Institutional Change and Household Education Investment in China: Four Policy Regimes, 1993–2023

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***Abstract*—Household investment in education is shaped by the policy environment in which families make decisions. Drawing on historical institutionalism, cost-sharing theory, and the logic of positional competition, this study treats major policy documents as critical junctures and divides Chinese education policy since 1993 into four regimes: expanding cost sharing, free compulsory education, regulation of private tutoring, and the "Double Reduction" reform. Combining policy documents, education finance statistics, and published household survey results, it compares the level, composition, and urban–rural distribution of household education spending across the four regimes. Household education investment evolved from compulsory payment of school fees to competitive investment in private tutoring and then to structural adjustment. The expansion of public funding did not reduce total household spending, because resources released by lower school fees were largely redirected into competitive spending outside school. Each policy shift changed the channels and composition of household investment, while families' willingness to invest under competitive pressure showed strong path dependence. The main form of the urban–rural gap also shifted, from the burden of school fees to academic tutoring and possibly to non-academic enrichment. The study argues that equity-oriented policy should move from isolated fee reductions and supply controls toward governance coordinated with reform of student assessment.**

***Keywords*—education policy change, household education expenditure, historical institutionalism, path dependence, urban–rural gap**

I. Introduction

China's system of education finance has undergone several major adjustments since the early 1990s. The 1993 Outline for Education Reform and Development set a target for public education spending while promoting cost sharing in non-compulsory education [1]. Between 2005 and 2008, the state abolished tuition and miscellaneous fees for compulsory education, first in rural and then in urban areas [2, 3]. From 2018, off-campus tutoring institutions were brought under regulation [4], and in 2021 the "Double Reduction" policy imposed comprehensive controls on academic tutoring for students in compulsory education [5]. Each adjustment redrew the boundary between government and household responsibility for the cost of education, as well as the boundary of the market for educational services, and in doing so reshaped household investment in education.

Most existing research focuses on the short-term effects of a single policy, such as the effect of free compulsory education on household burdens or the effect of the 2021 policy on tutoring. Little research places three decades of policy change and household investment on a single timeline. As a result, single-policy evaluations can observe the rise or fall of spending through one channel but struggle to explain the overall trajectory of household investment. Why did households not reduce their education spending after public funding increased substantially? Why does household investment always seem to find a new outlet when policy closes one channel? Has the urban-rural gap narrowed in this process, or has it simply changed form?

This study addresses these questions from a long-term perspective. It divides education policy since 1993 into four regimes, compares the level, composition, and urban–rural distribution of household education investment in each, and explains its evolution using the concepts of critical junctures and path dependence from historical institutionalism. It makes three contributions. First, it proposes a stage-based framework in which household investment evolves from compulsory fee payment to competitive investment and then to structural adjustment, linking separate single-policy studies into one explanatory chain. Second, it identifies the institutional roots of the coexistence of expanding public funding and rising household spending outside school. Third, it shows that the main form of the urban–rural gap shifts across policy regimes, providing a historical reference for the design of equity policy. Section II presents the theoretical perspective, Section III the research design, Section IV the four regimes, and Section V a cross-regime comparison. Section VI concludes.

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II. Theoretical Perspective

A. Historical Institutionalism: Critical Junctures and Path Dependence

Historical institutionalism emphasizes how institutions evolve over time and centers on two concepts. A critical juncture is a period in which structural constraints are relatively relaxed and the choices made have a decisive influence on later paths [6]. In this study, the issuance of major policy documents constitutes critical junctures in the environment for household education investment. Path dependence is the second concept. Pierson [7] showed that under increasing returns, once a pattern of behavior is established, self-reinforcing mechanisms make later adjustment increasingly costly. For household education investment, once private tutoring becomes a routine means of competing for school admission, the parental expectations, peer pressure, and market supply that grow up around it reinforce one another, and policy adjustments find it difficult to make it disappear.

B. Cost Sharing and Household Budget Constraints

Johnstone's [8] cost-sharing theory holds that the costs of education are shared among government, households or students, and other parties, with each party's share depending on its benefits and ability to pay. Policy adjustments to the cost-sharing boundary directly change the necessary spending that households incur on schooling. Human capital theory treats household education spending as an investment in children's future earnings [9]. Taken together, these perspectives imply that when government assumes more of the cost of schooling, the household budget constraint is relaxed, and how the released resources are used depends on households' expectations of returns and on the investment channels available to them.

C. Positional Competition: Why Willingness to Invest Persists

Hirsch [10] argued that education is a positional good whose value depends largely on the holder's relative position in a distribution. In a selective admission system, when other households increase their investment, a household that does not follow will see its child's relative position fall. This competitive structure gives household education investment the character of an arms race, so willingness to invest does not disappear when one channel is restricted. Bray's [11] work on shadow education also shows that the scale of private tutoring is closely related to the intensity of examination-based selection. Positional competition thus provides a micro-level foundation for path dependence.

This study draws on historical institutionalism and positional competition to explain how household education investment evolves across policy regimes. Policy change affects the necessary and discretionary components of household investment through two routes: the boundary of cost sharing between government and households, and the boundary of the market for educational services. Competitive motivation determines the persistence of the willingness to invest, while household income and urban or rural location determine the capacity to adjust under new constraints. Together, these factors produce different patterns of investment and urban–rural distribution in each regime.

III. Research Design

A. Periodization

Regimes are defined by policy documents that had a national and substantive effect on the sharing of education costs or the boundary of the education services market. Four junctures are identified: the 1993 Outline for Education Reform and Development [1]; the 2005 State Council notice on reforming the funding mechanism for rural compulsory education, together with the revised Compulsory Education Law of 2006 [2, 12]; the 2018 State Council guidelines on regulating off-campus training institutions [4]; and the 2021 "Double Reduction" policy [5]. These produce four regimes: 1993–2005, 2006–2017, 2018–2020, and 2021 to the present. Boundaries follow the dates of issuance and implementation; actual effects usually lag, and this is noted in the analysis.

B. Data Sources and Method

Three types of sources are used: policy documents, mainly from the websites of the central government and the Ministry of Education; education finance statistics and research based on them; and published results from the China Institute for Educational Finance Research Household Survey (CIEFR-HS). Conducted by Peking University, this survey covered 40,011 households in 29 provinces in its first wave in 2017 and was repeated in 2019, 2021, and 2023 [13].

The study combines policy document analysis with comparison across regimes. For each regime, it first analyzes how the dominant policies changed the boundaries of cost sharing and of the market, and then uses statistics and existing empirical studies to describe the main pattern of household investment in terms of level, composition, and urban-rural distribution. Because there was no national micro-level survey of household education spending in the early years, the type and definitions of available data differ across regimes. The analysis is therefore descriptive and interpretive, and the characteristics identified for each regime are generalizations consistent with the evidence rather than causal estimates.

IV. Household Education Investment Across Four Policy Regimes

A. 1993–2005: Expanding Cost Sharing and Compulsory Fee Payment

The 1993 Outline set a target for public education spending of 4% of gross domestic product and promoted fee-charging in non-compulsory education. The target was not met for a long time. Public education spending as a share of gross domestic product was 3.04% in 1990, fell to 2.54% in 1993 and 2.46% in 1996, and was about 2.50% in 1997 [14]. Household fees filled much of the gap left by

insufficient public funding: tuition and miscellaneous fee revenue at schools of all types was about 32 billion yuan in 1997 [14], about 17% of public education spending in the same year (186.3 billion yuan). The household share rose even faster in non-compulsory education. Tuition revenue as a share of higher education funding rose from 1.7% in 1990 to 22.09% in 2000, and tuition accounted for 35.65% of secondary vocational education funding in 2000 [15].

In this regime, the main form of household education investment was the payment of fees charged by schools. Most household spending went to tuition, miscellaneous fees, and other charges collected by schools, so investment was largely a necessary burden rather than a choice. Compulsory education charged no tuition, but miscellaneous fees and other charges were widespread. Before the rural tax-and-fee reform, a large part of rural compulsory education funding came from township levies, education surcharges, and fees, so the relative burden on rural households was heavier. The main form of the urban-rural gap was the mismatch between school charges and households' ability to pay. This burden was the direct impetus for the reforms of the next regime.

B. 2006–2017: Free Compulsory Education and Competitive Investment

In December 2005 the State Council announced that all rural compulsory-education students in western China would be exempt from tuition and miscellaneous fees in 2006, and those in central and eastern China in 2007, with free textbooks and boarding subsidies for students from poor families [2]. The 2006 revision of the Compulsory Education Law established that compulsory education charges no tuition or miscellaneous fees [12]. In August 2008 the State Council exempted all urban public-school students in compulsory education from these fees from the autumn semester of 2008 [3]. In 2012 public education spending reached 2,314.757 billion yuan, or 4.28% of gross domestic product, meeting the 4% target 19 years after it was set [15].

The large increase in public funding did not reduce household education investment; it changed its direction. As the cost of compulsory schooling fell, much of the household budget that was released flowed into private tutoring. In 2017, 47.2% of primary and secondary students took part in out-of-school education, 37.8% attended academic tutoring, and 21.7% attended interest-oriented tutoring, with average spending of about 5,616 yuan among participants [16]. In the same year, academic and non-academic tutoring together accounted for about 15.1% of household education spending [17].

Xue [18] offered an influential explanation of this shift: as compulsory education became more equal across schools, the focus of educational competition moved from schooling to shadow education, and private tutoring became an important channel for maintaining intergenerational class differences. Yang and Xu [19] found that household information capital was significantly associated with school choice, tutoring, and discretionary education spending. In this regime, household education investment thus moved from compulsory payment to active competition: government assumed the necessary component, while households decided the discretionary component according to competitive needs and ability to pay.

The main form of the urban-rural gap shifted accordingly. Once school fees were abolished, the urban-rural gap in necessary spending on compulsory education narrowed considerably, but the gap in private tutoring quickly became prominent. In 2017, 44.8% of urban students and 21.8% of rural students attended academic tutoring; urban participants spent 5762 yuan on it compared with 1580 yuan for rural participants; and 29.0% of urban students attended interest-oriented tutoring compared with only 5.4% of rural students [16]. The urban-rural gap shifted from whether families could afford school fees to whether they could afford tutoring.

C. 2018–2020: Regulating Private Tutoring and a Transitional Pattern

The unregulated expansion of private tutoring raised widespread concern about student workload and educational equity, and policy began to shift from the demand side to the supply side. In 2017, the Ministry of Education issued guidance encouraging schools to provide after-school services [20]. In 2018, the General Office of the State Council issued guidelines on regulating off-campus training institutions, setting standards for their establishment, content, schedules, and fees [4]. In 2019, the Ministry of Education and other departments issued separate rules for online tutoring.

Policy in this regime focused on regulation rather than contraction. Household demand for tutoring was largely untouched, and tutoring adjusted within a compliance framework. Meanwhile, school-based after-school services began to expand as an alternative: in 2019, 29.0% of compulsory-education students used them, at an average fee of 805 yuan [13]. Household investment in this regime can be described as transitional. Its level remained high and private tutoring remained the main channel of competitive investment, but after-school services began to enter household portfolios. The experience of this regime also suggests that regulating supply-side behavior alone does little to change demand driven by competition.

D. 2021 Onward: The "Double Reduction" Policy and Structural Adjustment

In July 2021, the "Double Reduction" policy stopped approval of new academic tutoring institutions for students in compulsory education, required existing institutions to re-register as non-profit organizations, banned them from raising capital through public listings, and prohibited academic tutoring on public holidays, weekends, and during school vacations [5]. Compared with the previous regime, the policy instrument changed from regulation to direct contraction of the supply of academic tutoring.

CIEFR-HS results show that participation in academic tutoring fell from 36.1% in 2017 to 13.5% in 2023 and that its share of household education spending fell from 10.5% to 8.4%. The share of non-academic tutoring rose from 4.6% to 8.1%, and the share of school-based after-school services rose from 3.5% in 2019 to 7.8% in 2023 [17].

Total household education spending, however, did not fall: per-student spending was 11,086 yuan in the 2022–2023 school year, 29% higher than in 2018–2019 [13]. Liu and Bray found that some parents continued to buy academic tutoring through hidden channels at higher prices [21], and a systematic review by Yu et al. found that urban middle-class families experienced an increase in burden while rural families saw little change [22].

Household investment in this regime can be described as structural adjustment. Total investment continued to grow, but its channels shifted from academic tutoring to non-academic tutoring and school-based after-school services, and part of the demand moved into hidden channels. The form of the urban-rural gap may shift again. The gap in academic tutoring narrowed as the sector contracted, but non-academic tutoring already had the largest urban–rural gap before the policy, and as household investment moves toward it, the gap may shift from academic tutoring to enrichment activities.

V. Cross-Regime Comparison and Discussion

Table I summarizes the institutional features and patterns of household education investment in the four regimes.

TABLE I. Institutional Features and Household Investment Patterns by Policy Regime

Regime	Dominant policy and boundary change	Household investment pattern	Main form of urban-rural gap
1993–2005	1993 Outline; fees in non-compulsory education; rising household share	Compulsory fee payment, mainly to schools	Burden of school fees, heavier in rural areas
2006–2017	Free compulsory education; 4% target met; tutoring market expands	Competitive investment; rapid growth of tutoring	Gaps in academic and non-academic tutoring
2018–2020	Regulation of tutoring institutions; after-school services begin	Transitional; tutoring still the main channel	Tutoring gap persists
2021 onward	"Double Reduction"; academic tutoring contracted; after-school services expand	Structural adjustment toward non-academic tutoring and school services	Academic gap narrows; non-academic gap may widen

Source: Compiled by the author from policy documents and the sources cited in the text.

The comparison reveals three characteristics of the evolution of household education investment.

Public funding and household investment grew together. From the first regime to the second, government assumed the cost of compulsory schooling, and public education spending rose from about 2.5% of gross domestic product in the mid-1990s to 4.28% in 2012. A simple crowding-out logic would predict a decline in household education spending, but households instead redirected released resources into competition outside school. In the fourth regime, per-student household spending continued to grow even under strict controls on academic tutoring. Public funding changes the necessary component of household investment; the discretionary component depends on competitive pressure and does not shrink automatically as public funding grows.

Channels change with policy, while willingness to invest is path dependent. Each critical juncture changed the channels of household investment. Free compulsory education shifted investment from school to tutoring; regulation brought tutoring into a compliance framework; and the 2021 policy shifted investment from academic tutoring to non-academic tutoring and after-school services. Yet households' willingness to secure a relative advantage for their children persisted throughout. This fits the increasing-returns mechanism described by Pierson [7]: with a broadly stable admission system, parental expectations, peer comparison, and market supply reinforce one another, so policy changes the outlet for investment rather than its driving force. Positional competition offers a more direct explanation. When all households are investing, a household that cuts back sees its relative position decline, so continued investment is the individually rational choice [10].

The main form of the urban-rural gap shifts across regimes. In the first regime, the gap mainly reflected a mismatch between school charges and households' ability to pay. In the second, free compulsory education narrowed the gap in necessary spending, but a gap in private tutoring quickly emerged. In the fourth, as academic tutoring contracted, the gap may reappear in non-academic tutoring. Each policy effectively narrowed the particular gap it targeted, but the reallocation of household investment regenerated the gap in a new area. This suggests that equity policy should address the mechanism that generates gaps rather than any single spending channel.

These characteristics are generalizations drawn from data with different sources and definitions, and the regimes do not have sharp boundaries. Private tutoring already existed in cities during the first regime, for example, and non-academic tutoring was already substantial in the second. Periodization is useful because it identifies the dominant pattern of investment in each regime and the institutional conditions behind it.

VI. Conclusion

This study examined the evolution of household education investment in China since 1993 from the perspective of education policy change. Household investment evolved from compulsory fee payment to competitive investment and then to structural adjustment. The expansion of public funding did not reduce total household investment, because resources released by lower school fees were largely redirected into competitive spending outside school. Each policy adjustment changed the channels and composition of household investment, but the willingness to invest showed strong path dependence. The main form of the urban–rural gap shifted

from the burden of school fees to academic tutoring and may now be shifting toward non-academic enrichment.

These findings have three implications. First, equity policy should move from single instruments to coordinated governance. Fee reductions and supply controls each act on only one channel of household investment; as long as competitive motivation is unchanged, investment moves to other channels, so they must be coordinated with reform of examinations, admissions, and assessment. Second, public services should follow the direction in which household investment is moving. Households are now shifting toward non-academic tutoring and after-school services, so strengthening sports, arts, and science content in rural after-school services should be a priority in narrowing the new urban–rural gap. Third, policy evaluation needs a long-term perspective. Short-term evaluations of single policies tend to miss the reallocation of household investment across channels, and household surveys should maintain consistent definitions of spending items so that long-term change can be tracked.

This study is limited by the absence of national micro-level surveys of household education spending in the early years and by differences in data types and definitions across regimes. The characteristics identified for each regime are descriptive generalizations and do not support strict causal identification. Future research could use multi-wave microdata, such as the Chinese Household Income Project and the China Family Panel Studies, to test changes in household investment quantitatively within periods for which definitions are consistent.

Conflict of Interest

The author declares no conflict of interest.

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