Equality of Opportunity and Student Support Schemes

Russayani Ismail
Faculty of Economics, Universiti Utara Malaysia

Introduction

A positive link between investment in education and labour income has received much attention in the early literature such as Mincer (1958) and Becker (1962). It is a known fact that education particularly higher education plays an important role in promoting intergenerational mobility and economic equality as such that it is considered a tool for redistributional policy. According to Article 26 of the Universal Declaration of Human Rights, higher education shall be accessible to all on the basis of merit. For this reason, subsidising higher education might be used as one of the policy options to promote equal access and redistribute income. Public provision of higher education will enable students from poor families to take part in higher education and later on benefit from future higher earning thus reducing inequality in the society.

In the 1950s and 1960s there was a dominant view that public education including higher education should be made available free of charge. This was essentially justified on the ground that education results in higher social mobility and provides opportunity for the poor to get education. However as time goes by the policy of free education seems to confront many challenges including fiscal pressure, consistent rises in unit costs of providing education and rapid growth of student enrolment. Hence, globally we have witnessed radical changes on higher education system as a whole and higher education financing in particular. The World Bank (1986) has backed the movement by outlining several strategies such as introducing or raising tuition fees and replacing scholarships with student loans.

Today, loans have become one of the most important student support schemes being implemented in more than 50 countries worldwide. Even though student loans can be regarded as a way to reduce government's burden in financing higher education, it also raises vital issues in terms of equity. Many opponents of student loans believe that this type of student support will deter those from poor families from borrowing thus this group of people will be under-represented in higher education.

The debate on the efficiency and equity of cost recovery especially student loans has received much attention among the advocates and the opponents of cost recovery. In Malaysia, as in other countries, the issue of cost recovery especially student loans has received much attention among students, parents and policy makers. Realising that the financing reform towards cost recovery will continue to be the main agenda for years to come, this paper aims to analyse the current status of the introduction of cost recovery in the context of Malaysian higher education system and relate it to the issue of accessibility. The discussion will stress on the student support schemes especially student loans and a few recommendations will be put forward to improve the current state.

The Concept of Cost Recovery

Basically, cost recovery indicates revenue generated from those who directly benefit from education. According to Albrecht and Ziderman (1992), cost recovery refers to the revenue generated from charging tuition fees and delayed cost recovery refers to the tuition deferment through the introduction of student loans or a graduate tax. For countries which have introduced tuition fees, cost recovery would mean increasing fees above what is currently charged. The introduction of cost recovery is nonetheless proven to be politically difficult and receives many objections from the public who perceive this as the deprivation of the rights of the poor. Therefore, with the introduction of cost recovery, there must be some financial support introduced alongside which can relieve the pressure of poor but eligible students who want to participate in higher education. Salmi (1992) and Tilak (1997) stressed this important issue by stating that cost recovery cannot be implemented without some sort of financial support to academically qualified poor students. Evidence in many countries shows that increases in tuition fees are accompanied by loan schemes and graduate tax being introduced in order to ease students' financial constraints.

Loans

Unlike investment in other physical goods such as housing or machinery which can be used as collateral against borrowing in the capital market, investment in human capital lacks this collateral security, hence imperfections in the capital market will restrict poor students from borrowing. Therefore, making financial resources available to academically qualified poor students through student loans is seen as a necessary step to help them get access to higher education. Loan programmes have been introduced in various forms in terms of repayment schemes and administration. Two basic types of repayment schemes are mortgage type loans, where the repayment is in fixed instalments over a fixed period, and income contingent loans where repayment is a certain percentage of the borrower's annual income making the repayment period endogenous. The drawback of mortgage type loans is the possibility that it will deter potential students from borrowing since students have to pay an open-ended proportion of their income whereas the returns from their human capital investment are uncertain. Income contingent repayment, on the other hand, limits this burden. The administration of the loans programmes can be carried out either by autonomous public lending institutions or publicly or privately owned commercial banks.

Graduate Tax

The idea behind the implementation of a graduate tax is to fund higher education with specific tax revenues derived from graduates who benefit directly from higher education. The tax upon graduates is considered as the repayment of the costs of their education. The graduate tax is considered an equity contract in the sense that it allows the government to finance the cost of education and later on claims on part of students' future incomes (return on their investment) through tax. The concept behind the graduate tax is similar to that of deferred fees in which instead of loans now the government provide grants to cover costs of higher education. Graduates will only have to repay after graduation and when receiving earnings from their employment.

Overview of Higher Education Financing Reform in Malaysia

Education is one of the major items of public expenditure in Malaysia and the government continues to steadily allocate 19-20 per cent of the National Budget for the education sector and almost 5 per cent goes to financing public institutions of higher education. High priority given to the education sector by the Malaysian government can be clearly seen in terms of its expenditure as a percentage of gross domestic product (GDP). In 2005 for example, the public expenditure on education was above Organisation for Economic Co-operation and Development (OECD) average of 5 per cent of GDP. In Malaysia, public education is highly subsidised particularly at the university level. It is reported that about 80-90 per cent of university revenue comes from the government. Due to this high subsidisation, the fees paid by the students only cover less than 10 per cent of the actual cost. The numbers of public and private universities have increased dramatically over the past 10 years. Currently there are 20 public universities offering certificate, diploma, first degree and postgraduate degree education. Enrolment at public universities also has increased at a significant rate and as shown in Table 1, the enrolment is projected to increase further by 2010. The increase in demand for public higher education is attributed to several factors:

a) Growth in income due to the rapid development of the Malaysian Economy.
b) Financial crisis in 1997, resulting in a drastic reduction in the number of students sent abroad.
c) Rapid growth of information technology and the nation's quest for vision 2020 which addressed the issue of developing human capital.

The increase in demand for more places causes the government to exhaustively use the already limited funds available. For that matter the government is in immediate need to find new funding mechanisms to assist public universities to ensure that the capacity of these universities to increase enrolment is met without affecting qualities. According to the Ministry of Higher Education, a number of funding approaches have been introduced such as the establishment of means test scholarship and loan schemes, and allowing universities to develop new ways of raising revenue such as through consultancy, services, and rental of premises. The Malaysian government also encourages involvement of private sector in providing higher education.

Despite huge budgets allocated for higher education and the establishment of new public higher education institutions, shortage of places for qualified candidates still persist. According to a report by the Ministry of Higher Education, only one third of those who are academically qualified will get places in public local higher education institutions. For instance, in 2007/08 academic session of 135,558 applications, only 25,842 places are available.

Table 1: Total enrolment at public and private higher education institutions 2000, 2005 to 2010

Level of study	No. of students						
	2000	2005			2010		
	Total	Public	Private	Total	Public	Private	Private
Certificate	105,570	37,391	94,949	132,880	141,290	143,480	284,770
Diploma	208,454	98,953	131,428	230,381	285,690	188,680	474,370
First Degree	230,726	212,326	110,591	322,917	293,650	134,550	428,200
Masters	26,181	34,436	4,202	38,638	111,550	5,770	117,320
Phd	3,490	6,742	140	6,882	21,410	270	21,630
Total	**574,421**	**390,388**	**341,310**	**731,698**	**853,590**	**472,750**	**1,326,340**

Source: 9th Malaysia Plan, Schedule 11-6, pg. 257

Student Support Scheme

It is learned that students especially from less advantaged economic groups choose not to enter private higher education institutions particularly due to large differences in fees charged between public and private higher education institutions. This is well recognised since the issue of accessibility greatly depends on the financial contribution of the government and also the financial status of the students. In this regard in order to ensure that the financial burden will not be an obstacle for the high ability students to have access to higher education an appropriate policy regarding student support schemes should be put in place. In general there are two types of student support schemes currently provided by the government i.e. scholarships and student loans.

Before 1990's, student support scheme was normally in terms of scholarship. Almost every bumiputera student who enrolled in public universities in the 60's and 70's received scholarship to pursue their study. However due to increase in the number of enrolment and financial stringency, student loans were then introduced. In Malaysia, the student loans are primarily managed and distributed by the National Higher Education Fund Corporation (NHEFC) or *Perbadanan Tabung Pendidikan Tinggi Nasional* (PTPTN). These loans are intended to subsidise part of the education fees and living expenses especially for the less advantaged socio-economic group. Since its establishment in 1997 the total loans distributed amounted to 15 billion which have been distributed to 900,000 students. Students from private and public higher education institutions are eligible to apply for the loan. However the amount of loans differs according to institutions, level of education, field of study and net income of parents/guardian of the students. For example, students from public higher education institutions doing their first degree in science may receive a full loan of RM6,500, whereas students from private higher education institutions doing the same programme may receive a loan of RM16,000.

The move by government to replace scholarships with student loans has been seen as a strategic move by many politicians as a way to release the government's burden (increase efficiency). However, other stakeholders such as parents and students especially those from poor financial backgrounds perceived it as a deterrent for having access to higher education. There were hot debates and considerable objections by the public at the early stage of its implementation.

The introduction of student loans was not without problems. Like any other student loans in developing countries, PTPTN encountered problems pertaining to the repayment by the borrowers. Dating back to 1999, there were 38,484 graduates who owed the fund at the estimated RM867 million. Even though many believe that the problem of defaulting is due to students' inability to make a repayment, a thorough and in-depth study is yet to be carried out to confirm the matter. In order to overcome the problem of defaulting, various measures have been taken by the government such as having the defaulters' names blacklisted and asking borrowers to have individual file number issued by the Inland Revenue to make loan recovery easier to administer.

The shift towards cost recovery by introducing student loans is a good move to ensure public-private sharing of higher education costs but a number of strategies need to be considered to improve the effectiveness of the student support scheme. This is very important as any policy regarding student support scheme must guarantee that the students receive appropriate assistance in order for them to get access to higher education and reduce the burden on the government.

Some Recommended Strategies

Targeting Student Loans

Giving student loans to each individual student would be a very expensive policy to carry out especially when the subsidised interest is very large and the possibility of defaulting is very high. If the government's intention is to increase the number of participation, loan targeting may be an appropriate policy. Ziderman (2004) pointed out that a large subsidy on student loans provided to every student taking higher education is unjustified. He listed several ways of loan targeting:

i) To target only poor students. However in terms of efficiency this kind of targeting might not be a good solution, since poor students are high risk borrowers, and lead to a greater propensity of defaulting.
ii) To target students of greater academic ability. This will ensure the internal efficiency of the loans scheme since high ability people are less likely to dropout, have a high probability of securing better position in life and hence a low probability of defaulting on loans repayment.
iii) To restrict loans to students only in occupations with short supply. This, according to him, will lead to greater external efficiencies of the scheme.

One problem which may arise with targeting is that the loans do not reach the target group. In many cases the social characteristics of recipients do not correspond to the planned distribution of recipients (Salmi, 2003). One example is the Jamaica Student Loan Bureau where the data shows that in 1997, about 62.3 per cent of loan recipients came from the highest income group. Salmi (2003) also raised the issue of stringent guarantee system which can discourage or eliminate applicants from less affluent families. Thus according to him, a more transparent eligibility criterion is needed to ensure that the most deserving students actually benefit from the system.

Introducing Income Contingent Loan

The uncertainty of future returns from investment in higher education may result in students' refusal to borrow. The best approach to deal with this problem is to introduce Income Contingent Loan where the repayment is contingent upon income. Students only make the repayment after being employed and reaching certain threshold level of income. This type of loan will reduce the borrowing risk and attract more students to borrow. Australia, for example, has successfully adopted the system of deferred fees through Income Contingent Loan and suggests that higher fees can be introduced without adversely affecting the participation of students from less well-off families.

Introducing a Graduate Tax

The problem with mortgage-type loans which deter students from borrowing is due to the nature of the loan which requires fixed repayment whereas the students face uncertainty of future earning. If students can insure against their uncertain future income this problem could be overcome. However, this solution is unlikely to materialise due to the nature of human capital investment which brings with it the problem of moral hazard and adverse selection. In this case, the graduate tax with the future repayment depending on lifetime income may provide a better solution. The idea of introducing a tax on graduates has long been proposed as a method of recovering the cost of education and at the same time widening the access among the poor through the provision of insurance against future uncertainty. The original concept of a graduate tax was developed based on the idea that graduates will not have to pay upfront the cost of their education which will initially be borne by the government. Graduates will only have to pay it later on during their working life at a certain rate of tax.

Conclusion

The rising cost of providing higher education and the rapid increase in the demand for places have caused many governments to resort to the new financing mechanism known as cost recovery. Cost recovery recognises the importance of private sharing towards the cost of education. It has also been seen as an effective method to release the government's burden in financing education. From the discussion above it is clear that Malaysia, as many countries around the world, is moving towards cost recovery. This can be clearly observed from various policies being implemented such as corporatisation of universities, establishment of private universities and the shift from scholarships funding to student loans. As far as student support schemes are concerned the introduction of student loans can be considered a good method of recovering the cost of education. However, in taking such a step the government must be extra careful of the consequences brought upon by the loans scheme which might deter poor students from getting access to higher education. In such a case where mortgage type loan is available, loan targeting might be more appropriate as it will reach the target group and reduce burden on the part of government. Other methods of student funding might be of advantage such as Income Contingent Loan and Graduate Tax.

As far as student support schemes are concerned the introduction of student loans can be considered a good method of recovering the cost of education. However, in taking such step the government must be extra careful of the consequences brought by the loans scheme which might deter poor students from getting access to higher education.

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