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## **The Condition and Prospects for Development of the Russian Education System**

### **Introduction**

In early 1997 the Russian government reached a decision regarding the necessity of reforming the education system. This was done in the larger context of a review of the principles of social sector functioning and development under the new conditions.

The relative macroeconomic stabilization which had begun to take shape at that time and the expectation that economic growth would begin required changes in the principles for organizing activity in the social sector and greater coordination with the market environment now taking shape.

Reform of the system of professional education acquired particular significance in this context due to its effect, direct and indirect, on the labor markets and consequentially the technology markets. At the same time, restructuring in the areas of professional education, the composition of graduating classes of new specialists, correlating the amount of training provided at the various levels of education (elementary/secondary as well as secondary/higher professional education), and reorientation to meet regional staffing needs could not but impact the system of general education to one degree or another. At the same time there arose the question of the state's role in organizing educational sector activity, including its budgetary obligations.

At the same time, the education system itself reached the beginning of the next stage of reform -- to be exact, the creation of the concept of reform-- in a rather difficult state.

By 1997 financing of education, compared with the late 1980's, had shrunk drastically. Thus, per pupil spending in general education schools dropped on average by 38 per cent; in higher education, by 70 per cent. Regional differences in per-pupil spending in the general-education schools were measured in factors of ten: from Rub 550 in Ingushetia to Rub 12,250 in Kamchatka. If one throws out such extreme values, the gap goes from Rub 870 in Stavropol kray to Rub 6,900 in Magadan oblast, or over 7.9 times.

The spending differentiation was found to be extremely significant in the training of specialists in the higher and secondary institutions of professional education. In 1997, an average of Rub 7,600 per year was spent per student attending day classes in institutions of

higher education, and Rub 2,200 per student in the vocational schools. In 1998, budget spending on professional education was reduced by 26.6 per cent, with the reduction affecting higher education to the greatest degree.

The dramatic reduction in budget financing aggravated the numerous negative tendencies in educational development, which had also manifested themselves regularly in previous attempts to reform it.<sup>1</sup> These reforms, substantial in and of themselves, ran up against more and more severe resource limitations and gradually died out, leaving the education community with disappointment and lack of faith in the possibility of achieving positive results.

Because of this, announcement of the next stage of reform was met very ambiguously and from the very beginning engendered both negativism and an acute struggle over approaches among the education community.

This essay will attempt to trace the causes of the prolonged crisis in the education system, as well as to sketch out those lines which in 1997 led to the creation of competing conceptions of reform in the educational sector.

## **1. Basic schools of thought on reforming the education system: a history**

Beginning in the mid 1980's the Soviet education system gradually begins to lose its leading position in the world. In great part this was connected to the exhaustion of the extensive model of education development. The increase in the educational potential of the employed population<sup>2</sup> from 6.0 to 9.3 years, achieved due to a transition to universal

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<sup>1</sup> See, for example, E.D. Dneprov, *Contemporary School Reform in Russia*. Moscow, Nauka, 1998.

<sup>2</sup> The educational potential of the employed population is understood to be the average number of years of education (length of education) of a worker in the national economy.

secondary education<sup>3</sup>, gave rise to excessive strain on the sector's capabilities, which began to be felt rather acutely in its shortages of development resources, both material and manpower. The next movement in this direction --a transition to 11<sup>th</sup> - grade education-- although it did raise the education potential to 10.2 years, also led to the exacerbation of negative tendencies in the development of the Soviet system of education.

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<sup>3</sup> The integrated program of scientific and technical progress in the USSR and its socioeconomic consequences. From *Education and manpower training*, Moscow, 1983.

Another reason for the loss of our leadership position lay in the shift in educational paradigms which occurred at that time in the developed countries, in which education moves firmly into the category of priority areas. It is precisely during this period (early 1960s to early 1980s) that *state spending* on education grow throughout the world by over 12 times. Among all countries, the share of GDP going to such spending rises to 5.7 per cent at the beginning of the 1980s compared to 3.6 per cent in 1960. Moreover, of the total amount of education expenditures almost 86 per cent comes from the developed countries, and it is they which experience rapid growth in spending per pupil -- almost 8.6 times in 20 years<sup>4</sup>. By the early 1980s the educational potential of the population in developed countries was over 13.0 years and with the expansion of the higher education sector continued to grow quickly. For the USSR, the analogous indicators lag significantly behind: by the mid-1980s *state spending* on education had increased by 4.5 times compared with 1960, while its share of GDP comprised 4.8 per cent.<sup>5</sup> The much-heralded transition to universal eleven-year secondary (full) general education continues to remain a fiction.

In 1985 per-pupil spending in general-education schools in the USSR comprised about 10 per cent of the analogous indicator in the USA and 15 to 20 per cent of those in Western Europe<sup>6</sup>.

Toward the end of the 1980s these tendencies continue to worsen, giving rise to well-founded alarm, foremost among the professional teaching community, over the quality of

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<sup>4</sup> *Tendencies and Prospects for Development of the Social Infrastructure*. Moscow, Nauka, 1989, p. 47.

<sup>5</sup> *Tendencies and Prospects for Development of the Social Infrastructure*. Moscow, Nauka, 1989, p. 49.

<sup>6</sup> See *The New Economic Mechanism of the School*. Moscow, VNIK Shkola, 1988.

education (especially secondary), and determining the basic directions taken in attempts to reform the education sector.

First of all, there is a struggle with the notorious residual principle of financing. Rejecting this was seen as an acknowledgment of the social value of education and the high priority of its development, not to mention the resulting increase in the resource base. The issue of increasing the wages of education workers was particularly acute since, despite repeated planning measures in this area, they amounted to less than 80 per cent of the average for the economy and a little over 70 per cent of the average for industry.<sup>7</sup>

One of the more striking achievements in this area was Directive No. 1 of the President of the Russian Federation and the attempt to fix a definite portion of the federal budget to go to education. Unfortunately, the expectations borne of these measures were not met -- indeed, could not be met.

The second direction was an attempt to create a new economic mechanism for the school. Within it, the idea was first brought forth of budgetary financing allowances per student or pupil. This approach would mean that allocation of resources would cease to be tied to the network of educational institutions and begin to take into account the number of pupils in a given school, connecting that indicator to the quality of education. In doing so, the reformers' intent was that parents and students would have the opportunity to freely choose schools. Practically, this meant that the money must follow the pupil. In the context of this approach there immediately arose the much-debated question of how to calculate the allowances by type, form, and category of educational institution, broken down by region. (The issue remains unresolved to this day).

On the whole this school of reform represented an urge to rationalize the use of budget resources and prod educational institutions toward an active position regarding the contingent of students being formed. At the same time the question was posed of possible

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<sup>7</sup> Calculated based on *National education and culture in the USSR: a Statistical Collection*. Moscow, Finances and Statistics, 1989, pp.24-25.

additional payments by parents for education beyond the state educational standard (here there arose once again the problem of how to define the standard, one not fully resolved to this day).

- There were two positions regarding the possibility of enlisting parental money:
- C first, it was thought that the need to make additional payments for above-standard education would lead to a situation of choice for parents and would draw their attention to the curriculum and quality of education; in the long run, this would ensure parental control over the results of schooling;
  - C second, it was assumed that the payments, albeit minimal, would increase parents' responsibility for their children's education.

Sociological surveys in 1989-90 showed that 15 to 20 per cent of families in the largest and other major cities were prepared to make additional payments for their children's secondary education (the amount of potential payments varied from Rub 30 to 80 or 100 per month at 1989 prices)<sup>8</sup>. In the early 1990s it was precisely these families which supplied the contingent of students for so-called alternative and non-state educational institutions.

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<sup>8</sup> See, for example, VtsIOM [expansion unknown].

At the same time, an additional payment of Rub 15-20 per month for one child was seen by the proponents of this approach as acceptable to the great majority of parents.<sup>9</sup> It was also believed that such contributions would rid parents of the need to incur significantly greater expenses on tutors to ensure their children's success both in the school program and in preparing for admission to institutions of higher education.

Besides the enlistment of parental resources, other possibilities for expanding the resource base of educational institutions were also analyzed. This led to proposals for the school to receive the status of a legal entity, undergoing a transition to relative economic independence.

In the final analysis, this entire range of ideas was directly or indirectly reflected in the 1992 Law of the Russian Federation *On Education*, but its practical embodiment proved to be extremely limited (thus by summer 1997 about 10 per cent of general education schools possessed the status of legal entity, per capita financing allowances were being followed in only a few regions of the country on an experimental basis, and enlisting parental money is still seen as an extremely undesirable phenomenon and is referred to as *extortion*).

On the whole, both approaches to reform have in hidden form established several very important facets:

- C within the bounds of the model of school education that has taken shape, we are seeing growth in the shortage of allocated resources to ensure the required (accepted) quality of educational services. Hence on the one hand efforts aimed at getting more resources allocated for education, and on the other, attempts to change the working model in order to make the use of existing budgetary resources more efficient and enlist additional, extrabudgetary resources;
- C despite declarations of equality and free access to secondary (full) general education, in reality the preservation of free services means inequality of access to quality education. In other words, the growth of the resource deficit led to the appearance of and hidden differentiation of access to non-public educational services -- the

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<sup>9</sup> See *The New Economic Mechanism of the School*. Moscow, VNIK Shkola, 1988.

- formation of a network of special language schools and creation of special classes in physics and math, chemistry, the humanities, and other subjects;
- C the subsequent development of the educational system required the differentiation of its elements; improvement in the quality of education could be achieved only by means of specialization and individualization in offering educational services. This required differentiation of the network of educational institutions and, generally speaking, differentiation of the terms under which they were financed. The simplest means of bringing about selection of educational institutions was and continues to be to introduce a budgetary financing allowance per student, at the same time rejecting the territorial tethering under which pupils could attend only the school located in their neighborhood. In theory the appearance of the possibility of choosing educational institutions allows one to quickly determine condensation spots: the concentration of pupils in one or another school occurs due to either the quality of educational services or the convenience<sup>10</sup> of obtaining them;
- C the differentiation of both the educational services and the conditions under which they are offered presupposed the creation of a different system of education administration, including also a restructuring of the organizational and economic mechanism under which educational institutions operate. However the school system was specifically unprepared for administrative restructuring. For this reason the struggle to increase budget financing proved in large measure to be a struggle to preserve the customary models of functioning and operations.

It should be noted that the drive to make changes was significantly weaker in the system of professional education, especially higher professional education, although here too the lack of budget resources provoked a certain dissatisfaction. But during the late 1980s and

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<sup>10</sup> This concept may include the proximity of a school to one's residence, transportation safety, and perhaps a good psychological atmosphere in the classroom, the presence of a complete nutritional program, etc.



especially the early 1990s schools of higher education were primarily concerned with expanding academic freedoms and developing the system of nonstate institutions of higher learning.

## 2. General description of the financing and activity of the educational system

For all the popularity of notions regarding the decline in school financing, the reduction in budgetary financing was much more glaring in the system of professional education (Table 1):

Table 1.

### Budget resources for general and professional education as a share of GDP\*

	1992	1993	1994	1995	1996	1997	1998
Total	3.68	4.03	4.36	3.40	3.49	3.48	3.33
General	2.37	3.27	3.49	2.88	3.01	2.89	2.93
Profess.	1.21	0.76	0.87	0.52	0.48	0.59	0.40

\* Based on Goskomstat data on budget fulfillment. Financing shortfalls comprised 20-25 per cent of the approved budget.

As can be seen from Table 1, a sharp reduction in budgetary resources for general (school) education as a share of GDP occurs only in 1995. The impression of a downturn in the education financing situation before that point is connected primarily to the fall in GDP volume and the continual failure to fully finance, that is, incomplete receipt of promised resources. Budget fulfillment, as a rule, comprised 75 - 80 per cent of plan.

True, one must not see in these data a rise in chronic indebtedness on the part of the education system in utilities payments since August 1995. This phenomenon can be assessed in one of two ways: on the one hand, it provides vivid testimony of the shortage of budget resources allocated to the education sector and the rise of **Abad debts**, while on the other hand it can be interpreted as a peculiar kind of credit granted to the education system by natural monopolies. Credits of this kind allow the education system to survive, but do not make it possible to put in place a normal economic mechanism (part of the resources actually coming into the system inevitably depart into the **Ashadow** so as not to be **Awritten off** as debt).

There is one more factor involved in the growth of tension: the regular delays in payment of wages. This factor too becomes significant beginning in late 1995. Over the subsequent years this problem became seriously aggravated. In 1998 the debt dynamic presented as follows (see Graph 1).

As of January 5, 1999, 83 out of the Federation's 89 member territories are in debt on payment of wages to education workers, the total amounting to Rub 15.7 billion.

The problem of wage debt came to be one of the strongest drags on the restructuring of the organizational/economic mechanism of the education system, especially the school system. Making one's own activity more efficient is directly dependent on first fulfilling budget obligations previously entered. On the whole, the attitude toward reform is extremely cautious, inasmuch as before *at least they paid wages on time*.

Thus the presence of *mutual* debts becomes a factor contributing to the preservation of the status quo.

### 2.1. The Situation in School Education

At present the system of school education in Russia is characterized by the following basic indicators (Table 2):

Table 2

**Number of institutions of general education in the system of the Ministry of Education of Russia in school year 1997/98 and the number of children studying in them\***

	Number of institutions			Number of students (thousands)		
	cities, towns	villages	total	cities/towns	villages	total
total number of schools	20,955	46,987	67,942	14,723.5	6,292.2	21,015.7
Including:						
Elementary	1,674	14,966	16,640	230.2	243.5	473.7
Basic	2,223	11,757	13,980	423.3	812.4	1,235.7
Secondary (full)	17,068	20,264	37,322	14,070.0	5,236.3	19,306.3
Including:						
those offering in-depth study of subjects	5,283	2,297	7,580	1,290.0	146.5	1,436.5

Gymnasiums	880	72	952	738.8	29.3	768.1
Lyceums	547	47	594	390.5	15.5	406.0

\*Based on MOPO [Ministry of General and Professional Education] data.

The number of *nonstate* schools in school year 1997/98 reached 540, while the number of pupils in them was about 50,000. In theory, this is very few for the Russian educational system, since the number of *state* schools in the country reached almost 68,000, with 21 million pupils. Thus the nonstate sector of school education for now comprises less than 1 per cent of schools and about 0.25 per cent of the number of pupils.

At the same time the elite sector (alternatives to the traditional school) is already fairly weighty: 7250 schools (nonstate and state, including gymnasiums and lyceums) and 2660.6 thousand pupils (10.6 per cent and 11.1 per cent, respectively). These figures correspond well to the number of schools which have received legal entity status since 1992 (10 per cent).

In school year 1997-98 the number of teachers totaled 1730.811 thousand, including those holding several positions simultaneously. It should be noted that from school year 1991-92 through 1996-97 it grew by 22 per cent while the number of pupils rose by 7.5 per cent over the same period. At present there are on average 12.72 pupils per teacher, a much lower ratio than in the developed countries. References to the Russian *Aspace burden*, necessitating the maintenance of a large number of under enrolled rural schools, are very widespread. Meanwhile in the late 1980s the RSFSR was one of four union republics in which the teacher-pupil ratio corresponded to the equivalent ratios in the developed countries. One could, of course, take the process now under way to be a necessary stage of the transition to a different educational model; however, it seems more likely that it is a reaction to the deterioration of outward conditions, and an extremely ineffective reaction at that. There is one more hypothesis: that this growth in the teaching ranks is a fiction which is concealing many latent processes in the employment sector.

Moreover, the experience of the regions which have made the transition to per-pupil financing guidelines (for example, Samara oblast) shows that under the new conditions this ratio is beginning to change in the direction of an increase in the number of pupils per teacher. The *Aspace* problem is turning into an administrative problem: it turns out to be more advantageous to organize bus transportation for children from far-flung villages to fully enrolled schools than to maintain several under enrolled schools.

Over the 1991-92 to 1996-97 school year period, along with growth in the number of teachers, the indicators of class size also fell (Table 3):

Table 3

**Class size in general education institutions  
(average number of persons)\***

	Total	Villages	Cities/towns
1992	20.02	13.71	25.02
1993	19.56	13.54	24.20
1994	19.73	13.77	24.29
1995	19.79	13.89	24.26
1996	19.75	13.87	24.24
1997	19.72	13.84	24.21

\*Based on MOPO data.

It is worthy of note that following the transition to per-pupil financing guidelines in Samara oblast the class size indicators began to rise (over one year they grew in the oblast as a whole from 15.7 to 16.4).

The processes under examination testify in large part to the fact that apart from the general deterioration of the budget situation, inefficient utilization of allocated budget resources plays an enormous role. Here, to be true, one must take into account a very substantial **Аbut@**. Russian teachers' salaries are much lower than those of their Western colleagues. Therefore the light weekly workload (18 hours is standard) and low class size indicators can be seen as peculiar shock absorbing mechanisms-- the low workload allows one to work 1-1/2 or even double time, and the low class size creates more **Аcomfortable@** working conditions. However the shock absorption at once hinders rationalization processes in both the individual educational institution and the system of education as a whole. Along with this, the system of school education as a public institution is on the whole rather rigid; moreover many of the processes particularly associated with the enlistment of financial resources into this sector remain as yet in the **Аshadow@**.

The approximate structure of financial flow in the system of general education is represented in Table 4:

Table 4

**General education financing (billion rubles)\***

	1997 (estimated)	1998 (estimated)
Regional and local budgets, including federal transfers	72.3	79.2
Family resources used to pay for preschool and out-of-school institutions	5.0	5.3
Family resources used to cover schools=running expenses	2.8	3.0
Family resources used to pay for tutors	1.8	1.9
School services for which payment is charged	0.2	0.3
Enterprises=resources	5.0	5.0
Sponsors=resources	1.0	1.2
Other receipts	0.0	0.3

\*Adjusting for redenomination

As can be seen from Table 4, extrabudgetary resources amounted, by a conservative estimate, to 17.9 per cent of all resources spent on the general education system in 1997. The share of extrabudgetary resources relative to budgetary resources reached almost 22 per cent. With the exception of family resources used to pay for preschool and out-of-school institutions, the remaining resources, for the most part, are in the shadow. In other words, over 68 per cent of extrabudgetary resources in 1997 are not reflected anywhere; of these, over 81 per cent were in the area of school education.

In 1998, predications called for extrabudgetary resources in the general education system as a whole to increase by 7.6 per cent, and by over 9 per cent in the system of school education.

Completed research<sup>11</sup> shows that in the general education system in 1997, resources not officially accounted for were responsible for covering educational institutions=spending

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<sup>11</sup> By the Center for Education Policy of the GU-VShE [prob.: AState University/ Higher School of Economics@] and the Russian Center for the Economics of Education.

on current needs (family resources are very significant here), equipment acquisitions (purchased primarily with sponsors=resources), and repairs (covered for the most part by resources from enterprises and, to a significantly lesser degree, families).

**Family resources used to cover schools= current expenses**<sup>12</sup> were estimated at Rub 2.8 billion in 1997; in 1998 they were predicted to reach Rub 3.0 billion, that is, to grow by approximately 7 per cent. These resources regularly enter the general education system and support its functioning. The basic areas to which the indicated resources were directed were as follows: payment for guarding schools, expenditures on chalk, brooms, supplementary textbooks, flowers, holiday gifts to teachers, and similar needs. Neither parents nor pupils view these expenses as *payments for education*, and they are born not merely of the contemporary economic situation. But the necessity of maintaining morale among the school workforce requires that one exclude any possibility of misuse of parents=money. For this reason it is necessary to create conditions under which resources of this kind must be legally acknowledged and made transparent for verification (boards of trustees and parents, and so on). However the idea of legally recognizing them is often received by people, including parents, as a first step toward legally recognition of paid school education. For now they can be officially described as unlawful extortion and viewed as a temporary phenomenon which should disappear with the normalization of budget financing. It appears that support for this sort of attitude toward these expenditures will long continue to make it impossible to place education economics on an effective foundation.

**Family resources spent on tutors** in 1997 totaled about Rub 1.8 billion per year. This estimate included only tutoring services directed at consolidating knowledge in school subjects or expanding on the school program, not those aimed at gaining entrance to institutions of higher learning (including payments to instructors of foreign languages and other supplemental subjects). In 1997 the cost of the services in question, by conservative estimates, reached somewhere between 60 and 100 per cent of the salary of the most qualified portion of school teachers in the capitals and large cities, and 30 to 50 per cent in the mid-sized and small cities and towns. These resources serve as an important factor in securing the indicated portion of pedagogues in the schools and in so doing have *something of a stabilizing effect* on the situation in the education system. However, the calculation of the amount of resources received from tutoring is based on other data and on the fact that no more than 10 per cent of pupils in general education schools utilize tutoring services.

When broken down by region the system of school education is characterized, as has already been mentioned, by a very significant gap in per-pupil spending, as well as in the share of education spending in the consolidated budgets of the Federation's member territories. In 1997 this share ranged from 38.4 per cent in the Komi-Perm AO [Autonomous

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<sup>12</sup> Based on calculations of the Center for Education Policy of the GU-VShE.

Oblast] (Rub 1,590 per pupil in the general education schools) to 13.3 per cent in Moscow (Rub 2,050 per pupil), a difference of almost three times. On average for Russia it totaled 21.1 per cent (Rub 1,800 rubles per pupil). This example from education is, in our view, convincing enough to show the effectiveness of the accepted system of transfers.

It should also be noted that not infrequently, donor regions fail to meet the average level for per-capita education spending. Most indicative here are the situations in the Moscow and Leningrad oblasts, where per-pupil spending in general-education schools in 1997 amounted to Rub 1,350 and Rub 1,100 rubles, while the share of consolidated budget spending going to education spending comprised 18.5 and 20.8 per cent respectively for these member territories of the Federation. The state of affairs was somewhat better in Nizhegorod oblast, where at least the share of education spending was close to the national average (21.8 per cent), while per-capita spending amounted to a little over 75 per cent of the average for Russia. These figures, as it seems to us, make it possible to make fairly objective judgments on both the education policies of regional authorities and the legal justification for applying the donor region concept to analysis of the social sector.

## 2.2. The situation in professional education

The contemporary state of the system of professional education is characterized by the following basic parameters (see Table 5)<sup>13</sup>:

Table 5

### Number of higher and secondary educational institutions of professional education and the number of students in them

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Higher education institutions, total <i>No. of students</i>			710 2644.6	762 2790.7	817 2964.9	880 3248.3
State institutions <i>No. of students</i>	535 2640.0	548 2540.0	553 2534.0	569 2655.2	573 2802.4	578 3046.5

<sup>13</sup> See *Higher and Secondary Professional Education in the Russian Federation: a Statistical Collection*. Moscow, Goskomvuz, PIIDO [expansion unknown], 1996. *Higher Education in Russia: a Statistical Collection*. Moscow, Minnauki [Ministry of Science], 1998.



Of which:						
Federal <i>No. of students</i>				528 2500.4	538 2680.5	538 2910. 3
Regional <i>No. of students</i>				33 132.1	24 91.1	30 105.6
Municipal <i>No. of students</i>				5 11.0	7 13.0	6 8.7
Other <i>No. of students</i>				3 11.7	4 17.8	4 21.9
Nonstate <i>No. of students</i>			157 110.6	193 135.5	244 162.5	302 201.8
SSUZ <sup>14</sup> <i>No. of students</i>	2609 2100.0	2607 2000.0	2574 1900.0	2613 1918.0	2608 1976.0	2593 2011. 1

As can easily be seen from Table 5, despite financing problems Russia has witnessed growth in the number of both state and especially nonstate institutions of higher education since 1992. On the whole, from 1992 through 1998 the number of state institutions grew by over 8 per cent; the number of nonstate institutions has increased almost twofold in just the last four years. At the same time, although the number of nonstate institutions reached 34.3 per cent of the total number of institutions and exceeded 52 per cent of the figure for state institutions, the nonstate institutions enroll slightly more than 6.6 per cent of the number of students enrolled at state institutions. Furthermore, over 55 per cent of the students at nonstate institutions are concentrated in Moscow and Saint Petersburg<sup>15</sup>.

The number of students enrolled in institutions of higher education per 10 thousand population reached 221 in 1997, which is the highest level since 1985 (see Graph 2). Compared to the 1993 year of collapse it grew by over 25.5 per cent. However, right up to 1998, despite such rapid growth in the numbers of students, the legislative standard

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<sup>14</sup> SSUZ: Specialized Secondary Educational Institutions. At present they have come to be called Secondary educational institutions for vocational education.

<sup>15</sup> See *Higher and Secondary Professional Education in the Russian Federation: a Statistical Collection*. Moscow, Goskomvuz, NIIVO, 1998.

according to which not less than 170 persons per 10 thousand<sup>16</sup> were to study on a budgetary basis was not met. In 1997 only 168 persons per 10 thousand were students funded by budgetary resources. The remainder was made up by the so-called commercial students in state institutions and students at nonstate institutions. At the same time, continuing expansion of the number of students funded by budgetary money is leading to a sharp reduction in spending per student. This drop has amounted to about 30 per cent on average over just the past year.

Besides the nonstate institutions of higher education proper, whose appearance and development play a substantial, albeit ambiguous role in the economy of education, the admission to institutions of higher education of students who attend on contractual terms (on condition of full reimbursement of expenditures) has come to occupy a no less, and possibly more significant place in that economy. In the most popular specializations (economics, management, and law) commercial admission is limited: it may not exceed 25 per cent of budgetary admissions. However even at the institutions which enjoy the greatest prestige for their professional training in these areas-- the economics department at MGU [Moscow State University], the Finance Academy, the Russian Economics Academy, and the State University/ Higher School of Economics-- paid admissions usually do not exceed 20 - 22 per cent of the budgeters. At the same time the presence of restrictions and fear of competition among secondary school graduates seeking contracts often nudges those who wish to study on a paid basis into the nonstate institutions, which is accompanied by a corresponding flow of resources out of the state system. Therefore at present there is an intense struggle taking place to repeal this restriction.

As already noted (see Table 1), the sharpest reduction in GDP was that of the share of spending on professional education, from 1.21 per cent in 1992 to 0.40 per cent in 1998, that is, a threefold reduction. Inasmuch as GDP volume also fell, the reduction in spending was even more dramatic in absolute terms. If the institutions of higher education are surviving, and their number is after all still growing, they are doing so thanks to energetic earning of extrabudgetary resources. The structure for financing the academic process of institutions of higher education consists of three parts, which are comparable to one another in size:

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<sup>16</sup> Law of the Russian Federation On Higher and Post-graduate Education.

budgetary receipts, extrabudgetary resources reflected on balance sheets, and extrabudgetary resources not reflected on balance sheets.

The approximate structure of extrabudgetary financial currents in the system of professional education<sup>17</sup> is described in Table 6.

Table 6.

**Extrabudgetary financial currents in the  
system of professional education (in millions of rubles)\***

	1997	1998 (predicted)
VUZ [Institutions of higher education]: all		
Paid education covered by enterprises=resources	890 (17.6%)	934.6 (17.1%)
Paid education covered by family resources	1653 (32.6%)	1818.3 (33.2%)
Paid educational services (supplemental)	413.3 (8.2%)	434.0 (7.8%)
Paid services outside the bounds of the educational process	100 (2.0%)	110 (2.0%)
Rent and other commercial use of fixed assets***	1695 (33.6%)	1864.5[?] (34.0%)
Sponsor resources and aid from local budgets	300 (6.0%)	315 (5.8%)
<b>TOTAL for institutions of higher education</b>	<b>5051.3 (100%)</b>	<b>7473.3 (100%)</b>
SSUZ [Specialized Secondary Educational Institutions]: all		
Paid education covered by enterprises=resources	133 (31.7%)	140 (31.8%)
Paid education covered by family resources	17 (4.0%)	17.8 (4.0%)
Paid educational services (supplemental)	4.3 (1.0%)	4.5 (1.0%)

<sup>17</sup> Based on calculations of the Center for Education Policy of the GU-VShE.

Paid services outside the bounds of the educational process	5 (1.2%)	5.3 (1.2%)
Rent and other commercial use of fixed assets***	200 (47.7%)	210 (48.0%)
Sponsor resources and aid from local budgets	60 (14.4%)	63 (14.0%)
Total for SSUZ	419.3 (100%)	440.6 (100%)
PTU [Vocational training schools]		
Paid education covered by enterprises=resources	50 (17.6%)	75 (22.5%)
Paid services outside the bounds of the educational process	5 (1.8%)	5 (1.5%)
Rent and other commercial use of fixed assets**	150 (52.6%)	170 (50.9%)
Sponsor resources and aid from local budgets	80 (28.1%)	84 (25.1%)
Total for PTU	285 (100%)	334 (100%)
GRAND TOTAL	5755.6	6716.4
Federal budget spending on professional education, adjusting for sequestration of federal budget	14800	10800
Budgetary and extrabudgetary spending on professional education, adjusting for sequestration of federal budget	20555.8	17384.9

Notes:

\* adjusting for redenomination

\*\* of rental income, only about 30 per cent is reflected in the balance sheets of educational institutions

From Table 6 it is clear that the chief sources of extrabudgetary resources in the professional education system were (and to a significant degree continue to be) resources from students= paid education and renting out building space: in 1997 these provided (or rather, estimates show they may have provided) over 84% of extrabudgetary receipts. Rental income is, first and foremost, located in the Ashadows@. Hidden rental income for institutions of higher education in 1997 amounted to approximately Rub 1.2 billion and was estimated to grow to

Rub 1.3 billion in 1998, that is, by about 8%. Over the entire system of professional education, rental income in 1997 reached about Rub 1.4 to 1.5 billion. At the same time, its utilities debt exceeded Rub 2.4 billion. Thus upon **Aexposure@**this income would have been immediately written off under the notorious category of **Aroom rent@**.

**AShadow@**income from rentals was expected to amount to Rub 1.5 to 1.6 billion in 1998 (growth of 4 - 11 per cent). In the same year utilities debt grew to Rub 6 billion; of it about 1 billion rubles was liquidated by means of mutual set-offs.<sup>18</sup> Thus the indicated debt increased over 1998 by almost Rub 2.6 billion compared to 1997, that is, over 100 per cent. Since, in the opinion of the deans of higher education institutions, as well as the directors of the SSUZ [special secondary education institutions] and PTU [vocational training schools], utilities should be paid out of budgetary resources, one should not expect any movement toward a **Aclarification@**in the economy of professional education, at least in higher education. To be sure, one must not fail to take into account that all these **Asituations@**underwent major adjustments after August 17. A clear drop in rental rates in dollar terms has already appeared, while in the ruble equivalent they have risen sharply. At the same time demand for premises other than dwellings has shrunk noticeably, especially outside Moscow. It is also obvious that there has occurred a devaluation of accumulated debt. At the same time it is impossible to predict how these processes will influence economic behavior, first and foremost that of the institutions of higher education, especially given the acute deterioration of the external situation.

In 1997 the share of extrabudgetary resources among the total volume of resources received by the system of professional education stood at 28 per cent. In 1998 it was expected to grow to 30.7 per cent. However the sequestration of budget spending caused this share to rise to almost 37.6 per cent.

The growth of extrabudgetary resources in 1998 made it possible to somewhat cushion the effect of the sharp reduction in budget allocations -- on the whole, spending on professional education was to have decreased by only 15.4 per cent compared to 1997. But the events of August 17 changed this **Asituation@**as well: the great majority of students enrolled on commercial terms, including those newly enrolled, paid 1.6 to 1.8 times more in ruble terms for their education than was previously contemplated. Formally speaking, this further **Aimproved@**the situation. Unfortunately, the after-effects of this kind of **Aimprovement@**will be fully displayed only in early 1999.

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<sup>18</sup> MOPO data.

Under these conditions the Ministry of Finance's attempt to transfer all extrabudgetary accounts of budget-carried organizations to the treasury will only intensify the withdrawal of this money into an even larger shadow. Extrabudgetary resources, if one sets aside for the moment the less than righteous ways in which they are often used, have given the education system needed flexibility in reacting to changes in external conditions-- unlike budgetary resources which are spent strictly according to budget estimates, which hinders any maneuvering of resources. Thus in many ways the Ministry of Finance's fiscal measures and its somewhat primitive struggle with potential abuse lead, under extremely unstable external conditions, to directly opposing results.

### **3. Fundamental conceptual approaches to reforming the Russian education system**

The Ministry of General and Professional Education was formed in late 1996 by merging the Goskomvuz [State Committee for Higher Education] and Minobr [Ministry of Education], that is, the monetary and nonmonetary (methods) departments. V.G. Kinelev, previously head of Goskomvuz and poorly oriented to the system of general education, became Minister of General and Professional Education of the Russian Federation. The Ministry was unprepared, both organizationally and ideologically, for the reform of 1997.

The attempt made in 1997 to work out a concept of education reform was transformed, practically speaking, into a struggle between two approaches.

The first approach was represented by V.G. Kinelev himself, the second by his first deputy A.N. Tikhonov.

The first conceptual approach pursued a line that had been common starting back in Soviet times, that of solving all the problems of the education system with one sweep: improve the education system's operation as a whole, rebuild its structure, raise at once the quality of education and the microeconomic efficiency of the system's disparate links, and also ensure regular payment of wages, liquidate utilities debts, and find resources to cover running and major repairs and replace equipment.

The second conception gave principle attention to reforming the organizational/ economic conditions of operation of both the education system as a whole and of educational institutions in particular, sharply delineating the limits and responsibilities of budgets at all levels, as well as all levels of education administration.

The first conception, paradoxically enough, became in essence an expression of that line of education reform which affirmed a goal-oriented approach in counterpoise to the "residual financing principle" in this sector. However, despite the continual narrowing of the education system's resource base in recent years, the attempt under the new socioeconomic conditions

to carry out such an approach Ahead-on@did not receive public support, despite the fact that this conception was put forth as an official, ministerial one.

It appears that the fundamental shortcomings of the proposed conception were as follows:

- C the vagueness, superficiality, and timelessness of the goals set forth;
- C the absence of any coherent mechanism whatsoever for carrying them out;
- C the superficial approach to the education system's urgent problems, most importantly such "hot" issues as the timeliness of wage payments to workers in the education sector and liquidation of utilities debt.

Practically speaking, the refusal to adopt this conception showed that the time for superficial declamations is past and that an approach formally oriented toward results but essentially unfeasible has no chance at being adopted as a program of action.

The second conception, that of organizational/economic reform, was in large part drawn up as an alternative to the first and was based first and foremost on the resources which the education system actually possessed or potentially might possess under the new conditions.

Its essence can be expressed as the creation of conditions which would ensure:

- C a mobilization of resources to develop the education system, and formation of mechanisms for drawing additional financial and material resources into it;
- C efficient use of all resources, both budgetary and extrabudgetary;
- C legalization of all resources coming into the sector and transparency of all financial transactions.

This conception, approved as a whole at a session of the Commission on Economic Reform on October 23, 1997, was not upheld by the Commission when working out the subsequent stage of reform of the education system of the Russian Federation, despite its very high degree of specificity and the solutions it proposed to the sector's most acute problems.

The chief reason for this lack of approval lies, first and foremost, in the fact that the approach in question, in its opponents' opinion, did not seek to solve the task of preserving and raising the quality of education, that is, it suffered from a lack of attention to end results and consequently its framework was devoid of both goal orientation and emphasis on the social significance of developing the education sector.

It is extremely worthy of note that preserving and/or raising quality was not seen by schoolteachers, principals, or the leaders of school administration agencies as a possible result of the larger process of rationalizing operations, including improvements to the system of education administration and the creation of an education infrastructure, which is almost completely lacking at present.

Besides the reason indicated, a series of others can be delineated:

- C within the framework of the traditional budgetary system the rationalization of management could not bring about a substantial improvement in the situation, since the transfer of resources from one budget category to another was forbidden (this rule, by the way, is preserved in the new Budget Code as well). Economized resources either disappeared or were forcibly spent. By the late 1980s this led to a demand for allocating resources to the educational institution under a single heading, without any breakdown into budgetary categories, which was repeated in this conception. However in a situation where practically nothing is financed other than wages and student nutrition programs, this factor did not come across as being a principled one. On the whole the conclusion was drawn that a struggle over effective use of meager resources could hardly be effective;
- C the system of general education had too few management personnel capable of organizing the enlistment of donor resources by providing quality educational programs and services (practically speaking, it should be a question of organizing the marketing of educational services, advertising them, and carrying out special work in the community). It would appear that the principals of the 10 per cent of schools which following the adoption in 1992 of the Law of the Russian Federation “On Education” became legal entities and commenced economic independence exhausted, then and now, the corps of more or less modern managers. The remainder are oriented toward the customary conditions of operation (in essence, openly or not, they are demanding the restoration of the latter) and a mediocre quality of educational services. And it is the state, in their opinion, that should pay for this quality. Under this kind of management it is possible to raise quality only by increasing the volume of budgetary resources received by the educational institution. These principals are unable and unwilling to work with any agents outside the environment of the educational institution (such as parents and sponsors) other than the state. For this reason they were not able to accept a new model of the organizational/ economic mechanism;
- C the demand to legally recognize without exception all extrabudgetary resources entering the education system would in many cases mean replacing private agreements and exclusive rights to receive educational services of a specified quality with new rules of the game which, in particular, proposed different principles of selection, including targeted support to needy and talented pupils. This approach is much more difficult to carry out; it requires management skills different from those which are now widespread. Moreover, in raising the general effectiveness of the use of resources, it might actually lead to a decreased effectiveness for those pupils (and their parents or representatives of the administrations of educational institutions) who previously enjoyed informally-acquired privileges;
- C the proposal to legally recognize all extrabudgetary resources entering the education system, particularly parental “contributions” for school needs, engendered apprehensions that this would lead to the legal recognition and official confirmation



of pay-for-service arrangements for those educational services which are now considered free to the population, and a corresponding drop in budgetary spending on education. The fact that a portion of extrabudgetary resources regularly does enter the education system from the population informally and, consequently, may be used inefficiently (in this case the existing de facto system of paid-for education services, as a rule, is turning into an uncontrolled, inefficient pay-for-service arrangement) was seen as the lesser evil in comparison with the perspective of a reduction in budget allocations for educational needs equivalent in volume to the indicated receipts. Moreover, since legal extrabudgetary resources are frequently deducted toward payment of utilities bills, informality in monetary relations can easily be seen as rational economic behavior.

For the system of professional education, most disturbing were the proposals, advanced in the conception, to introduce state ordering, to be paid for out of the budget and distributed on a competitive basis among higher and secondary institutions of professional education, and to introduce a rigid mechanism for renting out space in institutions of higher education and vocational schools, which would place income from such activity under strict control. This effort to pull the main extrabudgetary sources of the educational institutions' existence out of the shadow seemed very dangerous.

The events of spring 1998, when rental income, in accordance with Article 105 of the Law of the Russian Federation "On the Federal Budget for 1998", began to be confiscated to the budget, showed how well-founded those apprehensions had been, as it simultaneously deprived the professional education system of all hope of building an organizational/economic mechanism that could be effective under conditions of toughened resource restrictions.

In late 1997 an attempt was made --in the interest of reaching a compromise-- to merge the two conceptions described above. To be exact, the conception of organizational/economic reform was supplemented and diluted with the superficial elements of the ministerial conception. This bizarre symbiosis, which has in large part become inoperational, was approved in December 1997 by the governmental Commission to Elaborate a Conception for the Next Stage of the Reform of the Educational System of the Russian Federation. But this factor could change but little. The State Duma's Committee on Education organized bitter opposition to adoption of even this mitigated document.

In spring 1998, when the worsening economic situation led to severe measures to restrict budget spending (including spending on education), this was unambiguously interpreted as a sneak attempt to carry out the fundamental provisions of the reform conception which stressed the education sector's organizational/economic mechanism.

In July 1998 the Ministry of General and Professional Education conveyed to the Government three drafts of governmental resolutions, of which only one can be properly

regarded as a conception-- that involving a large-scale experiment in guideline-based budget financing of the education institutions of the general education system. At the present time all have been recalled.

At the same time the crisis of August 17 and subsequent events led to the most unanticipated results, judging by the moods typical of managers in the education sector. They all began to adopt a more positive attitude toward the basic propositions put forth in the organizational/economic conception, inasmuch as most had seen their hopes of a possible increase in budget financing dissipate.

#### **4. Conclusions**

Reform of the education system= organizational/economic mechanism has not come about.

At present a spontaneous adaptation is taking place to conditions which have worsened even further for this sector. While mouthing their rejection of many of the measures proposed by the conception, managers are now ready to seize upon them as they grasp at straws. Naturally, the essence of the transformations is in many respects eviscerated in this process. Thus, for example, in many regions educational institutions are being granted legal entity status without opening settlement accounts. Or, on the contrary, a campaign is started to open settlement accounts for incoming extrabudgetary resources. The next round of calculations for guidelines for all types, kinds and categories of educational institutions has begun, unlike the guideline for budget financing proposed in the conception, which was set based on realistic budget possibilities and was therefore feasible. Gradually raising it as the corresponding resource potential expanded became the chief mechanism of management. At the level of the member territories of the Federation, increased spending on education was ensured by the stimulating nature of federal Aeducation@grants.

It appears that the chief cause of the failures in education reform was and remains the lack of management resources, and therefore the new round of reform must begin with the training and re-training of managers at all levels. Otherwise the education system is doomed to a fairly rapid decline accompanied by a ritual struggle to raise quality.