

Financing of Higher Education in India

Dr. Shanti Rai

Associate Professor, Department of Economics, Awadh Girls' Degree College, Lucknow

Abstract

Education plays an important role in economic growth by improving productivity and increasing national product. With the growing importance of knowledge in the growth process higher education assumes critical importance in policy making. Higher education plays an important role in knowledge production through its Research & Development (R&D activities and in the use of knowledge produced elsewhere through its contribution to production of knowledge-based goods. Given its role in development, governments and individuals/households have been increasing their investment in higher education leading to massification and further to universalization of higher education in many countries. But the major challenges are maintaining national competitiveness while offering a quality but affordable education across the nation amongst the various socio-economic strata. The issue of affordability therefore brings in the role of public sector in financing of higher education.

Keywords: *Higher education, public finance, economics, policies, developing countries, India.*

Introduction

The public expenditure on higher education in many developed countries and few developing countries as a percentage of total expenditure on education indicates the relative importance given to higher education which has social, economic and political externalities. Traditionally, the Human Capital theory has dealt with the necessity of investment in education with the objective of enhancing productivity. The externalities associated with education and the returns expected from it have necessitated the role of the State in financing of higher education.

But the adoption of structural adjustment policy since 1980s has given emphasis to the application of the market principles in the operation of the higher education system. It assumes higher education as a quasi-public good (Tilak, 2005) where the private returns from higher education is argued to be higher than the social returns. Hence, the higher education institutions mostly in developing countries were compelled to resort to cost sharing and cost recovery measures for financing of higher education.

In Indian context, the National Knowledge Commission (NKC) has also emphasised the significance of making Indian society a knowledge society and achieve inclusive growth in the context of pro-market economic reforms (GOI, 2007). India has already achieved a stage of massification of higher education with Gross Enrolment Ratio (GER) of 23.6 percent during the period 2014-15 (GOI, 2015a). The Twelfth five-year plan (GOI, 2013a) target indicates a GER of 25.2 percent by 2017 which implies an additional intake or enrolment of 10 million students in higher education system. The experience in the recent past has shown a fast expansion of the private sector contributing significantly to the increase in enrolments. Since most of the developed countries massified their higher education systems mainly through public funding, there are arguments for larger share of public investments in higher education sector in India. An overall outlay of 1,10,700 Crore is proposed for the twelfth plan which is 30 percent more than the eleventh plan outlay (GOI, 2012). This quantum jump is meant for central universities, state universities and colleges, equity initiatives such as student financial support and research and innovations.

Though the state universities and colleges cater to a large number of students, their funding by the central government is only a fraction of that provided to central institutions. Over the years most states have not been able to allocate enough funds to higher education; these meagre funds are thinly spread as a result of being shared amongst many institutions. While plan expenditure on higher education in states is almost stagnant the growing non-plan expenditure put further burden on the scanty resources of the states. Such resource constraints by the state governments against the backdrop of the Fiscal Responsibility and Budgetary Management Act and the new public management strategy (as the government has to negotiate with various social commitments) along with the procedural bottlenecks compel for experimenting alternative innovative methods for the funding of the state higher education system.

The paper focuses on the allocation of resources to public higher education institutions.

Why Public Financing of Higher Education Sector ?

The role of higher education in knowledge creation and the growing emphasis on transforming the economy in to a knowledge society necessitates greater investment in higher education. Besides, the massification of higher education in many countries has compelled the individuals as well as the government to invest more on higher education.

There are many arguments in favour of public financing of higher education. At the same time, those who believe in market-based approach to development, support higher education expansion to be financed by the households. The debate on who should finance Higher Education originate from the nature of higher education, whether higher education is a public good or a private good.

A public good is characterised with two major properties (Samuelson, 1954) such as: (i) non-rivalry consumption which indicates that the consumption by one does not diminish that by others and (ii) non-excludability which states that its distribution can't be restricted to selected few when the allocation among the society is taken into consideration (Musgrave and Musgrave, 1989). There are counter arguments regarding whether higher education is a public good or a private good. It can be argued that higher education manifests some characteristics of a public good and some characteristics of a private good. Therefore, higher education, at times is treated as a quasi-public good with positive externalities (Tilak, 2005). Those who cannot pay for it when it is priced may be excluded from its consumption. Similarly, it may exclude some from consumption when there is growing demand for it but has a limited supply. Some who fail to fulfill the eligibility criteria required for admission or lack the credentials for admission or fail to compete with others are excluded from consumption of it. Higher education is non-rivalrous in the publicly funded higher education institutions (excluding the possibility of congestion due to higher demand for it).

Higher education not only benefits its ultimate consumer (i.e. the student) rather benefits the society at large due to the positive externalities associated with it in terms of social cohesion, ethical values, morality and many others. To an extent it is thus argued to be a merit good that is preferred by the community as a whole and meant for societal benefit. The non-market benefits or the spillover social benefits of investment in human capital such as, the patriotic feelings, maintenance of the democratic values and compliance with the cultural norms are difficult to measure as the market is missing to value such externalities (Dreze and Sen, 1996; McMahan, 2006). Due to such market imperfections the burden of financing of higher education is argued to be taken care of by the government (Lleras, 2004).

The expenditure on education is argued to be an investment that gives some future returns to the investor whether it is government or private individuals. It ultimately contributes towards the economic growth and productivity of a nation. According to the human capital (HC) theory, education imparts skills to individuals which in turn increase their productive capacity. Higher the level of education higher will be the productivity of the individuals. The

principal proponents of HC theory are of the argument that, investment in education gradually increases the productivity and earnings of an individual which ultimately leads to a higher level of economic growth of a nation (Schultz, 1961; Becker, 1964). However, the productivity of the individuals not only depends on the amount invested on education but also on various physical capabilities like ability, motivation or intensity of work and the earnings that impact such morale and aspirations of the individuals (Becker, 1975). The HC theory was also identified with the endogenous growth models where the concept of knowledge and innovations and hence the role of research and development are given more emphasis in the argument for investment in education (Lucas, 1988; Romer, 1989).

The different levels of education gets prior importance in terms of investment depending on the returns expected from such investment. The positive externalities generated by education benefit not only the immediate receiver of education rather benefit the society at large. Such externalities are argued to be generated in a different extent to different levels of education such as primary, secondary and higher education. It is argued that the social returns gradually go on declining and alternatively the private returns go on increasing with the subsequent levels of education (Blaug, 1976; Psacharopoulos, 1987).

The higher education scenario needs to be analysed through an array of spectrum like;

i) Regulatory Framework of Higher Education in India



ii) All India Survey on Higher Education (AISHE)

It was initiated in 2011 during which data for the year 2010-11 was collected. The survey was utmost necessary as none of the source of data on Higher education was giving complete picture of higher education in the country. For the first time all the major Stakeholders in Higher Education such as University Grants Commissions, All India Council for Technical Education, Medical Council of India as well as State Governments participated in the data collection

exercise. The entire survey was conducted through electronic mode and a dedicated portal <http://aishe.gov.in> was developed for the purpose, thus making the exercise completely paperless. The survey intended to cover all the Institutions in the country engaged in imparting the higher education. Data is being collected on several parameters such as teachers, student enrolment, programmes, examination results, education finance, infrastructure etc. Indicators of educational development such as Institution Density, Gross Enrolment Ratio, Pupil Teacher Ratio, Gender Parity Index etc. are calculated from the data collected through AISHE. These are useful in making informed policy decisions and research for development of education sector. The survey is being conducted on annual basis.

iii) Budgetary allocation of Higher Education

Government of India

Budget 2017 (2017-2018)

	Rs. in Crores	\$ in Billions	% of budget	Data Source ¹
Total Expenditures	2,146,735	322		Budget Profile
Education	79,686	12	3.71%	Expenditure of Major Items
Department of School Education and Literacy	46,356	7	2.16%	Note on Demand for Grants
Higher education	33,330	5	1.55%	Note on Demand for Grants
Sub-Total Education ²	79,686	12	3.71%	

(1) Source: indiabudget.nic.in

(2) These amounts do not reflect expenditures of several ministries that manage their own higher education institutions

Assumptions: \$/Rs. exchange rate of 66.69

Conclusion

The higher education in India needs to be considered as a public commodity and public funding should be utilised for massification of this sector with an aim of reaching out to the citizens without any discrimination based upon religion, caste, creed, gender, ethnicity, language and socio-economic factors. It should be an equal opportunity for all to get access to affordable quality higher education for the development of India.

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