



Privatizing Education: Some Reflections on the Development of Direct Subsidy Scheme in Hong Kong.

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Abstract

The discussion of market in education is controversial and often value-laden. This paper aims at exploring the attempts made by the government of Hong Kong to develop a vibrant private sector in school education through the Direct Subsidy Scheme. The scheme allows participating schools to draw funds both from tuition fees and government subsidy on the one hand and promises greater freedom in school operation on the other. This paper will discuss how the scheme was first coined and its significant development. Attention will be paid to how the development of the scheme may have affected the landscape of school education in Hong Kong. Focus will be placed on how it may have an impact on equality of education, class, social mobility and the nature of education. It is hoped that this will become a case to help the reflections on the complexities relating to introducing market to education.

Introduction: Market and Education

The discussion about whether education should be treated as a public good and hence be provided publicly or that it is a private good that should be provided in a free market is not a new topic at all. This is best illustrated in the debate between Gerald Grace and James Tooley.

Grace (1994) explains that education deserves the status of public good and that being so it should be provided by the government and without charge to all the citizens. Such government works can of course be commissioned service supported by public funds and provided by voluntary and religious bodies. The

reason behind the claim of public good status is grounded on the enormous social benefits education can bring. Such benefits comprise among other things the development of good citizens and the enhancement to a democratic system. On the other hand, Tooley (1994) argues that education should not be a public good considering that it cannot meet with the defining requirement of public good, namely indivisibility, non-rivalness and non-excludability. As such, education should be left to the free market.

Whilst this intellectual dialogue is both interesting and stimulating, one may need to be alert to the complexities of the issue if one is to judge whether market is the ultimate solution to the further development of education in a particular context.

Firstly, the discussion of education against pure economic principles may not be particularly fruitful. The conceptual formulation of public good has really never been taken as a real entity by economists who conjure up public good simply as an imagination against which real goods and services are measured. Grace (ibid.) has realized this point in his argument but unfortunately he has chosen to gain the legitimacy of public good the economists seem to promise. One perhaps cannot change the totem and at the same time hope the magic of the totem can be kept. Besides, social benefits so important in the mind of educators, to some economists at least, do not automatically suffice the provision of government or government-commissioned services. Such externalities can either be disregarded (in the name of prohibitive transaction cost) or can be captured through other means (such as tax or subsidy).

It's thus important to decide whether the economist conception of public good, or more basically their mentality, can be an agreeable and appropriate frame of reference to educators in their discourse about market. What follows are a couple quotations from Bottery (1992) that may help us to reflect upon the economist presumptions.

“It is not from the benevolence of the butcher, the brewer of the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but their self-love, and never talk to them of our necessities but of their advantages.” (Smith, 1976, p.16; in Bottery p. 77)

“...children are at one and the same time consumer goods and potentially responsible members of society. The freedom of individuals to use their economic resources as they want includes the freedom to use them to have children – to buy, as it were, the services of children as a particular form of consumption...” (Friedman, 1962, p.33; in Bottery p. 89)

Secondly, the debate seems to treat market initiatives as one broad category and such a broad brush approach has played down differential contextual factors, motives and designs of market initiatives. Such factors are not just pertinent but may be the crux in determining the ultimate impact market will bring. Besides, what market force might mean in the past can be different from what it implies today.

It is hoped that in this paper the market initiative of Hong Kong's education, in the name of Direct Subsidy Scheme, may help the reflection on the complexities of the issue.

The Direct Subsidy Scheme (DSS) in Hong Kong

Historical context

There was tremendous growth in Hong Kong's population following the end of WWII and the outbreak of civil war in China. There was a huge influx of refugees. The population of Hong Kong increased dramatically from about 600,000 when WWII ended to over 2,300,000 in 1950. Unlike what happened before when the refugees were taken as transients, now it became clear that they would stay in Hong Kong following the communist takeover of the mainland in 1949. The baby boom that followed the war brought about even heavier population pressure. The population according to the 1961 Census was over 3,100,000. The need to provide schooling to the quickly swelling population brought forth firstly headlong expansion of public sector primary school places in the 1950's and 1960's. Apart from a small amount of government run schools, religious and charitable bodies were aided by the government with money subsidy and land grants to operate schools. Government funding of secondary places on the other hand increased significantly in the 1970's and in 1978, nine years free and compulsory education (primary one to secondary three) was provided. Finally in 1981, public sector places overtook private secondary places for the first time (Luk, 2003). However,

as the public sector secondary places could not accommodate the huge amount of students, a scheme known as the Bought Place Scheme (BPS) was put into place. The scheme allowed the government to buy places from private schools (with money) in order to fill the shortfall of public provision of secondary places. One should bear in mind however that many of the private schools at this period, including those that sold places to the government, were not up to par in terms of resources, teacher qualities, and facilities when compared to their public sector counterparts.

The original DSS

DSS could be seen as an attempt to reinforce the private sector (first private secondary schools) in education at a time when the private sector was quickly losing its predominance both in terms of the proportion of students they took in and the relative quality of service they could render.

DSS was first discussed in Education Commission Report No. 3 (ECR 3) published in 1988. The scheme was then meant to augment the private schools by helping mainly those private schools in the BPS to get more resources so as to offer services up to the standard the aided schools provided. It was hoped the building up of a private school system could enhance parental choices. By joining the DSS, a school could obtain resources from government subsidy to augment the meager tuition fees collected from the students. As a private school, school in concern could choose to recruit its own students and enjoyed more freedom in its operation.

ECR3 4.4.9 reads: “We proposed a number of improvements to bring schools in the BPS up to aided school standards. Any private school which achieves those standards should be eligible to apply to join the DSS...”

ECR3 4.6.1 reads: “We recommend that DSS schools be financed by a system of block grants assessed according to school fee income. The grant to a given school should equal the difference between the school’s income from fees and the notional cost to the Government of an aided school with a similar number of pupils...”

DSS schools were basically private schools and as such they could have more freedom when compared to aided schools. Such freedom comprised flexibility over matters like class size, teaching medium, curriculum, hiring of teachers and recruitment of students etc. When the scheme was finally put into practice, BPS schools and a number of leftist or patriotic schools (which hitherto had not been able to draw money from the government due to political reasons) benefited from joining the scheme, along with a few international schools.

It should be noted that DSS under discussion here might enhance equality of education as it could help to close the (resource) gap between schools in the public sector and their private sector counterparts. Besides, this would also save the private sector from extinction considering that the baby boom had gradually stopped and that the growth in secondary students had eventually come to an end. This would soon render the inferior private secondary schools unable to survive.

Parents could choose to send their children either to the public sector schools, whose operation, curriculum matters etc. were pretty uniform, or apply for one of the DSS schools, which could be more varied due to the flexibilities allowed. This choice was facilitated by the fact that many BPS and patriotic schools that chose to join the scheme in fact were charging very low school fees. Standard of these alternatives, at least in terms of resources, was upheld by the scheme.

New Development of the DSS

Tsang (2002) explains that since its first inception, DSS has gone through four phases of changes. Despite the variations, such changes were made to make the DSS more attractive, particularly to existing schools in the public sector and to newly founded schools which can also apply to join the scheme.

The watershed of the scheme happened after 1997. Building up a vibrant private school sector was much emphasized by the first Chief Executive, Mr. Tung Chee Hwa.

This could be seen in his policy addresses:

Policy Address 1997 Section 101 reads: *“(We should) review our policy on private schools in order to foster a more vibrant and diverse private school system that encourages innovation and gives parents greater choice...”*

Policy Address 2001 Section 49 reads: “ *We want to train a large pool of talents for tomorrow’s Hong Kong...Subsidized schools with distinct characteristics or an outstanding performance record have been encouraged to join the Direct Subsidy Scheme...*”

In 2001, important changes were introduced to the Direct Subsidy Scheme with a clear aim to attract the elitist schools to leave the public sector and become private schools through the DSS.

Some of the improvement measures include:

1. DSS schools will continue to receive full recurrent subsidy from Government until its fee level reaches $2\frac{1}{3}$ that of the unit cost of an aided school place.
2. There will be no more clawing back by the government in the form of reduced subsidy.
3. DSS schools will be given more flexibility in the charging of school fees so as to increase income for the purpose of improving the quality of education.
4. When the DSS school in concern is charging above $\frac{2}{3}$ of the unit cost, the school should set aside fifty cents every additional dollar received for scholarship/financial assistance schemes.
5. At the same time DSS, formerly confined to secondary schools, has been extended to cover primary schools.
6. DSS schools can choose not to receive students from the central allocation arrangements of the government and instead go by their own recruitment exercise.

It should be noted that the present DSS, apart from attracting some newly established schools, is taking away some of the most well-established and renowned schools from the public sector. Some examples would be Good Hope School, Saint Paul’s College, Saint Paul’s Co-educational College, Diocesan Boy’s school and Diocesan Girl’s School etc. These are the most elitist grant schools established by the missionaries during the early days of British rule and right up to now they are still the most sought after schools in Hong Kong whose graduates have filled the upper rungs in the civil service and the business sector.

The fees charged by these renowned DSS schools are usually much higher than those charged by their early counterparts. For example, the annual fee of St Paul Co-educational College was \$48000 in 2002-3 for S1 students while that of Fukien Secondary School, a leftist school that joined the DSS, was only \$2800.¹ It is in fact not that of a surprise if turning DSS can be construed as a means to tap additional financial resources and that the elitist grant schools are exactly the schools the affluent class aspires. Neither, however, should one assume that financial consideration alone has driven the elitist public sector school to the DSS. In fact education reforms in the past decade or so has disappointed many traditional elitist schools and has helped to explain the exodus (Chung, 2001). Most important among such reforms will be reducing the number of bands of primary 6 graduates from 5 to 3 in secondary school place allocation exercise, meaning that the elitist secondary schools, which always take in band one students, may be assigned students of comparatively lower qualities.

Those who are in favor of the scheme propose that DSS can be a major driving force for improvement of Hong Kong's education. Apart from the usual market arguments like enriching parental choice and introducing competition into the education sector, it is further argued that DSS allows a small group of elite schools to continue and grow with additional resources and freedom. This in return will prevent talented and wealthier students from seeking enrolment in overseas schools.

For some, DSS is a new way to tap financial resources to further enhance the quality of school education now that it is generally available. This is a way to encourage families to be responsible for the well being of their next generation. We may need to understand such arguments against the fact that education expenses in Hong Kong account for less than 5 % of GDP while another Chinese community, Taiwan, is spending 7% of her GDP on education. Besides, the ability to share such expenses can only be borne by more affluent class.

DSS has now become a highly controversial issue and public opinion is split over the issue. Critics point out that DSS in its current phase has become a class instrument that will disadvantage the poor and hinder social mobility.

¹ Some comparisons of school fees charged by renowned DSS schools and their earlier counterparts are given in Table 1.

That DSS schools will likely to be better schools is not difficult to be discerned. Under the new financial arrangement, a DSS school can still collect the normal rate of subsidy from the government even though it collects school fee as high as up to 2 1/3 of such subsidy. This will render the DSS schools much more powerful financially than their public sector counterparts. On top of that, DSS schools are given more freedom compared to their public sector counterparts in matters such as class size, staff reward and employment structure, admission, teaching language and curriculum matters.

The fact that the school fees charged by the elitist schools once they join the DSS are well beyond the reach of the average families (median family income in 2003 being \$15500 against \$18000 in 1998) has become the focal point of the class argument. Parental choice over such renowned schools according to the critics is limited to the affluent class. This should further be understood against the fact that the income gap of Hong Kong, measured by Gini Coefficient, has continued to worsen in recent years and now has become one of the worst in the developed world². Economic restructuring and the shift of the manufacturing sector across the border to mainland China has hurt the lower class particularly badly.

It is true that the DSS schools are bounded by regulation to set up an assistance scheme to help the students to pay the school fee. However, this does not in fact alleviate the worry of noble school formation. The formula of how the funds are to be used is left to the DSS schools and there is no guarantee that the money therein would all be used to finance the needy students. Besides, even if the DSS schools in concern are spending all the money they have in the assistance scheme funds to help the poor students, the proportion of paying students (well-off students) to non-paying students (poor students) will be in the ratio of 3:1, meaning those who can't pay the school fee can constitute no more than 1/4 of the student number. Neither should one underestimate the psychological hardship of lower class students in DSS schools if their school fees are to be supported by their classmates' parents. This alone may be a deterring factor for some children from poor families who aspire to study in such elitist schools. If DSS really impedes the chance of children from less affluent families to receive education on a par with those from the affluent families, the equality of education issue may be at stake,

² Gini Coefficient of Hog Kong over time and comparison with other countries are given in Table 2 and Table 3.

especially if one tries to construe it from the perspective of enhancing chance of the poor and minimizing the impact of ascribed factors (Bastian, 1986; Coleman 1990; Sturman, 1997 and Gordon, 1999).

Tsang (op. cit.) explain the current situation against Bourdieu (1997)'s notion of capital forms and argues that the new phase of DSS, by drawing away the most renowned schools from the public sector, has represented an attempt by the middle/upper class to privatize the superior cultural capital and social capital which previously belonged to the public arena where distribution used to be determined by open competition rather than ascribed attributes like socio-economic status of the students' families. This line of argument is in line with the Marxist or conflict theorist interpretation of human society. According to this notion, there is a roadmap toward class segregation in education and finally the more affluent families will put their next generation into the more promising DSS schools that hand out more valuable cultural and social capital while the lower class can only send their children to the relatively less well equipped and much less promising public sector schools and their future is thus doomed. This conspiracy theory was coined much earlier by critical academics in Hong Kong. Choi (1987) for example explains that after the postwar period of speedy economic growth and massive creation of middle class work, sooner or later, the entrenched middle class would try to build up bulwark against upward social mobility of the lower class. Securing tight control of education or monopolising quality education for their next generation would be an effective fortification in this regard.

Another concern, not strictly related with class impact and being more linked to the changing nature of education, is that market, by shifting the locus of control to consumers, will bring about parentocracy. In the case of Hong Kong, such development has also aroused much concern among educators. Mok (1999) argues that the concern of parents for quality of their children's study and the subsequent reaction of schools will make schools work out more and do so in a faster way. However, this rise in efficiency may not mean quality. What results can just be asking teachers to fill out more forms for parents to inspect and that the schools in concern to concentrate more on extraneous matters and achievement that can be quantified and documented (academic results in public examinations and medals in sport fields etc.). It can further result in the erosion of teachers' professional judgment by unreasonable demands of students and parents. In fact, Mok's worry

may be exaggerated if we are talking about the elitist schools in DSS. However, it may be pertinent for those newly founded DSS schools which may have to be market takers instead of being market makers, at least before fame and reputation have been built.

Another impact of the new DSS is felt by schools in the public sector. Due to falling birth rate in the past two decades³, the school-going population has been falling with the years⁴. Competition between schools for the dwindling amount of students has been very keen and school closure has been serious⁵. DSS has magnified such pressure on public sector schools in at least two ways. First, though DSS schools are still small in number⁶, new DSS schools have been built even in districts where saturation or even surplus of school places is found. Second, there seems to be no level playing field as DSS competitors operate with better financial resources and a higher degree of freedom. Language policy of the government for example has turned most public sector schools into Chinese-medium schools while parents prefer their children to receive English-medium education. On the other hand, DSS schools can choose to teach in English and this gives them comparative advantage in attracting parents. It is worried that under such a context of unhealthy and unfair competition, the development of a vibrant sector in education is necessarily at the expense of the public sector, or more specifically the displacement of the public sector.

Conclusion

The discussion of market may easily end up in emotionally charged debates marked by rhetoric for and against the New Right. Market in education however may be a more complicated issue analysis of which may need to take into account its historical context, design, intention and the social and economic environment when it is launched. This is at least the case when we take into

³ The falling birth rate of Hong Kong is given in Table 4. Hong Kong features one of the lowest crude birth rate in the world.

⁴ The changing school population is given in Table 5. A fall in demand for secondary schools places in the years to come is evident.

⁵ The falling number of primary schools is given in Table 6. Secondary school closure is expected in the years to come as the ripple effect is felt.

⁶ Number and percentage of DSS schools in local schools are given in Table 7.

account the Direct Subsidy Scheme of Hong Kong. Market may mean different things to different people. Parental choice, quality schools and incentive to improve for one side may, under certain conditions, results in the lack of choice, confinement to relatively substandard schools and being doomed for the other. The meaning of market may also be different at different time and so too as to the intention of bringing in the market. This underlines the never-ending controversies about market initiatives in education. As far as Hong Kong is in concern, the story of market and education is far from being finished. DSS schools, still being a minority, are increasing in number. Voucher was discussed as an alternative to enrich the public education system (Liu, 1996). Recently, the discussion of voucher is again in the air (Hung, 2006). It is not a surprise if one revisits Hong Kong's education in a decade's time, he will find that the DSS we have today is simply a step or the prelude to more fundamental changes to come. However, the drive to introduce market force to education is likely to be accompanied by public resentment unless the government can reassure the grass root that they are not subject to discrimination in the process. Increased government support to public sector schools and financial sponsor to students from less well to do families who want to study in DSS schools etc. would be most needed.

Parallel Comparison of School Fees (Per Annum in 2006) of older and newer Direct Subsidy Scheme (DSS) Schools

Table 1

School Fees Charged by Some Older DSS Schools	School Fees Charged by Some Renowned Schools that Joined the DSS Lately
<p>Heung To Middle School</p> <p>S1-S3 \$ 3 000 S4-S5 \$ 6 600</p>	<p>Diocesan Boys' School</p> <p>S1-S3 \$28 000 S4 \$33 000 Boarding fee \$42 000</p>
<p>Hon Wah College</p> <p>S1 14 000 S2-S3 2 860 S4-S5 7 630</p>	<p>St. Paul's Co-educational College</p> <p>S1-S5 \$48 000</p>

<p>New Method College</p> <p>S1-S3 Free S4-S5 \$ 19 570</p>	<p>St. Paul's College</p> <p>S1-S5 \$38 000</p>
<p>Workers' Children Secondary School</p> <p>S1-S3 2 000 S4-S5 5 600</p>	<p>Good Hope School</p> <p>S1-S3 \$35 000 S4-S5\$ 45 000</p>
<p>Delia Memorial School (Hip Wo)</p> <p>S1-S3 Free S4-S5 \$5 960</p>	<p>Diocesan Girls' School</p> <p>S1-S2 \$38 000</p>

Key: S = Secondary

Source: Education and Manpower Bureau

Gini Coefficient of Hong Kong

Table 2

YEAR	1981	1986	1991	1996	2001
Gini Coefficient	0.451	0.453	0.476	0.518	0.525

Sources: Census and Statistics Department

A Comparison of Gini Coefficients in Selected Places

Table 3

Place	Gini Coefficient*
Canada(1998)	0.326
China(1998)	0.403
Hong Kong(2001)	0.525
Singapore(1998)	0.425
South Korea(1998)	0.249
Taiwan(2000)	0.316
United Kingdom(1999)	0.359
United States(2000)	0.408

*Note that the figures of different countries were worked out in different years.

Source: The Hong Kong Council of Social Service, *"Growing Seriousness in Poverty and Income Disparity"*, September 2004.

The Birth Rate Changes in Hong Kong in the Past Few Decades

Table 4

Year	Number of births	Crude Birth rate
2005	57300	8.3
2002	48 209	7.1
1999	51 281	7.8
1996	63291	9.9
1993	70 451	12.0

Source: Census and Statistics Department

Changes in the School Population of Hong Kong (Primary Students)

Table 5

	Student enrolment in primary day school
2005	425900
2004	447137
2003	468 792
2002	483 218
2001	493 075
2000	493 979
1999	491851
1998	476802
1997	461911

Source: Census and Statistics Department

Number of Local Primary Schools

Table 6

	2000/2001	2004/2005	2005/2006
Number of Local Primary Schools	779	712	674

Source: Education and Manpower Bureau

DSS Schools (Number and as % of Local Schools in 2006)

Table 7

	DSS Primary Schools	DSS Secondary Schools
Number	18	55
As % of Local Schools	2.7%*	11%

* Note that until 2000 primary schools were not allowed to join the DSS

Source: Education and Manpower Bureau

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