or more (having been rising more steeply than those in the private sector), and where total expenses in the public sector can easily reach \$15,000 a year. However, the expected correlation of public and private sector tuition does not hold in international comparative analysis. Japan, Brazil, India, Korea, the Philippines, and other countries with established private higher education sectors still feature low or no cost public classical universities. Furthermore, efforts to increase tuition in the public sector—even modestly and even in light of the pronounced middle and upper income profiles of these advantaged student bodies—seems still to be met with intense political opposition (as in the total shut down of the National Autonomous University of Mexico for most of 1999 over a government proposal to raise tuition from a few cents to approximately \$70 per semester).

In America, parents have always faced a quite precisely calculated “expected family contribution” (EFC). But a realistic *expected family contribution* cannot be derived simply from some *ex ante* rule of what parents at various income levels *ought* to pay, but of what they seem in fact willing to pay at a particular time in a particular culture. The EFC in the US has actually diminished in recent years. Some would say that this diminution reflects a growing middle class hedonism; others would say that the US Congress, has pandered to middle and upper middle class tuition anxiety by legislatively excluding most of the EFC that used to stem from parental assets, principally home equity. The US case is further complicated by the large number of students from single parent homes where “parental financial responsibility” is difficult to determine or enforce. Also, there are very many students in America who are both financially needy and academically marginal and otherwise ambivalent about higher education, but who have places in the open admission sectors of American higher education. Such students may say that they would decline to enroll or drop out in the event of large tuition increase. Or, they may attribute their dropping out to “financial factors,” but this may also be the most socially acceptable reason to profess—more so, for example, than factors like academic difficulty, boredom, loss of interest, or their parents’ unwillingness to pay what other similarly-situated parents might pay willingly. In short, parental willingness to pay, like student willingness to incur indebtedness, is probably substantially culturally determined, and may further differ by social class or family income—but with the true effect of the strictly financial factors associated with cost-sharing embedded within other factors, and difficult to identify precisely.

6. Possibilities for student summertime and term-time employment.

Working one's way through college is part of the American myth—and is still substantially true (Stern and Nakata, 1991). The US student who claims “financial need” is expected to earn and save at least \$1500 during summers. He or she is also expected to hold down a part-time job, generally about 10 hours a week, for approximately \$2000. However, very many American students hold jobs requiring from 20 to 40 hours a week—all the while enrolling supposedly “full time” (although in fact frequently taking more than the standard four years to complete a degree). But the ability of student summer and term time employment to contribute substantially toward cost sharing is a function of at least four factors that may be especially prevalent in the US: (1) a culture of acceptance—even expectation—of part-time youth employment, even among affluent families where such employment is not essential to the family's financial well being; (2) a generally robust economy with an abundance of part-time, unskilled, low paying but readily available jobs; (3) the encouragement and financial assistance of the Federal Work-Study Program, which partially subsidizes college and some community jobs for needy students; and (4) collegiate standards (low compared to most countries) and an academic calendar (including extensive evening classes) that allows and even encourages part-time study and “stopping out.” Taken together, these economic, cultural, and structural features combine to allow substantial cost sharing by the student from part-time and summer employment. However, these features may be largely absent in many countries, and seem to be especially absent in those countries that are experiencing the greatest need to supplement governmental revenue. But the non-availability of student employment then puts more pressure on grants and loans—to which we next turn.

7. The general availability and sufficiency of “need-based” or “means-tested” grants and subsidized loans. In theory, a “need-based” grant, increasingly in conjunction with a student loan, substitutes for the missing parental contribution from the low-income family. By “generally available,” we mean that a student otherwise interested in and admissible to higher or post secondary education, would be entitled to, a grant or subsidized loan because of his or her family's low income, or similarly would not be precluded from borrowing by the absence of family collateral or creditworthy parents. Grants and loans not generally available are by definition *rationed*, usually by criteria of academic merit or preparedness having nothing to do with the ability of the family to provide financial support. The US

Pell grants, the former British mandatory grants, the French *bourse sociale*, and the German BAföG, are examples of governmentally-provided student financial assistance to which a student is entitled simply by being accepted by a university, being from a low income family, and generally maintaining some minimal academic standard or progress toward the degree. Because academic merit or preparedness, at least as conventionally measured, is strongly correlated with socio-economic status, the more “merit” figures into the awarding of grants and subsidized loans—much of which (to the upper-middle class) is likely to have little or no impact on the student’s enrollment decision—the less is apt to be available for low-income students, and the more the imposition of tuition is thus likely to be a barrier to higher educational participation.

“Sufficiency” refers to the ability of the need-based grant or loan subsidies to truly compensate for the low income of the family. “Sufficiency” is a function of the maximum grant or loan subsidy (i.e., that amount to which the children of the lowest income families would be entitled) and the degree to which that amount can truly compensate for the unavailability of parental contributions. In its most generous formulation, a grant-loan combination is “sufficient” to the degree to which it can bring within financial reach of the lowest income family the best higher education to which the student would be otherwise entitled. In its minimum formulation, a grant-loan combination might be deemed “sufficient” if it brought at least the least expensive higher educational alternative (probably a short cycle, non-university form) within reach of those students able to live at home and perhaps also work part time (or even full time) and attend college only part time.

“Sufficiency” is also a function of the relationship of the grant (or the grant/loan combination) to varying family incomes. This relationship is established by the (low income) point at which the maximum grant begins to be diminished (under the expectation that the family can now begin contributing at least something) and the rate at which further increments to family income are effectively “taxed” through higher expected family contributions and further reductions in the need-based grant. Obviously, the more generally available the grant (that is, the more it is based on income alone, without further rationing by some measure of “merit”), and the more sufficient the grant (that is, the more generous the grant, or the grant/loan combination, in making possible the most costly alternative to which the student would be academically entitled), and the more realistic the expected parental contribution (in the sense

of phasing out the grant and phasing in the expected contribution at a level and rate that most families are able to meet), the more the need-based grant-loan system will be able to compensate for enrollment-limiting effects of tuition.

In summary, to answer the inquiry about what tuition should be—or what the total expense burden borne by the student and family should be—requires a consideration of all of these factors. One can expect to find a very considerable expense burden—in the range of US\$ 20,000-30,000—in the presence of very high tuition—as in a high quality private higher education with little or no public support of basic instructional costs, and no “price discounts” or grant assistance, and living away from home in conditions not unlike one’s employed, non-student age peers. The lowest financial burdens upon students and parents may be found in some combination of low or zero tuition⁶ and the opportunity to live at home. Many countries, as shown in Table 3, have a considerable range of total costs/expenses borne by the student and parent *before financial assistance in the form of either grants or loans*.

⁶ Very low tuition is sometimes equated with “public” higher education, but there can in theory be publicly-owned and privately-owned institutions with high or low tuition, depending partly on the underlying instructional costs, but mainly on the degree of public subsidization of these underlying costs.

Table 3 Range of Estimated Total Higher Educational Expenditures Borne by Students and Parents 1999-2000 (First Degree). Various Countries, National Currencies and US Dollars

Country	Public		Private	
	High Estimate	Low Estimate	High Estimate	Low Estimate
Australia ¹	A\$22,910 [\$17,480]	A\$9,445 [\$7,215]	A\$29,950 [\$22,860]	A\$15,784 [\$12,040]
Austria ²	ATS153,500 [\$11,455]	ATS46,000 [\$3,433]	Not applicable	Not applicable
China	¥15,800 [\$8,187]	¥4,300 [\$2,228]	¥22,000 [\$11,399]	¥7,500 [\$3,886]
Ethiopia	Birr 725 [\$483]	Birr 50 [\$33]	Not applicable	Birr 3,275 [\$2,190]
France	FFr. 54,211 [\$8,177]	FFr. 27,562 [\$4,157]	FFr. 140,080 [\$21,128]	FFr. 76,638 [\$11,559]
Germany	DM21,502 [\$10,859]	DM8,481 [\$4,283]	Not applicable	Not applicable
Japan ³	¥2,341,500 [\$14,500]	¥1,356,800 [\$8,427]	¥3,057,790 [\$18,992]	¥1,813,650 [\$11,265]
Korea ⁴	₩11,611,000 [\$17,699]	₩2,611,000 [\$3,980]	₩13,949,000 [\$21,264]	₩5,868,000 [\$8,945]
Mexico	MNP2,650 (US\$9,385)	MNP8,600 (US\$1,533)	MNP175,000 (US\$31,194)	MNP90,000 (US\$16,045)
Netherlands ⁵	NLG26,600 [\$13,300]	NLG14,100 [\$7,050]	NLG25,700 [\$12,850]	Not applicable
Norway	Nok53,600 [\$5,642]	Nok17,450 [\$1,837]	Nok98,600 (\$10,379)	Nok69,100 (\$7,274)
Russia	R259,980 [\$18,142]	R12,859 [\$898]	R137,045 [\$9,564]	R46,456 [\$3,242]
Scotland	£7,334 [\$11,197]	£3,490 [\$5,328]	Not applicable	Not applicable
Singapore	S\$22,090 [\$12,551]	S\$4,540 [\$2,580]	Not applicable	Not applicable
United Kingdom	£9,625 [\$14,694]	£3,014 [\$4,601]	Not applicable	Not applicable
United States ⁶	\$15,900	\$6,900	\$34,300	\$24,000

Source: Information by the Higher Education Finance and Accessibility Project, SUNY Buffalo Center for Comparative and Global Studies in Education. <<http://www.gse.buffalo.edu/org/intHigherEdFinance>>

¹2000-2001. ²2001-2002. ³Academic year 1998-99. Tuition at the national universities is determined by the Education Ministry and is uniform throughout the country. ⁴Academic year 2000-2001. ⁵Academic year 1999-2000. ⁶2000-2001 tuition estimates.

Grants Versus Loans

To the degree to which financial assistance is to compensate for low family income and to bring higher education within reach of any student of requisite ability, regardless of his or her family's income, either grants (non-repayable) or loans (repayable by the student, parent, business enterprise, or taxpayer) should suffice—providing that students are willing to borrow, and that banks or other savings institutions are willing to lend to them. Students would presumably always prefer that their assistance be non-repayable—that is, in the form of grants, in addition to no or very low tuition, subsidized room and board, and very subsidized loans that are really “near grants.” However, to the degree to which the rationale for the combination of tuition, unsubsidized students living arrangements, and accompanying student financial assistance is avowedly to shift costs from governments and taxpayers to students and parents, then the more this student assistance can be in the form of a “true” (that is, unsubsidized or minimally subsidized) loan, the more effectively all of the rationales discussed earlier can be met. That is, it is loans (or other versions of deferred payments, like graduate taxes) more than governmentally-provided grants that:

1. relieve the government, and thus the public sector generally, of some of the burden of the high and rising costs of higher education and (at least theoretically) provide more revenue to the university;
2. promote equity by allowing the costs of higher education to be shared between the public, reflecting the not inconsiderable public benefits of higher education, and the family, reflecting the also considerable private benefits to both the student and the family;
3. engage the forces of the market to enhance both the efficiency and the responsiveness of the university.

However, in order to relieve the public treasury and truly shift the cost burden to the student and parent, the loans must be repaid—and at something at least near the generally prevailing rate of interest. This is as true with “contingent repayment” or “income contingent” loans, such as are employed in Sweden and available in the US, as with conventional “mortgage type” loans (Johnstone 1972, 1986; Woodhall, 1988, 1989; Ziderman and Albrecht 1995). It is also true of other forms of deferred payment where the student presumably bears a share of the higher educational cost burden, but only repays in the future, over time, and only as long as he or she is gainfully employed. Such repayment schemes include the so-called graduate tax (often advocated, but never

fully implemented; see Barr, 1989), the “income surtax” repayment employed in Australia through the Higher Education Contribution Scheme (HECS), and the “drawdown” of governmental pension payments employed in Ghana to repay the student loan fund. In all of these repayment schemes, the present discounted value of the stream of future payments (or of income surtax payments, or of foregone pension fund contributions) must equal the original value of the loan, or of any forgiven tuition, for the cost burden truly to have been shifted to the student. To the extent that loan repayments are “lost” through high defaults, lost tax records, emigration or simple disappearance, subsidized interest rates, or excessively high governmentally-borne costs of collection and servicing, the loan does not really shift the costs, and can be more accurately characterized as a “near,” or “effective” grant—and generally a rather inefficient and politically costly one at that!

Access and Participation: Cost Sharing and Enrollment Behavior

Countries differ in the percentage of a traditional tertiary education age cohort that actually goes on to various forms of higher or postsecondary education. Since there are substantially differing private benefits attached to these different forms, it “matters,” for example, whether students choose, or are able to elect, or are tracked into or restricted from:

- any tertiary level education;
- only a short-cycle, minimum status, non-selective form of postsecondary education;
- a selective, prestigious, classical university;
- or even beyond, to the most selective and prestigious university programs, such as medicine or law or advanced study toward the Ph.D.

Clearly, there are fewer and fewer students toward the more advanced and selective end of this higher educational pipeline. That is, some students are somehow selected or otherwise admitted into—while others are somehow screened or selected out of—the more advanced, remunerative, and “selective” levels or stages of higher education. The question most commonly identified with higher education’s “accessibility” is the degree to which this selection, or “screening,” or “narrowing of the pipeline” is a function of factors considered in most societies and cultures to be politically or ideologically acceptable or unacceptable. The principal “acceptable” factors, or correlates, would be genuinely innate intelligence or talent, or interest (especially interest

that is itself a function more of something innate than of environment or culture).

Factors generally considered “unacceptable”—and therefore, if possible, to have their association with “access” lessened by policy—would be, for example: (a) low income or low social status of the parents; (b) region (especially being from a rural or remote area); (c) race, religion, or ethnicity; or (d) gender (although this may be a more culturally contested correlate).

In this construction, then, higher educational accessibility may be seen as a policy goal, more or less common to most countries, realized to the degree to which the principal correlates with higher educational participation—as well as to participation within the more prestigious or selective forms or levels of higher education—are mainly interest, ability, and talent, and conversely are not family income or status, race or ethnicity, gender, or region or rural/urban location.

There exists in virtually all countries a substantial underlying association between low higher educational participation and these above-mentioned unacceptable correlates, particularly family income and status, race and ethnicity, rural or remote location, and at least in many developing countries, gender. The true causation that diminishes the probability of higher educational participation may be subtle and complex, and may have done its work long before the end of secondary schooling, when more fortunate young people and their parents are making decisions to partake of higher education. High income-high status families are apt to place more emphasis early in a child’s life on education. They are apt to have more books in the house, to take more of an interest in their children’s education, and to be able to afford (or live where there exist) better middle and secondary schools—all in order to better prepare their children for university entrance. In most countries, the correlation between higher educational participation with family income, status, and other “unacceptable correlates”⁷ is well established before the completion of secondary school. Therefore, a reasonable goal for cost sharing might be to be able to pass some element of costs on to students and parents without further accentuating the “unacceptable correlates” to higher educational participation of high family income, urban location, and dominant ethnicity or language.

Accordingly, an investigation of the connection between cost sharing and accessibility must examine the effect of greater higher educational costs passed on to students and families (probably in the form of higher

7 Daniel Levy has observed that these correlates, however “unacceptable,” are nonetheless virtually unavoidable; thus “lamentable” might be a more useful descriptor.

tuition, or the implementation of tuition where it did not heretofore exist, or the reduction of student living subsidies) on:

- the decision to apply to, and matriculate in, any institution of higher education;
- the decision to apply to, or matriculate in, a particular form (for example, a university or a less selective non-university) or a particular program (for example, medicine, law, engineering, or humanities) in higher or postsecondary education;
- the likelihood of degree completion;
- the likelihood of going on to more advanced (and more prestigious and/or remunerative) levels of higher education.

The empirical research on the effect of both tuition and need-based financial assistance on student enrollment behavior is mainly econometric analyses, either cross sectional or time series, of enrollment and persistence of US students in response to differing state tuition policies (Leslie and Brinkman 1989; Kane 1995; Heller 1999). This research supports this conventional wisdom that net price—that is, the combined effect of tuition discounted by financial aid—has little effect on middle and upper middle income students. However, it can have a measurable discouraging impact on low-income youth, an impact that is only partly offset by increasing need-based aid.

Significantly, there are factors in the US that may serve to blunt the impact of rising tuition on enrollment behavior, or at least diminish the likelihood that the effect will be an outright denial of accessibility.⁸ Among these factors are:

- the very great number of open-access two year colleges within commuting range of most US homes, successful completion of which (even partial completion, or passing only several courses) is generally transferable, or applicable toward a four-year degree;
- a similar widespread availability of very many virtually open admission four-year colleges, both public and private;
- the peculiarly American “degree-by-credit-accumulation,” or “modular,” system that makes possible easy “stopping out”

⁸ Interestingly, the very openness and already very high participation in US higher education may, other things being equal, actually accentuate the dampening effect of tuition increases on higher educational participation because of the large numbers of students who are essentially ambivalent about their higher education, and who may be “trying it out” as long as the debt loads or the burdens on the parents are not too great.

(for example, to earn and save money), or transfer from an expensive residential college to a less expensive alternative within commuting range of home;

- an economy with abundant part-time employment possibilities;
- the general availability of need-based grants and student (without any test of either student or family credit).

The effect of these factors is to cushion the impact of increasing tuition, and to present alternatives to not matriculating at all, or to dropping out altogether, in response to an increase in the cost to be borne by the student or family. It is in countries where such factors do not exist—that is, where the two year alternative is not transferable to a four-year or advanced degree, or where there are no easily accessible higher educational alternatives within commuting range of home, or no generally available student loans, or no practical part-time student employment opportunities—that a sharp rise in tuition or other expenses borne by the student or parent can be assumed to be more likely to preclude higher educational participation altogether.

In the end, we know very little still about the impact on higher educational accessibility of the increasing shift of higher educational costs, worldwide, from governments and taxpayers to student and parents. We know that the shift is happening, and we know that most governments officially espouse a concern for the maintenance (or probably the enhancement) of higher educational accessibility. What we do not know, at least not yet by systematic empirical study, is the impact on university enrollment behavior (or higher educational participation generally) of increasing cost sharing. Nor, even more importantly, do we know from empirical study the ameliorative efficacy of the common access policies such as means tested grants, loans, or enhanced student employment opportunities.

The worldwide trend toward some greater “cost sharing”—i.e., increasing tuition and diminishing levels of public subsidies, at least to non-needy students—seems inevitable. The inevitability does not reflect any triumph of World Bank policies, nor of market capitalism, and would not necessarily be the preference of many thoughtful analysts who believe in markets but who also see many problems in the increasing privatization of higher education. But there seems to be no escape from the conclusions that: (1) higher education in the future will need vast additional resources, particularly in the developing countries; and (2) the only alternative to more of the burden being shifted to parents and students is for there to be very large increases in taxes, progressively raised.

Herein lie the two problems that above all undergird the likelihood of a continued shift of higher education costs from governments and taxpayers to students and parents. The first is that substantial increases in progressive taxes—that is, taxes that fall proportionately more heavily on the rich, and thus are levied mainly on income and wealth—are exceedingly difficult to collect (mainly because they are so easy to escape). The second problem with relying on massive tax increases (progressive or otherwise) to avoid the need for greater higher educational cost-sharing is that higher education is simply not at the front of the queue even if taxes were to be significantly and successfully increased. Elementary and secondary education, public health and sanitation, environmental restoration and preservation, housing and other public infrastructure, and a social safety net for the elderly, the unemployed and the unemployable are almost certainly ahead of higher education in most countries. Without some additional cost sharing, it is almost certain that enrollments will be restricted, and/or the higher education that is available to the masses and still “free” will be of increasingly lower quality.

Higher education needs to continue to claim public resources—and more of them. But it also seems incumbent on those who can influence public policy to work toward the construction both of less costly forms of higher education, and also toward the kinds of financial assistance and loan programs that can combine significant cost recovery with protection to those whose participation in higher education is most at risk from the inevitable need to share in the costs.

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In Response To Austerity: The Imperatives And Limitations Of Revenue Diversification

Higher Educational Austerity

Higher education has never been more important than today at the start of the 21st century. It is central to an increasingly technological and knowledge-driven economy. It is a major engine of individual social and economic mobility, supporting the belief that one can rise above the socioeconomic station into which one was born. It is demanded by the increasing complexity of governance, and the political and civic conviction that social problems are to be analyzed and solved—not just in traditional ways, but also with new solutions emanating from increasing knowledge and training. And at least in the high-income countries, part of the increasing demand reflects higher education becoming another “high end” consumer good.

In spite of—and to some degree because of—this increasing demand, higher education seems almost everywhere besieged with austerity: an uneven but nonetheless unrelenting worsening of the financial condition of most universities and other institutions of higher education, particularly to the degree that they are dependent on governmental, or tax-generated, revenue. In response, a standard nostrum for higher education economists, consultants, and policy advisors (and one that is abundantly familiar in the UK) is the recommendation that universities and other higher educational institutions lessen their revenue dependence on governments, or taxpayers. The prescription

is easy to rationalize, and is theoretically (and even practically) virtually unassailable. However, there are also significant limitations in a revenue diversification policy, especially in the less industrialized world where the need for such a policy may be most compelling. These limitations go far beyond the ideological distaste that many have for the neo-liberal economic medicines of cost sharing, downsizing, and privatization, and extend to certain technical and strategic dilemmas that confound even the staunchest believer in tuitions, privatization, and student lending. This article discusses some of these technical difficulties, especially of making cost sharing and student lending work in developing countries, but that may also serve to lend some perspective to the continuing debate in the UK and especially in the year 2002 to its constituent parts of Scotland and Wales.

Austerity in higher education is a function of costs outrunning available revenue—counting as costs both per-student, or unit, costs as well as total costs driven by the accommodation of enrollment and degree expansion, and including as revenue both public, or tax-generated, revenue as well as tuition and fees from parents and/or students. Per-student, or unit, costs in higher education tend to be high throughout the world because of the high input of relatively costly labor, costly equipment (especially scientific equipment, computing, and library materials), and the expenses of student living—which are not, strictly speaking, a cost of higher education, but are expenses that must be borne nonetheless and that may be particularly significant in situations where commuting to a university while residing with parents is either impractical or impossible.

As significant and troublesome as these high costs may be, the real harbinger of austerity is the rate of increase over time of these costs. Neither economies of scale nor the infusions of capital that traditionally bring down unit costs in the larger, goods-producing economy, seem to dampen cost increases in higher education. Like other labor intensive industries, especially those where the application of technology tends to increase the quality of the product or the comfort and convenience of the producers instead of lowering the cost (and also presumably the price) of the product, higher education, over time and in the absence of measures that simply force down these “natural” increases, tends to get more expensive relative to the average increase in the cost of goods and services generally. One consequence is that both costs and prices (i.e. tuitions) of higher education tend generally to outpace the rate of inflation. This is the well known “cost disease,” or the tendency to rising relative cost in the labor intensive, largely productivity-immune sectors of the economy such as health care, education, most services, and the

arts (Baumol and Bowen, 1966; Bowen, 1968; Johnstone, 2001).

In the case of public higher education, the effect of these high and naturally rising per-student costs are greatly magnified by pressures to expand enrollment. Greater percentages of the populations of most countries are demanding more and more higher education. Thus, the demand for higher education is rising rapidly especially in countries characterized by rapidly growing populations and low current levels of participation—conditions describing much of the developing, or less-industrialized, world.

Together, the high and rapidly increasing unit costs and the rapidly rising enrollment pressures place enormous strains on whatever part of the total higher educational expenditure is being borne by the government. (Or, as most economists would prefer to say, that is being borne by taxpayers, including within the concept of “taxpayer” the citizen whose purchasing power is not directly taxed, as such, but is indirectly taxed through taxes on businesses that are simply passed on to consumers, or even more indirectly confiscated by the government through the inflation brought about by the printing of money to finance governmental obligations.) Simply put, the “natural trajectory” of those higher educational costs traditionally borne by the government, or taxpayer, would take increasing portions both of the gross domestic product and of the public budget. Underlying the case for cost-sharing and revenue diversification is the assumption that substantially increased public revenues for higher education is becoming less and less likely, for several reasons.

One such reason is the limitation in public revenue itself, beginning with limitations in tax capacity. Tax capacity is partly a function of the overall state of the economy. In Russia and many of the new republics carved from the former Soviet Union as well as in much of Africa, for example, gross domestic product has been static or declining, and prospects for vigorous economic growth remain dim. But even more serious than static or declining economies generally has been the declining ability of more and more governments to collect taxes at all. Taxes on income and sales are technically difficult to collect and too easily avoidable, depending so much on the government’s ability to monitor income and sales cost-effectively, as well as on a developed culture of tax compliance—neither of which are characteristics of most middle- and low-income countries.

Globalization—the heightened international mobility of capital, information, and productive capacity—is also taking its toll on government’s ability to tax. Substantial increases in taxes on corporations are increasingly problematic because of this greater mobility of capital

and production facilities and the resulting inclinations of multinational corporations to move to lower tax jurisdictions if they perceive their tax burdens to be too high. What used to be an easy way to “tax”—that is, printing money and effectively confiscating the purchasing power of the citizenry via the resulting inflation—is also becoming more difficult as countries are losing sovereignty over monetary policies (or even, as in Europe, over their actual currencies), and are otherwise constrained by a growing dependence on World capital markets. Finally, in the case of the formerly centrally planned socialist economies, governments can no longer rely so heavily on the value added, or turnover, taxes that used to enable the state to extract purchasing power at each stage of the governmentally owned production process. The consequence of all these factors is that most countries, and especially those with less-industrialized and/or so-called transitional economies, are having enormous technical difficulties—quite apart from any political resistance to taxation—in diverting purchasing power for use in their public sectors.

A final limiting factor in the likelihood of higher education getting a larger slice either of overall Gross Domestic Product, or of the government’s share thereof, is the diminished relative priority of higher education among the other major claimants on these increasingly scarce public revenues. This relatively low (or at best “middle”) position in the queue of claimants on available public resources, in spite of the rising importance of higher education as mentioned above, is due in part to the formidable priorities of other needs: elementary and secondary education, public health, public infrastructure, housing, and care for impoverished elderly, children, and other dispossessed persons. This diminished priority for higher education may also be due (somewhat ironically) to the demonstrated ability of universities and other higher educational institutions to help themselves. Most competing claimants simply do not have higher education’s ability to raise tuition or to generate revenue from the sale of faculty time and expertise or the lease of university assets. This ability is not lost on politicians straining to meet more public needs than there are available public revenues to support. So, while it may seem like the proverbial “punishment for good deeds,” higher education’s seeming ability somehow to withstand the loss of public revenues make it all the more likely for these losses to continue.

In summary, higher education in most countries, absent policies to alter the natural trajectories of either costs or public revenues or both, will almost certainly continue to experience a worsening austerity. Significantly, the condition of austerity is both *dynamic* and *relative*,

befalling rich and poor countries alike. This is because austerity (or adequacy) is in part relative to the level of revenue in the last allocation. Most expenditures in higher education are *recurrent*—that is, must continue over time. Generous support in one year, particularly of such obligations such as wages and salaries, utilities, consumables, or student support, can become inadequate almost instantly if not continued in the next expenditure year. This is why many of the universities in the UK and elsewhere in the OECD countries can experience genuine austerity in their higher education establishments even at quite substantial levels (relative to the rest of the world) of public expenditures for higher education, and why the president of one of America’s great (and certainly wealthy) private universities could puzzle over “...why we can be so rich and feel so poor?”

Consequences of Austerity

The consequences of austerity, whether absolute or relative, can be felt either by the *producer* (the university or other tertiary-level institution) or the *consumer, or client* (the student and to some degree the parents), or most likely both. When impacting the institution, austerity may be manifested by:

- a loss of institutional capacity to respond or to change;
- loss of faculty, or loss especially of the best faculty, or loss of faculty allegiance and morale (due to declining salaries), or loss of much of the faculty’s time and attention (as they are forced to “moonlight” elsewhere to maintain real wages);
- an erosion of equipment, including computers, laboratory equipment, and library materials; and
- a deterioration of physical plant, and inability to expand physical capacity to keep up with increasing enrollment.

The impact of higher educational austerity on students depends on the institutional response to its shortfall of revenue. To the degree to which the institution (or the government) has responded to a lack of sufficient public revenue by increasing tuition and fees, and especially as these increases are unmatched by means-tested grants and/or available and affordable student loans, the effects will be felt predominantly by middle and lower income students, who may be forced:

- to move to part-time student status and seek part- or full-time employment (if this is even possible);
- to continue full-time study, but still seek part-time or even full-

time employment, possibly to the detriment of their studies and the prolongation of time –to-degree;

- to attend, or move to, an institution within commuting range of their parent’s home to cut down at least on the expenses of student living (again, impossible in many developing countries due to the lack of nearby institutions and the difficulties of transportation);
- to decide against higher education altogether, or to drop out (perhaps intending only to stop out), or even to cease pursuing an academic track in middle or high school, all due to a perception of the financial unattainability of higher education.

To the degree to which the institution (or the government) has responded to a lack of sufficient public revenue by capping enrollments, particularly in the most sought-after public institutions, the effect on students will be limited enrollments and disappointed student applicants, almost certainly to the detriment of those less academically prepared—who are almost certain to be disproportionately made up of those from weaker secondary schools and probably from lower socioeconomic or rural backgrounds. And if the country has limited its public university capacity but responded to the pressures for higher educational massification by allowing and even encouraging a *demand-absorbing* private sector (similar to many East Asian and Latin American countries), the consequences of the capacity limitation will be leveraged into those aspiring students who are neither bright enough to get into the inexpensive but increasingly selective public universities, nor with sufficiently affluent parents to be able afford a private alternative.

The Imperative of Revenue Diversification

The classic response to this condition of austerity in higher education is to combine measures of *greater efficiency* (e.g. enhancing scale, eliminating redundancy, closing low priority operations, increasing both student /faculty and student/staff ratios, and the like) with *revenue enhancement by diversification*. The remedy of revenue diversification follows from the *cost-sharing* perspective (Johnstone 1986, Johnstone and Shroff-Mehta, 2000), which views the costs of higher education as shared by five parties: (1) the government, or taxpayer (or the average citizen via the inflationary-driven confiscation of purchasing power by governmental printing of money); (2) parents (or spouses or extended families) via tuition and fees, paying from current income, past income (savings) or future income (borrowing); (3) students, also through tuition, fees, and other costs of student living, paying mainly from term-time

or summer earnings, or from borrowing (future earnings); (4) donors, from endowments, current gifts, or “redistributive tuition” by which wealthier parents pay more in tuition so that some students or parents can pay less (presumably for the better quality education made possible by the tuition discounting and the attraction of bright and educationally enriching students whose parents cannot afford full tuition); and (5) institutional entrepreneurship and the revenue brought in via the sale or lease of university assets, or the sale of faculty expertise, whether in teaching or research.

Cost-Sharing

The case for cost-sharing—that is, the shift of some costs from governments and taxpayers to parents and students—as a response to worsening austerity is quite apart from the case that can be made for public tuition fees on the neo-liberal economic presumption of greater *equity*, or simple fairness: that is, that those who are reaping considerable private benefits from a public good (especially one that is partaken of disproportionately by the more affluent) should bear at least a commensurate share of the costs. This case for cost sharing because of a sheer need for revenue is also apart from the presumption of a greater institutional *efficiency* and *responsiveness* when universities are forced to compete for the enrollments of students. While these classic theoretical rationales for revenue diversification seem entirely valid to the author, they also remain ideologically contested, *and the imperative for revenue diversification can rest quite well simply on the need to surmount the virtual certainty of insufficient governmental, or taxpayer, revenue.*

Enhancing revenue from parents and/or students can take one or more of the following eight main forms, depending on the country and its policies:

1. *A beginning of tuition* (where higher education was formerly free). This would be the case in China in 1997, for example, or Britain in 1998, or in Austria in 2001.
2. *A very sharp rise in this tuition* (where public sector tuition has already existed). A shift toward greater cost sharing requires that the rise in tuition be greater than the rise in institutional costs generally in order for the government’s, or taxpayer’s, share to be lessened, and the parent’s and / or student’s shares to rise commensurately. This has been the case recently in the US, where many state governments have failed to maintain their former “shares” of public university expenses.
3. *Tilting admissions and enrollments toward students who can pay.* In

the US, this increasingly widespread practice is called *enrollment management*: a technique of enhancing the net tuition revenue by rationing the scholarships, or tuition discounts, to those who can truly help the institution—e.g. the very brilliant or the very talented—and concentrating otherwise on those students who require the least amount of tuition discounting.

4. *Maximizing the enrollments of fee-paying students.* Similar to #3, this is a “tilt” toward those whom the institution is legally allowed to charge tuition. This is increasingly the practice in Russia and other countries (many from the former Soviet Union) in which students have a legal right to free higher education, but in which the definition of those students who are so entitled can be narrowly construed—e.g. to only those first-time students who pass the entrance examination with the requisite score—all others being “free game” for being charged tuition. Although the government limits the proportion of fee-paying students, there are enough “loopholes” in the law such that more than 25 percent of all Russian University income is said to come from tuition—this in a country that nominally guarantees students a free higher education! (Bain, 1998).
5. *An imposition of “user charges,” or fees to recover the expenses of institutionally provided and formerly heavily subsidized residence and dining halls.* This has been happening in China and in most countries, including African countries where subsidized living costs were said by the World Bank to absorb the bulk of many country’s higher educational budgets. In the Nordic countries of Sweden, Norway, Finland, and Denmark, for example, where higher education remains “free,” the expenses of higher education are exclusively the costs of student living, which are very high in those countries, and which are “shared” neither by the taxpayer nor (at least officially) by the parents. They are thus borne entirely by the students, largely in the form of student loans (which are indirectly shared somewhat by the taxpayer in the form of repayment subsidies).
6. *A diminution of student grants or scholarships.* This is sometimes accomplished simply by “freezing” grant or loan levels, or by holding them constant in the face of general inflation, which then erodes their real value. This may be accompanied by a shift in the dominant form of financial assistance from grants to loans, as has happened in the US over most of the decades or the 1980s and 90s. Such a policy also diminished the once

very generous grants in Britain (which were later abandoned altogether), and has happened to the value of the maintenance grants in Russia and most of the rest of the former Soviet republics, and in Eastern and Central Europe.

7. *An increase in the effective cost recovery on student loans.* This can be accomplished through a diminution of the subsidies on student loans (similar to the diminution in the value of non-repayable grants), and might be accomplished through an increase in interest rates, or a reduction in the length of time that interest is not charged, or through a reduction in the numbers of loans for which the repayments, for any number of reasons, are forgiven. Or the effective cost recovery might be accomplished through a tightening of collections, or a reduction in the instances of default, with no change in the effective rates of interest paid by those who were repaying anyway.
8. *The official encouragement, and frequently a public subsidization, of a tuition-dependent private higher education sector.* A number of countries—notably Japan, Korea, the Philippines, Indonesia, Brazil, and other countries in Latin America and East Asia—have avoided much governmental expenditure on higher education by keeping a limited public sector—usually elite and selective—and shifting much of the costs of expanded participation to parents and students through encouraging private (often profit making) higher educational institutions.

Other Forms of Revenue Diversification

Non-governmental revenue may also come from donors or from faculty and institutional entrepreneurship. Among the popular forms are:

1. *Contract research.* Contract, or sponsored, research that carries an appropriate “overhead” charge can provide supplemental faculty salaries and new equipment, and also contribute toward general institutional and administrative costs.
2. *Teaching high demand courses, frequently to non-degree students, for substantial tuition.* Tuition from the teaching of specialized courses can include enough to cover all marginal expenses plus a “profit” to the department and sometimes to the larger institution. This is especially popular in those countries that prohibit tuition for “regularly admitted students” (# 4, above). Where the competition is especially keen for “regular” admissions, the university faculty will sometimes provide private fee-paying tutoring to secondary students preparing for

the university's own examinations.

3. *The sale or lease of university assets.* In a similar fashion, universities sometimes own large amounts of desirable land or other assets (in China, extending to factories and other businesses) that can contribute to institutional revenue. One of the issues, particularly in the former Communist countries, is the rightful ownership of university facilities. Absent well-developed non-profit laws, it is not clear how free a university is to sell, lease, develop (for resale), or otherwise dispose of university assets without the proceeds therefrom being claimed by the state.
4. *Donations.* Finally, universities are turning to donors and other philanthropists for other-than-governmental revenue. This can be donations, including bequests (at death) or annual gifts, or donations from corporations and foundations, any of which can be designated or undesignated (i.e. left to administrative discretion) and given either for endowment or current operations.

Limitations on Revenue Diversification

Political and Ideological Opposition to Cost-Sharing

All of these forms of non-governmental revenue are important. Yet each has limitations. Some—particularly the forms that would shift some of the higher educational costs burden from government, or taxpayers, to parents and students—have opposition that is both ideological and self-interested. Any policy that seeks to impose a new, or a sharp increase in, the price of a good or a service that has come to be viewed as an entitlement, especially one so seemingly noble and socially important as higher education, will be fiercely contested. The first difficulty in attempting to implement a policy of higher educational cost-sharing, especially where there has been a tradition of free public higher education as a virtual entitlement to all academic secondary school graduates, is to surmount the almost inevitable ideological and political opposition. Although the politics of cost-sharing are particularly country specific, three factors buttress this opposition and thus strengthen the political and ideological limitations to cost-sharing as a form of revenue diversification:

1. **The politicization of cost-sharing.** Clearly, when opposition to tuition becomes an important political plank, especially for an opposition party (which is almost always more able to take vocal stands against inherently unpopular policies like taxes, tuition, or user fees), governments will feel constrained, especially when

students are politically active and influential.

2. **The absence or inadequate provision of means-tested grants or student loans.** Opposition will be far greater (and properly so) when tuition is first adopted or sharply raised in the absence of some form of assistance to those who are most likely to be denied access to higher education in the face of such a shift in the cost burden.
3. **The failure (or the perceived failure) of the shift of costs to bring any benefits to current or future parents and students.** An increase in tuition or other fees is more likely to gain at least some acceptance if it can be perceived as going toward an expansion of places, and thus of accessibility, or toward improved on-campus living conditions or new academic equipment. In the absence of such a perception, the shift of costs to parents and students may be perceived as benefiting some other public good (perhaps an unpopular one, such as the military) or going to line the pockets of a supposedly corrupt government or university administration.

Technical Limitations to Parental Cost-Sharing

However, beyond the political and ideological challenges to cost-sharing, particularly in developing countries, are some essentially technical, limitations. Two of these apply to the expectation of parental contributions. The first is *the difficulty of determining and verifying parental ability to contribute*. Establishing a reasonable parental contribution requires a determination of that income (or combination of income and assets) at which this financial responsibility ought to begin, as well as the rate at which this expected contribution should increase with increasing measured ability to contribute. But “financial ability to contribute” is a complex and elusive concept even with a high degree of voluntary willingness to comply. Furthermore, income and assets are relatively easy to disguise, as all countries that make extensive use of income taxes have discovered. Only in the US, the UK, and a few other advanced industrial countries has there been developed both a culture of voluntary tax compliance and the technical means to verify incomes such that measures of “ability to pay” might be generally trusted. In most countries (and in virtually all less industrialized countries) the determination of “ability to pay”—or its converse, “eligibility for need-based assistance”—can be only crudely approximated by such indicators as parental education, occupation (especially if it is a governmental job), type of housing, and other indicators of relative affluence or poverty.

A second problem (actually a set of problems, also essentially

technical) in connection with the shift of higher educational costs to parents is the *duration of this presumed obligation and the related issue of financial dependence and independence*. An assumption of greater financial contribution from parents assumes that the student is appropriately financially dependent—at least to the limit of the parents' ability to contribute. But what if the "child" is a young adult, several or many years out of secondary school who only now wants to enter a college or university? Are the parents still financially responsible? For how many years, or for how many degrees, or through what levels of higher education does this expected parental financial responsibility continue? What of the complications of divorce or "non-custodial parenthood"? What if the parent or parents simply refuse at some point any longer to support the child (or the young adult) for further higher education? Or what if the student refuses the parents' financial assistance, but then wants to qualify for need-based assistance? Should such a refusal, whether by the child or by the parents, obligate the taxpayer to replace the missing parental contribution? Or, should such a choice (on the part of either the child or the parents) preclude the student from receiving "need-based" aid on the grounds that governmental policy must reinforce the bedrock assumption of *cost-sharing* that parents are financially responsible (within some necessary limits) for the higher education of their children? None of these questions is unanswerable. But together they reinforce the need for, and the difficulty of constructing, consistent policies that will be perceived as fair and workable in any particular country or culture. And these limitation reinforce the politically- and culturally-situated nature of such policies, reminding us that what works in the US or Germany might well not work in China, Indonesia, Ethiopia, or Brazil.

Limitations on Student Cost-sharing

The attempt to supplement governmental with *student* revenue is quite different than the attempt to obtain parental revenue, both in its theoretical rationale and in its implementation. A student share requires either real part-time employment opportunities (that is, employment that does not require government subsidization and also does not interfere unduly with academic progress) and/or student loans (or graduate taxes) with some real cost recovery—that is, with a present discounted value of anticipated repayments that is approximately equal to the amounts lent, or deferred.

The limitation on part-time employment is that there are, especially in less industrialized countries, few part-time jobs that are both accessible to the students and non academically-intrusive, and that do not depend

on governmental subsidization (which obviates the purpose of the cost sharing to begin with). The problem with student loan programs (again, especially in less industrialized countries) is that the anticipated cost recovery is so low—frequently only a small fraction of the amount lent. This is due to the combination of high defaults, excessive interest rate subsidization, and very high administrative costs, all of which are presumably amenable to policy reforms, but all of which are both politically and technically difficult. And these limitations are over and above the underlying financial and employment difficulties that beset university graduates in many countries, leaving little income for the discharge of indebtedness, even if they were fully inclined to repay their loans (Johnstone, 2000).

A number of countries, including the UK—possibly intrigued by claims of great success from Australia’s Higher Education Contribution Scheme—have instituted *income contingent repayments schemes*, buttressed by incorporating the collection of student loans repayments within the official governmental machinery of tax withholding or pension contributions at the point of wage payment. However, this course requires an efficient, highly inclusive, and politically accepted system of income taxation and pension withholding: characteristics found in very few countries, and probably in none of the less industrialized countries. In addition, the inability of income contingent loan plans to tap a private capital market makes the loans, particularly at the outset of a program, almost entirely dependent on governmental revenue—again partly obviating the purpose of the loan program to begin with. Thus, while student loans must remain an important part of any cost-sharing scheme that purports to tap the students for a portion of the costs of their higher education, there are few examples of loan programs that have brought substantial relief to their governments and taxpayers for the support of higher education. (The US, Canadian, and Swedish plans being possible exceptions, although the Swedish plan is designed mainly to shift cost not from the government, but from the parents, who are not officially expected to contribute to the costs of their dependent children’s higher education.)

Limitations on Faculty and Institutional Entrepreneurship

Entrepreneurship, both faculty and institutional, has the potential to contribute not only to university revenue, but also to the quality and responsiveness of the curriculum and even the teaching. Clark (1998), in his study of five entrepreneurial European universities, claimed evidence for the entrepreneurial spirit extending even to the so-called *heartland* departments—the humanities and social science departments

that are not generally thought of as market-oriented or able to augment revenue from the sale of their services. Court (1999), in his study of what he termed the “quiet revolution” at Uganda’s Makerere University, cited the enhancement of faculty salaries, in turn slowing the exodus of academic staff, as the most important impact of faculty and institutional entrepreneurship.

There are, however, at least three possible limitations, or “downsides,” to faculty and institutional entrepreneurship. The first is the potential of entrepreneurial activities to divert faculty and institutional time and attention from the core mission and activities of the institution. Clearly, some faculty entrepreneurial activities only enhance the university’s mission: particularly those that provide new research and practice opportunities for both faculty and students. However, when faculty and staff attention is drawn to activities, the main purpose of which is simply to augment salary, both the students and the institution can lose. Given the very great amount of autonomy enjoyed by the academic profession, the pervasive absence in many countries of clear rules for what are and are not appropriate faculty activities away from the classroom, and the very low levels of faculty remuneration in so many countries, it is not surprising to hear of abuses. (What is needed, but what is also more difficult than generally assumed, is for there to be clear policies regarding the time that faculty are expected to be on the campus, in their offices or laboratories, and available to their students and colleagues.)

A second limitation is the potential for entrepreneurial attractions to be in actual substantive conflict with the academic canons of scholarly integrity. Such can occur (at least in appearance) when a funding source has a vested interest in the result of the research that the source is funding. The compromise of academic values does not have to be so blatant as the outright falsification of evidence or suppression of findings. The very decisions of what to investigate (and perforce what not to investigate) can be affected by funding sources with vested interests—including government agencies. Or, the academic compromise can come in the form of limitations on dissemination of the findings. The only way to be altogether free from all such potentially compromising influence is to be free from the need for any revenue from discretionary sources—which we have already established as completely unattainable. The best protection for academic values is probably the combination of clear rules and enforceable transparency in all contracts and transactions.

A third limitation to entrepreneurship is the inherently uneven distribution within the academy of entrepreneurial possibilities, and the tendency, therefore, for academic entrepreneurship to widen the

gap between the haves and the have-nots: mainly between the sciences versus the humanities, the applied versus the basic, and the politically au courant versus the esoteric. For academic entrepreneurship to be institutionally beneficial, there must be a recognition that the revenue-generating parts of the institution have acquired this capability at least in part because of the academic reputation (e.g. for quality and integrity) that the entire institution has built up over many years. In short, the departments of management, computer science and English can market themselves in part because of an academic reputation that has been built up over the years by the faculty in, say, mathematics, history, anthropology, and ancient languages. Indeed, most of the applied fields with entrepreneurial potential continue to draw intellectual and methodological sustenance from departments and faculty who have little immediate value in the marketplace. Thus, all departments should receive some benefit from the marketability of management, computer science, and English via an appropriate cross subsidization. But this, again, requires clear rules and sensitive attention to the balance between the need to reward the faculty most engaged in entrepreneurial activities, and the rest of the institution. None of these limitations in itself is sufficient to deny the need for more faculty and institutional entrepreneurship. But it is well to keep in the public mind these limitations and potential “downsides” of entrepreneurship lest government come to believe that all faculty and all departments can live as can the “marketable few.”

Limitations on Donations

To most institutions in most parts of the world, donations—from alumni, corporations, foundations, or merely wealthy and generous “friends”—represent in theory the most attractive kind of “third stream” revenue. No source of revenue is quite as benign and reliable as revenue from unrestricted endowment once the institution has it. However, getting sufficient endowment (or the less reliable and also the more costly counterpart, which is yearly revenue from current giving) to provide a substantial portion of the institution’s operating and capital needs is formidably difficult. Truly unrestricted endowment—the kind that provides a reasonably predictable revenue stream, in perpetuity, for whatever purpose the governing authority deems advisable—comes from money that has been invested, with only the income (sometimes plus a reasonable portion of capital appreciation) available for operations so as to preserve the real (i.e. inflation-adjusted) value in perpetuity. But this means that for each dollar of predictable annual revenue stream, there must be approximately twenty dollars of endowment (assuming

the trustees spend only a prudent five percent of the portfolio's total return). Or, expressed another way, for each dollar that the institution might be fortunate enough to raise with absolutely no restrictions on its use, the governing board or leadership of the institution must put away and invest 95 cents if it is to build endowment. In the absence of endowment, the institution must raise again next year (and every year thereafter) the same amount as it raised and spent this year.

Raising significant revenue from private donations requires four elements:

1. donors with substantial wealth who have been carefully cultivated, sometimes for many years, and who are prepared to give the donation to the higher educational institution—as opposed to all other claimants and good uses that are probably also cultivating the same potential donors;
2. a culture of philanthropy, including widespread acceptance of an obligation to give (in so far as one is able) to the college or university from which one graduated or which one otherwise believes to be creating real social value;
3. well maintained records on the names and addresses (and if possible, the “giving potential”) of alumni and potential “friends”—which requires staff and other institutional expenditures; and
4. favorable tax treatment of the donations—ideally with the amount of the donation deducted from otherwise taxable income, thus reducing the real sacrifice to the donor and effectively shifting some of the “cost” of the donation to the government via its foregone tax revenue. (This, of course, presumes a workable income tax system, and substantial voluntary tax compliance on the part of the potential donors.)

These are substantial limitations. A handful of institutions, generally “elite” universities, may get lucky and find a wealthy alumnus or “friend” who is willing to give a very large donation, maybe even enough to begin an endowment. But most colleges and universities will have to spend a good deal of time and money simply to begin the necessary first steps of reconstructing past alumni records, cultivating their alumni and potential “friends” (that is, making them proud of “their university”), and getting them used to the idea that an annual donations or a large bequest in their will is an appropriate expectation.

There are, of course, corporations and foundations capable of making donations. However, there are not enough to reach more than a small

number of (probably elite) universities. More seriously, corporations and foundations generally want to fund something specific that neither the institution nor the faculty are likely to be able to do, or wish to do, in the absence of their contribution. They generally do not wish to give unrestricted revenue, to be used at the discretion of the governing board or institutional leadership—which is exactly what the institution needs in order to fill the gap left by declining governmental revenues. In fact, it is not uncommon for the acceptance of a restricted gift to actually cost the institution money (in the sense of constituting another drain on otherwise unrestricted revenues) in spite of the advantages and new benefits that the gift may make possible.

In short, philanthropy, or a reliance on donors, is a potentially important source of non-governmental, or third stream, revenue. However, its ability to make up for serious shortfalls in governmental revenue, particularly in the short term, and in the absence of the conditions noted above, will be unevenly distributed and limited. It will generally make the already affluent and successful more so. It can make a difference in a few instances between mere institutional survival and real excellence. It can enable change. And it needs to be vigorously pursued. But absent a combination of wealthy friends and alumni, a culture of giving, and the favorable tax treatment of philanthropy, it will not effectively make up for the widespread diminution of governmental revenue to higher education.

Conclusion

Austerity is endemic to higher education as the natural trajectory of higher education costs over time outpaces the likely trajectory of available revenue. While this general condition applies for high- and low-income countries alike, it is especially the case in countries experiencing heavy enrollment pressures from high birthrates and low current tertiary participation rates—conditions found particularly in the low-income, less-industrialized world. Austerity is further exacerbated where the per-capita gross domestic product is low to begin with and where the ability of government to tax or to borrow is also low. For all of these reasons, the financial viability of higher education, including both the viability of individual institutions, and also the ability of the system as a whole to accommodate legitimate enrollment pressures and to maintain accessibility, depends in large part on the ability of higher education to diversify its revenue base—specifically, to lessen its dependence on the government. This situation explains the worldwide trend toward cost sharing and other forms of revenue diversification.

This paper has stressed limitations on revenue diversification. This

has not meant to diminish the importance of cost-sharing, faculty and institutional entrepreneurship, and the cultivation of donors. But these measures, while absolutely essential, are also complex, technically complicated, and frequently accompanied by unintended (and sometimes undesirable) consequences. Higher education needs the continued and dependable support of public revenue. Revenue diversification must not be thought of as a replacement for governmental, or taxpayer, support, but as an *essential and theoretical appropriate, if limited, supplement*. Some institutions and some students will stand to gain more from cost-sharing and revenue diversification than others. And some students and parents, compared to students and parents in the past, when public revenue seemed abundant and higher education was “free” (at least for the fortunate few), will legitimately observe that they are having to pay for a highly valued service that their parents may have obtained from the general taxpayer. But the times are indeed different, and the totally “free” higher education is simply not likely to be seen in countries trying to solve all of the other public problems of the early 21st century, and attempting also to accommodate one-half or more of their youth in tertiary education.

So the message of this paper is to continue seeking ways to expand non-governmental revenue to higher education—but to remember as well the limitations, complexities, and unintended consequences of revenue diversification, and to maintain higher education as a priority, requiring a continued commitment of public attention and public tax revenues.

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