

# HIGHER EDUCATION BETWEEN PUBLIC AND/OR PRIVATE FINANCING

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*ABSTRACT. Higher education has always been an important priority in the public agenda as it is considered an investment with economic return both for individuals and society. Due to rapid growth of student enrolment in the 90's and stringent funding allocated for higher education institutes, the decade of the 90's has seen a significant and consistent worldwide reform agenda for the finance and management of higher education institutes.*

*With the establishment of a knowledge-based economy, all countries try to find suitable strategies and special ways to keep up with the growing competition in the rapidly evolving global economy. The demand of higher education thus keeps growing worldwide and especially in developing countries. Many governments face the problem of maintaining public funding levels for higher education. Therefore the problems and issues of funding higher education must be addressed.*

*The paper will discuss the funding sources and allocations for higher education that are adopted by both private and public institutions.*

## 1. INTRODUCTION

Starting from the idea that "education is the way to economic prosperity, the key of scientific and technological development, the way to combat unemployment, the base of social equity and the spread of political socialisation and cultural vitality" (Psacharopoulos, G., 1985), governments were interested in financing higher education especially for the fact that the state was the main beneficiary of the system of higher education, and it does not imply an economic burden to the public.

According to the World Bank Report since 1994, educational reform agenda was underlying the need to reach the market orientation of education from both financial and social point of view to public governance or governmental planning detriment.

But once the development of higher education occurred, the role of universities has changed, being oriented to the satisfaction of free labor market needs. Liberalization of trade and labor market in the conditions of globalization increases the hope in terms of integrating graduates of higher education despite an increasing demand from the public system for tertiary education.

## 2. PUBLIC AND PRIVATE HIGHER EDUCATION

At present, university education requires a substantial financial effort of the public budget and the need to determine the effectiveness of using public funds for this sector becomes increasingly severe.

The education of an individual represents an example of a positive externality. The source of the externality may be for the benefit of interaction in social work and, with better trained people. A large proportion of worldwide studies indicate public outputs of higher education (eg productivity growth) but there has not been yet demonstrated a strong link between these benefits and public spending for higher education. Also, it is found that state intervention in financing higher education is not aimed at achieving positive externalities, but rather correcting the failure of market loans for studies.

However, according to the principle of equity, the state must ensure equal access to higher education to all persons who are able to learn, regardless of the amount of their economic resources.

Following this idea, many people consider that university education is a right which should be financed entirely from public funds. However, one thing that is regarded as a right does not require public financing. As an example, appears the right to have access to food or information for which no one disputes the financial aspect.

Effectiveness and equity represent undoubtedly the main arguments for continuing the funding of higher education from public funds, but the real problem lies in finding a private source for financing higher education because without the necessary investment in education, the long term development can not be sustained, and public allocations for university education are not sufficient.

So, it is expected that all beneficiaries of higher education, particularly the state, the enterprises and the individuals to contribute to financing, according to the principle " who benefits must pay."

The market orientation of university education has led to the appearance of tuition fees that have transferred a large part of the costs of tertiary education from tax payers to students and their parents, ie to the final beneficiaries. In these circumstances was appealed to finance studies on loans or vouchers.

Trying to respect the principles of equity and effectiveness, EU countries have sought various solutions, from an egalitarian policy where quality is put in danger, to a high level of funding higher education, where quality and equity are balanced.

Financial restrictions imposed on European higher education have led to inefficiency, inequity and a low quality of university education. But these relate to public educational institutions.

In developed and developing countries there are, in terms of financing sources, two categories of universities: public higher educational institutions where funds come mostly from the state budget, and private establishments of higher education where financing is done from their own resources, but may also receive subsidies from the state budget.

Private educational institutions have, as the main source of financing, fees charged to students and, at the same time, they can receive donations or attract sponsorship. Individuals participate in attracting funds to finance higher education through the payment of both tuition fees and taxes owed to the state budget.

Another category of beneficiaries of higher education, the industry, also participates in forming funds for education when granting scholarships to students in exchange for future cooperation. Private higher education has an important role in university preparing all over the world. The most comprehensive and rapid development of the private sector in Central and Eastern Europe took place in Romania, where particular universities have come to cover one third of the demand for higher education.

However, private universities are criticized for the poor quality of education services and lack of financial viability in the long term due to the unsustainability of funds coming from tuition fees. The two aspects are attributed to unevenness of higher education.

The issue of quality in higher education is not conditioned to the membership of the education institution at public or private sector, it should be determined by the cost-effectiveness item, the goals set by each institution or goals set by the public authority in the field of education.

On the opposite side are found the state universities, which, while receiving funding from the state (basic financing and complementary financing), are bound by the present conditions of the market to create their own revenues which obliges the implementation of an entrepreneurial dimension. But it should only contribute to creating the necessary conditions to maintain and develop the vocation of universities.

It was found that tuition fees are not a barrier to accessing this form of education, but the low level of these fees generated the uneffectiveness of the funding system and the lack of interest on the part of those who follow this type of program, given the gratuities, in some cases, of the consumption of education and, unconcern in terms of education quality.

### **3. FINANCING OF HIGHER EDUCATION IN THE ACTUAL CONTEXT**

Higher education institutions operate in an environment characterized by constraints on growth in demand for higher education, decentralization of the system, in terms of free movement of both teachers and students.

In general, economic efficiency involves reporting efforts, the input of resources to the effects obtained - the results or output. Regarding the entries in higher education system, they are presented in two forms, namely the efforts of the society that measures the costs from the state budget needed to conduct educational activities, and individual efforts that appear in the form of taxes and spendings that an individual pays during the period of studies.

Funding higher education remains mainly dependent on the budget revenues, this situation being present even in countries where universities ,both public and private, receive funds from the state.

Determining the economic efficiency of public spending for higher education has two main aspects:

a) decentralization of management of higher education with implications for the efficient and equitable distribution of budgetary funds. It is desirable that universities enjoy the the university autonomy both in terms of academic programs and use of budgetary funds obtained on the " lump budget." It presents some advantages such as a more rational allocation of funds to finance higher education, correcting the imperfections of the system of education, reduce costs and increase innovation. However, the approach according to which decisions taken at universities respond better to the principle of maximization of social

welfare is wrong. Therefore, the best solution seems to be a compromise under which most decisions are taken at the institutional level, and decisions on public interest and those which does not concern the interests of the university as well as those refering to the maintenance of public interest activities of the institution to be the task of the superior authority. This approach respects the principles of transparency and accountability in the efficient use of public funds. Efficient use of resources at the university level can be achieved through an appropriate policy on budget and hiring staff.

b) The institution budget should be made taking into account the principles of finance and budget performance. However, preparing a budget performance should not focus solely on funds derived from tuition fees that attention because the university will be transformed in a channel for attracting the widest possible range of students and the quality of education process will take a secondary position.

Up to now, there have been done, worldwide, few studies to determine the effectiveness of investment in education. The most comprehensive study was conducted by **Psacharopoulos** and **Patrinos**. This study includes a total of 98 states analyzed between the years 1960-1999. According to this study, the private rate of return is higher than the social rate of return for all levels of education, the average worldwide rate of profitability for private higher education is greater than the social profitability by approximately 8.2 percentage points. This gap stems in large part due to the systems of financing higher education in some countries from this study. Thus, a large part of these systems of financing cover, almost entirely, the cost of university education, which leads to an artificially increase in the private rates of return.

A high social rate of return expresses the efficiency of investment made by the state, through public funds, in higher education and may be an argument in favor of increasing public spending for higher education. However, currently, it is not known exactly whether the state should intervene more, with additional financing, or whether the individuals in society should pay higher tuition fees. This aspect can be adjusted from country to country taking into account the overall level of spending, both public and private, for higher education, given the fairly large differences of these charges, worldwide.

#### **4. CONCLUSIONS**

In the circumstances of current competition between private and public universities is absolutely necessary to continue funding higher education from the state budget within certain limits which should not deregulate the market of university education. Thus there must be found the way to take into account all the stakeholders in order to resolve the issues of equity access to tertiary education system .

Also, the intervention of state in financing of higher education aims at raising monetary and nonmonetary benefits for both the individual and the economy as a whole. In terms of individual, the monetary effect makes its appearance when integrated into the labor market. The level of education affects not only wages but also additional remuneration which may take the form of improving working conditions or grant life by the employer through an assurance, a car, and so on. The nonmonetary effects aim at health and personal satisfaction. In terms of the economy a higher level of education affects economic growth and sustainable development. Given the above, the EU Lisbon strategy requirements, higher education funding mechanisms should be adapted to each state so as not to restrict the free movement of potential students and to integrate into a universal scheme for the recognition of studies regardless the space in which they were conducted.

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