

## THF Lecture Series

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# FINANCING HIGHER EDUCATION IN THE ASIA-PACIFIC REGION

The Quest for Quality, Capacity,  
Affordability, and Equity

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## **Abstract**

The quest for quality, capacity, affordability, and equity in higher education is elusive. Solutions to one set of issues may exacerbate or at least hamper the ability to solve another. And many problems, particularly those involving accessibility and persistence to degree attainment, are embedded in even deeper social and cultural phenomena such as regional, ethnic or linguistic marginalisation, with unequal access to the benefits of higher education only one of many problem, equally difficult to solve and all seeking the attention—and the resources—of policy makers in a myriad of central and local governments. This article sets out the challenges in higher education around the world which present difficult trade-offs.

## **Introduction**

The HEAD Foundation of Singapore is a new and welcome think tank, poised to make a difference in what may be most economically dynamic, yet diverse and in some ways tumultuously changing, region in the world. One of the early directions of the foundation is to examine the elusive and vexing question of how the dynamic but disparate states of the Asia-Pacific region can simultaneously:

- provide sufficient capacity in their public institutions of higher education;
- continue to encourage but in some countries to better regulate, the private provision of higher and other forms of post-secondary education;
- strengthen the academic quality and economic relevance of their teaching programs;
- fit the numbers, skills, and interest of graduates to tomorrow's needs of public and private enterprises;
- prepare graduates for an increasingly globalized world;
- expand from a few world-class research universities to many;
- do all this without jeopardizing—indeed while expanding—participation rates, equity, and social justice, especially among the poorest and most needy;
- and do all of this under conditions of intense competition for scarce public revenues from other public claims: elementary and secondary education; roads, bridges, and other needed investments in infrastructure; public health; and housing, to name but a few—all of which can make claims every bit as politically and socially compelling as yet more resources to higher education.

The quest for quality, capacity, affordability, and equity: elusive indeed. Solutions to one set of issues may exacerbate or at least hamper the ability to solve another. And many problems, particularly those involving accessibility and persistence to degree attainment, are embedded in even deeper social and cultural phenomena such as regional, ethnic or linguistic marginalization, with unequal access to the benefits of higher education only one of many problem, equally difficult to solve and all seeking the attention—and the resources—of policy makers in a myriad of central and local governments.

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Furthermore, the countries that comprise the focus of the Singapore-based HEAD Foundation are among the most disparate in the world, make common solutions and learning from one another states a daunting challenge—even if the problems seem very much alike. But only consider that the nations of East, Southeast, and South Asia contain:

- three of the four most populous countries in the world in China, India, and Indonesia—along with other very large and a number of small and even new states;
- countries facing slowly growing or even shrinking youth populations and others with surging numbers of youth seeking a place in the higher education system—presenting vastly different challenges to institutions and systems of higher education;
- Japan and South Korea in the OECD club of advanced industrialized countries, joined by other advanced economies such as Singapore, Taiwan, and Hong Kong as well as Malaysia and Thailand—but also several states classified by the world Bank as low-income (even if rapidly growing);
- countries with ethnically and linguistically homogeneous populations such as Japan, South Korea, and Vietnam along with states featuring a rich—but in many ways challenging—mix of ethnicities and languages such as Indonesia, China, and the Philippines; and
- states with greatly differing political-economic systems, ranging from the centrally-controlled market socialism of China to the regulated capitalism of Singapore, to the and complex and seemingly ever-changing economies of India and Indonesia trying to find that balance between state steering and free market capitalism.

And yet—and here is the theme of this address—the challenges cited above regarding higher education as well as many of the solutions—are very much the same in this dynamic and diverse part of the world. All of the challenges present difficult trade-offs, and no solutions make everyone happy. The result too frequently can be a kind of policy paralysis: the politicians preferring to lay the studies and recommendations on a shelf in hopes that the problems, the restive voters, and the international development banks that may have sponsored the studies can wait until they retire on their pensions. Or, ministries re-analyze the data and hope for a different and more satisfactory answer to emerge. Still others test the political winds and do that which seems to alienate the students or the political opposition the least—regardless of the consequences, both unintended and foreseeable. And a few countries do what some other country seems to have done successfully: Australia, perhaps, or England, or Canada or the United States—generally, and unsurprisingly, without the same success.

For the past 30 years, I have studied written about, and consulted on higher educational finance and policy formation from an international and comparative perspective. I have come to conclude that some policies to meet the challenges of expanding capacity, quality, affordability and equity with limited governmental

revenues are better than others and will end in some modest success. Other supposed solutions end in failure for reasons having nothing to do with the correctness of the policy. But I recommend solutions only occasionally and only do so mindful, and humbly aware, of the greatly differing histories, cultures, natural endowments, and prevailing ideologies that form the context for a country's higher educational system.

So let us consider the needs and challenges of higher education in the Asia-Pacific Region and what these mean to governments, to taxpayers, to students and potential students.

It goes quite without saying that higher education—or the more expansive term, tertiary education—in the 21<sup>st</sup> century has acquired the status of a precious and indispensable good, both public and private, and thus to be a worthy investment: for countries, families, and students alike. Indeed, as the world and the world's economies become increasingly globalized and as economic leverage and influence flow increasingly from knowledge and higher level skills—including sectors like agriculture and tourism—a country's economic well-being depends on an educated workforce.

As or even more important, a country's political, cultural, and civic well-being depends on an educated populace—and not just in science and technology, but in history, languages, literature, and philosophy. Basic, secondary, and all sectors of tertiary education, from the scholarly research universities to technical and community colleges—are thus aptly termed public goods: goods the benefits from which spill over beyond the individuals so educated and enrich the larger general populace.

Education, and especially higher education, is also a private good, bringing benefits to its graduates and to their families in forms not simply of better jobs and higher lifetime earnings, but of greater status and influence that in turn expand life's choices: of occupations, friends, spouses, partners, and places to live. Thus higher or tertiary education seems like a wise investment for countries and families, and individuals. But there are enormous challenges to this seemingly easy prescription: challenges that are common to virtually all countries.

These challenges begin in most middle- and low-income countries with the rapidly and relentlessly increasing demand for higher education places and the need for additional college and university capacity: for more lecture theatres and laboratories, campuses, residence halls, and of course more faculty and staff. This surging demand for greater capacity is driven by four forces.

The first is essentially demographic: the consequences of high birth rates and increasing college- and university-age populations—especially in most middle- and low-income countries—that are then accelerated by the rapidly growing secondary school completion rates of these already rapidly increasing population cohorts.

Complementing demographics is the equally surging private demand for tertiary education borne of an increasing awareness that higher education is the key to better jobs, higher status, political leverage, greater influence, and more lifetime choices. Economists may quibble about the degree to which added levels of education actually make individuals more productive, or whether the added

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education is an easily-read signal to employers that an individual possessing a higher level of education probably has the personal qualities they are mainly seeking: intelligence, ambition, good work habits, the ability to defer gratification, and the like. But whatever the complex reality, there is little question but that higher levels of education are keys to most of the best jobs—in addition to other lifetime advantages prized by individuals and their families.

Third is the increasing public demand for more education, presumably by politicians and civic leaders recognizing that tertiary education—including short-cycle training as well as education and research at the highest levels—are the keys to economic growth, global competitiveness, democratic values, and a vibrant civil society.

The fourth force behind rising enrollments is the quest for social justice and the expansion of higher educational accessibility to those who have traditionally—in all countries—been excluded or at least underrepresented in higher education. These have been the isolated, the ethnically and linguistically marginalized, sometime girls, and always the poor. And we must not be misled into believing that equal access is demonstrated by the young boy or girl born in poverty who makes it on the basis of extraordinary intelligence, character, and god fortune. True educational equity and social justice must be demonstrated not just by the extraordinary few who make it, but by the widening participation of the average and even the below average who do—remembering that on any given attribute or capacity, fully one half of us will, by the definition of average, fall below on that measure.

The pressures of rising enrollments are then on top of already soaring per-student costs that would translate to high and rising costs and revenue needs even without the aggravation of the need to accommodate burgeoning enrollments. The annual increase in per-student costs and thus in per-student revenue needs is also common to public colleges and universities everywhere and is a function of three virtually universal factors.

First, changes in unit costs in tertiary education, as in other labor-intensive, productivity-resistant sectors of modern economies, mirror changes in faculty and staff compensation and therefore to produce rising unit costs that tend to exceed the rise in costs and prices generally: that is, to exceed the prevailing rate of inflation—at least if there is any real growth in the economy. This is because workers in such enterprises—mainly faculty—typically get similar wage and salary increases, at least on average, as those in the capital intensive, productivity-receptive, sectors of the economy. These sectors—typically manufacturing, but any sector of the economy that employs automation, cost-reducing technology, aggressive management, outsourcing, and innovation to drive up productivity—are able to increase the real wages of their employees while holding the prices of their goods or services below the average of all price increases, or below the rate of inflation.

None of this is new: neither the relentless rise of costs and revenue needs, nor the inability of public funds in most countries to keep up. And hence the conundrum:

- Expanding participation—at least in the conventional mode—requires expanded capacity, which requires new capital costs and the on-going costs of additional faculty (assuming they can be found).

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- Expanding capacity and quality, then, requires supplementing these limited governmental revenues. And the only *non*-governmental revenue source that is substantial, stable and on-going—and that is continuing rather than one-shot—is an increase in tuition fees or other forms of cost-sharing.
- But of course, this remedy collides with the objectives of affordability and equity, with any increase in fees threatening—if the students are to be believed—to exclude the sons and daughters of the poor.

So what to do? How to manage this elusive quest for quality, capacity, affordability, and equity in the Asia-Pacific Region? With several caveats—that these are not new recommendations; that I am mainly talking to the converted and that I am really addressing politicians and power brokers in the sovereign states of the Region who may not be in this audience; and that political push-back to what am about to recommend, as other have recommended before me, is as inevitable—I offer the following six thoughts.

The first step to containing costs while widening access is to improve middle and secondary education. Too much of the high and perpetually rising costs, especially in two and four-year university colleges, is teaching what should have been taught in secondary school. It is at the middle and secondary levels that basic skills, a love of learning, further academic aspiration, and good study habits are formed. Pushing these burdens to the level of community colleges is both costly and ineffective. In sociology-speak, diminishing the intergenerational transmission of academic readiness and aspiration—and thus of lifetime status, income, and influence—starts in the schools not in the universities and university colleges.

Second, governments must extend the number and international rankings of the region's research universities. But at the same time and equally important, they must invest more resources and give more attention to the region's short-cycle, two-year, and four year university colleges.

Third and taking a cue from Europe and the Bologna accords, governments and institutions in the region must increase student and scholar mobility by taking steps toward new levels of inter-institutional and inter-state credit transfer and joint degrees.

Fourth, politicians, civic leaders, and higher educational scholars and leaders should further professionalize, de-politicize, and strengthen college and university management. Independent governing boards and institutional leaders around the world increasingly are being given authority to contain costs, seek new non-state revenue, and meet changing needs by the strategic allocation and the sometimes painful reallocation of faculty and staff resources. Public higher education throughout the world is moving in the direction of enhanced institutional autonomy, privatization, and corporatization. This is hotly contested ground. Opponents, particularly within the faculty and staff, will decry what they will label as managerialism and commodification. And it is vital that core academic values of integrity, standards, and academic freedom not be compromised on some altar of efficiency. But neither must critically needed enhancements to accessibility, to needed programmatic and

curricular change, to the expansion of higher educational capacity, or to cost-effectiveness be sacrificed on the altars of institutional tradition or faculty job security.

Fifth, increasingly scarce and coveted public revenues must be supplemented by modest and flexible forms of cost-sharing, beginning with reasonable fees for food and lodging and extending where politically possible to tuition fees to cover a portion of the costs of instruction. Again, there will be opposition, although most of the countries of East, Southeast, and South Asia have accepted tuition fees: considerably more readily than most of the countries of Europe, Central Asia, Africa, or South and Central America. Some will say, with some truth, that even a modest tuition fee or a modest increase in a fee already established will drive away students from low income families. But the greatest deterrents to higher educational accessibility throughout the world are less the imposition of modest tuition fees—especially with the means-tested access to grants and loans—than are the lack of public tertiary education capacity, accommodating admission policies, appropriate standards, and programs that promise gainful employment. And whatever the limitations of the expanding private, fee-dependent, for-profit colleges throughout the Asia Pacific region, they demonstrate not merely the viability of tuition fees—generally well in excess of those in public institutions—but the attractiveness of imaginative, student-centered admissions, scheduling, and programming.

Finally, for the expansion of participation and retention, for the sake of equity and social justice, and for the greatly needed supplemental revenue that can come from the successful adoption of a reasonable tuition fee, there must be financial assistance in the form of means-tested grants and loans. I have been writing about student loans for more than 40 years and about student loans in their worldwide context for some twenty five years. Student loans remain frightfully complex, highly misunderstood, and politically controversial. And higher education policies in middle and low income countries are littered with the bones of failed student loan schemes. But in spite of these failures, the theory of student lending—making it possible for a student to invest in his or her own higher education—is sound theory. And the failures are mainly predictable and avoidable. But this must remain the topic of another lecture and much discussion.

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In the end, changing higher education is difficult, slow, and generally expensive. But it remains a good investment, both public and private. And there are ways—true to national cultures and traditions—of strengthening what is good, repairing what is not working, and adding what is needed—if we but listen with open minds.

**Note**

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