# Changing Patterns of Financing Education

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*Abstract*

Faced with continuing financial crisis for a long time on the one hand, and a global wave of change in favour of market philosophy on the other, a series of waves of change are taking place in case of financing education in developing countries during the last couple of decades. During the current wave of change, the very role of the state in financing education is being questioned and attempts are being made to mould the systems in favour of a free-market philosophy. The changes (and attempts to change) often produce several kinds of social, economic and cultural conflicts. By describing the changing patterns of financing -- from traditional methods and approaches to modern western methods -- in this paper, the conflicts and tensions between tradition and modernity are highlighted. Specifically the shift from the welfare- state philosophy to a free-market approach and the tensions and conflicts that such a shift creates are the principal focus of the paper. It is argued that the free-market philosophy is potentially very dangerous to the very fabric of the societies affecting the socio-cultural foundation of the societies and cheapening the student-nation/society relationships and family bonds.

**Changing Patterns of Financing Education***

> The essence of the current crisis in [higher] education around the world is the twin confrontations of change versus heritage, and of one force for change .. versus another ...
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> Kerr (1994, p. 51).

## Introduction

The last quarter of the 20th century has been marked by significant changes in the pattern of financing education, the most dominant change being a steady shift from a centuries' old welfare-state approach to financing based on free market principles. The change has neither been smooth nor complete in any sense wherever such a change has been attempted; nor has such a change been necessarily global, though they are now being attempted in many countries -- developing and developed alike. These changes (and attempts to change) often produce several kinds of social, economic and cultural conflicts. Such conflicts also seem to be widespread. This paper is concerned with a few such ones. By describing the changing patterns of financing -- from traditional methods and approaches to modern western methods -- the conflicts between tradition and modernity are highlighted, some of which are referred to familiarly as debates between egalitarians and liberals.[1] The paper does not aim at presenting

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1 Some (e.g., Colclough, 1991) use the respective terms structuralists and neo-liberals; some others might like to refer to them as conservatives and liberals or moderns. See also Colclough (1996).

an exhaustive discussion of conflicts and tensions in educational development in general; rather it focuses on those tensions which relate to policies specific to financing education. Nor does the paper present a comprehensive discussion of the problems of financing education.[2] A few major issues in financing education in developing countries have been selected, and concentrating on emerging tensions and the changing approaches towards those issues are discussed. Specifically, the principal focus of the paper comprises of the tensions and conflicts inherent in such a shift from a welfare-state philosophy to a free-market approach. The major issues selected are: the trends towards privatisation; the shift from free primary education to student fees in primary education; the shift from low to high fees (and full cost recovery) in higher education; student loans and the changing roles of community, government and the international aid community in financing education.

**A Welfare-State *versus* A Free-Market Philosophy**

The value of education was recognised in traditional societies perhaps much more than in modern societies. Though no attempts were made to identify and quantify the benefits of education, the value of education was rarely questioned. Education and knowledge were viewed as a great wealth in itself, besides being a source of increase in wealth.[3] It seems that even the existence of externalities was acknowledged in traditional societies, both in the ancient and modern periods. Accordingly, societies invested resources in education voluntarily and gladly, and many a time without expecting any direct economic return.

Even in modern societies for a long time, say, until the advent of the 1970s, it had been held that there was no need to employ direct methods of cost recovery for financing education. It was held that the benefits of education were vast and widespread, and in the long run, government investments made in education could be recovered by society through the increased productivity of the labour force and through consequent higher tax receipts by the

2 For a recent extensive discussion on the financing of, and various cost-recovery approaches to education, see, among others, Tilak (1997a).

3 E.g., see Misra (1967) and Weizheng (1993) on ancient views on education in India and China respectively.

government, and hence there was no need for any specific measures *directly* to recover the investments made in education. As Mishan (1969) observed, "[higher] education is an investment and will pay for itself; and will increase the earnings of the beneficiary students and the government will recover its costs through consequent higher tax receipts."[4]

The immediate post-War period in Europe and the post-independent period in developing countries, was dominated by such a welfare state philosophy and a philosophy of social democratic consensus. It was strongly felt that government could do almost everything for everybody. Following John Maynard Keynes, the power of the state was recognised, state planning and intervention were favoured and an extension of the traditional functions of the state was promoted. Education had been one important sector in which the role of the state had been recognised widely. The importance of public education was highlighted earlier in classical political economy also. As Vaizey (1962, p. 23) observed, "there is a long and honourable tradition from Adam Smith to Alfred Marshall which assigns to publicly supported education a major role not only in promoting social peace and harmony, and self improvement, but in the process of wealth-creation itself." Accordingly, a gold standard tradition was established, characterised by state financing of education in full (or nearly in full).

The advent of the 1970s heralded a continuing financial crisis in education (Coombs, 1985). The crisis was characterised by high rates of inflation, shrinking public budgets for education along with increasing student numbers, declining per student expenditures, extremely inadequate investment in the quality of education, severe distortions in inter-sectoral and intra-sectoral allocation of resources, widening of inter-country and intra-country inequalities in expenditure on education, etc. The socio-economic and political imperatives, along with the eclipse of Keynesianism in the mid-1970s, gradually and reluctantly paved the way for the entry of free market principles and of direct measures of cost recovery in education. The concept of free market used in modem economics until the end of 1970s or early 1980s

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4 Even at the beginning of the 20th century, it was argued in the imperial legislative council in India that "the money spent now [on education] will be well spent and is sure to bring back a larger return to the treasury by the general prosperity of the people" (see Desai, 1953, p. 77).

was probably consistent with an appropriate role of the government to take care of market failures. This was the basis of welfare economics. But the 1980s and 1990s brought about a complete swing of the pendulum in which social democratic values and welfare state concerns were replaced by the free market philosophy that stresses individual economic values and gains. Individual freedom and choice are preferred to social (or public) choice. According to the somewhat extreme form of free market philosophy (*à la* Hayek, 1944), there is no meaning to 'social good' and 'social welfare'; there is no such thing as society or value to society that is inseparable from individual gains. Only individuals are real, and their gains are crucially important and individual freedom is more important than even democratic and egalitarian values. Public good and social justice are viewed as impossible and even not necessarily desirable. All this may look like an extreme form of 'libertarianism'. But such tendencies seem to be emerging and slowly becoming strong. It is argued increasingly nowadays that it is not the government, but the market that can do everything for everybody. This philosophy entered the education sector as well. Correspondingly, a reduced emphasis on education, more explicitly higher education, by the government is promoted as an economically and educationally efficient proposal and that the role of the government should be confined broadly to the formulation of a coherent policy framework (e.g., World Bank, 1994). The creeping in of a free market philosophy into education, which is much more ingrained in the American psyche, has come as something of a culture shock not only to most people in developing countries, but also to several European countries, including the UK (Bottery, 1992, p. 83) and has resulted in several kinds of tensions and conflicts.

All modern systems have been found generally to suffer for a long from a shortage of resources, and during the post-war period, there has been continuous discussion concerning the mobilisation of additional resources for education. But in the earlier years of the post-War period, much of this was focused on public resources -- on diversification of public revenues, on better methods of allocating public resources -- of reallocating resources from less productive sectors to education and on more efficient methods of public finance (e.g., the principles underlying the grants mechanism), etc.; later, a shift was made from this focus on public to non-governmental sources of funding of public education in the name of the diversification of finances -- first laying stress on voluntary community contributions, donations and gifts and subsequently on student fees. It is only since the mid 1980s or so that discussion has been explicitly in favour of private financing of education, or more explicitly privatisation (or marketization) of education. Thus, attempts at mobilizing additional resources were transformed under different garbs: first, mobilisation of additional (public) resources, later mobilisation of non-governmental resources, then diversification of finances, then cost-sharing, cost-shifting, cost recovery, and user charges, and now privatisation. Thus, market and *quasi*-market principles have been brought to bear on education through, *inter alia*, measures like student fees, loans, and other forms of cost recovery, reflecting in all a steady march from welfare statism to free market hegemony. While even at the beginning of the 1970s privatisation of education appeared "destined for marginality" (Levy, 1992, p. 1183), now it became an important slogan for the 1990s and beyond. As Psacharopoulos (1992, p. 114) observed, "the wind of privatisation blowing all over Europe is affecting more than conventional markets for goods and services. Education absorbs considerable resources: hence, it is a natural candidate for removal from the public sector" !

A free market philosophy in financing education supports the following important policy prescriptions, most of which are associated with the World Bank:[5]

(i) the privatisation of education, involving specifically

- a) the reduced role of government in higher education,[6] including reduced public expenditure on education;
- b) a corresponding increase in private initiatives in education;
- c) the introduction of fees in education; and if it is already introduced, an increase in the fee levels; and
- d) the introduction of student loan programmes to finance (higher) education systems; and

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5 See, *inter alia*, World Bank (1986, 1988, 1994), Psacharopoulos and Woodhall (1985), Jimenez (1989), Mingat and Tan (1986) and Psacharopoulos (1990).

6 As we show later, the argument is not confined to higher education. It is being slowly extended to primary education as well.

(ii) the reallocation of public resources, including:

e) targeting public subsidies to the economically weaker sections of society, instead of universal subsidization of education; and

f) the reallocation of public expenditure from higher to primary education.

Many of these prescriptions favour a shift of financial responsibilities from the social (institutional) domain to individual (private) domain.[7] They also go against the conventional wisdom of developing countries and, as a result, conflicts and tensions emerge in policies and practices. In the remainder of the paper some of these policy prescriptions are discussed, contrasting them with the approaches of the developing countries. It may be noted that many developing countries have had to resort to these and similar policy measures, either under pressure from international aid organisations and some of the developed countries, particularly the free market economies, or voluntarily by themselves, i.e., not necessarily under pressure from exogenous forces.

**State Financing of Education**

Yet in many societies, it is important to note, the government is the most important financier of education. Even in many developed countries, the State necessarily finances education rather liberally, footing most, if not all, of the education bill, at all levels of education (Table 1).[8] This is felt not only necessary for the development of education, but also as a desirable form of providing education, because markets cannot provide the socially optimum quantities and quality of education, as they do not capture externalities and state financing is important to capture them. Besides, state financing is also believed to be critically important on equity and efficiency considerations. Hence, even in free market economies, public education systems are relatively dominant and government finances a large proportion of the capital, as

7 See Majumdar (1983) for a discussion of the relationships between investments in the two domains.

8 See also OECD (1990) that gives estimates of share of state finances in the income of higher education institutions. The figures suggest that State finances a very large part of financing of higher education.

well as recurring costs of public institutions and some part (sometimes a high proportion) of the cost of private institutions.

But the policy prescriptions coming from the international aid organisations to developing countries seem to be exactly the opposite, creating serious tensions between those who prescribe policies and those who implement them.[9] Hence, developing countries have a reason to suspect the intentions of the free market economies and the international aid organisations, and to strongly argue that as "higher education determines [a country's] economic and technological progress, .. Government funding must continue to be an essential and mandatory requirement for support to higher education" (UGC, 1993, p. 18 and p. 107).

**Philanthropy *versus* Profit**

Private education was the norm in most traditional societies for a long time. The State found it important that it finances education, as the benefits of education are immense. Accordingly, in addition to the institutions run by the state, private educational institutions opened in many developing countries in the 1950s and 1960s received state support but private contributions were also significant. Private contributions reflected some genuine educational concerns of the individuals or organisations involved. But state-supported private institutions established in the last quarter of the present century, for example in India, are of a different kind. Private contributions are insignificant in these institutions. Through corrupt and questionable practices, state funds have been diverted to private pockets. Education has become a business yielding good pay-offs, with no initial investments at all.

There is another important shift taking place with regard to the nature of the role of the private sector. Gifts and voluntary donations to public education system had been a very

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9 The policy prescriptions of the World Bank (1988) on reducing government expenditure on higher education in Sub-Saharan African countries produced serious tensions between the World Bank and many African countries. For some mild accounts of these tensions, see the "Symposium" in the *Comparative Education Review* (February 1989). See also Serpell (1993, p. 257). Similarly, Tilak (1996) presents an account of the differences between the policy prescriptions of the World Bank (1994) and Indian perspectives.

important feature not only in the ancient and medieval periods, but also in the post-War period, particularly in the period immediately after independence in developing countries. Such private contributions in cash and kind were indeed substantial, and in return, the private donors did not expect any particular benefit. The incentives used to be confined largely to naming buildings in the name of the donors, besides the social status and influence in decision making in the given educational institution. These contributions were associated with somewhat genuine concerns for educational development, philanthropy and charity. Gradually, such contributions withered away; and the private donors in the 1980s and 1990s, instead, began opting to open their own private institutions, as philanthropic, charitable and educational considerations gave way to a philosophy of greed and profit motive, associated with a market approach to development. When public institutions have to attract private contributions, economic incentives such as 100-125 per cent tax concessions were to be offered. Still economic gains from opening private institutions seem to be more attractive than the tax concessions on private donations to public institutions.

It may be noted that while traditionally 'profit' was not an acceptable concept in education, in the modern period the private institutions have been accorded recognition by the state as 'profit-seeking' and 'non-profit-seeking' educational institutions. The market approach has contributed to the legitimization of profit-making in education and accordingly to the emergence of the new breed of state-recognised private institutions seeking profit. Many such private educational institutions have been found to suffer from several maladies: (a) they run for profit with little consideration for national manpower needs; (b) since profit is allowed, they charge several times the cost of provision of education as fees; (c) they contribute to the massive erosion of quality and standards in higher education; (d) they perpetuate social and economic inequalities in the system to such a degree that no welfare state can afford the long-term cost; and above all, (e) they contribute to distortions in the allocation of public resources in education (Tilak, 1991, 1992a; 1994). Even if private institutions are relatively small in number, compared to public institutions, the adverse effects of private institutions on socio-economic equity are found to be so high that the positive effects of public schools cannot offset the ill-effects of private schooling (Dasgupta, 1979). Despite an awareness of all these factors, private institutions, particularly profit making educational institutions have become the order of the day, compared to the situation in which profit was not allowed to enter the arena of education. This is partly due to the policies being adopted by the governments on their own voluntarily or out of compulsion, that favour the growth of self-financing educational institutions. Accordingly, while in the past those individuals who opened private educational institutions had been respected and accorded -- quite rightly -- higher social status, now such individuals are looked down as dishonest, greedy businessmen.

Little research on public and private schools has concentrated on financial aspects, as particularly in the developing countries; reliable data on financial aspects are hard to get from private institutions. On the other hand, it has been highlighted in quite a few studies (e.g., Jimenez and Lockheed, 1995; Kingdon, 1994) that private schools are more 'cost-efficient' as they run at lower unit costs than public schools. But the low unit costs in private schools compared to public (government) schools do not necessarily reflect cost-efficiency; nor do higher costs in public schools reflect higher quality. While the latter may reflect inefficient use of resources, the former represents in many cases, the underlying undesirable practices adopted by the private schools in developing countries, and in any event, efficiency of private schools has remained unproven beyond doubt.

**Free Primary Education *versus* Fees in Primary Education**

Much of the discussion concerning cost recovery in education was confined to higher education until the end of the 1970s and even during the early 1980s. Viewing primary education as a pure public good and/or respecting the spirit of the national constitutional provisions and the declarations of the United Nations, UNESCO, etc., it was exempted from such discussions, implying, therefore, that the state should fully finance primary education. This view still prevails in certain corners. But of late, even primary education is not spared from such discussions and from corresponding policy measures favouring the introduction of cost recovery measures.

Interestingly, while the earlier national and international declarations and conventions of the rights of children assured *free* and compulsory education for all, the term 'free' has begun to disappear, of late, in such declarations.[10] Organisations like the World Bank (1986) favoured introduction of fees in primary education (Birdsall, 1983a, b; Thobani, 1983), and subsequently, simultaneously opposed and supported the same policy later. For example, the World Bank (1986, p. 23) observed that "in general, increased private financing at the primary level is not recommended since it might interfere with universal coverage -- a socially desirable goal"; but argued that it "could increase efficiency within schools" (p. 23) and "improve the future distribution of income" (p. 24); and finally approved fee in primary education in several countries. But when such moves were criticized (e.g., Klees, 1984), the World Bank subsequently stopped 'insisting' on introduction of fees in primary education. It should be noted that the Bank has only stopped insisting; but it does favour fees in primary education. For instance, the World Bank (1995, p. 132) stated: "Even at primary level, the charging of fees need not be incompatible with the principle of free primary education, so long as these fees are regulated".[11]

Under the present circumstances when market principles tend to become dominant, introduction of fees in primary schools is not strongly advocated, nor is it discouraged seriously. This confusion in policy has been reflected in frequent measures of introduction-abolition-reintroduction of fees by governments in developing countries[12] and international organisations encouraging mushroom growth of high fee-charging private schools in primary education mostly in (but not necessarily confined to) urban areas on the one hand, and the introduction of various kinds of small levels of non-tuition (sometimes even tuition) fees in public schools on the other.[13]

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10 For example, compare the *World Declaration on Education for All* (WCEFA, 1990), and the *Delhi Declaration* (EFA Summit, 1993), with the *Universal Declaration of Human Rights* (United Nations, 1948), the *Rights of the Children* (International Year of the Child, 1979), and the *Convention of the Rights of Child* (United Nations, 1989), among many UN and UNESCO resolutions.

11 See also Psacharopoulos (1990).

12 See Bray (1987) for a description of such shifts in Nigeria, Ghana, Kenya, etc.

13 The World Bank (1986) documented that in 21 out of 36 countries on which information was available there were user charges in primary education. See

In summary, the philosophy of free primary education is gradually being bidden 'good-bye'. This is against the public good nature of education, and is against the conventional wisdom of many nations reflected in their constitutions and similar other well-intended declarations. This unfortunate trend is occurring almost without notice.

**Cost Recovery in Higher Education**

The neo-liberals have been bent on arguing for "greater private financing" of education in general, and of higher education in particular. In this context, reforms of student fees have been suggested as an important measure, along with student loans for needy students. The World Bank has been in the forefront, strongly arguing in favour of increase in fees in higher education in developing countries. As Jones (1992, p. 249) observed, fewer and fewer Bank loans by the end of the 1980s were free of the obligations imposed by loan conditionalities to promote privatisation and expansion of user charges in education, particularly higher education.

A general impression has been created first that higher education in developing countries is provided (relatively) free and that there is abundant scope for increases in fees. Secondly, increases in fees are also suggested on the premise that higher education has been overexpanded in developing countries and that these economies produce more manpower than they require. Many policy suggestions are based on these and similar misconceptions. But both premises lack sufficient empirical support.

First, it must be noted that fees (tuition and other fees) as a proportion of the recurrent costs of higher education in developing countries like India are reasonably high, 15-20 per cent. This is much higher a percentage than the corresponding proportion in many developing and developed countries of the world (Table 2). Even in countries like the USA, tuition fees meet only 15 per cent of total recurrent expenditure in public institutions. Only in South Korea and Chile, is the proportion much higher. The corresponding figures are higher in poor countries

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Ainsworth (1984) for a description of fee levels and policies in school education in a number of countries. See Tilak (1996) for recent evidence on India.

like Vietnam than in relatively developed countries like New Zealand, Spain, France and Singapore (World Bank, 1994).

In the context of these policies, it is also necessary to note that the proportion of student or household expenditure on higher education is much higher in developing countries like India than in countries like the USA (Tilak, 1993). Household costs (exclusive of opportunity costs) on higher education as a proportion of GNP per capita are much higher in developing countries than in developed countries. For example, such proportions are 450 per cent in Kenya, 337 per cent in Honduras, 203 per cent in Colombia, 175 per cent in Indonesia, and 110 per cent in Costa Rica; in contrast, the corresponding figures are 24 per cent in the UK, 30 per cent in Ontario, 34 per cent in the USA and 38 per cent in France (Ziderman and Albrecht, 1995, p. 47). Further, given the standards of living of the population on the one hand, and more importantly, given the absence of any effective student aid programmes on the other, any measure to increase fees substantially and to reduce public subsidies for higher education will produce a brutal impact on disadvantaged students. Thus, it is necessary to note that the scope to mobilize "greater share" from students does not exist.

Secondly, despite seemingly high rates of growth of higher education systems in developing countries, a very small proportion of the relevant age-group population is enrolled in higher educational institutions in developing countries, compared to above 70 per cent in the USA and nearly 100 per cent in Canada (Table 3). With inadequate higher educated manpower, it is being realised increasingly by developing countries that they cannot attain high levels of economic growth and that they cannot reap the gains of globalisation policies. Economic miracles have been produced in some developing countries (e.g., in East Asia) mainly due to high rates of growth of their higher educational systems.

Significant increases in fees in (higher) education will produce serious tensions at two levels, apart from general student protests and associated political unrest. With steep increases in fee levels and reduced state subsidies for higher education, the demand for higher education might fall, and in the medium to long run, developing countries will have less and less qualified, educated manpower, producing serious bottlenecks for development. As a result, developing countries have to rely on manpower from the developed countries, recruited at higher wages/salaries -- a phenomenon confronted by several developing countries in Sub-Saharan Africa, and Asian countries like Cambodia and Vietnam. This has produced unavoidable economic, as well as cultural tensions between developing and developed countries.

The second kind of tension arises within the countries between the rich and the poor. The steep increase in fees as suggested by the advocates of a free market philosophy pushes poor people out of higher education, thus making higher education an increasingly, pro-rich bastion, producing severe socio-economic inequalities within the society and conflicts between the rich and the poor. As against universal subsidization, selective subsidization policies, i.e., targeting subsidies have a strong appeal; but they are necessarily inefficient and divisive, and also contribute to class conflicts.[14]

**Parents *versus* Children: Who Should Pay? The Loans**

Another important measure that is being suggested as an effective solution to the problems of financing higher education refers to student loans, despite the low rates of recovery and the high costs of default and administration associated with them (World Bank, 1994; Ziderman and Albrecht, 1995). Currently, loan programmes are in vogue in a large number of countries. Proposals on loans are also based inherently on the market principle that those who benefit must pay. In this context, parents and students are viewed as two separate units, the students being the direct beneficiaries of education, and hence according to the benefit principle, it is the students, not the parents, who should pay for education. Since the students are generally not earners, they are given an option to take out loans for their education and only when they become earners they would be required to repay such loans.

14 Targeting of subsidies has been found to be necessarily inherently defective in developing counties, resulting in higher levels of omission of the deserving poor from the consumption of the same. This is found to be true even in case of food subsidies, when initial investments by the poor are not a pre-requisite (e.g., Cornia and Stewart, 1995; Parikh, 1994), unlike in education where initial investments by the poor are essential.

Student loans thus transfer the responsibility of funding education from the parents to the children, which might affect the relationships between children and parents. Probably for the same reason, in quite a few countries, it is (or it used to be) mandatory that parents necessarily finance the education of their children (see Johnstone, 1989, pp. 31-33). But now in many developed countries children after the age of 14 years are made to finance their own education through on-the-campus work on the one hand, and loans on the other. The attempt to free parents from the financial responsibilities for their children's education is indeed an alien feature, if not a great cultural shock, to many traditional societies in Asia.

Then there are two additional culture-specific aspects relating to student loans in practice. First, unlike in the American and, to some extent, the European societies, loans are unwelcome from a psychological point of view in many traditional societies. Particularly, traditional Asian societies were averse to the very idea of living on loans, or education with the help of loans, as such a way of living is not respectfully treated, particularly compared to the American way of life, in which the number of loans one takes out and the individual's corresponding credit-worthiness are generally treated favourably as an important indicator of higher socio-economic status.[15]

Secondly, fears that student loans will work as a 'negative dowry', and accordingly, will have serious adverse effects on the enrolment of girls in higher education are strong not only in the UK (Robbins Committee, 1963, p. 211), but also in many other developed and developing countries, like India, where dowry is an important social phenomenon. In such traditional societies in which the dowry is not an important social phenomenon, but the husband's obligations are an accepted norm, the problem becomes equally serious.

Further, major reforms in student loan programmes in developing countries are also found to be difficult to carry out. For example, if the responsibility of administering the loans is given to commercial banks instead of educational institutions, as per the recent reforms in

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15 However, with the sudden upsurge of the credit cards and financing schemes in the capital markets in developing countries, a significant change in the attitude of the people is likely to be seen. Very significant changes could already be noted in case of East Asian countries. South Asian countries are a little behind in these changes.

India, the administration of loans and the recovery might be expected to become relatively more efficient in such a market framework, but this might be at the cost of educational and social considerations. The banking institutions would be willing to give loans not necessarily to the economically weaker and educationally deserving students, but to economically better-off students, as the recovery of the loan would become the most important consideration.

In summary, student loans, which are inherently based on a free market philosophy, are not necessarily culture-free. The differences in culture explain, though only in part, the varying degrees of effectiveness of such programmes. On the whole, the loan programme works most efficiently in no country, with one hundred or nearly one hundred per cent recovery, and with no serious adverse effects on demand for higher education.

**Community Financing, Government Financing and International Aid**

In many traditional societies education was supported by voluntary community contributions for long periods. For instance, for several centuries until the modern formal education system was introduced in India, communities voluntarily used to provide alms and other necessities to teachers and students. Endowments and donations were a marked characteristic of the ancient period in India. Even after the modern education system was introduced, communities used to contribute voluntarily towards the construction of school buildings, either in terms of labour or in terms of other material, and/or even in monetary terms. One-fifth to one-fourth of total expenditure on education in India in the late 19th century was financed out of community contributions (see Misra, 1962). Much of the expansion of primary education in Africa owes to local African communities (Foster, 1989, p. 107). The *Harambee* movement in Kenya (see Hill, 1991) is an important example of local efforts at educational development. It is particularly important to note that, as shown in Table 4, whenever the government did not take interest in education, say during British rule in India, community contributions to education were substantial.[16]

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16 Bray and Lillis (1988) have documented similar evidence on a number of countries to show that community support for education became valuable when government finances for education declined.

But once the government assumed responsibility for providing education in the modern system, say, for example by the independent government in India after 1946-47, slowly, community contributions began to dwindle and receded into the background. But what is worrying is, when government funds become scarce again, community contributions might not be forthcoming in adequate quantities. As a result, the education system suffers from inadequate government funding and dwindling community contributions.

Similarly, as international aid organisations -- multilateral and bilateral -- entered the education scene in developing countries, international aid in several countries replaced governmental support to education rather than supplementing government resources (Tilak, 1990). This was partly due to explicit conditionalities attached to loans, such as those of the stabilisation and structural adjustment loans provided by the World Bank and the International Monetary Fund, that required the governments to reduce their expenditures, among various other factors (Tilak, 1992b).

Once external aid for education in a given country ceases, the education system becomes worse off, as the role of communities has already been minimized; and the role of the government in funding education has been reduced. The situation is further aggravated when foreign aid projects are not sustainable, once aid ceases. Thus, on the whole, it is possible that in the long run those countries that have depended upon external assistance for education, might actually be spending less on education than those countries that relied upon their own resources (Ilon, 1994, p. 101; Tilak, 1997b).

Following the classification of countries made by Kakwani et al (1990), selected statistics are presented in Table 5 on a few *intensely adjusting*[17] (referred here to simply as adjusting countries) and *non-adjusting*[18] countries for comparison over a period covering about

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17 Intensely adjusting countries are those countries that have received three or more structural adjustment loans, or two completed structural adjustment loan programmes, by 1989, with lending starting in or before 1985. Other groups of adjusting countries, viz., those that have received less than three structural adjustment loans before 1985, or those that have received adjustment loans after 1985 are not included here.

18 Non-adjusting countries are those countries that did not need IMF/World Bank types of adjustment programmes as of 1989, and had an increase in average annual per capita

three decades since 1960. In the non-adjusting countries, impressive growth, or at least stability can be seen in terms of the share of GNP allocated to education, while the adjusting countries are characterised by drastic fluctuations and overall deterioration in the same. For example, Ghana and South Korea, two adjusting countries, spent a much smaller share of their GNP on education in 1980 and later than in 1960, while in India, Malaysia, Peru, and rather all the non-adjusting countries in Table 5, there had been a reasonable and steady growth.[19]

This leads one to doubt the effectiveness of aid: does aid contribute to sustainable educational development or does it contribute to an increase in indebtedness and donor dependency? The situation has become particularly grave, as international aid has not solved important and politically very salient educational objectives of developing countries (Weiler, 1984; Verspoor, 1990). The business concerns of the international aid community seem to conflict with the educational objectives of the developing countries.

## Conclusions

Faced with continuing prolonged financial crisis on the one hand, and a global trend towards a free-market philosophy on the other, during the last couple of decades there has been a series of waves of change occurring in financing education in developing countries. Traditional approaches have given in, rather reluctantly, to modern approaches in a large number of countries. Many countries seem to be unwillingly becoming reconciled with the transformation of traditional approaches into free market-economy-oriented, modern approaches. During the first wave of change, the need for improvement in the efficiency of allocation of public resources was strongly felt. During the second wave of change, the focus has shifted to the mobilisation of additional resources from non-governmental sources, and to a search for methods of supplementing governmental finances in funding education. During the current wave of change, the tendency to refuse to acknowledge the existence of externalities in

(..continued)

GDP growth during the period 1980-87. Another group of non-adjusting countries, i.e., those who had experienced negative rate of growth in GDP are not considered here.

19 See Tilak (1997b) for related details.

education (e.g., Arrow, 1993),[20] and attempts to prove that education is not a public good, and that it can be treated as a private good (or as a 'publicly provided, private good'), are on the increase. The growing liberalism and free market philosophy contribute to the adoption of business, and even money-management approaches to education, which are necessarily dishonest and oblivious of social democratic concerns (see Bottery, 1992; see also Marginson, 1993). Market approach to education is also gaining currency in the context of globalisation and the role of education therein (Riddell, 1996). The free market philosophy tends to become so dominant, that the very role of the state in financing education is being questioned, and theories are being written and rewritten in support of cost-recovery in education. Attempts are also being made to shift from partial cost-recovery to full cost-recovery in education. This current wave is one of the strongest ones, creating serious tensions between the status-quo and change, threatening the very nature of education.

The free market philosophy, i.e., the benefit principle -- those who benefit must pay, and especially the very notion that students should be asked to pay in full the costs of their education -- is potentially very dangerous to the very fabric of society. If students pay the full costs of their education, the relationship between students and educational institutions, and between students and society at large is affected. State subsidized education inherently inculcates certain values, most important among them being respect for the nation-state, gratefulness, and a feeling of responsibility to society. This feeling of obligation to the country is extremely valuable. In return, students, in large numbers, are willing to participate in

20 When one examines the trends in thinking on externalities, one is reminded of Adam Smith, who defined 'the fallacy' in his *Super Money* [quoted by Jodha, 1988, p. 2421] as follows:

- The first step is to measure whatever can be easily measured: This is ok as far as it goes.
- The second step is to disregard that which cannot be measured or give it an arbitrary quantitative value: This is artificial and misleading.
- The third step is to presume that what cannot be measured easily is not very important: This is blindness.
- The fourth step is to say that what cannot be easily measured really does not exist: This is suicide.

national development process in a variety of ways. They might be willing (a) to render national service,[21] and (b) to stay within the country, accepting wages/salaries lower than those they can obtain elsewhere, etc. For the students whose education is subsidized by the state, their very approach to society and its problems is different from those who have had to pay the full cost-price of their education. The values inculcated by publicly financed and provided education system and the contributions of the products of such a system to society cannot be quantified, nor can they be expressed in monetary terms, but are nonetheless extremely valuable for the sustenance of society. A consumer who pays a shopkeeper the full cost of a normal good or service will not have the same relationships with the shopkeeper, as one who was allowed a subsidized price on compassionate grounds. If parents expect children to pay in full for what they give to the children, or if through the loan programmes parents abdicate their responsibilities of financing their children's education, there will not be any family relationships and the very institution of the family is rooted out, as seems to be happening in several developed, free-market economies, where market values determine human behaviour not only in drawing rooms, but also in kitchens and bedrooms, and the quality of family relationships is cheapened.[22] After trading-off the social, ethical and moral values for quick economic gains, by adopting business and even money-management approaches, we might realize the value of the 'paradise lost' and then begin to re-emphasize values and ethics in education, and introduce such courses in our curricula. Thus, neo-liberal arguments define social institutions like schools strictly in market terms, and undermine social values, social institutions and relationships such as those in the family and between citizen and society. While during the first two waves of change there appeared to be some scope for a convergence between tradition and modernity, such scope is being reduced during the present wave of change, and the free market philosophy -- a rather strong, if not an extreme form of free market philosophy -- seems to be

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21 See Ziderman and Albrecht (1995) for documentation on the prevalence of national service in developing countries.

22 Then to promote family values, the United Nations and other organizations might celebrate the International Year of the Family, etc., as has been attempted recently in 1994.

dominating the whole approach to financing education, with all its ill effects. These trends are strong in some countries, and in some countries are still in offing. It is feared that gradually they may become dominant.

Table 1

**Share of Public and Private Finances in Financing Education (per cent), 1994**

| | Primary and Secondary | | Higher | | All Levels | |
|---|---|---|---|---|---|---|
| | Public | Private | Public | Private | Public | Private |
| Canada | 94.4 | 5.6 | 90.8 | 9.2 | 93.2 | 6.8 |
| USA | 90.9* | 9.1 | 48.4 | 51.6 | 74.5 | 25.5 |
| Australia | 88.7 | 11.3 | 74.7 | 25.3 | 83.9 | 16.1 |
| Japan | 93.6 | 6.4 | 46.4 | 53.6 | 77.2 | 22.8 |
| Korea | 75.2 | 24.8 | 16.0 | 84.0 | 59.4 | 40.6 |
| Denmark | 97.9 | 2.1 | 99.5 | 0.5 | 94.0 | 6.0 |
| France | 92.6 | 7.4 | 83.4 | 16.6 | 91.3 | 8.7 |
| Germany | 75.7 | 24.3 | 90.4 | 9.6 | 77.7 | 22.3 |
| Netherlands | 96.4 | 3.6 | 98.0 | 2.0 | 97.0 | 3.0 |
| Portugal | 100.0 | 0.0 | 100.0 | 0.0 | 100.0 | 0.0 |
| Spain | 87.8 | 12.2 | 78.1 | 21.9 | 85.4 | 14.6 |
| Sweden | 99.8 | 0.2 | 93.1 | 6.9 | 98.2 | 1.8 |
| UK | .. | .. | 100.0 | 0.0 | .. | .. |

Note: * 1992; .. not available.
Source: OECD (1997, p. 77).

Table 2

**Share of Fees in Costs of Higher Education in Selected Countries (per cent)**

| Country | | Share | | Country | | Share |
|---|---|---|---|---|---|---|
| **Public/Predominantly Public** | | | | | | |
| *Developing Countries** | | | | *Developed Countries* | | |
| Sri Lanka | | .. | | Norway | 1987 | 0.0 |
| Tanzania | | .. | | Australia | 1987 | 2.1 |
| Bolivia | | 1.0 | | France | 1975 | 2.9 |
| Pakistan | | 2.1 | | | 1984 | 4.7 |
| Venezuela | 1986 | 3.8 | | Germany | 1986 | 0.0 |
| Nepal | 1986-87 | 4.4 | | Canada | mid 1980s | 12.0 |
| PNG | 1988-89 | 4.4-9.0 | | Netherlands | 1985 | 12.0 |
| Brazil | | 5.0 | | Spain | mid 1980s | 20.0 |
| Brazil | | 5.0 | | Japan | 1970 | 2.0 |
| Malaysia | | 5.8 | | | 1987 | 8.8 |
| Malaysia | | 5.8 | | UK | | |
| Thailand | | 6.9 | | Universities | 1970-71 | 12.6 |
| Thailand | | 6.9 | | | 1988-89 | 6.4 |
| Taiwan | Late '80s | 7.0 | | Polytechnics | 1982-83 | 15.0 |
| Pakistan | 1987-88 | | | | 1987-88 | 14.0 |
| Colleges | | 7.4 | | Soviet Union | early 1980s | 0.0 |
| Univs. (Gen) | | 1.9 | | Hong Kong | 1988-89 | 6.5-12.1 |
| Univs. (Tech.) | | 1.3 | | USA | 1969-70 | 15.1 |
| Costa Rica | | 8.0 | | | 1984-85 | 14.5 |
| Colombia | 1987 | 9.6 | | **Private** | | |
| Guatemala | | 10.0 | | *Developing Countries* | | |
| China | 1993! | >10.0 | | Taiwan | Late '80s | 50.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Philippines | 1985 | 10.9 | | Colombia | 1989 | 81.0 |
| Nigeria | | 12.4 | | South Korea | 1985 | 82.3 |
| Indonesia | | 13.0 | | Venezuela | 1986 | 83.0 |
| India | 1984-85 | 15.0 | | Philippines | 1977 | 85.0 |
| Turkey | | 15.0 | | Chile | 1990 | 95.0 |
| Vietnam | 1993! | >20.0 | | *Developed Countries* | | |
| Jordan | 1993! | >30.0 | | USA | 1969-70 | 38.6 |
| Chile | 1990 | 38.5 | | | 1984-85 | 38.7 |
| South Korea | 1985 | 49.6 | | Japan | 1971 | 75.8 |
| | | | | | 1985 | 65.8 |

Note: .. Nil or Negligible; ! year inferred; * around 1980, unless otherwise mentioned.
Source: Taiwan: Woo (1991); World Bank (1997) for China, Vietnam and Jordan; others: Tilak (1997a).

Table 3

**Gross Enrolment Ratios in Higher Education in Selected Developed and Developing Countries (per cent)**

| Country | Year | Ratio | Country | Year | Ratio |
|---|---|---|---|---|---|
| Developed Countries | 1995 | 51.0 | Developing Countries | 1995 | 8.9 |
| Canada | 1993 | 102.9+ | Asia | 1995 | 9.7 |
| USA | 1994 | 81.1 | South Korea | 1995 | 52.0 |
| Australia | 1995 | 71.7 | Philippines | 1994 | 27.4 |
| Finland | 1994 | 66.9 | Thailand | 1995 | 20.1 |
| New Zealand | 1995 | 58.2 | Indonesia | 1994 | 11.1 |
| Norway | 1994 | 54.5 | Malaysia | 1994 | 10.6 |
| France | 1993 | 49.6 | India | 1995 | 6.4 |
| Netherlands | 1993 | 48.9 | China | 1995 | 5.3 |
| United Kingdom | 1994 | 48.3 | Sri Lanka | 1995 | 5.1 |
| Spain | 1994 | 46.1 | Bangladesh | 1990 | 4.4 |
| Denmark | 1994 | 45.0 | Pakistan | 1991 | 3.0 |
| Austria | 1994 | 44.8 | Africa | 1995 | 5.6 |
| Germany | 1994 | 42.7 | Nigeria | 1993 | 4.1 |
| Sweden | 1994 | 42.5 | Zambia | 1994 | 2.5 |
| Italy | 1994 | 40.6 | Kenya | 1990 | 1.6 |
| Japan | 1994 | 40.3 | Ghana | 1990 | 1.4 |
| Belgium | 1995 | 39.4 | Tanzania | 1995 | 0.5 |
| Bulgaria | 1995 | 39.4 | Latin America* | 1995 | 17.3 |
| Singapore | 1995 | 33.7 | Mexico | 1991 | 14.3 |
| Switzerland | 1994 | 31.8 | Columbia | 1995 | 17.2 |
| Hong Kong | 1993 | 21.9 | Brazil | 1994 | 11.3 |

Note: * Latin America and the Caribbean; The regional average for Asia includes advanced countries like Japan and Hong Kong.
+ Gross enrolment ratio can be marginally higher than 100.
Source: Unesco (1997).

Table 4

**Government Grants and Community Contributions to Education in India**

| | Government | | Community | |
|---|---|---|---|---|
| | Rs. Mlns. | per cent | Rs. Mlns. | per cent |
| 1870-71 | 6.57 | 70.6 | 0.25 | 2.7 |
| 1881-82 | 7.29 | 39.2 | 3.76 | 20.2 |
| 1891-92 | 8.13 | 28.8 | 6.05 | 19.8 |
| 1901-02 | 10.28 | 25.6 | 9.78 | 24.3 |
| 1911-12 | 26.96 | 34.3 | 16.16 | 20.5 |
| 1921-22 | 90.23 | 49.1 | 30.78 | 16.7 |
| 1931-32 | 124.60 | 45.8 | 41.17 | 15.2 |
| 1941-42 | 135.17 | 43.8 | 42.64 | 13.8 |
| | | | | |
| 1946-47 | 259.59 | 45.0 | 80.78 | 14.0 |
| 1950-51 | 652.68 | 57.1 | 132.89 | 11.6 |
| 1960-61 | 2340.91 | 68.0 | 287.71 | 8.3 |
| 1970-71 | 8459.50 | 75.6 | 653.90 | 5.9 |
| 1980-81 | 30772.39 | 81.7 | 1516.93 | 5.4 |
| 1989-90* | 78657.02 | 83.5 | 2860.38 | 3.0 |
| 1990-91* | .. | 87.9 | .. | 2.4 |
| 1991-92* | .. | 86.4 | .. | 2.7 |

Note: Other sources are not included here.
Community contributions include donations, endowments and 'other' sources.
* only school education

Source: Misra (1962, pp. 458-59); Tilak (1995a); Ministry of Human Resource Development (1993, 1994, 1995) and Ministry of Finance (1998).

Table 5

**Public Expenditure on Education in GNP in Adjusting and Non-Adjusting Countries (per cent)**

| | 1960 | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995* |
|---|---|---|---|---|---|---|---|---|
| **Non-Adjusting Countries** | | | | | | | | |
| India | 2.3 | 2.6 | 2.8 | 2.9 | 2.8 | 3.4 | 3.9 | 3.5 |
| Malaysia | .. | .. | 4.4 | 6.3 | 6.0 | 6.6 | 5.5 | 5.3 |
| Peru | 2.7 | .. | 3.4 | 3.5 | 3.1 | 2.9 | .. | 3.8 |
| Egypt | 5.2 | 4.6 | 4.8 | 5.0 | 5.7 | 6.3 | 4.9 | 5.6 |
| Botswana | .. | 4.4 | 5.2 | 7.2 | 7.8b | 7.7 | 7.6 | 9.6 |
| **Adjusting Countries** | | | | | | | | |
| Ghana | 3.5 | 4.1 | 4.3 | 5.9 | 3.1 | 2.6 | 3.1 | 3.3 |
| Nigeria | 2.0 | 2.3 | .. | 4.3a | 6.1c | 1.2 | 0.8 | 1.3d |
| South Korea | 4.9 | 1.8 | 3.6 | 2.2 | 3.7 | 4.5 | 3.7 | 3.7 |
| Philippines | 2.6 | 2.6 | 2.6 | 1.9 | 1.7 | 1.4 | 3.0 | 2.2 |

Note: a 1976; b 1979; c 1981; d 1993

* most recent estimate available in 1997.

India became an adjusting country since 1990.

Source: UNESCO (various years).

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