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Education As Economic Investment: Comments On Tuition Fee Policy In Private Universities In Bangladesh

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ABSTRACT:
Student fees for university programmes in Bangladesh have risen dramatically in recent years. This has been justified by the argument that such increases offer no economic disincentive to students seeking university admission. The present essay comments on that argument and finds several weaknesses in it. Fee increases may still be necessary, but this argument at least does not establish that they are innocuous.

KEYWORDS: Accessibility, admissions, bursaries, fees, funding, loans, tuition, universities.

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I. INTRODUCTION

It has become a widespread government policy to reduce spending on post-secondary education (Alam, 2007). Costs for such an education have not gone down, however. To compensate, governments have often allowed student fees to increase, especially for professional programmes such as dentistry, medicine, and law, but also for programmes in high demand such as computer science. Unless the student has relatively wealthy parents, this has the implication that he or she will have to take out student loans to finance their education. The less affluent the background of the student the heavier the debt load. This would suggest that students from less advantageous backgrounds will tend, in order to avoid debt, not to enter programmes with higher fees or even simply not undertake post-secondary education at all. But one would like to assume on the part of governments a commitment to social justice (sayed and Rose, 2002). One would also like to assume recognition by governments of the benefits to society of a highly educated citizenry. If these are indeed social objectives, then they would imply the need to avoid policies that would have a negative effect on people undertaking post-secondary education. This would seem to imply in particular that one avoid policies that would force students to incur the high level of fees that would deter them from enrolling in university programmes. So the goals of social justice and of the economic benefits of a highly educated citizenry would seem to argue against the current policy of paying for post-secondary education through student fees rather than government funds from general revenues. However, one can reconcile the goals of social justice and a highly educated citizenry with the policy of higher fees and reduced government spending if it can be shown that a debt load incurred by high student fees in fact does not act to deter students undertaking post-secondary education. The argument has been made that, with regard to university enrolments, major changes in tuition fees have little effect on the rate of return to students (Kivinen and Ahola, 1999). This is so because tuition fees are such a small portion of the student's total cost of university education. On the basis of this argument, it has been inferred that there could be major changes in student fees with little or no effect on enrolments. This in turn seems to imply that the present trend to decrease government spending on post-secondary education and to increase the fees paid by students could well be accelerated. It thus provides justification for those governments who welcome this policy and those University authorities (probably most of them) who are looking to student fees to replace the disappearing government funding (Alam, 2007). In Part I of this essay, it is contended that this argument fails to take into account the important factor of increasing student debt load. Since some university administrators rely upon the above argument to justify their fee policies, it follows that these policies lack any secure foundation. However, this response to the argument takes for granted the basic framework in which it is situated. But this need not be taken for granted. In Part II of this essay, it is further argued that there are fundamental flaws in accepting the argument's basic framework as that within which one ought to set the policy deliberations concerning the appropriate level at which tuition ought to be set. It is not the aim of this essay to probe deeper into the economic analysis of higher education. It has the much more modest goal of justifying the conclusion that *the case has not been made* that a high debt load fails to deter students from entering post-secondary education or at least from entering programmes with high fee structures. But this more modest conclusion is not without its importance. It does mean that the policies adopted by many governments in the name of fiscal conservatism and that the following of these the policies of university administrators are in fact without the support that they need. These policies are reasonable only if one can reconcile them with the goals of social justice and a highly educated citizenry. Without the thesis that debt does not deter this facade of reasonableness disappears. To show that this thesis lacks support is therefore not without significance for the current debate on university funding and on the appropriate level of student fees. In Part III of this easy will draw two principal suggestions which will help to improve the total quality of higher education of the country in general.

II. Factors for increasing tuition fees: parents/students burden

Those who accept the argument that the level of fees is one of minor importance for students reckoning the costs of their education generally recognize that there are many social goods that derive from a well educated citizenry (Lockheed and Jeminez, 1994). But the argument regarding fees itself focuses on education as a private good. The argument has a basic, and interesting, premise, that *students view their post-secondary education primarily as an investment that is expected to result in wider employment options and higher incomes*. Attending university is an investment, indeed a profitable investment. It will yield better and, more importantly for this economic argument, better paying jobs. One must of course take into account the costs incurred in making the investment. These include tuition fees, the costs of textbooks, and above all income foregone during the period of studies. Zumeta (1992) and Woodhall (1982) compare the incomes of high school graduates to those of university graduates and concludes that the rate of return on the investment in post-secondary education is large, even for such areas as the humanities, where graduate incomes are lowest.

Because post-secondary education is a profitable investment, students are willing to pay for it. Now, among the costs incurred in making this investment, there are tuition fees. However, these are among the lesser costs when compared especially to foregone income; tuition fees at Bangladeshi universities are but a small proportion of the costs incurred for the investment in education (Tilak, 1999; World Bank, 1995). Increasing the fees will therefore not seriously diminish the rate of return on the investment in post-secondary education and therefore will not serve as a deterrent to attending university, nor, therefore, will they inhibit the sort of accessibility to all well qualified students that is appropriate to a democratic society. The conclusion follows directly that it is possible to raise fees without any significant deterrent effect.

There is a major problem that arises with increased tuition fees. That is of course the fact that often students must take out student loans if they are to have money available to pay those fees. Students whose parents are reasonably well off can usually rely upon family support to provide the money needed. Students from less affluent and working class families are in a different position: the money is not available from their families. Increasing tuition fees therefore has the effect of deterring from attending university students who are otherwise well qualified, and would make a significant contribution to the world if they were able obtain post-secondary education. Increased tuition fees become a barrier to the sort of accessibility that one would expect in a democratic society (Mobizela, 2000).

It is assumed that the case for non-deterrence of higher fees is supported by the fact that, though fees have been rising over the past decade, student enrolments have not been dropping. Students have therefore been prepared to take out the necessary loans. The long run return on investment is sufficient to overcome the deterrent effect of having to take out loans. Thus, increasing tuition does not compromise accessibility. This case that the argument makes for increasing student tuition has been influential. It has been cited by university administrators to justify increases in fees.

The argument is raised that raising tuition is a barrier to accessibility. Thus, Alam (2007) finds that: As the fundamental principle of its student offered admission to its programs will be unable to enter or to complete the program due to lack of financial means student aid policies, the Bangladeshi private university should guarantee that no are rejected to be admitted for the inability of paying user fees.

The idea is that in spite of the rising levels of tuition, accessibility will be maintained by making student aid available to students. Whether the private universities will overcome the problem is not clear. Thus, Rose and Sorensen (1992) have argued in an important article, significantly entitled "High Tuition, Financial Aid, and Cross- Subsidization: Do Needy Students Really Benefit?" (Rose and Sorensen, 1992), on the basis of experience gathered by the world Bank, that as things work out in practice needy students turn out under these schemes to be worse off. Rose and Sorensen (1992) take up the claim of university administrators, who are joined on this point, rather than making democratic access possible through low tuition fees, one should instead raise tuition fees while making available generous student aid. The idea is that higher fees paid by all will provide funds to enable the poorer students to afford to attend: the rich are to subsidize the poor in this policy of cross-subsidization.

This is a special form of taxation. The more well off students pay extra in order to give poorer students that access to post-secondary education that a democratic society requires. It is not clear why it is more just to have well-off students pay this extra tax rather than other groups. Why not provide the subsidy directly, for example out of general taxation? We shall return to this point below. But whatever may be the answer in principle to this question, it has in fact come to be widely accepted by both the public and politicians that the policy of cross-subsidization is a reasonable way to secure democratic access to post-secondary education for all classes (Amaral and Texeira, 2000). Thus, the government requires of the universities that they fund that a certain percentage of income derived from increased tuition fees be allocated to financial aid for needy students. And of course this policy has been widely accepted by university administrators, including, as we have noticed, those at Bangladeshi private Universities.

One may wonder, however, whether the policy in fact works. Thus, it is clear that it might turn out that tuition rises at a higher rate than student aid. If that were so, then the needy students would turn out after all to be worse off. It is this point that Rose and Sorensen (1992) set out to investigate. They construct a model of cross subsidization and show how this economic model can be tested empirically. What they discovered on looking at available data is that "institutions that charge relatively high tuition are no more generous per tuition money than those that charge expected or relatively low tuition" (Rose & Sorensen, 1992). Thus, "while institutions that appear to inflate their tuition do make larger financial aid awards, their awards are not large enough to reduce the average net price paid by needy students" (Rose and Sorensen, 1992). If one takes for granted, as does the argument that fees are of minor importance, that students are moved largely by considerations of economic rationality, then it would follow that students who are well qualified but needy will tend to shun institutions that follow a policy of cross subsidization and go to institutions with lower fees. But there is another aspect to the issue that needs to be introduced.

Rose and Sorensen (1992) and Nigam (1992) point out that the money derived from increased tuition fees which does not go towards subsidies for poorer students must be used for other institutional purposes. Thus, they suggest that administrators, faculty members, and graduate programmes might all well be beneficiaries of high tuition.

That this is the point of higher tuition fees is openly admitted by the private universities. Government grants are not a phenomenon for private provision of higher education. But levels of funding have been kept fairly constant by increases in student fees. In this way the quality of education and the quality of research have been maintained, or, at least, the damage minimized. Higher tuition levels are required in order to maintain quality.

Currently, private universities do not receive any subsidiary, while public universities are fully subsidized, for which ongoing and substantial support from government will always be essential for private universities. The University's tuition policy should continue to be based on the principle that public funding should be supplemented as can be demonstrated to be necessary to offer students an educational experience of a quality that ranks with that of the finest public research universities in the world.

If that is so, then the effect is bound to be, as Rose and Sorensen (1992) indicate has in fact happened, that increases in tuition will not be matched by increases in student aid sufficient to ensure that the neediest will not be made worse off: every one will be paying more, even the neediest. The argument seems to be that students are interested not so much simply in post-secondary education but in a *high quality* education. This will result, one presumes, in better or better paying employment upon graduation. Since, in conformity with the premise of economic rationality, these long term outcomes are of greater value, it follows that students will be willing to make a greater investment to obtain them. That is, they will be willing to pay higher fees. That is, if they can – if they have the money to pay the higher fees.

If they do not have the money for the higher fees, then they could choose to go to an institution that charges lower fees. If the logic of using higher fees is to enhance quality, then an institution that does not charge higher fees can be assumed to have a lower quality according to rankings in some national news magazine, or some other such source, and which, precisely because they are perceived to have this lower quality, will not be able to raise fees as much as institutions perceived to be of a higher quality.

There is another option: students could borrow money, or, perhaps, borrow more money, in order to cover their tuition. In fact, it is this option that is envisaged in several colloquial. Alam (2007) states that "As a simple matter of fact, in terms of cash flow, loan-based programs have the greatest potential for directing funds to needy students over the course of their programs." Alam (2007) therefore recommends that "interest-subsidized and preferred-rate loans constitute a significant part of the assistance package" (p. 26). In effect he is recommending means that will facilitate increased student indebtedness for those who will have to take out loans in order to afford the increase in tuition fees. But at this point he introduces certain reservations. These come after the unhesitating recommendation for increased tuition. What we are given in Zumeta (1992) and Woodhall's (1982) essays are a comparison of earnings of high school graduates with those of university graduates. The comparison begins with the year in which the university student graduates year by year, the earnings of the average university graduate are higher than the earnings of the average high school graduate. These are the benefits that are used to calculate the rate of return on the university graduate's investment in education (Psacharopulos and Patrions, 2002). The costs that enter in the calculation of the rate of return are the foregone earnings, on the one hand, and, on the other, tuition, books, and so on.

These are assumed to be incurred during the period prior to graduation, and to be paid out at the time when one commences to calculate the income that the graduate earns and compares it to the earnings of the high school graduate. But *this representation of the costs is incomplete and misleading.* If the university graduate enters his or her employment with considerable debt, then that debt must be subtracted from the income. This means that the net earnings differential is actually smaller than the differential between earnings of university and high school graduates. In calculating rates of return, the argument does not take this fact into account. It has therefore not been established that the rate of return is sufficiently large to ensure that students motivated by estimations of this rate of return will proceed to university. It has not been shown that the possibility of postgraduate debt is no deterrent to proceeding to university. It has not been shown that the prospect of indebtedness does not affect the accessibility of post-secondary education.

There are further costs that must be counted if a complete picture is to be formed. If the graduate enters the work force with a heavy debt load, then he or she will likely have to forego buying a house. It is possible they will forego starting a family immediately. It is of course hard to estimate these costs, but they are certainly relevant in the decisions that people make when it comes to these things. Even if they are hard to quantify, as they are, they are for all that relevant.

The argument we are considering concludes that raising tuition fees is not a deterrent, since such fees are so small a component of costs. But when those costs are, in the form of loans, carried over into the period when the student is starting to benefit from his or her investment, those benefits must be reduced. This affects the rate of return which is supposed to persuade students that post-secondary education is a reasonable investment (Tilak, 1999; World Bank, 1995; Rose, 2002).

One should note that there might be other unintended consequences of raising fees. For example, it would likely limit the educational opportunities of students from lower income families. Students who are not financially needy will be able to attend the university of their choice; needy students, to avoid increased debt, would very likely find themselves restricted to universities close to home. There is some evidence that this is happening in many developed and underdeveloped countries (Alam, 2007, 2008). Or again, if a law student has accumulated considerable debt then he or she will be more likely to look for a higher paying position in a firm doing commercial law rather than work independently as one specializing in criminal law among the poor. Or again, if a medical student has accumulated large debt, then he or she will be more likely to set up as specialist in at large urban environment than in a small community in under-serviced hinterland in the far. These last two examples illustrate the real social costs that might flow from excessive indebtedness (Tan, 2002; Thomson, 1981).

There are two other points that should be made. First, as Zumeta (1992) and Woodhall (1982) quite correctly point out in his essay, some degrees generate more income than others. That means for some graduates, for example, in the humanities, that the lifetime earnings will be lower than the average. At the same time, some high school and diploma graduates, for example, plumbers, earn more than the average. The argument used to justify increases in tuition makes the assumption that students are moved by the anticipated return on their investment in post-secondary education. Since the rate of return is excellent, it is therefore supposed to be capable of persuading students to acquire a university education. The rate of return is established by comparing average earnings, year by year, of university graduates on the one hand and high school graduates on the other. But if these calculations are to persuade the calculating student to go on to university, then they must persuade him or her to do so with regard to the proposed course of study at university (e.g., humanities), on the one side, and the alternative employment after high school graduation (e.g., as a plumber), on the other side. If the year by year earnings over a lifetime for the humanities graduate are not very much greater than those of the better paid trades undertaken by the high school graduate, then the rate of return on the investment in post-secondary education will not be sufficient to persuade this student to go on to university. Given the assumption that students calculate the advantage of going to university in terms of rates of rates of economic return, these differences must be taken into account. One cannot compare, which is what is done in Zumeta (1992) and Woodhall's (1982) essays, the lowest case of university graduates, those in the humanities, with nothing more than the average for high school graduates.

The second point that should be made is this. It again depends upon the assumption that prospective university students calculate whether the investment in education is economically worthwhile. One must suggest that surely it is not only the rate of return that counts, but also total lifetime income. If, over a lifetime, a person will earn less if he or she attends university, then they will hesitate about attending (Alaam, 2006). One should therefore compare not just rates of return but also total lifetime earnings. First, there is the fact just noted with regard to the incomes of, say, graduates in the humanities or theatre arts, and, let us also say, technician. Year by year, these will be considerably closer than the lifetime earnings of physicians and checkout clerks in supermarkets. But in terms of lifetime earnings, the earnings of the humanities or theatre arts graduate will be even closer than the year by year comparison would indicate. For, the foregone earnings of the humanities or theatre arts graduate while he or she is attending university are *not foregone* by the high school graduate who immediately enters the workforce. In terms of *total lifetime earnings*, then, the high school graduate has a four year head start over the university graduate. This renders it likely indeed that the total lifetime earnings of the high school graduate will be greater than the total lifetime earnings of the university graduate, at least if we compare the university graduates with lower incomes with the high school and diploma graduates with higher incomes (Altbach, 1999; Natshoe, 2004). Clearly, the comparison becomes even worse if one goes on to examine the case of those who choose to enter graduate programmes, incurring further costs in terms of foregone income. This gives the high school graduate an even greater head start in the determination of total lifetime earnings. Nor is this all merely speculation. There is anecdotal evidence at least that many university graduates in computer science or textile and warmer engineering subjects are not going on to obtain graduate degrees because they can directly enter the workforce at salary levels that would give them such a head start in lifetime earnings that could never be matched if they were to obtain a graduate degree and become a professor of computer science.

I conclude that the argument in terms of earnings that is used to justify the policy of raising of tuition fees is unsuccessful. It has not been established, even on the basis of the premise regarding the economic motivation of students, that increased fees will not serve to deter students from attending university and acting as a bar to access to university on the part of students from poorer economic groups.

III. Policy deliberations for increasing tuition fees: burden for parents/students

The argument can be stated this way: "Because the private rates of return in all fields [of post-secondary education] are quite high ... the private share of the cost could be increased substantially before the declining rate of return would result in lower enrolment" (Zumeta, 1992; Woodhall, 1982). As is recognized in Zumeta (1992) and Woodhall's (1982) presentation, this inference depends upon the previously noted premise that "students view their post-secondary education primarily as an investment" (Zumeta, 1992; Woodhall, 1982). We have contended that the argument, in its own terms, is not successful. But there are other problems. Essentially the argument is that one who benefits ought to pay. But if this is so then one must look at all who benefit. Thus, for example, benefits accrue not only to the student in terms of increased income but also to the employer of that student when he or she graduates. The employer benefits in terms of the profits that are increased through the use of the skilled human resource. If we are to have a general argument that one who benefits ought to pay, then one should also calculate the benefits that accrue to the employers of highly skilled human resources, and charge them appropriate fees. If it is appropriate to charge student tuition fees to the level at which they will not be deterred from post-secondary education, then, by a parallel argument, it is appropriate to charge employers of graduates fees to the level at which they will not be deterred from hiring graduates (Ping and Crowley, 1997). It might be that fees could, on this basis, be raised from corporations to support post-secondary education to a level that would undercut the need to force students to acquire a heavy debt load as a necessary condition for obtaining a university degree.

We do not know whether this is so. The point is not to establish it but simply to raise it as a possibility. For, as long as it is a possibility that has not been ruled out, the argument for relying on increased tuition fees to maintain appropriate levels of university funding fails. That argument is directed not only at university administrators and governors, offering them advice on what level of fees they might reasonably charge. It is also clearly an argument directed at government policy. It aims to justify the current trend to transfer the costs of post-secondary education from governments to students. It does so in terms of getting one who benefits to pay. But it does not apply that principle systematically to all those who benefit. To that extent the argument is incomplete and therefore unsound.

Thus, even if one takes for granted the form in which the case for higher tuition fees is expressed, there are real issues regarding the level of fees that ought to be addressed in any discussion, such as one finds in

Zumeta (1992) and Woodhall's (1982) essays, that purports to generate recommendations with regard to appropriate levels of tuition and appropriate shares to be carried by different groups. However, there are deeper reasons why the argument of Zumeta (1992) and Woodhall's (1982) essays fail. The form of the argument makes it seem that the point of going to university and acquiring a post-secondary education consists in getting more money. It puts the choice in a context where the possibility of investing in education is being compared to investing in an RRSP (retirement savings plan): will it be more profitable for me to choose to put my money into being an accountant (or an actor or a geologist or a professor) or to choose to become a carpenter and put my money into stocks? When the argument is stated in this way one immediately recognizes the shallow consumerism it represents the choice of education to be, in which the choice of whether and which education to take is just another selection in the shopping mall of life (Shin, 1990).

The argument in terms of foreseen and foregone income omits all the reasons for going to university that cannot be put in neat monetary terms. It also omits the reasons society has for investing in a well educated citizenry. It is not quite true that they go unmentioned in Zumeta (1992) and Woodhall's (1982) essays: they are the benefits that are referred to as "'externalities' – the benefits that accrue to the rest of the economy" (Zumeta, 1992; Woodhall 1982). These include the increment in output from others whose productivity is indirectly affected by the higher levels of education; and other benefits such as technological progress, a better informed electorate, higher quality of political and business leadership, and so on. (Zumeta, 1992; Woodhall 1982). One might mention other benefits – for example, a higher quality of labour and educational leadership, a better quality of life for those who attend the theatre created by those who have studied theatre arts, advances in human knowledge achieved by basic research, the joy of creativity for those who have graduated in creative writing, and so on.

All these "externalities" are benefits. The point is that many or perhaps most of them cannot neatly be quantified monetarily. Do we quantify the joy of creativity of the novelist or poet as the amount of salary that he or she has foregone as a result of not becoming an accountant? Just to ask the question makes clear its absurdity. One does indeed pay for the privilege of being a poet rather than an accountant, but the pleasures of creativity are simply not a consumer good. Neither are the pleasures that come from attending a good night at the theatre, even though one does pay for the latter. They are among the features of the good life that any decent society tries to promote. And if the society is democratic, then it will provide its citizens with access to the means to produce these goods, the "externalities" of post-secondary education. The means to these "externalities" is, of course, post-secondary education.

In addition, the argument for increased tuition as found in Zumeta (1992) and Woodhall's (1982) essays, when it looks at consumer benefits accruing to the graduate, totally ignores the obligations, other than monetary, that arise. The education that a student receives is not paid for solely by the student but by society, through government funds raised by taxes. Nor is it merely the present funds that count. There are the buildings, the books in the libraries, the knowledge in those books, that have been accumulated by prior generations and which the student now uses. In using these social goods to acquire his or her education, the student acquires an obligation towards the society that has provided them. This is an obligation not merely to pay back the loans that he or she has taken out but also to use his or her education wisely, not simply for private benefit but for the greater benefit of society as a whole (Altbach, 1999; Alam, 2007; Sayed and Rose, 2002).

Education ought not be looked upon in the same terms as one looks upon the choice of which fast food outlet one should go to for a snack. The basic issues are not economic or at least not merely economic: they are also moral and social. Education results in the capacity to use in fresh ways for the benefit of future generations the skills that have been passed on from previous generations. In this sense, education is much more of a social contract between society on the one hand and the student on the other. Society, drawing on its historical accumulations of various social goods and upon current money and looking towards its future, will provide the means for its members to acquire post-secondary education. Students, in turn, when they utilize those means, incur an obligation to return to society the best that they can, to make society a better place overall for all its members. The argument for increased tuition leaves all this out. But once it is added, the case that it makes for pushing fees to the limits that students can bear loses whatever plausibility that it initially appears to have. Whatever appeal it might have for university presidents or politicians influenced by right wing think tanks, it lacks any moral or social justification (Altbach, 1999; Alam, 2007; Sayed and Rose, 2002).

IV. Conclusion and Recommendations for policy reforms

In the instigation of a substantive HE sector, it is important that weaknesses within public management are identified. Research shows that public institutions are inefficient in their use of resources: a first step towards a competent private entity could be via the privatisation of selected management positions in public institutions (Sohail and Saeed, 2003). For example, many public institutions fail to provide effective support services (i.e. catering, information services, accommodation, career advice). Privatisation or private management within these areas would reduce the overall burden on public institutions and enable them to concentrate on academic affairs. This would provide an opportunity for the private sector to gain experience of working within the education sector, and familiarise themselves with the education service – the role of education and its civic responsibilities. Having gained experience, the private sector should then find it easier to run an education enterprise independently. Moreover, privatization of utility services of public institutions of higher education will save a significant amount of public subsidies thus that will allow the government to provide subsidy towards private institution of higher to accommodate more academically brilliant students from underprivileged background.

It is important for public HE institutions to compile a fee structure that caters for differing social classes (poor, middle class, upper-middle class, rich and elite). In Bangladeshi public HE, the same tuition fee (less than Tk. 15 in a month) is currently paid by the dependent of a poor farmer or of an elite industrialist. A variable fee structure will not only reduce the public subsidy for public HE institutions, but will also motivate the academically-gifted dependent of the elite classes to study in private HE. The private HE sector, in attracting capable students from a financially-sound background, will leave the public universities to accommodate more students from an economically poor background. It remains important for public HE institutions to continue to protect the rights of the economically-poor student – historically, the poorer students are always neglected.

In conclusion, we argue that implementation of the above recommendations will help the private HE sector achieve high quality input, with the right students selected for the right courses. Once the sector has a high quality input in place, it follows that output will improve – assuming that a high quality education with high academic standards has been provided.

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