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**Lee Hysan Lecture Series in Education
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Response to Austerity:
The Imperatives and
Limitations of Revenue
Diversification in
Higher Education

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Education Policy Studies Series

Education embraces aspirations of individuals and society. It is a means of strengthening human resources, sustaining competitiveness of society, enhancing mobility of the underprivileged, and assimilating newcomers to the mainstream of society. It is also a means of creating a free, prosperous, and harmonious environment for the populace.

Education is an endeavor that has far-reaching influences, for it embodies development and justness. Its development needs enormous support from society as well as the guidance of policies that serve the imperatives of economic development and social justice. Policy-makers in education, as those in other public sectors, can neither rely on their own visions nor depend on the simple tabulation of financial cost and benefit to arrive at decisions that will affect the pursuit of the common good. Democratization warrants public discourse on vital matters that affect all of us. Democratization also dictates transparency in the policy-making process. Administrative orders disguised as policies have a very small audience indeed. The public expects well-informed policy decisions, which are based on in-depth analyses and careful deliberation. Like the policy-makers, the public and professionals in education require a wealth of easily accessible facts and views so that they can contribute constructively to the public discourse.

To facilitate rational discourse on important educational matters, the Hong Kong Institute of Educational Research of The Chinese University of Hong Kong organizes from time to time “Education Policy Seminars” to address critical issues in educational development of Hong Kong and other Chinese societies. These academic gatherings have been attended by stakeholders, practitioners, researchers and parents. The bulk of this series of occasional papers are the fruit of labor of some of the speakers at the seminars. Others are written specifically as contributions to the series.

The aim of this Education Policy Studies Series is to present the views of selected persons who have new ideas to share and to engage all stakeholders in education in an on-going discussion on educational matters that will shape the future of our society.

Response to Austerity: The Imperatives and Limitations of Revenue Diversification in Higher Education

Abstract

A standard nostrum for higher education economists, consultants, and policy advisors is the recommendation that universities and other higher educational institutions (especially but not exclusively in the less industrialized countries) 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 and privatization, and extend to certain technical and strategic dilemmas that confound even the staunchest believer in tuitions, privatization, and student lending. This paper will discuss some of these technical difficulties, especially of making cost sharing and student lending work in developing countries, and provide some “cautions” and a few recommendations.

Higher education has never been more important than today at the start of the 21st century. Higher education 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 with new solutions emanating from increasing knowledge and training. And in the high-income countries, increasing demand for higher education reflects the changing consumer preferences in times of affluence: higher education becoming a “high-end consumer good.”

Creeping Austerity

In spite of — and to some degree because of — this increasing importance and demand, higher education seems almost everywhere besieged with what I am here calling *creeping austerity*: a slow but unrelenting worsening of the financial condition of most universities and other institutions of higher education, particularly as they are dependent on governmental, or tax-generated, revenue. Austerity 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 is not, strictly speaking, a cost of higher education, but is an expense that must be borne nonetheless and one that is particularly significant in situations where commuting to a university while residing with parents is either impractical or impossible.

As significant as high costs *per se*, and potentially more serious, is the *increase of these costs over time*, particularly relative to the increases of other costs in the economy. 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,” first articulated by Baumol and Bowen (1966):

the rising relative cost tendency in the labor-intensive, largely productivity-immune sectors of the economy such as health care, education, most services, and the arts (see also Bowen, 1968; for a more recent recapitulation, see Johnstone, 2001).

In the case of publicly supported higher education, the effect of these high and naturally rising per-student costs is greatly magnified by pressures to expand enrollment. Greater percentages of the populations of most countries — especially but not exclusively of the traditional higher educational age cohort of recent secondary school graduates — are demanding more and more higher education. Thus, the demand for higher education is rising rapidly especially in countries characterized by rapid population growth *and* low current levels of participation — conditions describing much of the developing, or less industrialized, world.

Together, these factors (high and rapidly increasing unit costs and rapidly rising enrollments) 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 otherwise 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 the public budget. The question at this point in the development of my paper is *whether these substantially increasing public revenues for higher education are likely to be forthcoming*. And my answer is “no,” for reasons I describe below.

Limitations in Public Revenue for the Support of Higher Education

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 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 taking its toll on government’s ability to tax, especially in the less industrialized world. Taxes on corporations (other

than on extractive or agribusiness corporations) are problematic because of this increasing 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. And what used to be the easy way to “tax” — printing money, eroding the purchasing power of the citizenry via the resulting inflation, and shifting that purchasing power to the government — is increasingly difficult as countries are ever more dependent on imports, which in turn require stable currencies. World lending and trade organizations are increasingly imposing restrictions against inflationary deficit financing as conditions for lending and for currency stabilization.

Finally, the former centrally planned socialist economies are no longer able to 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 is that most less industrialized and most 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 a function of three interrelated factors. The first might be termed the substantive case: higher education is competing with such formidable public needs as elementary and secondary education, public health (including measures to stem AIDS and other pandemic diseases of the less developed world), public infrastructure, housing, and care for impoverished elderly, children, and other dispossessed persons. As shown in Table 1, higher education already receives a large share of the government’s budget in many countries — especially in the lowest-income countries, and especially when measured in per-student public expenditure relative to per-pupil expenditure on elementary and secondary education. The traditional position of the World Bank, as articulated in its 1994 publication *Higher Education: The Lessons of Experience*, was that “... the extent of government involvement in higher education has far exceeded what is economically efficient” (The World Bank, 1994, p. 9). Although in 2001 the World Bank seems less unfavorably inclined toward public investment in higher education than in the past, such investments still do not occupy a high priority relative to other social needs in the schemes of most development economists or international agencies.

A second factor limiting higher education’s position in the queue of claimants is the relatively lower political

Table 1 Higher Education Enrollment, Attainment, and Public Higher Education Expenditure Data for Low- and Middle-income and High-income Countries

	Total tertiary enrollments	Tertiary attainment rates (% population over 25)	Per capita gross domestic product (\$)	Tertiary expenditures as % of per capita GNP	
Low- and middle-income countries	Sub Saharan Africa	1,750,684	933	422	
	East Asia and Pacific	11,884,521	2,253	76	
	South Asia	7,161,837	1,495	74	
	Middle East and North Africa	3,787,225	3,228	82	
	Europe and Central Asia*	11,547,310	3,864	36	
	Latin America and Caribbean	7,923,878	4,358	43	
	Total low and middle income	44,155,455	2,208	91	
	Total high income countries	36,304,258	26	15,358	26

* Excludes *high income* Europe.

Source: Task Force on Higher Education and Society (2000), figures from Tables B, C, D, and E, pp. 103–131.

power of higher education — compared to neighborhood schools, public infrastructure, or other politically compelling public projects. The classical research university is still an elite institution, frequently perceived as unconnected to the needs either of the government or of the community — and ironically the more so in many developing countries.

A third limiting factor is 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 will experience a creeping austerity occasioned by a natural underlying higher educational cost trajectory, driven by rising unit cost pressures and magnified, especially in the less industrialized countries, by enrollment increases, tending consistently to outrun higher education's likely increase in public revenues. The World Bank's 1994 paper cited above asserted that "... the sector is in crisis throughout the world," and cited especially what it called

a “dramatic compression of per-student expenditures” in Sub-Saharan Africa (The World Bank, 1994, pp. 2–3).

Consequences of Higher Educational Austerity

Austerity, defined for our purpose simply as the erosion of per-student public revenue to institutions of higher education, is a relative concept. The adequacy or inadequacy of public funding for higher education depends on the degree of enrollment growth (or perhaps more accurately on the degree of *potential* enrollment growth) and on the aspirations of the state for a particular level of both enrollment accommodation and worldwide scholarly competitiveness. Austerity or adequacy also depends on the level of revenue support in the last funding allocation. The necessary expenditures in higher education are mainly *recurrent* — that is, must continue over time. Generous support in one year, particularly of recurrent 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 OECD (Organisation for Economic Co-operation and Development) countries can experience genuine austerity in their higher education establishments even at levels of very large 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?” A university with a poorly paid staff and without computers or laboratory equipment can

properly be said to be experiencing austerity. But a university with a well-paid staff, a large stock of computers, and well-equipped laboratories, but one that can no longer meet its payroll, maintain its computers, or purchase the necessary laboratory consumables — to the point of having to terminate otherwise productive faculty and staff and to watch plant and equipment deteriorate for want of maintenance — can also feel acute austerity in spite of what may seem (especially to faculty in a low-income country) to be a wonderfully generous budget.

Short of the trauma of actual staff retrenchment or plant deterioration, but perhaps more insidious for its subtlety, austerity becomes a drag on institutional capacity to change. Clark (1998), writing on the entrepreneurial European university, set his analytical stage with a portrayal of the university's *demand overload*, coupled with chronic underfunding from government, and an increasingly rigid, territorial, and inward-looking institution. He writes:

[G]overnments indicate they can pay only a decreasing share of present and future costs. “Underfunding” becomes a constant. Traditional university infrastructure becomes even more of a constraint on the possibilities of response Elaborated collegial authority leads to sluggish decision-making The senate becomes more of a bottleneck than the administration ... [F]aculties, schools, and departments ... tend to become separate entities with individual privileges Resources go to maintenance rather than to the inducement and support of change. As demands race on,

and response capability lags, institutional insufficiency results. A deprivation of capability develops to the point where timely and continuous reform becomes exceedingly difficult. (pp. 131–132)

In keeping with this relative and dynamic nature of higher educational austerity, its consequences can be felt either by the *producer* (the university), or the *consumer*, or *client* (the student), and to some degree the parents — or most likely both. When impacting the university (or other tertiary-level institution), austerity may be manifested, for example, by:

- loss of institutional capacity to respond and to change (as described above by Clark, 1998);
- 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);
- inability to purchase, replace, or update equipment, including computers, laboratory equipment, and library materials; and
- 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, and may be:

- to move to part-time student status and seek part- or full-time employment (if this is even possible, which it often is not, especially in African universities);
- 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 to afford a private alternative.

The multinational Task Force on Higher Education and Society, convened by UNESCO and the World Bank to consider the condition of higher education in developing countries, reported in 2000:

As a result, higher education systems in developing countries are under great strain. They are chronically underfunded, but face escalating demand — approximately half of today's higher education students live in the developing world. Faculty are often underqualified, lack motivation, and are poorly rewarded. Developed countries, meanwhile, are constantly raising the stakes. Quite simply, many developing countries will need to work much harder just to maintain their position, let alone catch up. There are notable exceptions, but currently across most of the

developing world, the potential of higher education to promote development is being realized marginally. (Task Force on Higher Education and Society, 2000, p. 10)

Revenue Diversification

The classic recommendation to the creeping (or in some countries, galloping!) austerity is to combine measures of greater efficiency (e.g., enhancing scale, closing inefficiently small units, increasing both student/faculty and student/staff ratios, and the like) with *revenue diversification*. Revenue diversification follows the *cost-sharing perspective*, 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 (Johnstone, 1986; Johnstone & Shroff-Mehta, 2000).

As governmental, or taxpayer, revenues become increasingly scarce, for all of the reasons outlined above, it is imperative for higher education to lessen its dependence on public revenue, and to enhance revenue from the non-governmental sources: parents, students, donors, and faculty entrepreneurs. Clark (1998) terms these revenue sources *third stream* — as opposed to governmental formula- and performance-based sources (*streams 1 and 2*) — and writes: “The worldwide trend . . . shows income shifting from nearly total dependence on the first stream to greater reliance on an array of sources, particularly those here lumped together as a third stream. And the trend is accelerated by entrepreneurship” (p. 25).

This strictly fiscal rationale is quite apart from any case that can be made for revenue diversification on the grounds of a neo-liberal economic presumption of greater *equity*, or simple fairness; that is, 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 imperative is also apart from the case that can be made for cost sharing on the presumption of a greater institutional *efficiency* and *responsiveness* when universities are forced to compete for the enrollments of students and parents (who are also being asked to bear a

part of the costs). In short, while the author is persuaded of the validity of these classic theoretical rationales for revenue diversification, they are ideologically contested, and *the imperative for revenue diversification can rest quite well simply on the imperative of austerity.*

Non-governmental revenue from parents and students will take the form either of tuition fees or of “user charges” (mainly more nearly full-cost recovery on governmentally or institutionally provided room and board and certain other amenities). Enhancing revenue from parents and/or students, then, 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 as most recently announced (in November 2000) in Austria.
2. *A very sharp rise in this tuition (where public sector tuition has already existed).* A shift in cost sharing would imply 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 United States, where many state governments have failed to maintain their former “shares” of public university expenses (recall that public higher education

in the United States is the responsibility of the states, not of the federal government) and as public university tuitions have been increased very rapidly to “fill in” the gaps left by the withdrawal of state government funding.

3. *Tilting admissions and enrollments toward students who can pay.* The “tilt,” then, is away from those who need institutionally funded grants or tuition discounts. In the United States, 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 on those students who require the least amount of tuition discounting.
4. *Maximizing the enrollments of fee-paying students.* Similar to point 3 above, 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 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 upwards of 25% 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; Koriakina, 2001)!

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 taxpayers 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 taxpayers 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 United States over most of the decades or the 1980s and 1990s. 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.

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” (point 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

All of these forms of revenue diversification 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. So 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 successful academic secondary school graduates, is to surmount the inevitably fierce ideological and political challenge. These are made especially difficult in those countries where students — who may, at least in the short run, have the most to lose in the adoption of a cost-sharing program — are especially politically active and influential.

However, there are also very challenging limitations to revenue diversification that are more technical: that is, independent of ideology or particular political viewpoint. As cost sharing requires increasing contributions from either, or both, parents and students, let us examine two particularly thorny problems in reference to the shifting of higher educational costs toward each of these two parties.

Limitations on the Determination and Verification of Parental Income

The first problem in the assumption of parental financial responsibility for some of the costs of their children's higher education is the determination of that income (or income and assets together, or some other measure of parents' ability to contribute) at which this financial responsibility ought to begin, and rate at which the amount of this expected contribution should increase with increasing measured ability to contribute. This

would presumably be that same level of “means” *below* which the parents would *not* be expected to contribute, thus making the child eligible for *means-tested*, or *need-based* financial assistance. But “financial ability to contribute” is complex (as indicated by the complexity of tax codes in countries making extensive use of income taxes). Income and assets are relatively easy to disguise, and in many countries and cultures, are believed to be very private — and certainly not the business of the government! Only in the United States 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 occupation (especially if it is a governmental job), type of housing, and other indicators of relative affluence or poverty.

The Challenge of Parental Dependence

The second problem (also essentially technical) in connection with the shift of higher educational costs to parents is the duration of this presumed obligation and the 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, single motherhood, separation, and other increasingly common variations on the conventional model of the “intact nuclear family”? 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 limitations reinforce the politically and culturally situated nature of such policies, reminding us

that what works in the United States 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 from the attempt to obtain parental revenue, both in its theoretical rationale and in its implementation. A student share requires either or both of the following:

- *real part-time employment opportunities* — that is, employment that does not require government subsidization and also does not interfere unduly with academic progress;
- *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 advanced.

The problem with 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, which was to lessen dependency on governmental, or taxpayer-generated, revenue).

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. 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. A number of countries, probably intrigued by the example of Australia's Higher Education Contribution Scheme (HECS), are exploring ways of tapping the government's machinery of tax withholding or pension contributions at the level of the employer in order to collect student loans repayments. However, this course requires an efficient, highly inclusive, and politically accepted system of income taxation and pension withholding, which are characteristics found in very few countries, and probably in none of the less industrialized countries.

For student loan programs to genuinely supplement scarce governmental revenue, there must be reasonable employment opportunities for most of the graduates, a culture of debt repayment compliance, an efficient system for collections (beginning with a way to track borrowers after their graduation and during the repayment stage), and, the most difficult of all, some kind of repayment guarantees sufficient to tap private sources of capital and still include most eligible student borrowers. For

all the fascination with student loans (and I have been writing about them, in both a U.S. and an international context for thirty years), and for all the theoretical sense that student loans make to the cost-sharing paradigm, and for all the experiments in countries like China, Indonesia, Russia, Kenya, Ghana, and many others, these problems have not yet been solved sufficiently to make student lending a major part of successful cost sharing in the less industrialized countries.

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 (p. 142). 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, 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, together with the pervasive absence of clear yet sensitive rules for what are and are not appropriate faculty activities away from the classroom, and given the very low levels of faculty remuneration in so many countries, it is not surprising to hear of abuses. What is needed are 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 kind of limitation is the potential for entrepreneurial attractions to be in 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*, the humanities and the sciences, the basic and the applied, and the deeply intellectual and the superficially accessible. 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. Like so much of academic life (perhaps of life generally!), the appropriate policy calls for judgment and balance. But it is well to keep in the public mind these limitations and potential “downsides” of entrepreneurship lest government comes to believe that all of the academy can live as the “marketable few.”

Limitations on Donations

To most institutions in most parts of the world, *donations* — from alumni, corporations, foundations, or “friends”¹ — represents 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 counterpart 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 board 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 5% 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.

To raise significant amounts of revenue from private donations requires four things:

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;

3. well-maintained records on the names and addresses (and if possible, the “giving potential”) of alumni, 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 between institutional survival and real excellence. It can enable change. And it needs to be vigorously pursued. But absent from 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 theoretically 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 while their parents did not. 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.

1. “Friends” is U.S. institutional development parlance for the donor who is *not* an alumnus, but who contributes generously because of an interest in, or fondness for, the institution and who has been carefully cultivated by the leaders of the institution — perhaps by an honorary degree, or by being placed on the governing board.

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