

## **Public Expenditure on Higher Education. Case Study: Romanian Universities**

Anca Gabriela Ilie, Dan Dumitriu, Rodica Milena Zaharia, Oana Antonia Colibasanu\*

**Abstract:** *Romania's higher education system is at cross-roads. Important reforms have been initiated after the fall of communism, including some changing the financing system of universities. This paper focuses on the current characteristics of the financing system and looks to assess future trends as Romania has recently become a new EU member state. The research methodology has included an analysis of the main features of the higher education institutions in Romania, referring to the current legislation of and financial schemes that are being used, and has continued by a depth analysis of the status of two important Romanian universities: one, a state – owned university (Academy of Economic Studies), and the other, a private – owned university (Spiru Haret University). The authors have compared both quantitative and qualitative indicators referring to the two, assessing their position on the Romanian education market. The conclusions are setting a framework for the resource allocation priorities so that the quality indicators for the Romanian higher education may improve.*

**Field of research:** Economics, Privatisation

### **1. Introduction**

Education holds a central place in the development of mankind and of the modern contemporary society. Human capital is considered to be one of the most important assets of the society and higher education has a major contribution for human resources development.

In Romania, the Communist regime abolished all private education, wishing to provide free acces to all the education levels. After the Communist regime collapsed, the market economy principles started being applied to higher education system. Larger authonomy was given to the universities and private universities were allowed to function.

In recent years, Romania has reformed higher education as a consequence of competition pressure during the integration into the European Union. Students from

- 
- Anca Gabriela Ilie - The Bucharest University of Economics, Faculty of International Business and Economics, Bucharest, Romania, ancaionescu2003@yahoo.com
  - Dan Dumitriu - The Bucharest University of Economics, Faculty of International Business and Economics, Bucharest, Romania, cipriandumitriu@hotmail.com
  - Rodica Milena Zaharia - The Bucharest University of Economics, Faculty of International Business and Economics, Bucharest, Romania, milena\_zaharia@yahoo.com
  - Oana Antonia Colibasanu - The Bucharest University of Economics, Faculty of International Business and Economics, Bucharest, Romania, oana\_antonia\_colibasanu@yahoo.com

approximately 70 foreign countries attend Romanian universities, mostly in the fields of economics, arts and medicine.

State universities are doubled by a network of private universities. Considering these changes, this paper focuses on the effectiveness of higher education sector reforms in Romania. The paper underlines the main phases of the research. We have first considered and analyzed the main features of the Romanian higher education system, emphasizing the changes that have affected effectiveness – taking into account both qualitative and quantitative indicators. The second stage of the research refers to the financial system of the higher education institutions in Romania, considering the way the implemented reforms have shaped it. We have then further compared the two main important universities, representing the state and private sectors of the same higher education area, the education on social sciences and economics. Considering the results we have balanced the public and private expenditure on education and have built the conclusions by answering the question on whether it is or not necessary that the Romanian higher education be supported through public expenditure at this stage of development.

## **2. Literature Review**

The role of education in economic development has been recognised in mainstream economic literature. Education has both intrinsic and instrumental value: it is desirable not only for the individual but also for the society as a whole (Sen, 1999). Education as private good benefits directly those who receive it, which in turn affects the individual's future income stream. At the aggregate level, a better educated workforce is thought to increase the stock of 'human capital' in the economy and increase its productivity. (Pritchett, L., 2004)

The development literature has highlighted the role of education in reducing inequalities that prevail in many developing societies. Inequalities across generations can persist if the level of education is correlated with parental income and wealth (Banerjee and Newman, 2003). This characteristic has been used to justify public intervention in the provision and financing of education from the equity perspective.

At a policy level, the implication is that for long-run growth, it is necessary to increase the stock of human capital through investment in education (Banerjee and Duflo, 2004). For many ex-communist countries, the gains from education and its spillover effect into other sectors will mean that the social return is likely to be more than to private return (Banerjee and Duflo, 2004).

As Sen (1999) points out, education has both intrinsic and instrumental value. University and technical education can be seen as screening mechanism in the labour market, and public intervention is needed more in terms of ensuring equity when labour markets are imperfect (Krueger, A. and M. Lindahl, 2001).

The literature on the effectiveness of public expenditure on higher education shows that there is variable impact across regions, as well as within countries at a similar stage of development. (Banerjee, A., Newman, A. 1993) The efficiency literature points to institutional factors that affect the level and quality of public services (Psacharopoulos, G., Patrinos, H. A., 2002). Recent research highlights the positive role that decentralisation can play in ensuring accountability and to undertake proper monitoring, especially involving the community. Community based initiatives are also being explored as alternative mechanisms for financing education through effective Public-Private Partnership.

Recent higher education sector reforms in Romania aim to promote a public-private partnership to complement the existing national efforts to expand and improve educational facilities in our country. (Mihailescu, 1996, Dinca & Damian, 1997). Thus the national actions suggest a move towards an environment in which there is national infrastructural support for implementation of an agreed action based higher education (Romanian National Development Plan 2001 – 2013, 2007)

### **3. Methodology**

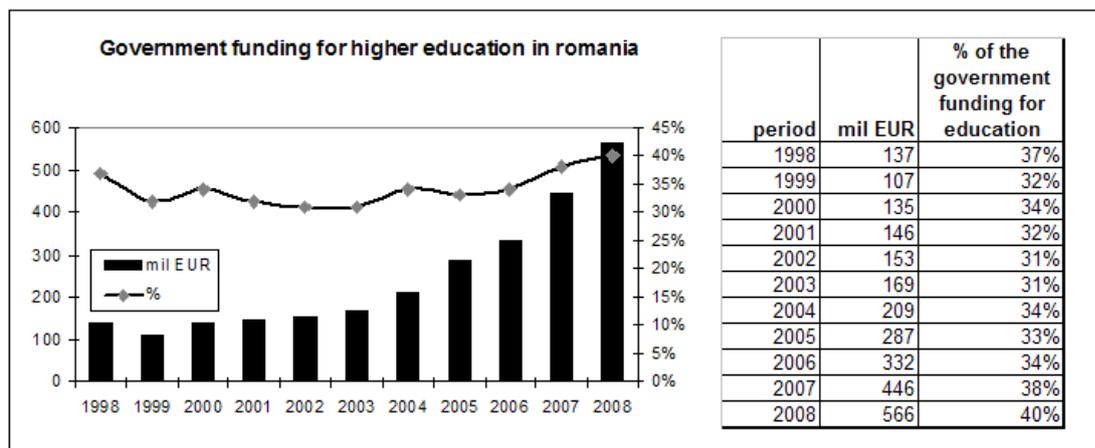
This paper uses descriptive methods in order to present the main characteristics of the financing process in higher education. A comparative study is offered in order to underline some common features of state and private higher education, as well as differences between these two systems. We have chosen to compare two representative universities: ASE, which is the most important economic university in Romania and Spiru Haret, a private university, the largest one in Romania. Statistical official data were used in order to highlight common features and differences.

### **4. Major findings**

Romania has made major steps towards the European Higher Education Area by reorganizing the entire higher education system. University autonomy is fully guaranteed by the provisions of Romania's Constitution, art.32 (Vlasceanu, 1997) and, according to education law no. 84/1995, private accredited higher education institutions are included in the national education system and are covered by the same regulations as public higher education. Private higher education represents an alternative and is complementary to public education. It is subject to an accreditation process. (Vlasceanu, 1997) These institutions are autonomous in content of organizing and functioning in accordance with the education system legislation. In private higher education tuition fees are established by each institution or unit according to the law.

The state higher education sector in Romania includes 56 public higher education institutions and other 53 private higher education institutions (27 accredited and 26 partial accredited). In the academic year 2007-2008, there were enrolled 816.000 students in higher education institutions (National Institute of Statistics, 2007), of which 650.000 at day education, 3000 - evening education, 80.000 - part-time education and 83.000 at distance education.

The investment in education is undoubtedly the Romania's most profitable long-term investment. In 2008, the Romanian education benefited from 26, 41 billion lei (6% of the GDP), with 24, 3% more than it benefited from in the 2007 when 21, 25 billion lei were allotted (5, 5% of the GDP). 2008 was the first year when education sector received 6 % of GDP. This was considered a proof of the fact that education is important in the Romanian long term government strategy. 40 % of these budgetary resources are funding the higher education institutions. (Ministry of Education, 2007)



Source: Romanian Ministry of Education, Authors Calculations

The growth in funding per student in higher education (HE) has been lower than that in schools and further education since the collapse of communism. However, total expenditure on HE has risen significantly over the time. There has been reached a 5% real-terms funding growth per student since 2000–01 to 2006–07 while the publicly funded full-time equivalent students number was increase by about 140.000 or 13%. (Romanian Statistical Yearbook, 2007)

However, financially speaking, Romania is placed way below the European average, with a sum allocated per student around 1 692, 29 EURO PPS (2007) versus the EU27 average of 6 451, 41 EURO PPS. (Romanian Statistical Yearbook, 2007)

A second important element of the financing system of Romanian Higher Education System is the **complementary financing** – which is meant to cover those complementary expenses determined by the educational process (such as: allocations for laboratory instrumentations, thorough repair, investment and research), social expenses for students (student grants, subventions allotted for housing and meals) as well as in the purpose of carrying out other objectives or university services (research, administrative services for students, etc). (Neagu, 2005)

In accordance with the European approach regarding the contiguity, by the end of 2010, the medium level of the total expenses made with the research are 3% of the de GDP, while 1% is obtained from the government securities, Romania took the responsibility to increase the expenses made with the research. (Vasile, V., Zaman, Gh., 2007) The government securities allocated in 2008 for Research – Development – Innovation will increase to around 0.75% of the GDP, and to around 0,9% of the GDP in 2009, so that it 2010, it is expected it reaches the percentage of 1% of the GDP as per the objectives of the Lisbon Strategy.

The diminishing of the pressure made over the public budget has been achieved also through the “**encouragement and development of the private education**” at all its levels.

Until three years ago, the Romanian private universities were seen more as an alternative for those who thought they had no chance in passing the entrance examination to a state faculty. Practically, the raise of the number of students registered in the last year is due to the private universities. (*National Development Plan 2007-2013*)

**The Academy of Economic Studies – Bucharest** - one of the biggest Romanian state universities was founded in 1913. In our present days there are

40,000 students and learners in the university out of which 16,000 in long distance education, over 2,500 doctoral students and over 1,000 learners in various forms of post-graduate studies. (Academy of Economic Studies, 2007)

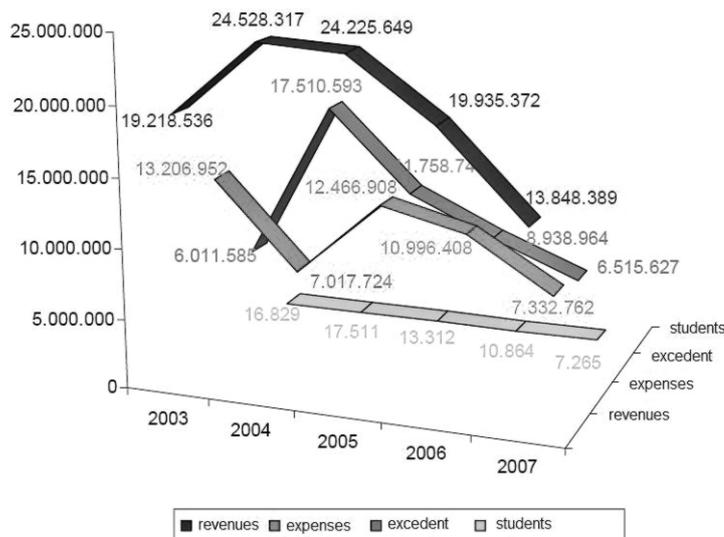
By presenting a situation of the revenues registered by the Academy of Economical Studies from Bucharest, we reached the conclusion that, except for the fundamental budget financing, a great amount is given by the own revenues which come from the private sector. We are referring to the national and international research contracts, the designing contracts that the private sector registers.

The revenues and expenses budget of ASE University – Bucharest approved for the year of 2007, was composed of the necessary financial resources necessary for the financing of the expenses which regard the good development of the activities deployed by the institution. Thus, the revenues and the expenses were substantiated on the basis of the main particular indicators, which are: the number of students registered in the daily teaching form with budgetary financing, those paying a fee and those registered in the Distance Learning form; the students' number registered for graduate studies – master and PhD; the Academy teaching staff; the total wage fund and the material basis (educational spaces, hostels, eating hall, equipment and instruments)

Thus, the evolution of the budgetary estimates for the 2007, are as it is presented below:

- **Total revenues** of 203.946.614 lei (56.183.640 euros), out of which, revenues that result from the basic financing which consists of 122.114.745 lei (33.640.425 euros) , and which represent revenues allotted by i.e. Ministry of Education and Research in a total amount of 50.200.393 lei (13.829.309 euros) and own revenues that result from school fees, donations, sponsorships in a total amount of 71.914.352 lei (19.811.116 euros). The revenues obtained from the research activity represented the amount of 16.988.010 lei (4.679.892 euros).

**Revenues and Expenses of the Academy of Economic Studies**



Source: Academy of Economic Studies , Bucharest, 2007, Report on the Income and Expenses Budget Execution and the Checks and Ballances at the end of 2007

Another spectacular jump was registered in the achievement of the revenues obtained by the research activity. If the revenues registered in 2003 gathered 651 thousands lei, in 2007 they reached the level of 16,988 thousands lei, which means an increase by 26 times than in 2003. We also noticed a diminishing of revenues obtained from the scholar fees afferent to the students registered in the long distance educational form.

- **Total expenses in amount of** 183.354.277 lei (50.510.820 euros).

The revenues of the current activities exceeded the level of expenses with 444.369 lei (122.415 euros). The expense weight for the current activity during 2004-2007, represented the average of 78% of the total of expenses. For the last two years, the average cost per student grew from 2.400 lei to 2.500 lei (694 Euro). But, as pointed out above, the diminishing of the pressure over the public budgets is also being carried out through the support offered to the **private education form** at all its levels. (Academy of Economic Studies, 2007)

The Romanian private education is in a full process of development both as far as the authorities are concerned as well as the population. The public perception towards this educational type is not a favourable one. However, its development tends to diminish, the pressure on the public budget, which finds it impossible to cover the costs generated by education. (Neagu, 2005)

The development of Romanian private education does not have a uniform character neither as far as the educational levels are concerned nor the territorial distributions are concerned. (Neagu, 2005) This is simply the proof that the private education is mainly connected to the social-economic development level in the area, district and the financial possibilities of the population.

This is particularly why we ask more than often the question whether the Romanian private higher education is ready to absorb the massive flux of aspirants to a university degree? At the first sight, the education, either public or private, may be considered a real business. On the Romanian market the level of school fees "makes the market" when it comes to private sector.

The "**Spiru Haret**" University is the biggest institution of private higher education in Romania. In 2005 it has registered a surplus of 6,33 de billion euros in revenues. The universities have various sources of revenues, except for the school fees. For instance, "Spiru Haret" obtains revenues that are brought by the research area, the university publishing house, the printing house or its private TV network. (Bondrea, 2008)

Founded in 1991, the „Spiru Haret“ University, registers today 30 faculties that gather so far more than 50 accredited specializations. In the academic year 2007-2008 there were 123.000 of students registering to the university's courses. More than 60.000 students joined the long distance educational form. (Bondrea, 2008) Taking into account the fact that during 2002 and 2007, 40% of the revenues should have been invested proves that the development and consolidation of the material basis is a major concern for "Spiru Haret" University. In 2007, the investments were 4.57 bigger than those made in 2004, summarizing a total value of 510 billion lei (14.049.586 euros) .

Though the investments have grown during 2004-2008, the funds allocated for the wages also raised. If in 2004, the wages fund of "Spiru Haret" University was 268 billion lei – which means 7.382.920 euros, by the end of 2007, the fund was of 625 billion lei (17.217.630 euros). (Bondrea, 2008)

One of the main problem of the financial flow management of an educational institution is the fact that the school fees are cashed in semi annual instalments, and

the wages for the staff must be paid monthly. The market is becoming highly competitive. In order to attend the courses of the Solvay Business School (Brussels, 137 place in top 500), the annual fee is of 719 euros. The annual fee for the Spiru Haret faculties is 350 euros, while the Academy of Economic Studies of Bucharest charges 530 euros.

The quality of the university management is translated through the adaptability capabilities in a continuous changing market. However, the higher education services provided by the public sector are usually free of charge or are available at nominal charge. The people might be willing to pay some user charges for services of improved quality because the alternative to better-quality services is the private sector that are more expensive.

Taking into account this limited empirical evidence, we concluded that in Romania the role of public expenditure in the provision of education is clearly dominant.

## **5. Conclusions**

The student is the higher education's main objective. Without students, there is no university. Therefore, the funds we allocate must be channelled in two directions: the first one is given by the educational infrastructure: laboratories, libraries, work shops while the second important element is improving the quality of student's conditions (hostels, training facilities).

Based on the findings, we conclude the financing of the public education is very important for Romanian educational system now. However, if the public education will reach a high modernization level, we believe in developing public-private partnerships that may be able to directly stimulate the education system.

It is clear that the private and the public education sectors are and will be competing. This is advantageous for both of them, as well as for their 'subjects': the professors will be able to choose where where to lecture while the students will choose the most competitive educational institution. The national economy will also get a positive impulse as the human capital will encounter a quality growth.

We should also note that the private higher education system is now based on a quantitative accumulation, as most of the investments are being made for extending facilities and absorbing a higher number of students. In order to increase their competitiveness, both public and private education institutions need to invest into their qualitative development.

The conclusions have significant implications for policy makers, employers and students because understanding that the educational system must be characterized by better quality and efficiency is fundamental for our economic future.

## **References:**

- Banerjee, A. , Newman, A. 1993. *Occupational Choice and the Process of Development*. Journal of Political Economy, 101(2)
- Banerjee, A. , Duflo, E., 2004. *Growth Theory through the Lens of Development Economics*, mimeo, MIT

## Llie, Dumitriu, Zaharia & Colibasanu

Bondrea, Aurelian , 2008, Raport de activitate pentru perioada 2004 – 2008 (Report of activity 2004 – 2008) , Spiru Haret University

Constantin, Nicolae, 2003, *Scientific Research in Romania and International Partnership: Necessity, challenges and difficulties ahead*, Ad Astra, Young Romanian Scientists' Journal, Bucharest

Dincă, Gh., Damian, R. 1997, – *Financing on Higher Education in Romania*, Agentia Nationala Socrates, Editura Alternative, Bucharest

Gal, D., 2002, *Educatia si mizele ei sociale(Education and Its Social Stakes)*, Editura Dacia, Cluj Napoca

Krueger, A. , Lindahl, M., 2001, *Education for Growth: Why and For Whom?* , Journal of Economic Literature, 39

Mihailescu, Ion , 1996, *The system of Higher Education in Romania* , Agentia Nationala Socrates, Editura Alternative, Bucharest

Mwabu, G., Ugaz, C., White, G., 2005 „*The role of public expenditure in the provision of education and health*”, Oxford, Oxford University Press

Neagu, G., 2005 „ *Cheltuielile cu educatia. Analiza comparativa*” (Education Expenditure. Comparative Analysis), pp 12 – 13, Revista Calitatea vietii, XVI, no. 3 – 4

Pritchett, L., 2004, *Does Learning to Add Up Add Up? Returns to Schooling in Aggregate Data*. BREAD Working Paper No. 053, Harvard University

Psacharopoulos, G., Patrinos, H. A., 2002. *Returns to Investment in Education: A Further Update*, World Bank Policy Research Working Paper, No. 2881

Sen, Amartya 1999, *Development as Freedom*. Oxford: Oxford University Press

Vasile, V., Zaman, Gh., 2007, *Restructuring Romania's Education System Considering the Evolutions from the Domestic Market Perspective and Impact on RDI Progress*, European Institute of Romania, Bucharest

Vlăsceanu Lazăr, 1997, *Politici educaționale. România în context European, (Educational Policies. Romania in European Context)*, Editura Alternative, Bucharest

House of Commons Education and Skills Committee, 2006, Public Expenditure on Education and Skills: Government Response to the Committee's Second Report of Session 2005 – 2006, Fourth Session Report of 2005-06, Ordered by the House of Commons to be printed 23 May 2006

The World Bank, 2007, *Romania Education Policy Note - Romania, from integration to convergence*

## **Llie, Dumitriu, Zaharia & Colibasanu**

Guvernul României, 2007, *Planul Național de Dezvoltare 2007-2013* , (*National Development Plan 2007-2013*)

Academy of Economic Studies , Bucharest, 2007, *Raport cu privire la executia bugetului de venituri si cheltuieli si situatia patrimoniala pe baza de bilant la finele anului 2007* , (*Report on the Income and Expenses Budget Execution and the Checks and Ballances at the end of 2007*)

Ministerul Educatiei, Cercetarii si Tineretului, Consiliul National pentru Finantarea Invatamantului Superior (CNFIS), 27 iunie 2007 – Finantarea Invatamantului Superior in Romania, (Financing the Higher Education in Romania)

Conferința Rectorilor Instituțiilor Publice de Învățământ de Stat, (The Conference of The Public Education Institutions' Rectors), 2007, [www.edu.ro](http://www.edu.ro).

National Institute of Statistics, Romanian Statistical Yearbook, 2007

<http://www.ase.ro>

[http://www.ase.ro/site/despre/management/fisiere/pdf/planuri/strategia%20 ASE.pdf](http://www.ase.ro/site/despre/management/fisiere/pdf/planuri/strategia%20ASE.pdf)

[http://www.guv.ro/obiective/200701/strategie\\_post\\_aderare.pdf](http://www.guv.ro/obiective/200701/strategie_post_aderare.pdf)