In discussions of higher education around the world, issues of finance are often prominent from the perspective of various stakeholders. Policymakers are engaged in asking how much of the public purse should be devoted to higher education relative to the competing demands for basic education, health care, transportation, and the many other public functions. Higher education officials and faculty are concerned about providing a quality education with scarce resources and sustaining their livelihood. Students and their families worry about how they are going to pay for their education beyond high school.

Whether to impose or increase tuition fees, how best to fund institutional needs, and how to slow the growth of student debt burdens are just some of the topics that tend to dominate higher education debates in countries around the world. These debates now occur with regularity in both industrialized countries and in less developed countries, although often with a somewhat different focus. In the industrialized world, the central issue typically is how to improve the quality of the teaching and research that occurs within institutions as well as how to expand access for disadvantaged groups within society. For less developed countries—those with GDP per capita of less than $3,000 or so—the issue is more often focused on how to expand higher education to the point that it can meet the demand generated by those graduating from high school.

This chapter focuses particularly on one of the most prominent issues of financing higher education in both developed and developing countries across the world over the past several decades—namely, the gap between the growth in enrollments and public and private resources available to fund that growth.

Ironically, while financing issues are often a hotly debated topic, the amount of academic research written on the subject is fairly modest. Other topics—such as how to maintain quality, protect academic freedom, and strengthen governance—seem to be much more frequently the subject of academic research in higher education than are financial issues. This chapter thus synthesizes our understanding of a number of the issues and structures that help to define how countries finance their higher education systems. The chapter is organized around five central themes: the first section addresses
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key macroeconomic concepts and considerations; the second examines major public and private sources of support for institutions; the third discusses the issues entailed in developing student financial aid programs; the fourth considers the importance of linking different financing policies; and the fifth identifies key recent issues related to the gap between the growth of enrollments and resources.

Macroeconomic Concepts and Considerations

A number of macroeconomic concepts help to define a country’s system of higher education finance. For example, systems can be defined by measuring the overall level of support for higher education from public and private sources; estimating rates of return to education and higher education; and examining the relationship between levels of participation and investment in higher education.

Overall Level of Support

The overall amount of resources devoted to higher education is a key determinant of both the size and the quality of the enterprise. Generally, the more funds that are provided, the more likely people are able to participate (because more seats can be provided). Quality also is likely to be higher with more resources, because more funds can be spent on staff, services, and facilities.

But comparing countries by the level of resources they devote to higher education can be difficult for several reasons, not the least of which is that accounting conventions vary widely around the world. For example, some countries like the United States include in their national higher education data all costs associated with research conducted on campus, as well as the costs and revenues attached to providing room and board to students and health care services to the community, but most countries do not include these activities in their spending figures. Another possible complication is whether to use the amount spent or the amount of revenues received. Generally, the convention is that level of support tends to be reported in terms of spending, whereas revenue sources are more often used to describe how the system is supported.

There are also a number of ways to measure the overall level of financial commitment to higher education, each with its own strengths and weaknesses. It is not appropriate or helpful, however, simply to ask how much money is spent on higher education in total, in part because currency adjustments are difficult to make without biasing the outcome in one direction or another. But even if adjusting for currency differences were not a problem, one would still want to put the amount spent within the context of the country’s overall economy.

Another difficulty in examining the financial commitment for higher education is that most countries report statistics on public spending for education but often do not measure spending on higher education or education that comes from private sources. Thus, international comparisons of higher education spending typically involve a two-step process: first, public spending on all education is measured, and then the proportion spent on higher education is identified. On this variable, countries tend to spend between 2 and 5% of their GDP on education, with developing countries at the lower portion of