

**THE FINANCING OF PUBLIC EDUCATION, WITH SPECIAL
REGARD TO THE HUNGARIAN REGULATION**

Zoltán NAGY*
Ada CSIZMÁR**

ABSTRACT: *Public education is one of the main parts of the public tasks which is undergoing continuous changes, and whose funding issues become an increasingly important area. Competitiveness, economic and social development are important for every society, and in order to achieve these, it is essential to evolve a modern education system. In the introduction the study analyses the issue of private and public funding of public education, under which we can state that public financing plays the most important role. Then the article discusses the problems of public education since the change of regime in Hungary. Continuous changes have been made in the system, but in the recent past a radical pursuit of centralization prevails, the state both in terms of governance and funding took over the school system. The study shows the financial aspects of the financing of public education and the levels of funding, then presents an international comparison of the Hungarian system. It is shown that the resources devoted to the Hungarian public education are reducing year by year. In conclusion we can see that the quality of public education continues to deteriorate, which can only further worsened by the decline in resources.*

KEY WORDS: *education funding, public education, Hungarian public education, state funding, central budget expenditure*

JEL CODE: K39

INTRODUCTION

As the economic and social needs change, and the market economy develops during the history, the scope of the state functions constantly change as well. Accordingly, in every age and in every society, different aspects come to the fore, regarding which public duties need the state support the most. If we consider the present-day modern state, we can differentiate between different public authority functions that incorporate the defensive duties, the state and social management tasks and the jurisdiction. If we would like to classify state functions according to the functional point of view, then we can differentiate between public duties, welfare tasks and economic tasks.¹ (We must note that

* Nagy Zoltán PhD: associate professor, University of Miskolc, Faculty of Law, Department of Public Finances, HUNGARY.

** Csizmár Ada: graduate student, University of Miskolc, Faculty of Law, HUNGARY

¹ Zsugyel (2009) p.39

this is only one way of the classification, since the economic sciences and the jurisprudence apply basically different distinctions.) Regarding our topic, the welfare functions are the ones that have relevance.

In general, the decisions related to public finances and the budget are influenced by the following factors: according to the current expectations, between a specific political framework, what kind of state tasks need to be performed; what tasks need to be centrally financed; how is the relationship between the society and the state; and how the relationship between the public interest and the public power develops. It is essential to highlight that in case of state interventions it is always important to measure its social policy consequences and that during the intervention the effectiveness criterion should be kept in mind, because ultimately the state manages taxpayers' money. (Csziszárik-Kocsir, 2009, p.9)

There are, however, long-term state tasks that are independent of the factors listed, and that need to be carried out mandatorily, in all circumstances. By their nature, these are general interventions that affect all economic branches and every population group. Among them, the more important is for example the establishment and operation of the legal framework, which includes, among others the insurance of basic social and healthcare services, and the public education as well. Therefore, in these areas the necessity of the performance of these tasks cannot be questionable, the possibility of variation or discretion can only arise concerning the level of support. Accordingly, in a modern market economy the provision of the opportunity of public education for the society is not to be questioned, the opinions can only differ regarding the extension of the state support. (Zsugyel, 2009, pp.302-303)

Nowadays the issue of financing of the education is classified as collective goods, since the support of this area (or at least the financing of public education) is considered to be a state responsibility. Public policy decisions, more specifically the expenditure budget lines in the Laws on Budget define that in a certain period which asset groups belong to the collective goods. The provision of collective goods – having regard on their diverse nature – take place in different constructions, between different organizational and financing conditions², which is influenced by many factors.

If we consider especially the financing of the above mentioned collective goods, we try to find the answer to the question of who pays for a certain service. In this case, we can basically differentiate between two forms of financing. On the one hand, the tax funding means that the state pays for the service, namely from its collected sources. The other form of financing is the private funding, in which users pay a usage fee, and thus the "user pays" principle applies. In the case of collective goods, such as in the case of education usually none of the mentioned funding methods are applied completely; this means that in most cases the mixed form of funding is applied (that is, the combination of state and private funding). Therefore, it is appropriate to pursue mixed and at the same time consistent solutions during the production and the financing of collective goods. This may have many advantages; for example to ensure cost-effectiveness, to guarantee economical dimensions and to conserve public resources. (Zsugyel, 2009, pp.49-50)

² Zsugyel (2009) p.48

2. TRANSFORMATION AND REGULATORY PROBLEMS OF THE HUNGARIAN PUBLIC EDUCATION SYSTEM

Present education system in Hungary is free since the 1940's; more precisely it is tuition-free. Since the 1990's, funding of the public education is a central and municipal task. The Act LXV. of 1990 on local governments set out the principle, by which the law conferred the responsibility of education service to the local governments. Also after the change of regime, in 1990, it became possible, by the amendment of the former Act on Public Education the foundation of non-state public schools. Act LXXIX. of 1993 on public education specified the division of financial task system of the education management, and redefined the tasks between the central government, the operators and the schools. Under the main provision concerning funding, the task of education service got to the local governments that is supported by the central budget with normative support, based on the pupils attending school; the church and the private sector got back the right of school maintenance. (Polónyi, 2002, pp. 266-267.)

Today, the law in force regulating the matter is the Act CXC. of 2011 on the national public education (hereinafter: Public Education Act). In the Hungarian name of the Act, the legislator uses another expression for "education" (in Hungarian: "nevelés"), which expresses that now the legislator intends to confer a much more universal significance on the processes taking place in the primary and secondary educational institutions.

According to the Public Education Act, founder and maintainer of a public educational institution can be on the one hand the state, on the other hand, within the framework of the Act – if the institution in accordance with the law have acquired the right to continue this activity – the minority government, ecclesiastical legal entity, organizations carrying out religious activity, or other person or organization. Kindergartens can be established and maintained by municipal governments as well.³

The new law – as part of the public authority and administrative restructuring – radically transformed the task sharing and jog sharing system of the public education. The most important motives of the creation of the new public education system were said to be the risk of breakaway, the intensification of inequalities, and the difficulties in enforcing state responsibility. According to the legislator's standpoint, due to the undifferentiated task installation of municipal and public educational laws, the recovery programs have proved unsuccessful, the fallback of disadvantaged people have continued to increase, and talent management have not become an integral part of the institutional system. They saw that in the fragmented local government system strongly appeared the problems caused by the territorial, and settlement structural factors, and all this was thought to be derived from the decentralized maintenance system. Settlements with different administrative and income status – thus, especially the rural municipalities – were not able to create the possibility of chance equalization concerning the personal and material conditions of education. The detectable difference in the development of children at the beginning of school age have not decreased considerably neither. (Balogh, 2015, pp.105-106)

It is important to note that neither fully centralized nor completely decentralized systems are suitable for proper operation of public schools. The complete centralization does not allow to work up practices corresponding the local needs, because the decision-

³ Act CXC. of 2011 on the national public education 2. § (3) (4)

makers and the users are very far apart, thus those who directly avail themselves of the public service can have a very decreased say in the decisions, or sometimes does not have any degree of that. The most important argument in favor of decentralization is that the benefits of the lower and upper secondary education turn up at local and regional level, thus the settlements can profit from it. However, if the funding of education was solely the responsibility of the local authorities that maintain the schools, then, obviously significant differences would arise between schools operating in different areas and settlements, because the financial position and income-generating capacity of the different local authorities are not the same. Even with the same effort, significant differences may evolve concerning the supply of resources; for example if a local tax is levied with the same tax rate for schooling purposes. (Varga, 1998, p.11)

There are many other ways to compare the different systems, namely we can differentiate between the completely privately funded, the completely state funded and the special combined systems, like for example the voucher system, in which the government finances the education, but the parents can decide certain issues relating to the education of their children.⁴

Enacting the new law, the legislator has clearly turned toward centralization. One of the declared reasons for the modifications was the need of the state for direct responsibility in maintenance and control. The legislator's purpose with this was the larger and more direct government involvement in different settlements in order to equalize the conditions of schools, to standardize the regulation of content, and to ensure the enforcement of claims against the public education's quality requirements. The state, as the direct bearer of the responsibility for the supply and maintainer of the institutions, creates the external professional control that may promote the improvement of the effectiveness of the school system. (Balogh, 2015, p.106)

One of the most remarkable paradigm shifts that occurred due to the new law is about the perception of public educational tasks, and the way of their supply. The implementation of public educational tasks is no longer a local public service, but the state's public task, which has a generally applicable framework set by the state, performing directly the maintenance, the education management and the financing tasks as well. Consequently, the settlement-structural differences are equalized directly by the state, and the condition-system of the institutions is standardized. As a result, after several decades, the relation-system of the state, the local governments and the schools have transformed completely; currently, the criteria of the operation of the institutions are determined directly by the state. (Balogh, 2015, p.106)

Subsequently, in 2012 by the Government Decree 202/2012. (VII.27.) the Klebelsberg Institution Maintenance Center (hereinafter: KLIK) was established, as a central office operating under the direction of the minister responsible for education. The Government, in its Decree marks out the KLIK as the body that participates as maintainer in the provision of state's public educational public service, and in this context, the Center exercises the maintenance rights and obligations of the public educational institutions.⁵

In 2014, a research of 25 interviews was carried out in order to examine the effects of the points described above. The interviewees were the fellow workers of the center of the

⁴ Kleven (2010) p.369

⁵ Government Decree 202/2012. (VII.27.) on the the Klebelsberg Institution Maintenance Center, 3. § (1) c)

KLIK, and leaders of four school districts from four counties of different stages of development, covering all every school level. One of the main conclusions and criticism based on the interviews was the statement that in the level of the maintaining organization they have not evolved a particular financing model neither in the relationship between the KLIK and the school districts, nor between the school districts and the institutions. In the highly centralized system we cannot consider as a financing model the procedure defining the financial relationship of the school districts without management autonomy and the KLIK, only traditional, input-based budget planning took place in the larger units.⁶

A significant difference was found regarding the applied planning techniques between the KLIK that performs the maintenance tasks and the school districts, as well as with the local governments that formerly performed the operating tasks. At the level of KLIK, under the interviews we cannot or can hardly speak about any planning techniques, which can be traced back to several reasons, according to the researchers. Firstly, the shortness of the available time for the transformation of the maintainer system precluded the application of a deliberate planning technique. Secondly, the KLIK did not have reliable base data from the year 2012 about the public education spending of the local governments, especially not at the level of school districts. Thirdly, there was not a developed guide that could facilitate the cooperation with the former maintainers. And finally, they tried to top up their databases with continuous information collection in schools, but this was not supplied by a common software. Therefore, the local governments while performing the operating tasks, uniformly applied to the simplest version of the base-based budgeting techniques. (Balogh, 2015, p.108)

Furthermore, the researchers drew up as another serious criticism against the new system the lack of transparency and accountability, which they presume to be derived from the organizational behavior, and the legal regulation that – as they see – does not have an appropriate concept. The problem of the organizational behavior is denoted by the complete secrecy, the inaccessibility of the schools and the school districts, and the highest level of authorization. They sharply criticize the system because they experienced that the researchers or a tender maker specialist cannot get substantive management data neither at the level of the KLIK, nor at the level of school districts or the schools, even with the supply of ministerial background institutions. They saw that even the elementary obligation of transparency is uninsured, and this has not happened in decades. However, the legal regulation without an adequate concept may have much more serious consequences. According to the researchers if there will be no significant change in a short time, then there will be no available comparable, institutional level data from those settlements where the operating and maintaining tasks are separated from each other. (Balogh, 2015, p.109)

Since the material differences of local governments appeared in the discrepancy between the condition systems of schools, and as a consequence it affected the quality of local public services, the legislator pursued to accomplish equalization. The correspondent transformation of the maintainer system guarantees the complete state responsibility, and standardize the condition system of the public education.⁷

⁶ Balogh (2015) pp.107-108

⁷ Balogh (2015) p.110-111

In total, it is important to state that, independently from whether the financing of education takes place locally or nationally, financial support of education improves significantly if the way of spending of educational resources receives more attention. It is because the society is less willing to support any program that aims the development of education finances until people uphold reservations widely against the functioning of educational institutions. (Manley, 1974, p.364.)

3. PUBLIC EDUCATION EXPENDITURES OF THE STATE

The society is particularly concerned with the situation of the education as a welfare function, maybe only the situation of health support is girdled with the similar level of interest. It is not surprising, since it cannot be a circumvented question to clarify how much a democratic state based on market economy spends from its central budget for education, in this case for public education.

According to the freshest available data from the website of the Hungarian Central Statistics Office, since 2001, the central budget expenditures on public education of Hungary are summarized in Table 1, detailing each of the changes of the recent years.

YEAR	KINDERGAR TEN	PRIMARY EDUCATION	SECONDAR Y EDUCATION	ALL
2001	106 214	409 998		516 212
2005	175 570	442 530	235 291	853 391
2010	195 249	440 398	254 311	889 957
2011	182 743	410 409	239 395	832 547
2012	185 711	395 959	224 632	806 302
2013	206 182	406 979	179 495	792 656
2014	240 670	676 849		917 519

Table 1: Public education expenditures of the budget according to the budget reports of the state and local government institutions.⁸

Based on the table we can see that in total, between 2001 and 2005 the total amount of state support for public education significantly increased, while in the period between 2010 and 2013 a definitely slow but gradual decline was the typical. The most striking date is maybe the difference between 2012 and 2013 in secondary education, because

⁸ Data of the Hungarian Central Statistics Office:
https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_zoi014.html (Downloaded on 2. 11. 2016.)
 (From 2010, the central government's data on the type of special support functions are ignored.)

between these years, in the amount of aid a more than 40 billion forints difference can be detected. However, ultimately we can see that although in 2013 there was a significant decline, in 2014 the total public education expenditures increased in total.

However, whether this increase and decrease is significant or not, is maybe better more reliably represented by the following Table 2, which presents the expenditures on public education of the same period (except the start year), but correlated to the GDP; that is, it shows all educational expenses of the state budget, in the percentage of the GDP. It is an input type indicator, it measures in time line the changes in the investments in human capital.

Indicator / dimension	2003	2005	2010	2011	2012	2013	2014
Education expenditure as a percentage of GDP, %	5,69	5,33	4,75	4,34	4,08	3,93	4,30
<i>level of education</i>							
kindergarten	0,84	0,80	0,73	0,66	0,66	0,71	0,76
primary education		2,01	1,66	1,47	1,40	1,40	2,12
secondary education	3,28	1,07	0,96	0,86	0,80	0,62	-

Table 2: Investments in education as a percentage of GDP (2003-2014)⁹

From this perspective, we got similar results as based on the Table 1. In relation to the GDP it is also true that the proportion of education spending is obviously, continuously decreasing, and the year 2013 was the nadir based on this as well. The most striking perhaps is the level of reduction that occurred in this area compared to the 2003 numbers, which was more than ten years ago. Although the data from 2014 show an improving trend, it is important to note that the reports from the year 2014 switched to accounting based on government functions, therefore the comparability of the annual data in 2014 from the previous year's data is limited (although independently from all, the proportion measured according to the previous years is still much lower).

In total, based on the data shown in the two tables, we can set out that in Hungary indeed reduced the amount of expenses spent by the state for public education, although in the year 2014 some kind of improvement can be perceived.

4. INTERNATIONAL TRENDS IN PUBLIC EDUCATION FUNDING

The problems experienced in Hungary concerning the funding of public education are not unique, as other European countries face similar problems. Such common issue is for example the decreasing number of children and students that arises from the aging of the society, which is a demographic change that can only marginally offset by immigration.

⁹ Data of the Hungarian Central Statistics Office:
https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_zoi014.html (Downloaded on 2. 11. 2016.)
 (From 2010, the central government's data on the type of special support functions are ignored.)

Therefore, every country seeks a solution to the reduction in the financial efficiency due to the lower headcount. (Péteri, 2015, p.47)

It is also very important to note that, with the exception of a few European countries, the development of the public education is typically not the primary fiscal goal. For this reason, it is rather considered to be the primary goal of the finance-planning systems that the public education sector should not be pushed into the background compared to other areas of the public sector, and that decreasing number of public employees should not cause deterioration in the quality of the education. (Péteri, 2015, p.47)

In most countries the direction of education finance reforms is also imposed by the characteristics of the settlement network. At one extreme are the countries that have fragmented municipal and local government endowments, similar to the Hungarian system; they look for a solution to minimize the financial losses resulting from the low size-economy of small schools. At the other extreme is where the degree of centralization is too big, or too big local authorities work; in this case the financing system have to manage the problem of the remote supply from the local demand and the multi-level administration. In addition, each country must take into account the territorial and regional differences deriving from the characteristics of the settlement network. (Péteri, 2015, p.47)

On their whole education system, including higher education, the countries of the European Union spend an average 5, 4% of their GDP. This comprehensive index itself only provides the opportunity of international comparisons. We can state that the economically developed countries generally have more education spending, although obviously there are exceptions. For instance, Cyprus and Malta also belongs to the group of countries that spend much on education, while there are economically developed countries among those that spend less on education, for example Italy and Spain. (Péteri, 2015, p.55)

Based on the OECD indicators, the following Chart 1 illustrates in four different years the Hungarian, the 21 countries' of the European Union and the OECD countries' average data measured as a percentage of GDP, regarding their public education spending. According to the international comparative data, over the past decade in the EU and OECD countries increased the spending on public educational institutions as a percentage of GDP, while in Hungary it decreased, based on the data. This change is not exceptional, it is observed in other countries too, such as in Austria, Estonia and Spain, but in most countries the increasing is the typical (for example in the Netherlands, in Ireland and in Denmark). Considering the proportions, European and other developed countries spend 1-1,1% more on public education than in Hungary. Looking at the data of the individual countries we can conclude that Czech Republic produces similar proportions to us, and it is only Turkey (2,5%) and Russia (2,1%) that spend less on public education than Hungary. (Szabó – Fehérvári, 2013, p.51)

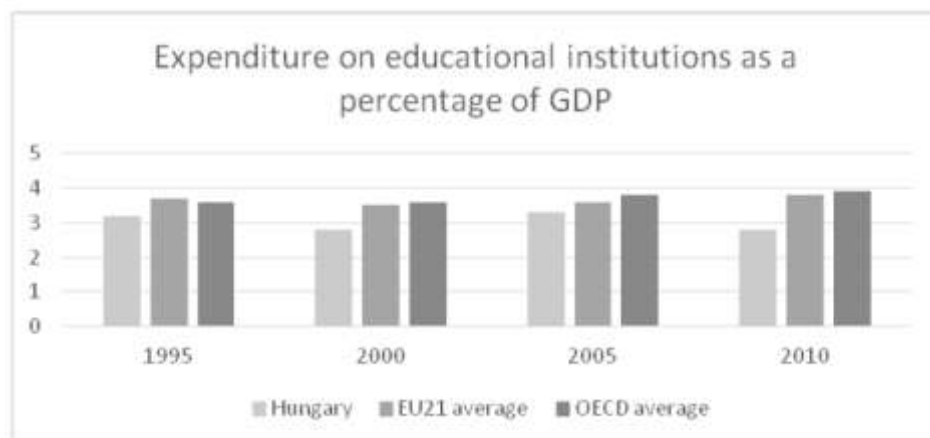


Chart 1: Expenditure on primary, secondary and post-secondary non-tertiary educational institutions as a percentage of GDP.¹⁰

The other aspect from which we would like to present Hungary's situation in the international arena is the data about the cost of education per student, in the proportion of GDP. In the year 2010 Hungary, compared to the OECD and the EU countries (based on GDP) spent the same amount on basic education, while spent less on secondary education (Table 3). The details of the Scandinavian countries (that are the most successful in education) suggest that priority funding of primary and / or lower secondary education can play a key role in the performance of the students. (Szabó – Fehérvári, 2013, p.54)

SCHOOL TYPE	EU21 average	OECD average	Hungary
Primary level	23	23	23
Secondary level	26	26	22

Table 3: The cost per pupil spent on education as a percentage of GDP per capita (2010)¹¹

As a percentage of GDP, the educational costs spent per pupil also indicate that the withdrawals do not affect equally the different elements of public education. The expenditure on public education gradually declined since 2005, thus the expenditure per student also fell, however in primary education it is found that the amount of the reducing spending is lesser than the drastic decrease of the number of students. (Szabó – Fehérvári, 2013, p.54)

¹⁰ OECD: Education at a Glance, 2013, p.191. Table B2.1

[https://www.oecd.org/edu/eag2013%20\(eng\)--FINAL%2020%20June%202013.pdf](https://www.oecd.org/edu/eag2013%20(eng)--FINAL%2020%20June%202013.pdf)

(Downloaded on:

¹¹ OECD: Education at a Glance, 2013, p.191. Table B2.1

[https://www.oecd.org/edu/eag2013%20\(eng\)--FINAL%2020%20June%202013.pdf](https://www.oecd.org/edu/eag2013%20(eng)--FINAL%2020%20June%202013.pdf)

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5. SUMMARY

All in all, based on the overview of the characteristics of the budget of the European countries we can state that the different education-funding systems face similar difficulties. The generally declining number of students, the fragmented settlement network, and the restriction necessitated by the economic crisis triggered changes almost everywhere. The European countries basically can be divided into four groups, according to the different education-funding and managing characteristics. Firstly, there are the *federal states*, where the provincial-national level organizes, manages and finances the public education. This level works simultaneously as a local and a central governmental level. Secondly, countries such as France, Czech Republic and Slovenia are classified as *centralized countries* regarding the public education expenditures, because in these countries both the weight of local governments and the proportion of local education spending is lower than the European average. One group of the *countries in transition* is less decentralized, but formally they fulfill the public education expenditures from the local level, thus the weight of the local budget is significant; these are the countries such as Bulgaria, Slovakia, Romania and the Baltic countries. And finally, the group of *de facto decentralized countries* belong the Scandinavian states and Poland. Hungary's situation changes; in the recent years it has been moved from the group of decentralized countries to the group of centralized ones. There are countries that cannot be classified to any of the main groups, where these comprehensive indicators do not accurately reflect the overall situation of public education funding (for example the Netherlands). (Péteri, 2015, p.90)

Ultimately, we can state that the refining of the big systems is typical almost everywhere, so the Hungarian changes in this sense coincide with the general international trends. But at the same time it can also be seen that the implementation of such a huge and such a radical centralizing turn was not considered necessary in none of the countries. In other countries takes place rather the correction and the refining of the operating rules, within the established limits.¹² The following years will decide whether the Hungarian radical changes will ultimately be successful and effective or not. However, our standpoint is that based on the above mentioned research, the changes did not live up to their expectations so far. The general attitude of the society and the protests of public education workers show that people are not necessarily satisfied with the current situation.

From our point of view, regardless of space and time, in the operation of any state, one of the biggest issues requiring attention is the matter of education. Each state pursues in some way the development of their education system, including its financial methods as well. In Hungary happens the same; with the changes of the last years, the government is probably trying to make the education system more efficient and easier to manage, using radical centralization. However the question whether these aspirations conform or not to the international trends and to the needs of the employees or students of the Hungarian system, already raises more problems; but detailing these questions would go beyond the framework of this study. Probably only from the perspective of many years will emerge clearly, what the right decision and direction for change would be in such a tangled situation in the field of financing of education.

¹² Péteri (2015) p.91

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