

# Research on Financing of American Higher Education under the Perspective of Cost Sharing

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## Abstract

## Review Article

This paper analyzes the roles of government, students and society in the financing process of higher education in the United States in the principle of benefit-sharing in the cost-sharing theory. The government mainly provides financial support and project support as the main financial support for higher education. Students take differential tuition fees based on economic conditions. The society mainly focuses on donations from selective research universities through individual or group donations. The success of American higher education financing is inseparable from the reasonable cost sharing of the three subjects. Drawing on its successful experience, it can provide an experience for the higher education financing in China.

**Keywords:** Higher education, Financing, Cost sharing.

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## 1. INTRODUCTION

In 1999, China's higher education institutions began to expand the scale of enrollment, with an increase of 42% that year. Expanding the enrollment scale requires corresponding financial support. However, the gap between the ability and aspiration of higher education funds in China is expanding, and the shortage of education funds is becoming increasingly prominent. In contrast, the United States has achieved success in higher education financing. The practical path of the government, students, and society to jointly undertake higher education costs can provide a reference for solving the problem of higher education financing in China.

## 2. Cost Sharing Theory

American higher education financing involves an important theory—cost sharing. In the 1980s, the US federal government implemented the fiscal reform line of “small government big society”, and the financial investment in higher education was cut down on a large scale. In this context, in 1986, the American economist New York University President *Bruce Johnstone* was in the Education Cost Sharing: Student Financial Assistance in the United Kingdom, the Federal Republic of Germany, France, Sweden, and the United

States. The book first proposed the famous cost-sharing theory. The core of the book is that the cost of higher education should be shared by the government (taxpayers), students, parents, and the public (by individual or group donations) [1].

The core principles of the theory are the principle of benefit acquisition and the principle of ability to pay [2]. The so-called principle of benefit acquisition refers to whoever receives benefits from education, and who should pay for education. The more benefits you get, the more you pay. The so-called ability payment principle means that all people who receive benefits from education should pay education fees according to their ability. The greater the ability, the more payments, the smaller the ability, and the less payment. The principle of benefit acquisition and the principle of ability payment are interrelated.

## 3. Three Subjects

### 3.1. Federal Government: Financial Allocation Combined With Project Support

According to the principle of benefit acquisition in cost sharing, the government should share the cost of higher education. First, public economics theory holds that educational services, especially higher

education services, are quasi-public goods; quasi-public goods have non-competitive and exclusive characteristics, and their income has strong externalities, which can drive economic growth, promote employment, and improve tax. Second, the main functions of higher education institutions are to develop science and technology and cultivate various types of talents that promote social progress. Science and technology and talents are important support for enhancing national competitiveness and achieving rapid economic growth. Third, the United States is a country that values the rule of law. It's people with high cultural quality and rule of law are the main driving force for the development of the rule of law and the promotion of social democracy. It can be seen that the main beneficiary of the development of higher education is the state; the first subject that should share the cost of higher education is the government.

In the United States, the cost of higher education involves the input of federal, state, and local governments. The federal government allocates funds in various forms. The federal government's funding for higher education are mainly three forms: grants, student loans, and work-study.

### **(1) Grants**

The federal government's subsidy source is mainly Pell Grant. In the 1970s, the US government decided to expand the size and target of the student funding system. The chairman of the Senate Humanities Committee, Claiborne Pell, took the lead. In 1972, the US Congress passed the Higher Education Law Amendment in the form of law. The Pell Grants Program was established. The Pell Grant is funded by the US Department of Education. The funds are allocated annually by the Congress from the budget, and the amount varies from year to year. The target receiver is a US citizen or a non-US citizen with a specific qualification, such as a foreign student who is eligible for admission to a qualified US college. To apply for the Pell Grant, you must fill out a form on the federal government website and provide proof of financial status. The application starts on October 1 of each school year. The information includes the family income and assets, but does not consider the family's expenses and liabilities. After submitting the information, Congress determines the student's or parent's cost of attending college by calculating the Expected Family Contribution (EFC), and based on the calculations, determines the amount of bursary that each student can apply for. According to the website of Education Commission of the States, in 2015-2016, there were 7.6 million students enrolled in the special fund of Pell. In the year of 2019-2020, the per capita subsidy of Pell subsidies reached US\$6,195 [3].

### **(2) Student Loans**

The US Board of Education is the main provider of student loans. Student loans are mainly for college students who have not yet obtained a degree in economic needs. After the student enters the school, the federal government assumes all the interest on the growth loan generated. Graduate students can also apply for non-subsidized loans, and the interest on the loan will be borne by the students themselves. Federal student loans are not equal in terms of the amount of loans that students receive from different sources of income. Students without financial resources receive more loans.

### **(3) Work-study**

Work-study A program provided by the US federal government to fund the school institutions participating in the program. Students can receive financial assistance through on-campus and off-campus work. Therefore, the financial pressure on students can be greatly reduced.

### **3.2. Student: sharing the tuition fees in a differentiated way**

Based on the principle of cost-sharing benefits, students should share the cost of higher education. Firstly, for students, higher education can increase personal economic income. The famous American economist Schultz officially put forward the concept of "human capital". Human capital theory pointed out that accepting higher education means investing in human capital, and the income level of laborers is positively correlated with the level of education. According to statistics, based on the average income of high school education, the average income of those who have received higher education is 49% higher, while the average income of those who receive junior high school and below is 20% [4]. Secondly, accepting higher education can give students more opportunities to get decent jobs and thus improve their social status. According to the screening hypothesis theory, those with higher education level (higher education) are more likely to enter the main labor market, that is, to obtain high-paying and decent jobs and promote social class mobility. For parents, on the one hand, parents can get satisfaction and pride from their children's higher education. According to Johnstone's definition of income, they can be concrete and tangible benefits that can be realized at any time and place. It can usually be expressed in currency or in a non-monetary form such as happiness, satisfaction, pride or honor. On the other hand, the benefits of increased family income and social status can be inter-generational transmission between family members as a result of higher education for children. In addition, with the development of social

economy, most families in the United States have the ability to assume the tuition fees of students. According to the principle of cost sharing theory, parents should bear part of the tuition fees.

Students and families pay for education costs mainly by paying tuition fees. In recent years, tuition fees have continued to rise, and the rapid rise in tuition fees is also a form of cost sharing. Johnstone believes that the higher cost of higher education should be transferred from the government to students and families, so that the share of government share is reduced and the proportion of parents and students is increased accordingly. Therefore, the development of private colleges that rely on tuition fees is encouraged. It is conducive to alleviating the problem of financial strain in American universities. The proportion of tuition fees in private universities in the United States is rising, accounting for 39.5% of the total funding of the university. According to statistics, in the 2015-2016 school year, tuition fees for public schools in the United States amounted to \$10,000, and tuition fees for private schools reached \$26,000. Compared with 2005-2006, the percentage of tuition fees increased by more than 60% in the past 10 years [5].

Students share tuition fees with “differential” characteristics. It is mainly reflected in two aspects: First, the tuition fees are different depending on the annual income of the family. Taking Harvard University as an example, under the background of the family economic situation, different families have different tuition fees. 55% of college students can receive financial support based on the family's economic background. Students whose family income is less than \$65,000 for the whole year can consider appropriate tuition waiver. Households with family income between 650 and 150,000 will use 10% of their income. For families with tuition fees and household incomes exceeding \$150,000, the proportion of tuition fees will be increased accordingly, and tuition fees will be borne by their income share of more than 10% [6]. Some wealthy families have more tuition fees than some students with poor economic conditions. Second, students of different majors bear different tuition fees. Take Yale University as an example, there are significant differences in the fees charged by each college. Among them, the professional tuition fees with higher market value are more than 30,000 US dollars, such as medical professional, law school major.

### 3.3. Society: focusing on selective private universities

According to the principle of benefit-sharing in the cost-sharing, donors can obtain material tax relief through donations, opportunities for cooperation with universities, or spiritual personal honor, and emotional mourning. American society has always had a social atmosphere of donation to education, and American social donations have many motives. From a policy perspective, the United States can enjoy preferential tax deductions for educational donations to individuals or groups with economic strength, which is conducive to promoting the formation of a donation atmosphere from an economic perspective. From a psychological perspective, altruism or egoism. From the perspective of cultural factors, Americans have a tradition of religious beliefs, and Christians' beliefs about money will encourage them to make educational donations. Christians believe that money is taken from society and used in society.

The social aspect is mainly to share the cost of higher education through donations. There are three main sources of donation.

#### (1) Alumni Donation

The alumni donation is mainly due to the support of the graduated students to the alma mater's complex and school philosophy. Alumni associations who are satisfied with their university study experience drive their donations to their alma mater, learn knowledge through higher education, develop their abilities, and even change their own destiny to be grateful to their alma mater. First of all, the specific practice of American colleges and universities: First, cultivate the feelings of undergraduate students in the school, and cultivate students' sense of participation in school development. Second, colleges and universities set up archives for each graduate and regularly pay attention to their latest developments. Third, American colleges and universities have their own sports clubs. The school uses the season to showcase the spirit of the school, so that alumni can relive the good old days [7].

#### (2) Foundation Donations

The foundation was established to attract large donations, consisting of individuals or groups with charitable willingness or wealth, for the purpose of obtaining personal honor or charitable will. The donation funds are generally used in the following situations: First, in order to improve the quality of teaching in schools. Includes financial support for core courses and student activities. The second is to reduce the college's daily expenses, and the third is the grants and scholarships for some students. Take Columbia University as an example. Columbia University established a foundation. The school thanked the donors for the public annual donation report and the school principal cup (prize).

### **(3) Commercial Donations**

In order to obtain research information in a certain area of interest, some companies need to obtain opportunities to cooperate with university research and donate to target schools. The Department of Management of Social Donations in American Universities understands and selects companies through various channels to establish a possible relationship between the school and a company. The alumni can understand the internal environment of the company, consider what kind of help the school can provide, and then contact the company. On the other hand, it is possible to establish a long-term formal relationship with the company through the company's supervisor.

Social donations are mainly concentrated in Ivy League schools. The high donation income is closely related to the school's training of outstanding alumni talents. The more elites the elite schools produce, the more social donations they receive. Alumni donations from well-known private research universities such as Harvard University, Columbia University, and Massachusetts Institute of Technology account for half of the total donations. Most of these elite schools are selective research-based private universities. It can be seen that the nature and popularity of the university is also an important reason for the donation [8]. The large donation funds mainly flow to several well-known world-class universities. The high donation income also provides a solid material guarantee for the development of these universities. Constantly accumulating capital advantages to cultivate outstanding talents, reflecting the "Matthew effect" in education.

## **4. The Enlightenment of American Higher Education Financing to China**

The United States is one of the countries with developed higher education and has accumulated some successful experiences. Through the perspective of cost sharing theory, the analysis of the three main financing of American higher education financing is undeniable. Reasonable cost sharing can ensure the normal operation of colleges and universities. Adequate funds are an important part of solving the operation of colleges and universities. Get the following revelation.

### **4.1. Adhere to the government's financial allocation and project funding as a supplement**

First of all, in addition to the normal financial allocation, the national scholarships, bursaries, student loans, work-study and other forms of supplements are used to supplement the funds. Local governments can assess the actual situation of students and set up

precision funding projects. Second, project support needs to be targeted. For students with poor families, a subsidized package program can be set up to allow eligible students to apply for more funds in the grant package to complete their studies. Students with better economic conditions can apply for a limited amount of funds in the grant package program. For students with special backgrounds, such as left-behind children, adult students, veterans, etc., when they need to enter colleges and universities to continue their studies, the government should provide special funding to set up specific project service target groups, so as to achieve the effect of accurate funding, the money Spend on the blade. Ensure that students from all sources have the opportunity to receive higher education and build a strong reserve of human resources for China.

### **4.2. Encourage differential charging systems and invest in university education in advance**

On the one hand, students can invest in college education in advance, store idle funds to establish a guaranteed material condition for future higher education, set up a university savings account in advance to prepare students for university education, and establish an education savings account in advance. To increase the opportunities for more students to enter university, the government can adopt tax relief for families who save money in college education, and encourage more students to prepare sufficient funds for college education in advance. On the other hand, students of different family economic backgrounds can afford different costs of higher education. Encourage the development of private higher education institutions that rely on tuition income, so that the private colleges with high academic fees and high school students who are eligible for high school entrance examinations are not limited to one way of enrolling. All students with different backgrounds have their own situation. The right to choose which university path to enter, and the corresponding tuition subsidy system.

### **4.3. Attracting social groups to concentrate on donations to colleges and universities**

The tradition of donating money to the United States benefits from the belief culture of American citizens. First, encourage people to contribute to society, strive for more social forces to support the development of colleges and universities, and encourage qualified individuals and businesses to provide funds or donations to higher education. It is an important way to solve the problem of insufficient funds for higher education in China by granting honors to donors or providing opportunities for cooperation with universities and tax incentives. Second, focus on cultivating students' feelings about the school. Taking advantage of the celebrations and other opportunities to take the initiative to conduct financing activities, the school donated part of the establishment of alumni database, keep in touch with the alumni who have graduated, analyze the characteristics of the graduated

alumni, the current situation, etc. to make more targeted preparation for donation. Once again, from the perspective of the university itself, we strive to become a top university. Efforts should be made to improve the teaching and research capabilities of the school and to cultivate outstanding talents. The quality of the university and the popularity of the school are an important condition for attracting social donations, and strive for more support from the business and business communities.

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