

# Financial Austerity, Cost-Sharing, and Culture: Perspectives on Comparative Higher Education

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I don't recall when I first began considering myself a higher educational comparativist. Insofar as I have any entitlement to that scholarly appellation, it came much later and considerably less deservedly than to our eminent colleague, Guy Neave, in whose honor these essays have been written and collected. But like Guy, my interest began with the idea of higher education and its scholarly study. Later came the realization that other countries were at once so alike and so different in their institutions of, and policies toward, higher education and that, for one interested in policy, comparative higher education was a veritable stew of history, culture, and competing ideologies. Finally, as a special reward, I began to realize that my understanding of my own situation (I was then, in the mid 1980s, the president of an American public comprehensive college) could be profoundly enriched by these international comparative perspectives.

Because my first degree was in economics and my first serious scholarship a book on student finance and student loans, and because (for reasons unimportant to this essay) I found myself inhabiting the vice presidency of an eminent US private university at the relatively young age of 36, followed two years later by the presidency of a large public college in considerable financial stress, I have always viewed the overwhelming challenge to higher education—from the standpoints of institutional viability, student accessibility, and social policy—to be essentially *financial*. Whether in the so-called transitional countries emerging from the former Soviet Union and Eastern and Central Europe, or in the impoverished nations throughout Africa, most of Asia, and much of Latin America, or even in affluent Western Europe, I could observe university leaders and government officials grappling—just as I was—with trajectories of costs that seemed always to be rising faster than their trajectories of available revenue. Looking at institutions and policies through an international comparative lens, I saw the overwhelming worldwide challenge of financial austerity. At stake to the institutions of higher education was financial viability and quality. And at stake to nations and to the governments that are charged with their well being were the even more profound challenges of capacity, and equity.

Underlying this austerity were three forces. The first was the underlying trajectory of unit, or per-student, instructional costs, pressed ever upwards by the need for new programs, new academic specialties, the soaring costs of periodicals and scientific equipment, and a voracious technology that—quite unlike the application of technology in the goods-producing sectors of the economy—tended only to increase unit costs

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(albeit presumably quality as well) rather than to decrease them. The culprits are not incompetent leaders or wasteful faculty (although there are examples of both throughout the world), but rather the very nature of higher education's underlying, labor-intensive, productivity-resistant production function. Simply put, there are not within most universities the kinds of continuous productivity enhancements typically associated with the goods-producing sectors of the industrialized economies, which substitute capital for labor, enhance their productivity, and make possible the real growth of the underlying economies. Higher education, on the other hand, faces a *default* per-student cost trajectory that generally exceeds whatever is the prevailing rate of inflation.

Accelerating and worsening the financial consequences of this rising instructional cost trajectory are the rapidly increasing worldwide enrollment pressures. Massification is fueled first by rising birth rates (at least in most countries outside of Western Europe, Russia, and Japan), which are then accelerated by rising proportions of these increasing population cohorts being prepared for, and expecting, higher education. Both of these massifying forces, of course, are considerably more relentless in the less developed world, where birth rates continue to be high and where the participation rates at the secondary level, however low in absolute terms, are very often increasing rapidly, propelling more and more young people out of the schools expecting accommodation in the already overstrained universities.

Arrayed against these forces of expansion—and thus of the sharply and continuously increasing revenue requirements—is declining ability in almost all countries to keep up with this trajectory of needs through public revenues. This shortage of public revenue goes considerably beyond a mere unwillingness to tax. For most countries, taxation is as difficult technically as it is unpopular politically (and especially taxation that is at all progressive and also not detrimental to the economy). Globalization and the nearly unlimited mobility of capital and productive facilities leads multi-national goods producers to seek a combination of political stability, low wages, and *low taxes*—limiting the ability of countries to maintain high taxes, and thus limiting the size of their public sectors, including publicly financed higher education. The formerly Communist, or *transitional*, countries, long dependent on relatively easy value-added taxes on state-owned producers, have had to devise new means of taxation, none of which have been particularly successful. The dependence of the low-income countries on donations from wealthier nations or credits from the international lending agencies has limited the use of deficit financing (that is, the printing of currency) as an alternative to taxes.

Finally, this shortage of public revenue also goes beyond the not inconsiderable waste from the corruption and misplaced priorities so prevalent in many poor countries. To the extent that most low- and even middle-income countries were able to tax more and to increase these taxes every year, other even more compelling public needs—elementary and secondary education, a social safety net, public health (including the pandemic AIDS), public infrastructure, and the restoration of the environment, to name just a few—would seriously compete with higher education for these precious limited revenues.

Throughout the world, one of the major policy responses to these diverging trajectories of rapidly and continuously increasing revenue needs and diminishing public revenue availability is *cost-sharing*. Cost-sharing is a term that I seem to have coined in my first international comparative scholarship in the mid 1980s (Johnstone 1986) and to

which I have added much of the descriptive and theoretical literature in the eight years of my *International Comparative Higher Educational Finance and Accessibility Project* (Johnstone 2006).<sup>1</sup> Cost-sharing is both a statement of fact—that is, that the costs of higher education are *shared* among governments (or taxpayers), parents, students, and philanthropists—and also a reference to the policy shift of some of these costs from a predominate (sometimes a virtually exclusive) reliance on governments and taxpayers to being shared among parents and/or students in addition to taxpayers. In this latter policy meaning, cost-sharing can be seen throughout the world in the introduction of tuition fees where they did not previously exist, the sharp increases of tuition fees where they have long been accepted in principle, the rise in other fees to recover what may previously been governmentally subsidized (e.g. food and lodging), the reduction, or at least the freezing, of what may once have been generous student maintenance grants, the more effective cost recovery on student loans, and a policy shift of some of the higher educational demand to tuition-dependent private institutions (Johnstone 2003, 2004b, 2006).

Cost sharing may add significant revenue to colleges and universities, and/or add capacity to a country's higher educational system, and/or bring some relief to the taxpayer, and/or allow some shift of public revenue to competing public priorities. Partly because of these indeterminate consequences, and also from combinations of ideology and self interest, cost-sharing also brings opposition from students, parents, and others who may continue to think of higher education as an entitlement, or who may resent not so much the fact of having to pay more for their or their children's higher education but rather resent the fact (or the perception) of getting nothing more in the way of higher educational quality or accessibility for the additional expense.

Most economists maintain that some element of cost-sharing—assuming some means-tested grants and/or generally available student loans to maintain accessibility—is actually more equitable than free higher education in that students everywhere are at least disproportionately from the middle and upper-middle classes, while the taxation required to support free higher education tends to be proportional or even regressive (thus falling disproportionately on those who benefit least). However, just as powerful a case for cost-sharing—and a far less ideologically contestable case—can be based the two aforementioned challenges. The first is the difficulty of substantially increasing taxes in most countries (and especially of maintaining some progressivity in these additional taxes). Second is the very long and compelling queue in virtually all countries of pressing public needs competing with higher education for any limited additional tax revenues even if governments should be willing and able to raise taxes significantly.

In short, the theoretical case for at least some degree of cost-sharing is easily made. However, as Guy Neave, with his extraordinary appreciation of the juxtaposition of history, culture, politics, and ideology, knows well, what makes perfect sense to an American scholar of higher educational finance is not necessarily so clear to others. For the remainder of this essay, I wish to discuss three essentially cultural complications to

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<sup>1</sup> See the website of the International Comparative Higher Education Finance and Accessibility Project: <http://www.gse.buffalo.edu/org/IntHigherEdFinance/>

what I, as a liberal, American, higher educational manager, scholar, and policy analyst had once thought to be the *easy and uncomplicated* case on behalf of cost sharing.

### **Parents or students?**

The first of these is the question of to whom costs are to be shifted: that is to parents, to students, or to both? The economic rationale behind the case for *students* bearing a portion of the costs of their higher education is that there are substantial private benefits, both monetary and non-monetary, that accrue to the student from higher levels of education and that these benefits therefore justify a tuition fee—especially one that can be deferred and repaid through a loan or through some form of surtax upon future earnings. This case is generally accepted, at least in theory, by most analysts and even most politicians (other than those convinced that higher education can continue forever to be an entitlement provided free of all charges).

However, the case for *parents* bearing a share of the costs of their children's higher education (entailing an *up front* tuition) is based on two quite different rationales. The first is that parents, too, benefit from the higher education of their children—as demonstrated by the fact that so many parents throughout the world take great pride and pleasure in the higher education of their children and willingly buy them the best they can afford. The second is the cultural notion that parents (at least those who are financially able) have a financial obligation to pay something for those students who can plausibly be thought of as *financially dependent children*. Thus, an officially expected parental contribution is the veritable bedrock of cost-sharing in the United States Canada, Japan, China, and increasing numbers of other countries (and a legally enforceable expectation, at least for the costs of student living) in Germany (Marcucci and Johnstone 2007).

But a parental contribution is not at all the expectation in the Nordic countries and is mainly voluntary in Australia and New Zealand. And it was opposition in Britain less to the principle of a tuition fee and more to the expectation that such fees should be paid up front by parents that lead to the virtual abandonment of up-front, parentally-borne tuition fees and their replacement by deferred, student-borne fees in the constituent countries of the once United Kingdom, which for a short while (from 1997 though until Scottish devolution in 1999) had been the only European country with a more than nominal tuition fee. It is true that much of the opposition to tuition fees in the UK was from the left of Labour, which had simply never accepted the end of free higher education. But equally or more damaging to Britain's short-lived, up-front tuition fee—even though it was means tested and not imposed on the poor—was this cultural opposition to thinking of university students as dependent children (Johnstone 2005, Johnstone 2004a).

### ***Whose money: the government's or the taxpayer's?***

Public policy analysis in market economies contains three assumptions. First is that markets are valid signals of worth (assuming complete information and free competition). A second is that governments can only spend what they have taken from citizens, whether directly (e.g. taxes on income, sales, or property), indirectly (e.g. taxes on businesses or transactions), or through the confiscation not of money itself, but of its purchasing power through the inflationary printing and commensurate devaluation of the currency. A third assumption follows upon the second: that all governmental spending is

(or should be) transparent and has opportunity costs in the form[s] of alternative benefits foregone. Thus, the opportunity cost of additional governmental spending on higher education is the forgoing of the additional benefit that might have come from the devotion of these additional resources instead to, e.g. health care, infrastructure, basic education, defense, transfer payments, pensions, or any other alternative public good or service.

This assumption was at least theoretically true as well in Marxist countries in which virtually all means of production were owned by the state. Taxes were in fact paid by these state-owned enterprises—in very large sums and allowing huge governmental expenditures for the ubiquitous public sectors. However, few citizens (e.g. of the former Soviet Union) felt *taxed* as such, even though they might have wondered why there seemed to be so little remaining in the enterprise after the value added, or turnover, taxes were paid, for the enterprises to pay them a more decent wage. Citizens in state-owned, state-controlled economies, therefore, were more inclined to believe that their typically very large public sectors—embracing, for example, all of higher education, including the canteens and student lodgings—were free because the government has chosen to spend *the government's* money that way, not because the government chose to tax the people and spend *their* money in that fashion.

But the notion that “*it's the government's money*” can stem from more than legacies of Marxism. Countries combining small populations with huge extractive industries such as oil or other minerals (or even tourism or state protected bank accounts) can, at least while the export earnings flow, get by with taxing mainly these industries and whatever multinational corporations and individuals are implicated in their extraction without the need for many or even any taxes, direct or indirect, borne by the average citizen. Even many third world countries without such abundant natural resources may get most of the public revenues from taxing a wealthy minority, their civil servants, and the handful of multinational operating with the borders and not have to worry about taxing the average citizen. And it is these average citizens, therefore, who understandably believe—contrary to my own liberal, free-market perceptions—that that the government has all of the money and ought properly to fund higher education (as it presumably used to do) without recourse to something as radical as the imposition of tuition fees.

### ***What is equitable participation?***

A final cultural complication to the policy intersection of cost-sharing and equity lies in the different, largely culturally-determined, notions of what properly constitutes *equitable access*. To most American academics, and even to most American politicians other than those on the far right, equitable participation in higher education (or the lack thereof) is revealed by statistical correlations between higher educational access, access to more prestigious institutions and programs, college completion, and going on to advanced levels of graduate or advanced professional study and such attributes as gender, socioeconomic class, and ethnic or linguistic minority status. Reliance only on traditional screens to higher educational participation—that is, on conventional measurements of academic preparedness and interest—are not considered sufficient indicators of equity because both academic preparedness and interest in higher education are themselves

widely considered to be so culturally constructed. That is, achievement in high school and scores on school leaving or university entrance examinations are considered to be highly impacted by social class, peer group, the dominant childhood role models, the quality of the middle and secondary schools, and the language of the home and the neighborhood. Even such behaviors as interest in higher education, the ability to study with concentration, and the aspiration to achieve academically are believed (with considerable evidence) to be highly correlated with socio-economic status, race, and other socially- and politically-unacceptable correlates. Thus, the United States and Britain especially, but also other industrialized countries such as Australia and most of Continental Western Europe have generally accepted (although not without considerable political contention) the appropriateness of some degree of preferences and second chances to achieve more genuine equity in higher educational participation. Other countries with long histories of racial, ethnic, and linguistic divides—for example, India, Malaysia, Indonesia, Brazil, Mexico, China, and many others—also provide measures of preferences, frequently politically contested and of uncertain effectiveness.

However, I have observed many countries that seem far more accepting of a reliance on a conventional academic screen of *merit* in spite of what may be a continuing statistical association between higher educational participation and these supposedly unacceptable correlates of race, social class, and the like. However, to higher educational leaders and politicians in such countries, the presence of a handful of students from poor rural areas or from ethnic or linguistic minorities frequently seems to be sufficient proof that “they can make it”—all continuing statistical correlations aside.

My quite unofficial and admittedly limited observation is that formerly Marxist countries seem especially accepting of what I term *exceptional*—as opposed to *statistical*—evidence to demonstrate the equitability of their higher educational participation. This may in part be a legacy of Marxism, which needed officially to deny any persisting social inequities and which thus needed therefore to rationalize whatever social class, regional, or ethnic differences as might be observed as a consequence of such more politically acceptable criteria, such as insufficiency of intellect or of interest. And it is probably true that the very most pernicious social and economic correlates of a failure to complete school or to attend or complete college—correlates such as failing urban schools, cultures of drugs and violence, being children of single teen-age mothers, or being victims of racial discrimination—are tragically American (or British, or even French) and far less prevalent in most other societies, however poor or isolated, or otherwise marginalized.

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I still believe higher educational cost-sharing—with appropriate policies for expanding participation and equity—to be an imperative for most countries in spite of the inevitable political opposition and in spite of the complexities of introducing financially viable means-tested grant and student loan programs. But culture matters, and I am still learning how and to what consequence.

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