

THE ECONOMICS OF A SERVICE-LOAN PROGRAM IN FINANCING HIGHER EDUCATION IN THE MIDDLE EAST

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ABSTRACT

The problems created by free or nominal tuition schemes implemented in countries of the Middle East are discussed, and an alternative financing program, the service-loan approach, is proposed.

Recently, considerable interest has developed in the economics of financing higher education in certain countries of the Middle East,¹ where typically nominal or free tuition characterizes university education. The present paper attempts to point out the problems created by the free or nominal tuition schemes as they have been implemented in certain countries of the Middle East, and to propose an alternative program of financing higher education, namely a service-loan approach.

Nominal Tuition Schemes

Aside from a few private and sometimes foreign higher learning institutions in these countries, such as American colleges and universities (Robert College in Turkey,² the American University of Beirut in Lebanon, and the American University at Cairo, Egypt), the rest usually supply their services free to consumers, i.e., students. The state universities in the area, which previously depended upon the generosity of

¹ Recently, this topic has become especially controversial among the people and governments of the Northern Tier (Turkey, Iran, Afghanistan) as well as in countries such as Egypt, Syria, and Iraq.

² Robert College has recently been nationalized to become Bogazici Universitesi (The Bosphorus University). Professor Ciller has now taken a position there.

foreign private donors, are subsidized by the governments themselves. Large grants from foundations and from corporations active in the area have also become major financial sources.

This system of government-financed higher education, with free or nominal tuition schemes (sometimes referred to as the French model in higher education), has posed a number of problems in various countries of the Middle East. They may be briefly summarized.

(1) On the demand side, the below-cost provision of higher education has led to substantial increases in the number of students seeking higher education.³ It has resulted in rationing of available space, and in discontent and unrest among the high school graduates. Inefficiency in use has also become rather typical. It is not rare to find a high school graduate in a large city enroll in college just because he or she happened to succeed in getting in. University life can be reduced to a fashion and a few semesters of leisure in transition.

(2) On the supply side, low-quality schooling and alienated professors have created much discontent among the students. Since the services provided are almost free, and since the government subsidy program is sufficient to meet the increased demand only partially, the students end up competing vigorously for whatever is offered. The universities, then, have little inducement to initiate reforms.

Recently, there has been some attempt to modify the free-tuition scheme in some of these countries. For example, in Turkey, the 1973 fundamental law of higher education states that higher education is no longer free, but requires a *maximum* of TL 3000 per year (around US \$215) in the form of fees and tuition. The poorer student who qualifies in the entrance exams is to be subsidized by means of government grants and/or loans. This sort of modification is certainly a step in the right direction, but still is ineffective in solving the problems previously mentioned. Higher education will still be supplied at below cost, necessitating government subsidies to the universities. The students will still compete for limited space, and this provision in itself will have little effect on the quality of education.

An Alternative Scheme of Financing Higher Education: Service-Loan Program

An alternative approach might be to let the universities compete in a

³ For example, in Turkey, about 60 students apply for every space available.

free marketplace, and let them charge prices that will cover costs.⁴ On the other hand, government subsidies will be channeled to the students in the form of a service-loan scheme. That is, the needy qualifying student will be either eligible for a loan or may choose to work for a limited number of years in designated jobs and regions after graduation; in either instance, a government subsidy covers all of his educational expenses. More reliance on loans might be recommended for the richer countries, but enforcing repayment by service has an advantage for countries with dual economy characteristics. The rural candidate, unlike the urban one, is less likely to refuse to leave the big city after graduation. This in itself may prove to be of great merit. The resistance of the college graduate to moving out of large cities to less civilized rural areas has usually created an immobility of manpower which has handicapped the development process in some of these countries. It should also be noted that this scheme will have favorable implications on the distribution of income since the rural student is more likely to come from a poorer family than the urban candidate.

On the other hand, when the universities are allowed to charge fees that cover costs, and find sufficient students who are able to pay through the government loan-service program, the private sector is likely to respond by supplying more of such institutions, as has been the case in Turkey.⁵

The student loan-service program of financing higher education also has favorable implications for the quality of higher education that would be offered to the students. The colleges will be competing for the students who possess the financing potential. Since the students will be under an obligation to pay back the loan provided by the government, they will be more conscientious about the needs of the economy in their choice of careers as well as colleges. In cases where the student chooses a service form of repaying the government subsidy, his choice of careers will be limited again by the needs of the economy, as will be defined by the government. This in itself will reduce the surplus of students in certain fields of higher learning, with high probabilities of unemployment after graduation. The universities, on the other hand, will have to be more responsive to the needs of the students, and the requirements of the economy, as set out in various development plans of these countries.

⁴ This approach has already been examined by various economists. (See, for example, Buchanan and Develetoglou, 1970, 1972).

⁵ In the last decade, in Turkey, the number of such private colleges of higher learning increased substantially when the law allowed the establishment of such private institutions.

References

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