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The education in South-East Europe and trade-off between efficiency and equity

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Abstract:

The article analyses efficiency and equity trade-off in education in observed countries in South East Europe countries. Efficiency relates to how well an economy allocates scarce resources to meet the needs and wants of consumers, while equity deals with the distribution of resources and is related to fairness and social justice. The aim is to identify those circumstances under which equity and efficiency may not trade-off against each other. At least in theory, education is a means by which democracies attempt to equalize opportunities among citizens for economic success. Education and training policies could have a significant positive impact on economic and social outcomes, including sustainable development and social cohesion. It is commonly thought that opportunity equalization, in that dimension, is implemented by the provision of equal access to public resources to all citizens. However, very often this is not the case and often existing public services – like education systems – reproduce or even increase existing inequities.

Keywords: education; training; trade-off; efficiency and equity; South East Europe

JEL codes: H4, I24

1. INTRODUCTION

Across the developed world and in most transition and post-transition countries, in the context of demographic change (particularly population ageing), public budget constraints and the challenges of globalisation, and technological innovation, greater attention has been placed on improving efficiency in providing public services, particularly education. This is, of course, highly desirable but it is frequently assumed that efficiency and equity objectives are mutually exclusive. However, there are situations where equity and efficiency may not trade

off against each other. The goal of the article is to find out the possible reconciliation of equity and efficiency in education.

After introductory notes, in Section 2 the theoretical basics are given. Section 3 is dedicated to the equity and efficiency trade off in education. Section 4 explains situation in different South East Europe countries regarding the mentioned issue. The paper finishes with conclusions and recommendations for the enhancement of educational and training policy.

2. THEORETICAL BASICS

Efficiency relates to how well an economy allocates scarce resources to meet the needs and wants of consumers. Efficiency means that all goods or services are allocated to someone and the criterion for economic efficiency is value. A change that increases value is an efficient change and any change that decreases value is an inefficient change.

Equity concerns the distribution of resources and is inevitably linked with concepts of fairness and social justice. When market equilibrium is efficient, there is no way to reallocate the good or service without hurting someone. Head (1993) distinguishes between horizontal equity in the sense of similar individuals being treated in a similar fashion, vertical equity in the sense of taxation in accordance with the ability to pay and the “benefit principle” of equity – taxpayers should pay for public services in the same proportion that they use them.

In some fundamental respects, equity is complementary to the pursuit of long-term prosperity. Institutions and policies that promote a level playing field – where all members of society have similar chances to become socially active, politically influential, and economically productive – contribute to sustainable growth and development. Roemer (1998) believes that there are two views of equality of opportunity. The first, which he calls the non-discrimination principle, states that in the competition for positions in society, individuals should be judged only on attributes relevant for the performance of the duties of the position in question. Attributes such as race or sex should generally not be taken into account. The second states that society should do what it can to level the playing field among persons who compete for positions, especially during their formative years, so that all those who have the relevant potential attributes can be considered. Common to both positions is that at some point the principle of equal opportunity holds individuals accountable for the achievement of particular objectives, whether they are education, employment, health, or income.

The complementarities between equity and prosperity arise for two broad sets of reasons (World Bank, 2005). First, there are many market failures, particularly in building human capital. As a result, resources may not flow where returns are highest. For example, some highly capable children may drop-out of regular schooling, while others, who are less able, may finish university and obtain their PhD. When markets are missing or imperfect, the distributions of resources and power affect the allocation of investment and developing opportunities. The ideal

response is to correct the market failures; but where this is not practical, or far too costly, some forms of redistribution and/or ensured access to services, assets, or political influence can increase economic efficiency.

The second set of reasons why equity and long-term prosperity can be complementary follows from the fact that high levels of economic and political inequality tend to lead to economic institutions and social arrangements that systematically favour the interests of social strata (groups) with more influence. Such inequitable institutions can generate economic costs. When budgetary allocations benefit mainly the politically influential and/or when the distribution of public services favours the wealthy, all other middle and poorer social layers end up with unused possibilities and talent. These adverse effects, of unequal opportunities and political power, on development are all the more damaging because economic, political and social inequalities tend to reproduce themselves over time and across generations.

Such phenomena are called *inequality traps* because they cause social immobility that is particularly pronounced for low-income citizens. Education is intrinsic value and affects the capacity of individuals to engage in economic, social, and political life. Yet children face considerably different opportunities to learn and to lead healthy lives in almost all populations, depending on asset ownership, geographic location, or parental education, among others. These inequities are usually associated with differences in an individual's "agency" – the socio-economically, culturally and politically determined ability to shape and influence the world around oneself. Such differences create biases in the institutions and rules in favour of more powerful and privileged groups because the poor usually have less voice, less income, weaker networks, and finally, less access to services than most other people.

The persistence of inequality traps – with mutual reinforcing inequalities in the political, social, economic and cultural areas – has many consequences. The most important is that, because of market failure and the way in which institutions evolve; inequality traps can influence not only the distribution but also the aggregate dynamics of economic growth and socio-political development. This in turn means that, in the long run, equity and efficiency may be complements, not substitutes.

At least three considerations are important at the outset. First, while more even playing fields are likely to lead to lower observed inequalities in educational attainment, the policy aim is not equality in outcomes. Indeed, even with true equality of opportunities, one would always expect to observe some differences in outcomes owing to differences in preferences, talents, effort and luck. Second, a concern with equality of opportunity implies that public action should focus on the distributions of assets, economic opportunities, and political voice, rather than directly on inequality. Policies can contribute to the greater and more equal access to public services – largely education – and information. Third, there may be various short-run, policy-level trade-offs between equity and efficiency. Greater equity implies more efficient economic functioning, reduced conflict, greater trust, and better institutions, with dynamic benefits for investment and growth.

It is often stated that equity and efficiency are competing goals: equity is purchased at the expense of efficiency. There are two senses in which this phrase is

uttered. The first is that redistributive taxation may be purchased only at the cost of Pareto inefficiency, due to workers' and firms' facing different effective wages. This is true. The second sense is that redistribution may lower total output. These two claims are in principle independent. There may be policies which re-allocate income and/or social services (like public education) in a more equitable manner, lower total output, but are not Pareto inefficient. Roemer and Trannoy (2013) used as an example, re-allocating educational funds from tertiary education to secondary education in a poor country. This might have a purely redistributive effect, without significant consequences for Pareto efficiency.

At least in theory, education is a means by which democracies attempt to equalize opportunities among citizens for economic success. Education and training policies could have a significant positive impact on economic and social outcomes, including sustainable development and social cohesion. It is commonly thought that opportunity equalization, in that dimension, is implemented by the provision of equal access to public resources to all citizens. However, very often this is not so and often existing public services – like education systems – reproduce or even compound existing inequities. Betts and Roemer (1999) examine the relative effectiveness of changing educational expenditures along both the intensive and the extensive margins. Their central point is that for the USA *mere equalization achieves little*. Disadvantaged children from families at the bottom of wealth distribution usually do not have the same opportunities as children from wealthier families to receive quality education and achieve higher levels of attainment. Because of their minimal education, these disadvantaged children can expect to find badly paid jobs and earn less as adults. As badly educated citizens they will have less voice and power in the political process and will not be able to influence spending decisions to improve public schools for their children.

Calvò-Armengol and Jackson (2005) developed a model where an individual sees higher returns to investments in human capital when their neighbours in a social network have higher levels of human capital. They show that the correlation of human capital across generations of a given family is directly related to the sensitivity of individual investment decisions to the state of the social network. Increasing the sensitivity leads to increased intergenerational correlation, as well as more costly investment decisions on average in society. As the badly educated mostly socialise with similar badly educated peers, there are only limited possibilities that they will profit in their behaviour from their better educated neighbours. The authors conclude that the dependence on a social channel leads to inefficient human capital investment decisions.

If the opportunities faced by children from poor families are so much more limited than those faced by children from rich strata, and if this hurts development progress in the aggregate, then public action has a legitimate role in seeking to broaden the opportunities of those who face the most adverse choices. But how to ensure that actions outlined will respect principles of efficiency and equity? The realisation of an efficiency and equity trade-off in education could be obtained through improving accessibility and enhancing quality. For medium

level developed countries, with a high participation in primary and secondary education, particular attention should be focused to increase participation in tertiary education and enhance its efficiency.

Excluding a number of professional and management reforms (such as curriculum reform or teacher training) that do not have an explicit documented impact on distribution, efficiency and equity, Tiongson (2005) stresses that there are several broad changes to education policy that are directly related to equity and efficiency of educational systems. They are:

- *Expenditure reform*: A government may choose to restructure its expenditures to reallocate spending from higher education to a lower level of education or vice versa.
- *Financing reform*: A government may choose to reform the financing of education by introducing user fees (cost recovery).
- *Management and institutional reforms*: A country in which there is centralized management of the education system may choose to implement management reforms by decentralizing the administration of education.

The bulk of evidence shows that there are usually significant private returns to those who participate in higher education (the average private rate of return from higher education is close to 9% across ten OECD countries – Commission of the European Communities, 2006), and that these are not entirely offset by progressive tax systems. This can have a reverse redistribution effect. This regressive effect is particularly acute where school systems exacerbate the effects of socio-economic background on educational attainment.

In order to bring about a more equitable balance between the costs funded by individuals and society and the benefits accrued by each, and to contribute to providing universities with the extra funding they need, many countries are turning to the main direct beneficiaries of higher education, the students, to invest in their own futures by paying tuition fees. Evidence also suggests that the market effects of tuition fees may improve the quality of teaching and management in universities, and reinforce student motivation. Most economists maintain that tuition fees – assuming some means tested grants and/or sufficient available students' loans – are actually more equitable than free higher education in that students are everywhere disproportionately from the middle and upper classes and the taxing systems in most countries tend to be proportional or even regressive (Teixeira, Johnstone, Rosa, Vossensteyn, 2008).

Clearly, the development of tuition fees without accompanying financial support for poorer students risks aggravating inequity in access to higher education. The most disadvantaged are frequently the most risk and debt-averse, and are more likely to balk at spending time studying, rather than earning, when private returns after graduation are not assured. The costs of higher education could be made more bearable through the availability of various types of student financial support, be it in the form of grants, scholarship, loans or the deferred payment of tuitions fees. Other financial incentives could be premium grants to excellent students and/or those who choose science and engineering programmes.

Inequities in education and training also have huge hidden costs which are rarely shown in public accounting systems. Policies which reduce such costs can deliver both equity and efficiency benefits. Thus, to achieve equity, one should take into account all the costs as well as the benefits of successful data collection, analysis and prudent cost-management. According to McKeown-Moak (2000), this approach is a self-evident precondition both with regard to enhancing efficiency and cost effectiveness and in making a case for more equitable resources usage.

Access to schooling matters – especially for very poor families – but very often, it is only a small part of the problem. Greater access needs to be complemented by supply-side policies (to raise quality) and demand-side policies (to correct for the possibility that parents may underinvest in the education of their children for various reasons). Some of the possible reasons for such underinvestment are that resource constrained households lack money to keep their children healthy and in school and/or that some groups only see insignificant returns to schooling because of discrimination. Thus, providing financial possibilities and incentives for education is necessary, but not sufficient because it is important to eliminate the perception of discrimination, conscious or not, that can affect investment in human capital.

Free access to higher education does not necessarily guarantee equity. To strengthen both efficiency and equity it is necessary to create appropriate conditions and incentives to generate higher investment from public and private sources, including, where possible through tuition fees combined with accompanying financial measures for the disadvantaged.

3. SITUATION IN SELECTED SOUTH EAST EUROPE COUNTRIES

In all observed countries Furthermore, participation in education and formal education has a positive impact on individual personal as well as social development, social inclusion and social cohesion. For example, among people with upper secondary and tertiary education, the unemployment rate is on average lower than among less well educated people (persons who finished primary school at most). Better educated and qualified persons also wait less time (as unemployed) for a job and have a higher income when they find a job and better possibilities for professional promotion. Also, the risk-of-poverty rate is significantly lower among better educated persons.

3.1. ALBANIA

For creating a competitive economy, various national strategies and policies were accepted with aim to segregate responsibilities and functions in the education sector among levels of governance as well as to identify conditions for the increase of accountability for functions expected to be decentralized. Generally, access to pre-university education in Albania displays a low level of participation if compared to OECD countries (Albanian Ministry of Education and Science, 2003). There is also a variation when regions within Albania are compared. An adult in Tirana for instance attends education institutions for 3.5 years more compared the average of

Albanian republic. There are huge discrepancies between urban and rural areas, where the later suffer from less access to public services generally and to education in particular. Despite the reforms undertaken in the last years this system has a very low reputation from the quality perspective and the percentage of those engaged in such system is very low. Future reforms should be oriented towards the conceptualised of education (particularly higher) as a public good, improvements of standards in both teaching and research, strengthening the link of the education with labour market and maintaining diversity in improving the educational standards. Furthermore, there is a need to diversify the financial sources by aiming at long term financial sustainability and insure the autonomy of education institutions.

3.2. BOSNIA AND HERZEGOVINA

The educational system in Bosnia and Herzegovina (B&H) is highly fragmented with a low level of coordination and cooperation among 13 cantons. Furthermore, functions are overlapping and the division of responsibilities is unclear. There is a high percentage (around 40%) of population with a low level of education attainment and the absence of life-long learning policies. Persons with primary or less than primary school level of education are most exposed to long-term unemployment and poverty, and the danger to transfer their unfavourable situation and life conditions to their children. The Reform of general education in Bosnia and Herzegovina needs to 1) contribute to the strengthening of a democratic society, 2) support economic and social development, and 3) assist the country's reintegration in the international community. The purpose of the reform effort is to enhance the quality and ensure the efficient delivery of education as well as to sustain education financing and management. In particular, the reform should focus on institutional development and policy advice aimed at strengthening management, financial planning, and the capacity of institutions within the education system to effectuate reforms; and modernization and quality improvement of primary and general secondary education, aimed at supporting ministries of education in the development of modern core curriculum and improving the quality of teacher training at all levels of primary and general secondary education. This includes emphasis on the relevant knowledge and implementation of countrywide school development projects.

3.3. BULGARIA

The country joined the European Union in 2007. However, the country still has to overcome many obstacles, including a harsh social situation, a low technological level of the economy, a significant productivity gap and low labour remuneration in comparison with the rest of the EU. Paradoxically, in many cases Bulgaria in spite of (or because of) its socialist past, has paid low-skilled labour as much as high-skilled labour or even higher. The low technological level of the national economy for a long time has created more jobs for people with lower educational and qualification attainments. Thus, highly educated and/or people with specific

knowledge and skills happened to be less in demand on the Bulgarian labour market, and in many cases they accepted job positions, which did not match their high professional status. Thus, educational policy seemed to be controversial and the results demanded happen not to influence social environment and labour market opportunities, which an individual could have. According to the European Commission (2015) Bulgaria has recently improved its performance as regards basic skills and tertiary education attainment. Nevertheless, it still needs to improve the overall quality and efficiency of its school education system and the capacity of education to respond to labour market needs. On the other side, Bulgaria has still not adopted its school education act, which will provide a framework for implementing the comprehensive reforms needed in the school system, including modernising curricula and improving teacher training. The quality of vocational education and training in Bulgaria is insufficient and inadequate, including in terms of its integration in the general education system. The rate of adult participation in lifelong learning is among the lowest in the EU.

3.4. CROATIA

In Croatia education is the most important determinant of employability – more highly educated persons find jobs more easily and faster – but it also doubtlessly carries ancillary non-market effects (for example, easier access to information, greater care for personal health, more active participation in social life which encourages responsible democratic civic behaviour and respect of the rule of law). Non-participation in education is especially dangerous for the children of poor citizens because they are very likely to drop out of the schooling system early, and/or differences in access to higher education are now very stark. The lack of access to levels of education that are highly valued on the market tends to lower their employability and increase the danger of staying in poverty. These factors perpetuate existing inequalities in earning prospects between the poor and non-poor and create the potential for the intergenerational persistence of poverty. A considerable number of youths in Croatia drop out of secondary and higher educational institutions. This is, among other reasons, caused by a serious lack of a network of “second chance” schools, aimed at young people who have either been excluded from education or are on the verge of exclusion. One of the greatest challenges Croatia was addressing through EU accession programmes has been modernisation of curriculum, particularly VET, which are mostly outdated and don’t address labour market needs. As this is a structural problem it is expected that most of the 4-year and higher education graduates will continue coming out of the educational system without adequate modern skills and knowledge which, according to employers’ representatives perspective, cannot be addressed through internship, apprenticeship or on-the-job-training. Thus, there is an imperative for a different approach to education, curricula, as well as qualifications standards based on learning outcomes. Especially so in vocational education which should provide more hands-on experience and strengthen entrepreneurial skills, by bringing vocational and career guidance and employers closer to

schools. For this reason the activities on curriculum reform began (www.kurikulum.hr). In accordance with the guidelines defined in the Strategy of Education, Science and Technology accepted in 2014, to implement comprehensive curriculum reform the Expert Working Group was established in 2015. The task of this Group was to define the Project management process during the first stage of the curriculum reform, to determine the main directions of curricular changes and to coordinate the work of other sub- groups. Unfortunately, mentioned curriculum reform has been halted without the possibility to its protraction in the nearly future.

3.5. KOSOVO

It is the newest state in South-Eastern Europe and the smallest in terms of territory. The access to primary and secondary education is quite satisfactory, so almost 9 in 10 children of primary education age and about 3 in 4 children of secondary education age are enrolled. Despite the high enrolment there are obstacles that prevent establishing a well-educated population. First, there are differences in terms of enrolment between the poorest and richest and between urban and rural families. Second, girls' enrolment in secondary education continues to be at least 20% lower than boys'. And the third reason is that the quality of schooling is generally poor, which is why the drop-out rates are high. Education is linked to one's employment opportunity and the employment of less well educated people is very unlikely. Around two thirds of less qualified people will most likely remain unemployed. Besides the lack of university qualifications, most unemployed, especially among the youth, lack special training or job experience. The demand for higher skills is increasing and many firms often find it difficult to find people with appropriate skills. There is a general assumption among employers that graduate students lack professional training, since the education system has been very theoretical. In general, reforms are necessary in teaching methods at all levels of education. The education sector faced massive financial and human support from international donors and while aid was not always well located in the beginning, the establishment of responsible institutions and agencies improved the coordination of initiatives. With the downsizing of existing donors' programmes, the continuation or expansion of qualitative programs on youth participation and gender issues are in particular at risk as they are often easily earmarked as 'non-essential' (Wenderoth and Moo Sang, 2004).

3.6. MACEDONIA

The country lags behind other transition countries in student educational performance. In response to such educational challenges, Macedonia is working to establish, re-evaluate and improve the quality of its diverse primary and secondary educational systems. While primary education is still solely provided by the state, secondary education is provided by both state and privately owned schools. For the state schools, the state provides targeted funding for books and transport, as well as funds for other administrative costs in state secondary education, so that

all students can complete this educational degree as well. Higher education is also offered by both public and private universities. The recent few years show a rise in the numbers of high-school graduates that opt for higher education as well as in the number of higher education institutions in the country. Besides the expansion of private investment in the education sector, another reason is the government's focus on extending the public universities into a dispersed system of studying in multiple cities in the country, trying to improve equal opportunities for all and making higher education closer to the citizens. Instead of a more profound improvement of the quality of education vis-à-vis the requirements of the labour market, the policy framework is mainly dealing with making extensive and redundant investments in persons with unwanted skills and capacities. Judging by the current feedback from the labour market, it is arguable that there is a need for undertaking more seriously planned reforms in education policy, starting with vocational secondary and higher education. Macedonia has received support from various agencies and Non-Governmental Organizations to improve educational outcomes, including material inputs and assistance with curriculum and teacher professional development. Education is a high priority for the Republic of Macedonian government since educational performance affects both economic growth and Macedonia's possibilities for EU membership (Holdgreve-Resendez, 2014).

3.7. MOLDOVA

Over the past fifteen years, the educational system in Moldova has undergone a number of reforms intended to modernize and democratize education, as well as to establish appropriate conditions for making full use of each child's potential, regardless of its family's material standing, place of residence, ethnicity, spoken language, or religious beliefs. The major intervention areas of the reform were the changes in the educational system structure and in curriculum, the evaluation concepts and methods, and the management and financing of education. The idea is to ensure the right of every child to a quality education what implies a appropriate and truthful evaluation of education from the perspective of requirements set out for child-friendly schools. Access to quality education in the existing conditions depends in most cases upon the number of children in the family, where people living in large households have highest poverty rate and lowest possibility to attain regular education. Significant problem is imperfect mechanisms for the remuneration of the teaching staff, based mainly on the seniority of staff and not on performance, leading to the exodus of young teaching staff from the educational system. Therefore, the educational financing system needs to be fundamentally streamlined, especially in primary and secondary education. This is directly related to the efficiency/equity dilemma. The new financing mechanism must be based on indicators related to pupils, in accordance with the principle 'the money follows the child'.

3.8. MONTENEGRO

Montenegro started its education reform in 2001 by the adoption of the main principles: decentralization of the education system, equal education rights for all, regardless of gender, socio-cultural origins, ethnicity or physical characteristics and choice in accordance with abilities. Montenegro's school system shows evidence of inefficiency, which is expected in a system that produces poor learning outcomes, confirmed in PISA tests for reading, mathematics and science. The major change introduced by the education reform is the development of primary education from eight to nine years, which is expected to affect the overall education system. No matter the legislation some population groups face difficulties in enrolling into the educational system. Among those groups are Roma population, people with disabilities, children from poor families, the long term unemployed etc. For example, only 7% of the Roma school age population has been enrolled in the school system. Furthermore, regarding the equity of enrolment and completion of educational programme there are serious problems with ethnic Albanian minority. They are often educated in separate classes not schools because the Constitution of Montenegro provides the right of all citizens to be educated in their mother tongue. The curricula and materials in Albanian schools are reported to be of lower quality than Montenegrin schools, with obsolete textbooks, poorly translated texts and a history curriculum that does not adequately represent all perspectives on the country's past (UNICEF, 2012). Thus, there is a need to improving enrolment, attendance rates and quality of education for all children especially for the excluded: Roma, children, with disability, poor, and children in institutions. It is also important to increase the quality of and access to pre-primary school, to insure inclusive, quality education at all levels and to help improve learning outcomes. Finally, crucial is to develop a national education monitoring and evaluation system.

3.9. ROMANIA

In Romania, education has been a field for uncompleted but permanent reforms, each government having many good intentions but very bad results. Different assessments concerning the Romanian education system actually failed in providing a clear picture because of missing the larger perspective. Different assessments concerning the Romanian education system actually failed in providing a clear picture because of missing the larger perspective. There is a permanent lack of trust in the education system; there is no believe that education can ensure personal progress; a large majority of students in universities wants to leave the country immediately after graduation; managers do not wish to organize workplace lifelong learning programmes and qualification courses because, after acquiring the needed skills, many workers look for a job abroad and leave the country. Higher expenditure for education and improvement in their efficient usage would have prevented the human resource drain; for many, a good education for their children provision constituted the decisive reason for leaving the country. A particular problem is access and equity to the higher education institutions, so Curaj *et all* (2015) state that

the number of students accessing higher education has steadily decreased what has been coupled with a decreasing number of students that passed the baccalaureate. The National Pact for Education set ambitious objectives to be reached by 2013 such as curricular reform, enhancements in the management of higher education institutions, achieving full university autonomy, classification of universities by their mission statements and achievements and ranking of study programmes (connected with the financing system), development and introduction of student charter, improving equity in higher education and lifelong learning programmes, as a basis for increasing participation rates in higher education. Such policy documents were considered as offering the grounds for adopting a new law in education and research, in order to prepare the necessary legal framework that would facilitate new developments and corresponding competitive outcomes in higher education. However, many of the nicely stated ideas have not been realised or their realisation is seriously prolonged. Due to the uniformity of universities, public funding was also highly uniform with little incentive for improving quality and equity of education and/or research outcomes (mainly due to the funding formula).

3.10. SERBIA

The education system has also suffered from inefficiencies and inequities. Primary and secondary education suffers from having too many teachers because the school age generational cohorts are smaller and smaller, while the number of teachers has increased. The reason for the overcrowding of teaching in education is largely political: the government behaved economically irrationally because this was one of the ways to create a segment of the electorate that is dependant of government-controlled wages. Tertiary (higher) education suffers from the opposite trend: Serbian universities have too few teachers, and too little teaching space. This creates inefficiencies such as waste and overcrowding. Furthermore, the average number of years of study is very long (7.6 years), whereas 40% of the enrolled students never finish. Such a long period of studying hinders teachers from dedicating more time to each student. The overcrowding effect significantly reduces the quality of teaching at universities and adversely affects their “production”: less and less quality students complete their studies as a consequence of overcrowding. The network of institutions of education and training for adults and young people who are outside the regular educational system (both, basic education and vocational training) is very underdeveloped and presents a serious barrier to equity of the access to education. There is an urgent need for the country to develop this subsystem, and ensure that it is enough diversified and flexible. There is also a need to build this educational sub-system, the formal and non-formal education in collaboration with companies that offer training for their workers. As the overall economic situation in the country is unfavourable, the decision makers have trouble supporting financial decentralization because it is difficult to implement it without the efficient equity mechanisms. Without these mechanisms, the social services in the numerous poor regions and municipalities in Serbia would not be able to function.

4. CONCLUSIONS

A considerable number of youths in observed countries *drop out* of secondary and higher educational institutions. This is, among other reasons, caused by a serious lack of a network of “second chance” schools, aimed at young people who have either been excluded from education or are on the verge of exclusion. High drop-out rates drive up the costs per graduate. Systematic prevention of youth exclusion from education could be realized by optimal *flexibility* and the *passability* of the education system at all levels. Flexibility implies sensitivity of the educational system to changes in the needs of the environment and the needs of pupils and adult learners. *Passability implies* avoiding “dead ends”, those educational streams (types of programmes) which do not allow for the transfer to a higher degree of education or to a different programme of the same educational level. Dead ends decrease the availability (democracy) of education and utilization of human resources.

Significant problem is also underdeveloped lifelong learning and adult education. For the long-term unemployed population one of the biggest barriers is the lack of education and training necessary to compete on the labour market. In the observed countries only small numbers of the long-term unemployed (less than 10%) are attending some training. Others are not motivated or do not have the money to invest in the improvement of their education. Thus, although significant efforts have been made to increase access to education, it is evident that the system is still inefficient, as the learning outcomes are very low and labour market needs are not fulfilled.

If the ultimate aim of education and training is to maximise the development potential of citizens for their own benefit and that of their society, much remains to be done to achieve this. Unfortunately, in many countries education rather attenuates than lowers inequalities at birth. For a long-run and sustainable economic and social development, the situation should be drastically changed, so the acquisition of human capacities should not be driven by circumstances of persons’ birth, although it can and should reflect people’s preferences, tastes, and talents. It is necessary to expand people’s capacities to lead fuller lives through investing in their education, health, employment and professional advance. Predetermined circumstances should not constrain anyone’s innovation or professional development opportunities. This implies that a good institutional environment will not block entry into new business activities and the political system will provide access to public services and goods for all.

According to the various sources, primarily OECD, in the observed SEE countries the considerable problems faced by the educational system are: the lack of emphasis on developing analytical and problem-solving abilities, very weak links between education and the professional world, and the partial development of lifelong learning, mostly oriented to vocational education and vocational skills (neglected are non-formal education and key competencies). Lacking skills prevents the unemployed from reintegration in the labour market and hampers labour mobility. Skills matter even more during the crisis. Thus, there is a need to continue with education and curriculum reforms to raise labour productivity.

In SEE countries there are insufficient links among the education arena, the economy and labour market and not enough attention is given to the estimation of the future trends and needs of the labour force, which causes problems in providing education and skills programmes compatible with the skills and occupations sought on the labour market. The high proportion of workers with fixed term contracts limits the incentives for both firms and employees to develop skills. Insufficient opportunities for education are not the principal reason why many adults do not engage in learning: Evidence on barriers to participation suggests that under-investment in adult learning is due more to the demand side than to lack of supply of learning opportunities. Many adults are simply not interested. This can be because they are not aware of the need for training or because of lack of information, lack of incentives, or a perceived lack of returns. SEE countries should develop flexible and clear pathways through adult education and lifelong learning to increase employability and assure easy entry (or return) to the labour market.

The aggregate effect of any reform, including educational policy reforms on efficiency and equity are not always clear. Whether diverse impacts translate into inequalities in opportunities depends on how new activities open up and are accepted by the wider community, but certainly there will be winners and losers. Outcomes depend on the ability and willingness of government to mitigate losses to particularly hard-hit social groups, possible by redistributing some of the gains accruing from winners. To prosper, a society must create incentives for the vast majority of the population to invest and innovate. The best specific policy mix is a function of country context. Each society must decide the relative weight it ascribes to each of the principles of equity and to the efficient expansion of total production and socio-economic development. Acknowledging history as well as social and political institutions is crucial to avoid policy mistakes.

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