

Chapter 2: Literature Review

This chapter reviews existing literature on the role of private higher education in the economy. First of all, we define higher education and privatization. This is followed by a discussion of the role of the private higher education in Malaysian. We discuss about the cost and benefits of private higher education, the criteria of social choices in private higher education and the merits of private higher education. The example of Philippines is examined.

2.1 Definition of Higher Education

According to Molly N.N. Lee (1996), higher education refers to the various types of formal post-secondary education institutions that train middle and high level professional personnel in programs granting certificates, diplomas and degrees.

Williams (1977) sees that post-secondary education, tertiary education, third-level education, advanced or further education are some examples of the attempt to find a terminology that avoids the anti-democratic and elitist taint that some people believe attaches to the notion of “higher education”.

Higher education enjoys a status that is ‘above’ other levels of education such as primary and secondary. Being ‘above’ can be interpreted as meaning a ‘higher’ level of knowledge in some abstract sense, or it can simply mean any kind of education or people undertake training that over certain chronological age. If so, we can conclude that any education or training of adults might be considered as an aspect of higher education from adult programmes to doctoral training in specialised fields.

Estelle James (1991b) defines private education sector as: “comprising all educational institutions which were privately founded and where some significant proportion of decision-making responsibility remains in private hands, even though government may provide substantial resources and control”.

Higher is also an appropriate description for the type of education that will be considered here, because the emphasis will be predominantly upon university-level institution.

2.2 Definition of Privatisation

The term “private” is defined as “belonging to an individual, one’s own, kept or removed from public knowledge conducted outside State system” (Oxford Dictionary, 1989). What does privatisation mean? In the higher education context, Jones (1992) defines the term ‘privatisation’ as referring to the recent and recurrent aspects of the perennial question of finance and control of higher education. Government has sought to relieve the burden on the public purse, and perhaps increase education’s social and economic efficiency. This can be achieved by permitting and even encouraging the growth of private higher education, and by introducing private sector, market-oriented practices as tuition fees, sale of goods and services, and the encouragement of individual and corporate philanthropic.

2.3 Role of private higher education

The Malaysian Government recognises the contribution of private education to nation building and vision 2020. Private educators have been called to provide more avenues, facilities and relevant programmes for the development of human resources in

Malaysia. In light of Malaysia's ambition to turn the country into a regional educational centre of excellence, the government is placing emphasis on the expansion for this sector. The development of private institutions has mushroomed in recent years and it is considered an important complement to public education.

What types of higher education systems exist? We refer to the typology of structure used by Geiger (1989). He labeled them as I) the mass private sector; II) the parallel public and private sector; and III) the peripheral private sector.

i) The mass private sector

Mass private sectors essentially fulfill the role of accommodating the bulk of popular demand for higher education. They complement public sector that are relatively small, predominantly selective and to a large extent oriented towards the elite task of higher education. The predominant provider of higher education in other countries such as Japan, Republic of Korea, and the Philippines and Indonesia is the private sector.

The policy in these countries is to allow the private higher education institutions to cater to the vocational or market-oriented categories¹. The role of the mass private sector is to meet the general social demand for higher education. This system happens where the state either cannot or chooses not to expand the public sector, even though there is high demand for higher education.

For the majority of private institutions, getting better means getting bigger. New divisions, capital improvements, and additional faculty ultimately must be financed

¹ Geiger, 1989.

through increased tuition revenues, and in the long run this can be brought about through enrollment growth. Investment of course will differ greatly in their capacities to exploit opportunities for expansion. Those in large urban centers have the most potential due to the proximity of both potential students and graduate employment opportunities in the modern sectors of the economy.

In the Philippines, the delineation is more between the best and the worst. Its private sector has tended to concentrate its offering on low-quality programs and in less costly fields. Thus, the average quality of instruction in the private sector in the mass private sector structure is found to be lower than that of the public sector². Additionally, private higher education does not undertake many research and graduate instructional activities because it is expensive and have little market value. This has further deteriorated the situation of the mass private higher education.

Low quality education tends to cause the inflation of educational credentials that can threaten the value of all college degrees. Further more, the expensive and prestigious universities at the top, and the low quality and inexpensive vocational training schools at the bottom, assures that the opportunities that are made available to all who aspire to a higher education are unequal in value³.

ii) The parallel public and private sectors

When the public and private institutions have equivalent status and functions, as in Belgium and the Netherlands, they are called as “parallel”. Government powers in

² Edita A.Tan., 1993, p.113.

³ Lee, 1994, p.158.

these two states have been employed to guarantee that private universities will for all practical purposes be equal to their counterparts in the public sector⁴. The universities are categorized as private since they are operated by the private sector but they are heavily regulated and financially dependent on the national budget.

The state must provide most of the financial resources if independently controlled institutions are to be able to educate their students virtually without charge. This of course depends upon the decisions taken by the politicians.

The private institutions in these two countries have full government funding and a substantial imposition of government control. The involvement of the government in the financial burdens of private universities is to assure that the quality of the university level would be maintained and it would not become a privilege of the wealthy.

Even though so, these are the prices that the private sectors need to pay. The private universities in these countries have obviously sacrificed some of their independence and some of their distinctiveness in return for complete support from the state.

iii) The peripheral sector

Where public higher education is restricted in size and somewhat selective in intake, private sectors become the agency for meeting the general social demand for higher education. When public and private institutions have equivalent status and functions, the two sectors may be said to be "parallel". And, where government chooses

⁴ Geiger, 1989, p.75.

to have the public sector dominate the principal tasks of higher education, private institutions are left with only “peripheral” role to fulfill.

The scope of peripheral private sectors is largely determined by the extent to which the higher education terrain is dominated by public sectors. Where governments choose to have the public sector dominates the principal provision of higher education, like in France, Sweden and Great Britain; government are generally able to utilize their legislative powers and financial resources to assume those educational functions that they consider appropriate for state provision. This concludes that the private sectors are relegated to the task that is neglected by the state. These neglected tasks are the non-university post-secondary education, which include vocational education and training for commerce and private industry. Besides that, they also provide vocational or service programmes that tend to be short, practical, and specifically focused.

In some cases, the private sector has its own distinctive singular institution that commands high prestige in its chosen field such as the Ecole Libre des Sciences Politiques in France, and the Stockholm School of Economics in Sweden (Lee, 1994: 159). There are also private institutions that are similar to universities but are not given recognition and equivalent status. They are forced to operate around the periphery of the state system of higher education⁵. The peripheral private sector emerges to serve purposes not acknowledged by the state.

Dominant public sectors generally choose to monopolize the university component of higher education either because of the high cost required to maintain quality. Private institutions in the peripheral sector need to be innovative and creative in order to protect themselves from direct competition with the public sector.

In countries where the state restricts the provision of higher education, the private sector's task will be providing more higher education to meet the excess general demand. Peripheral private sectors provide a valuable supplement to dominant public sectors precisely because they serve the legitimate, collective, private ends of the sponsors. As long as those sponsors remain members in good standing of the national polity, that role constitutes the essence of public service for these private institutions⁶.

Where public higher education is restricted in size and somewhat selective in intake, private sectors become the agency for meeting the general social demand for higher education. The result is a 'mass private sector' that usually contains the majority of a country's enrollments. Where public and private institutions have equivalent status and functions, the two sectors may be said to be 'parallel'. And, where government chooses to have the public sector dominate the principal tasks of higher education, private institutions are left with only 'peripheral' roles to fulfill⁷.

⁵ Geiger, 1989, p.107.

Figure 1: Role of Private Higher Education

The Mass Sector	The Parallel Sector	The Peripheral Sector
<ul style="list-style-type: none"> • The private sector plays a dominant role compare to public in the higher education. • The private higher education is catered to market-oriented categories. • Non-government intervention. • The bigger the institutions the better institutions. • The private sector is tended at offering on low-quality programmes. • Offer the programme that is less costly and profit-oriented. • Did not undertake much research because it is expensive and little market value. • Countries involved: Japan, Republic of Korea, The Philippines, Indonesia. 	<ul style="list-style-type: none"> • The public and private institutions have equivalent status and functions. • Operated by private sector but are heavily regulated and financially dependant on the national budget. • They have full government funding and a substantial imposition of government control. • The involvement of government is to ensure the quality of private sectors. • The course offered depends upon the decisions taken by the politicians. • Countries involved: Belgium, Netherlands. 	<ul style="list-style-type: none"> • The government chooses to have public sector dominates the higher education, the private sector supplement the task that are neglected by the state. • Government intervened to ensure the quality of higher education. • They do not have full government funding. • The courses offered include vocational education and training for commerce and private industry, and also programmes tend to be short, practical and specifically focused. • Countries involved: France, Sweden, Great Britain, Malaysia.

2.4 Role of Private Higher Education in Malaysia

The study by Lee (1994) shows that private higher education plays only a peripheral role in Malaysia. The public sector dominates in the provision of university education and the private sectors are relegated to the task that is neglected by the state. The private sector is relegated to task of providing non-university post-secondary education. It provides “more of the same” as the public sector.

⁶ Geiger, 1989, p.160.

⁷ Geiger, 1989, p.2.

Therefore, if the Malaysian government continues to adopt its laissez-faire policy towards private education and at the same time restrict the expansion of public sector, there will be a tendency for private higher education to grow into a mass private sector whose role is to meet the excess demand for higher education. On the other hand, if the government controls the expansion of private education, the private education sector would continue to play a peripheral role in the country.

2.5 Private higher education in Malaysia

Quek (1991) focuses on the trend and the development of education in the Malaysia context and the programmes offered. The author argues that the emergence of private colleges has induced an increment in inequalities in the country. The private institutions have become the focus for the non-bumiputeras due to the quota set up in the public universities.

Besides that, Quek mentions that there are less employment opportunities for public-educated students compared to the private-educated students. This is because the medium of instruction in the private education institutions is English. Furthermore, many of the students from public universities were allocated places in the arts, social science, pure science programmes – fields that have considerable less market value than other fields such as accounting and business. In contrast, students from the private institutions undertake courses that are usually more market-driven.

Quek raises the question of the quality of the private institution and sees that the private institutions are more prone to profit-maximisation rather than to ensure the quality of the courses or the welfare of the student.

As for Doh (1986), there is a problem of places for university student. This is due to the limited places for students in the public institutions leading to excess demand. Students that intend to further their study have no choice but to do it in overseas at a very high cost. Thus, there is a need to find a solution to this problem.

Private education seems to be the way out of this problem. Private higher education is being viewed as an industry just like any other economic activity. Moreover it is seen as a 'commodity' which would play the same kind of role as any export items.

These private institutions are hoped to not only generate income to the country but also helping in the savings of foreign exchange, employment creation and economic multiplier effect (the expenditure would generate business for construction and building materials, books, equipment, stationary, food and related industries). Better still, create an atmosphere for foreign investment in the private higher institutions.

2.6 Education as Consumption and Investment Activities

Is education especially higher education, consumption or an investment activity? As Schultz (1961) pointed out, much of what we call consumption constitutes investment in human capital. We consume and at the same time, we invest. For examples, the purpose of direct expenditures on education is to take advantage of better job opportunities and the cost includes earnings foregone by mature students attending school. It is in this sense, therefore, that outlays on education may come to be regarded, legitimately, as forgoing present income and satisfaction in order to lead to a rise in the future flow of satisfaction or income.

Similarly, Vaizey (1973) views investment as a complex process, but it usually has to do with the notion of forgoing current consumption so as to increase the stock of capital goods, thus increasing, in turn, the flow of future consumption goods. Therefore, to look at what happens to educational expenditure as a process of investment, investment that usually takes place over long periods of time to mature gradually in the future welfare of a family, or of a society or nation.

2.7 Cost of Higher Education

When we are consuming education, the expenditure on education is known as the cost of education. But, according to D. Bruce Johnstone (1991), cost of higher education not only includes the expenditure mentioned above but also other costs as well. Johnstone divided the cost into four categories:

- Basic cost of institution: These are the costs of faculty and staff salaries, equipment, libraries, administrative and basic academic computing, and certain capital or location costs such as rent.
- Cost associated with sponsored research or special activities covered by their own funds or appropriations and that are not specially-designated revenues.
- Cost of student living: rooms, board, clothing, laundry, entertainment and other expenses. These costs of student living vary according to whether the student lives at home with parents or with a spouse or in a student flat or dormitory, not to consider the prevailing standard of student living.

- **Cost of forgone earning:** this cost happens of the student while disengaged from the productive work force.

2.8 Benefits of Higher Education

The Institute for Higher Education Policy (1998) categorizes the benefits of going for higher education into four types. They are:

- **Public economic benefits:** these benefits can be broad economic, fiscal, or labour market effects including – increased tax revenues, greater productivity, increased consumption, increased workforce flexibility and decreased reliance on government financial support.
- **Private economic benefits:** These are the benefits that have economic, fiscal or labour market effects on the individuals who have attended higher education including – higher salaries and benefits, higher employability, higher savings level, improved working conditions, personal or professional mobility.
- **Public social benefits:** These benefits here are accrue to groups of people, or to society broadly, that are not directly related to economic, fiscal, or labour market effects. These include – reduced crime rates, increased charitable giving or community service, increased quality of civic life, social cohesion and improved the ability to adapt to and use technology.
- **Private social benefits:** These benefits here are accrue to individuals or group that are not directly related to economic, fiscal, or labour market effects. These include – improved health or life expectancy, improved quality of life for offspring, better

consumer decision making, increased personal status, more hobbies and leisure activities.

2.9 The Criteria of Social Choice in Education

According Psacharopoulos (1980), the factors that drive society's choice of education are due to efficiency, equity and employment effects, social demand and flexibility benefits in the case of university education.

- **Efficiency:**

The term "efficiency" here divided to internal efficiency and external efficiency. Internal efficiency refers to how well the educational institutions in educate the pupils and turn out of its graduates. External efficiency refers to how well its graduates fit in the social setting after they leave school.

- **Equity:**

Education contributes to equality (or inequality) in a given society. It affects upward social mobility and hence it helps particular population groups to move occupationally or geographically in the desire direction from the point of view of national well-being. Besides that, education also affects the earnings structure or the number of people belongings to a given income class. The impact of education on income distribution is likely to be stronger in developing countries because of the larger earnings differentials associated with education.

- **Employment:**

Education is related to employment. There have been different supply and demands in different level of education from the illiterates, primary, secondary to higher education. Unemployment is heaviest among the uneducated young ones and the higher education graduates might search for a long period before accepting a job. Thus, the highest employment rate is among the primary and secondary students.

- **Social demand:**

Education is not only provided for manpower creation. It takes the form of consumption benefits over the educated person's lifetime. The individual may wish to obtain a given degree and yet they might have no intention of participating in the labour force. This individual pressure is known in the literature as "social demand for education". The increased social demand for education is due mostly to the rising incomes and expectations.

- **Flexibility:**

There has been a vast change in the world we live in nowadays and human resources must quickly adapt themselves to such change. The adaptability to changes lies in the flexibility of the human resource and the onus is on the educational system to turn out flexible, adaptable men. Of course, "flexibility" might be considered as just the other side of "employability".

2.10 The Merits of Private Sector Participation in Higher Education

In order to be competitive, the private sector needs to be more efficient. The private education sector is financially dependent on student fees, thus more subject to the discipline of the market. As for the public higher education, they have less stringent operational constraints. Budgetary support is not contingent on the level of enrollment but more to the government budget and there is a long lag between changes in level of activity in a department and adjustment of budget to the changes.

According to Edita A.Tan (1993), some evidence about the relative efficiency of private education and training institutions are available in World Bank Studies. In number countries, the average cost of instruction is higher but the academic performance of students is lower in public than in private institutions (as reflected in achievement scores)⁸. Additionally, its cost is much higher on average than the private sector. The average instructional cost in a number of poor quality colleges/universities is more than twice the cost in equivalent private schools⁹.

The bulk of private higher education institutions in many countries were established in response to private demand, which largely consists of demand for vocational degree programs. But then, there is also private demand for higher education due to personal enhancement. Education for this purpose is not likely to be the top priority of governments especially those in less developed countries where it is probably viewed as a luxury. Yet the demand is there and it will be externally inefficient and inequitable not to meet this demand for which people are willing to finance.

⁸ Edita A.Tan, 1993, p.109.

Privatisation provides government with a big leeway in making political difficult choices in education. The growth of demand for education at all levels has tended to outstrip government resources. The pressure from those with secondary schooling and the socio-economic elite who have a higher probability of being admitted to the existing institutions has pushed government's to relax on the quality of the enrolment. This refers especially in monetarily profitable higher education categories in where the countries that allow private higher education structure whereby much of the growth in demand has been absorbed by private sector.

The existence of a substantial private sector possibly reduces political interference in higher education decision-making since the size of the population that would be directly affected by government is smaller. Reforms would be easier to implement when government role is small. Reforming a large public higher education system is difficult where students are accustomed to large subsidies and where the faculty and staff are all protected by civil service rules¹⁰.

⁹ Ibid.

¹⁰ Edita A.Tan, 1993, p.111.

2.11 Private Higher Education: the Philippines as a Prototype

James (1991a) looks at the private higher education in the Philippines. The education system is examined as a case study. There are three parts of this paper. Part one talk about the growth of higher education and private funding in the Philippines. Here, Estelle James divided the private higher education into two main categories, namely for-profit and non-profit private institutions. It also includes the analysis of private rate of return to higher education. The private rates of return to higher education make it a profitable private investment to many prospective Filipino students. The college graduate can earn higher monthly wages than other worker can and they have a higher chance of getting employed compared to those without college degree.

Since the for-profit private institutions are allowed in the Philippines, the private institutions tend to be profit-oriented. The capital requirements and risk were low, entry was easy and the existing institutions expanded rapidly in size, as profits were reinvested. As a result, it raises the dilemma of quality and quantity of higher education.

This paper also set forth the key characteristics of the private sector, in terms of product mix, cost, quality and size, and contrasts these characteristics with those in the public sector. The private sector wishes to minimise its cost and maximise the profits. Thus, the management or social science fields, which can be taught in large class with low capital requirements will be emphasized rather than laboratory science, whose cost are high and difficult to recoup through tuition fees.

Furthermore, in order to minimise the cost, private colleges and universities often hire teachers and other staff with lower credentials and use their personnel with greater intensity. Another common method of economising on labour cost is to hire part timers rather than full time staff in which they are less committed to the institutions and less available to the students. As the teaching loads are heavy for the teacher in the private sector, the time use to do research or for graduate study are low and this further deteriorate the quality of higher education in the private sector.

In the Philippines, it appears that the non-profits are aiming at the prestige or high quality market (associated with small classes, selective admissions, low enrollments and high tuition). The for-profits will be aiming at the mass market (associated with large classes, nonselective admissions, high enrollments, low tuition and presumably high profits).

Last but not least, James (1991a) also explores the policy implication of these finding, including both efficiency and equity considerations. What the paper suggest here is that grants and subsidies loans for capital intensive laboratories and research projects could be awarded to public as well as private, according to the merits of the projects and the quality of their faculty. Besides that, as the lower cost per student may reflect higher efficiency in the private sector, therefore a shift toward privatisation would expand society's production possibilities frontier. Anyway, society may still have to face a quantity-quality trade-off under the privatisation of higher education.