

FINANCING EDUCATION: ECONOMIC, POLITICAL AND CULTURAL IMPLICATIONS

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Abstract: The purpose of the article is to emphasize how different types and methods of financing education (i.e. public funds or private funds; direct subsidies for schools and universities or governmental school vouchers) impact schools, communities, teaching methods and quality of education, freedom of parents and students to choose the type of education they receive etc. The paper will summarize the main theoretical arguments and positions regarding the problem of financing formal education, outlining the economic, political and cultural impact of subsidizing education.

Keywords: education, public schools, subsidies, vouchers, full tuition, compulsory attendance laws

There is a close connection between the actual state of schools, the prevailing philosophy of education and the ideas of how formal education should be organized and ultimately financed. Current systems of education are planned by national governmental agencies and guided by international or supranational organizations and institutions. For instance, the benchmarks set by European Commission in Education and Training 2020 Strategy (ET 2020)¹ are based on governmental planning, compulsory attendance laws and subsidies (EC 2009). ET 2020's objectives are focused mostly on school enrollment: at least 95% of children between the age of four and the age for starting compulsory primary education should participate in early childhood education; the share of 15-years olds with insufficient abilities in reading, mathematics and science should be less than 15%; the rate of early leavers from education and training should be less than 10%; the share of 30-34 year olds with tertiary educational attainment should be at least 40%; an average of at least 15 % of adults (age group 25-64) should participate in lifelong learning.

¹ Council conclusions of 12 May 2009 on a strategic framework for European cooperation in education and training ('ET 2020'), *Official Journal of European Union*, (2009/C 119/02)

Taking a look on the following statistics: (a) the percentage of participation in early childhood education of children between 4 years and the starting age of compulsory education; (b) the percentage of all 18-year-olds who are still in any kind of school and (c) the participation in tertiary education, one could easily draw the conclusion that most of today's man and woman are generally schooled or highly schooled. At the European level the percentage of all 18-year-olds who are still in any kind of school varied between 70% and 80% in the last 10 years.

However, there is an important difference between "schooling" and "education". The briefest way to explain this distinction is by pointing out that many schooled people may be uneducated, and many highly educated people may be unschooled. On the basis of this distinction many critics of current school systems emphasized, with good reasons that the focus on school enrollment and early specialization misses the essential points. This criticism is not at all recent. Albert Jay Nock expressed this concern and disappointment with the American school system eight decades ago, pointing out that most of the American schools offer instruction and training, not education:

"A candidate is certificated — is he not? — merely as having been exposed satisfactorily to a certain kind of instruction for a certain length of time, and therefore he is assumed eligible to a position which we all agree that only an educated person should fill. Yet he may not be at all an educated person, but only an instructed person. We have seen many such, and five minutes' talk with one of them is quite enough to show that the understanding of instruction as synonymous with education is erroneous. They are by no means the same thing." (Nock 2007, pg. 6-7)

The problem raised by A. Nock many years ago not only persisted, but in the meanwhile became more critical than ever. One of the main shortcomings of the bureaucratic and quantitative approaches to education ("school as many people as possible as much time as possible") remains the quality of educational act and even more importantly the purpose of education. Could public schools ensure that kind of education that forms minds and characters capable of independent critical analysis and judgment? Could public schools ensure that kind of education that make people assume and follow the truths they discover and learn? Focusing mainly on school enrollment, vocational education, forced training and also banishing liberal arts education from schools' curricula goes rather in the opposite direction.

Most of the core features of current educational systems are taken for granted, uncritically and backed mainly by political activism than credited by experience, tradition or even theoretical studies, and critical analysis. In this context, the analysis of forms and methods of financing education is important

because it raise a crucial question: who should be responsible for education in society (governments, international or supranational agencies and institutions, families, local authorities etc.)? Basically, there is a close connection between who pays for education and who really have the control of education in a society in terms of philosophy, methods, standards of education and curricula.

Economic and Social Implications of Subsidies in Education

The economic and social implications of different forms and methods of financing formal education represents a classical topic for applied economics analyses which, generally, emphasizes the effects of different types of allocation of scarce resources between competing ends and claimants. The fundamental questions that need to be addressed in such analysis were concisely formulated several decades ago by Armen Alchian (1969) in his article, “The Economic and Social Impact of Free tuition”: (1) who should bear the costs of education and, (2) if somebody else than the students should pay for their education, in what form the financial aid should be given?

Armen Alchian (1969) realized a detailed analysis regarding economic implications of subsidies in college education and of the methods by which these subsidies are provided. There are basically two methods of providing subsidies: by offering students aid in the form of zero tuition or in the form of grants-in-aid or scholarship. Zero tuition means that government finances directly colleges’ activities, students and their parents having less influence and control on education in this situation. Alchian pointed out that often administrators and members of state universities and colleges which are financed directly by government favor zero tuition out of self-interest and not because they genuinely think that this is the best form of financing education.

If the students or their parents pay full tuition for their education they have greater role in choosing the type and quality of education. If the students receive financial aids in the form of scholarship or grants-in-aid, they still have greater influence and control of their education than in the case of zero tuition. However if grants and scholarships are conditioned in some respects, the students and their parents do not have full control of education; they must comply with the rules and conditions established by those who ultimately provides the funds.

Armen Alchian critically analyzed three basic arguments usually brought forward in favor of subsidies in education: (1) subsidies are useful for the poor students; they provide educational opportunities to the poor; (2) cultural education need to be subsidized because it is not profitable on the market but

nonetheless it is desirable; (3) students and parents requires less educational services than necessary because they ignore the social benefits of education, therefore subsidies are necessary.

First argument is rejected by Alchian in a two-step analysis. Foremost, he rejected the idea that college students are in fact poor: even if their current earnings are very low or they do not earn something, the present wealth value of their future earnings may be greater than those of the average persons. There are two kind of wealth, according to Alchian: inanimate wealth of capital goods and human wealth. Therefore Alchian concludes:

“College calibre students with low current earnings are not poor. Subsidized higher education, whether by zero tuition, scholarships, or zero interest loans, grants the college student a second windfall—a subsidy to exploit his initial windfall inheritance of talent. This is equivalent to subsidizing drilling costs for owners of oil-bearing lands in Texas.” (Alchian 1968)

Once A. Alchian defended the idea that young caliber student are not in fact poor, the second step of the analysis followed easily: offering students educational opportunities is not incompatible with requesting them to repay later (out of their enhanced income) the funds received. Excepting the cases of donations provided by private foundation or charitable organizations not asking for repayment means to endorse redistribution: “to grant students a gift of wealth at the expense of those who do not attend college or who attended tuition colleges and paid for themselves.” (Alchian 1968) However, the idea of offering students educational opportunities does not need to entail the redistribution or transfer of wealth.

The other two arguments taken into consideration by A. Alchian refer to subsidies for the cultural education or for more education in general. Both situations involve the tacit acceptance of wealth redistribution (as any other case of subsidization). Even if redistribution of wealth would be *per se* acceptable and justified in the case of education it does not produce any clear net social gain as expected by the advocates of educational subsidies. For example, if, due to subsidies, more engineers graduates and enter on the market, the prices of engineering services will decrease. Consequently the income of all engineers will be lower than would have been without subsidies. Indeed, in this case it is clear that there is no clear net gain for social output: only a transfer of wealth from more experienced engineers to those newly entered on the market and also a redistribution of wealth from all taxpayers who had to cut a part of their income and forgo some of their own needs toward all those benefitting from lower prices of engineering services. Moreover, even if there are cases of identifiable net social

gain based on subsidization of education, there is no prove of further available *incremental* net social gain from *further* education in any situation.

Education between Externalities, Paternalistic Concern for Children Education and the Bad Record of Public Schools

Milton Friedman sustained that governmental intervention into education can be justified on two grounds: positive externalities (or “neighborhood effects”) and paternalistic concern for children’s education. In the case of formal education, the argument of the positive externalities is that the education of a child accrues not only to the educated pupil and its family, but also to other members of society; on this ground it is sustained that government must impose a minimum required level of schooling for all children. This imposition comes along with laws requiring compulsory attendance to classes and taxation for ensuring the required level of formal instruction. The benefits of additional subsidized education (other people benefit from the schooling of those of greater ability and interest and a minimum level of literacy and knowledge on the part of most members of a society) are balanced against its costs. According to Friedman (2002), “most of us, however, would probably conclude that the gains are sufficiently important to justify some government subsidy”. However, Friedman admitted that on the ground of “neighborhood effects” argument, the subsidies for purely vocational training which bring benefits mostly to the students cannot be justified.

Instead of pointing any cons for Friedman’s argument it is worth noting that nearly two decades later Friedman himself changed his position – at least regarding the alleged benefits of compulsory attendance laws. On the basis of the researches he made in the history of schooling, M. Friedman admitted that schooling was nearly universal both in United States and United Kingdom before either compulsory attendance laws or government financing of public schools existed. Moreover, taking into consideration the bad record of public schools, Friedman concluded that compulsory attendance laws were not necessary to achieve the required standard of literacy and knowledge in a society (Friedman 2002, p. 88).

Thus, in the 6th chapter of the book *Free to Choose* (“What’s Wrong with Our Schools”), written together with his wife, Rose D. Friedman (as well as in the well-known television series made after this book) Friedman noted and debated the deplorable situation of schools managed by bureaucrats:

“Parents complain about the declining quality of the schooling their children receive. Many are even more disturbed about the dangers to their children's physical well-being. Teachers complain that the

atmosphere in which they are required to teach is often not conducive to learning. Increasing numbers of teachers are fearful about their physical safety, even in the classroom. Taxpayers complain about growing costs. Hardly anyone maintains that our schools are giving the children the tools they need to meet the problems of life.” (Friedman & Friedman 1980, p. 151)

Friedman admitted also that in the cases where parents were more involved in choosing and paying for the education of their children the situation of schools was much better than in those cases where schools were administered and controlled by government and its agencies.

“We believe that the growing role that government has played in financing and administering schooling has led not only to enormous waste of taxpayers' money but also to a far poorer educational system than would have developed had voluntary cooperation continued to play a larger role.” (Friedman & Friedman 1980, p. 187)

The Hidden Implications of Subsidies through Educational Vouchers

Although Friedman admitted that compulsory attendance laws are unjustified, coming to the conclusion that parents and not governments must be responsible or in charge for the education of their children (or students for their own education), he still endorsed educational subsidies by sustaining educational vouchers as a transitional tactic toward a private school system.

The main idea behind the educational systems based on vouchers is to subsidize individuals to buy education instead of subsidizing institutions (schools, universities) to offer educational services. Friedman really believed that it is possible to remove through a clever scheme the control of government over education while keeping subventions.

Gary North (1993) rightly criticized the pseudo-market scheme proposed by M. Friedman, pointing out that state-funded vouchers are part of a program of state licensing, involving legal barriers to entry against those who cannot meet the standards imposed by governments and also, most significantly, against those *who work in terms of rival standards*. Friedman's scheme of subsidizing education through vouchers does not settle the crux of problem: bureaucrats remain in control of the education while students and parents had only the power to choose between previously approved by government schools. In addition, Friedman's voucher plan did not relieve anyone of the burden of taxation for schooling. M. Friedman (1993) admitted that his proposed plan of educational vouchers does not relieve anybody of the burden of taxation, but claimed that in an educational system based on

vouchers students and parents would have wider choice regarding the type of education they receive for them or their children than in a system based on direct subsidies to public schools.

Nevertheless, contrary to M. Friedman claim, an educational system based on vouchers could be worse than a system with clear-cut private schools and public schools, given the impact it might have on the educational offer. Apart from the fact that students that pay for education using vouchers cannot buy educational services that do not comply with bureaucratic standards, private schools have additional incentives to comply with such standards. Vouchers programs create incentives for private schools to follow government requirements concerning education because only in this manner they could preserve profitability. Otherwise they'll be disadvantaged competing with other schools that comply. This will undoubtedly have an important impact on the type of educational offer in the community, in terms of ideology, objectives, content and methods of education. Therefore, it is more likely that in an educational system based on vouchers the conformity with government approved standards will be greater and educational offer more limited and less varied than otherwise. The bottom line is that usually those who pays for education ultimately control the educational offer. Choosing between different methods of financing education ultimately means to choose between letting the education under the control of governments or supranational institutions and giving to families and students the power to really choose the type of educational services they receive. Moreover, given the fact that an educational system based on vouchers leads to more bureaucratic control over the methods, content and ideals of education, it cannot work either as a transitional tactic toward a genuine private school system.

Education: Respect for Truth and Persons *versus* Social Engineering

According to some philosophers, formal education in its fundamental orientation should be a political instrument furthering a certain type of society. Usually the claim that formal education should be compulsory and financed from public funds came along with a social and political philosophy, proposing definite social, political or religious ideals and projects of reforming society and changing people accordingly. This was exactly the case of the first modern movement for compulsory state education, taking place in the Protestant States of Germany at the beginning of 16th century, in the context of Reformation (Rothbard 1999, pg. 20-21) (Gatto 2003). In the late 19th century and the beginning of 20th century a similar view regarding the instrumental role of education in changing society and furthering political ideals was expressed by progressivist philosophers of education, like

John Dewey. “Education is the fundamental method of social progress and reform” wrote Dewey (1897) in his article, *My Pedagogic Creed*.

In opposition with the progressivist view is the idea that the fundamental role of education is to perfect “inner” personality of man – i.e. making human beings more human, helping individuals to fulfill their true nature (Weaver 2000). This task could be accomplished neither trying to adjust the individuals to a favorite scheme of collectivized living, nor shaping their personalities according to an abstract ideal and focusing mainly on outward economic and social conditions:

“If man were merely an animal, his «education» would consist only of scientific feeding and proper exercise. If he were merely a tool or an instrument, it would consist of training him in certain response and behavior patterns. If he were a mere pawn of the political state, it would consist of indoctrinating him so completely that he could not see beyond what his masters wanted him to be. Strange as it may seem, adherents to each of these views can be found in the modern world. But our great tradition of liberal education, supported by our intuitive feeling about the nature of man, rejects them all as partial descriptions.” (Weaver 2000, p. 186)

Speaking from a traditionalist perspective, R. Weaver (2000, p. 194) emphasized the idea that no education can be considered civilizing and humane unless it respect persons and truth. Weaver’s main insight is that true individuality and true community are based on such respect for persons and truth. “Humanity implies spiritual community” not a “community in a sense of number of atoms”; “individualism in the true sense is a matter of the mind and the spirit” and “it means the development of the person not the well-adjusted automaton” to the social conditions (Weaver 2000, pg. 192, 195). Educating man’s inner personality and character, helping human beings to fulfill their true nature is the best way individuals as members of society can acquire power and means to influence community where they live in the most effective and altruistic manner.

In opposition, progressive philosophers rejected the idea of perfecting through education the “inner” personality of man, considering that this type of education lead to social division. They promoted instead the subordination of educational ideal to the political ideal. Nevertheless educational system must be independent enough to expose and explains truths and values regardless of the prevailing political ideologies. Such a perspective challenges deeply the architecture of the modern system of education where the purpose, the objectives, the methods and content of education are explicitly subordinated to the social ideals which in turn are derived from the prevailing political ideologies. To the extent that education became a statist affair there could be no assurance that the content of even

science courses will be kept free from social and political ideologies. In terms of practical influence on education the progressive philosophers rejected or undermined studies and disciplines that from a traditionalist perspective make the human being a more “aware, responsible and resourceful person” (Weaver 2000, p. 190). Mathematics, language, history and philosophy are more and more marginalized or presented in a diluted and unattractive manner in progressive contemporary approaches and curricula.

However, the independence of the educational system remains crucial if respect for truth and persons is to be preserved both in education and society. But education, its content, objectives, methods and ideals promoted cannot be independent if subsidies and laws of compulsory attendance laws are fully enforced in almost every contemporary country. Even private schools are not allowed to work with rival standards, if granting them operating license is conditioned by complying with government approved standards regarding methods, content and objectives of education. In this context, apart from private schools another insufficiently considered solution is homeschooling. Although homeschooling does not automatically means liberal arts education, homeschooled children had the opportunity to receive an education much more fitted for their type of personality. Families practicing homeschooling are usually much more implicated in the process of children’s education and are much more united and interested in educating pupils’ character, teaching them moral virtues. Moreover, families joining homeschooling associations are usually very interested in the quality of education and independent evaluations of homeschooled children showed that their academic performance surpassed the average performance of children that followed conventional schools (Klicka 2010, p. 124). Finally and most significantly, in countries where homeschooling is permitted it represents an opportunity for families and students to follow rival standards than those promoted in contemporary education and schools most of them deeply influenced by the progressive philosophy of education.

Conclusions

Different types and methods of financing education (i.e. public funds or private funds; direct subsidies for schools and universities or governmental school vouchers) have a decisive impact on schools, communities, teaching methods and quality of education, freedom of students and parents to choose the type of education they receive for them and their children. Basically, there is a close connection between who pays for education and who really have the control of education in a society in terms of philosophy, methods, standards of education and curricula.

Bad records of schools managed by bureaucrats prompted authors analyzing educational systems to search for methods of removing bureaucratic management of schools, while preserving at the same time subsidies. Educational vouchers programs have been proposed in this sense. Our research led us to the conclusion that it is more likely that educational system based on vouchers bring more bureaucratic control over the methods, content and ideals of education, leading to more conformity with government approved standards and disadvantaging schools working with rival standards.

Progressive philosophy of education prevails in contemporary educational systems: the objectives, the methods and the content of education are explicitly subordinated to the social ideals which in turn are derived from the prevailing political ideologies. To the extent that education remains a statist affair, the independence of educational system continue to be a crucial problem. If the values promoted through education are to transcend transitory political debates and ideals, if the respect for truth and person is to be preserved regardless prevailing political ideologies and purposes, if the role of education is to help humane beings to become more humane and to understand the true sense of community, educational system must be independent enough so that educators to be allowed to expose and explains sometimes unpopular truths. A step forward in the right direction from a practical point of view is to remove education from the hands of bureaucrats while raising public awareness (i.e. students, parents, families) of the true nature of contemporary educational systems and also of the prevailing philosophy of education.

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