



Alternative strategies of Funding Higher Education in India

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Abstract: The essence of education economics was that investment in education was undertaken for future gains. Higher education system is said to have many externalities. Higher education can be an important factor for influencing both job entry and later salaries. Methods of cost recovering in education can be regressive in nature.

Keywords: Education, Equity, Efficiency, Cost recovery, Public good.

I. INTRODUCTION

Higher Education, historically has been linked to economic development in the neo-classical approach. This theory treated education as a form of education and students were optimizing agents who examined the costs and benefits of education. Treatment of education was at par with investment in human capital. The essence of education economics was that investment in education was undertaken for future gains. Education fostered economic growth and development.

Shultz (1971) mentioned that human capital theory is constructed on the assumption that formal education plays a vital role and is required for enhancing production capacity of population. In human capital theory, human capital is 'Value added' with the provision of formal education. Researchers stressed the importance of education in enhancing both productivity and efficiency of workers.

Later theories have emphasized the importance of education as a screening device. Economists and sociologists see human education not as theory that link higher education as an investment for future returns but as a screening device later theories emphasize on role of education as a step in social hierarchy education determines social status and position while data is scarce it can be modeled.

II. NATURE OF EDUCATION: A PUBLIC/MERIT GOOD.

It is this mixed nature of education which leads to the question of financing higher education by the public sector. It is a topic that has raised many controversies. Mode of financing of higher education in the public sector is important, as it would determine the emerging stance of government towards it. It would also reflect the emerging contention of government.

Higher education system is said to have many externalities as it benefits not only the individuals pursuing education but also the society by producing many spill over or social benefits. Value of education is beyond monetary benefits, an individual who has got higher level of education can choose in an efficient manner and adapt to changing circumstances. It is these externalities which complicate the categorization of education as a private or a public good. Education has a wide range of hierarchies which can be treated equally. Classification of higher education can be of mixed good- private good with externalities. If we want a specific definition, education externalities are the social returns of education that accrue as benefits to others in the society.

Education is more of a quasi- public good. We can hypothesize higher education as a quasi-public good since it plays a vital role in the domain of public interest and results in many spillover effects too. Higher education produces multiple products like knowledge, teaching and research and the line of demarcation is very thin and subjective. Despite overall awareness of public good nature and externalities, there has been a rapid shift in how economists perceive it as a public good. Policies of neo liberalization may result in treating higher education as just another commodity. This would result in education being subject to commercial pressures and would be designed independently of academic and social responsibility. Knowledge would not be able to disseminate to all sections of the society. Thus it is important to retain the public/merit good character of education.

III. RATIONALE FOR PUBLIC SUPPORT IN FINANCING OF HIGHER EDUCATION

The main reason is to approach social and economic equity and go for upward mobility. Higher education can be an important factor for influencing both job entry and later salaries. When there is an unequal distribution in access to education and its attachment, it can lead to inequalities while expansion of higher education is led by economic concerns, the equity aspect is based on social reforms and justice. State can play an important role in influencing the equitable distribution of higher education opportunities. The merit/quasi-public good nature of higher education demands an increased role of the state and a larger share of investment by the state. This is important because it will ensure supply and facilities to pursue higher education evenly across all socio-economic classes.

The Public good nature is a prominent cause for public support, but invention in higher education sector's market follows from public sector's importance in production of education facilities .

If returns to education are not high enough, market mediated increase in higher education may be in short supply. The private sector may offer only those course which are giving high returns. This can lead to distortions as seen in India. Higher education was traditionally offered through public institutions, which offer courses in a wide range of areas. But later on declining fiscal budgets led to privatization of public universities and promotion of private institutions. Many cost recovery measures were put in place. But this can be in conflict with policies of equity, hence regulatory role of state to protect the interests of vulnerable sectors is important, while it can be argued that system expansion has been accompanied by an overall decline in inequality, social equalities in access have not been declining rapidly. The expansion of higher education in India is accompanied by persisting disparities as affirmed by G.E.R. Estimates based on data generated by the 71st and 70th rounds of NSS show that economically well off groups are able to incrementally access quality higher education while the poor run into debt in trying to do. This is due to withdrawal of state and privatization of higher education. Therefore an alternative to private finding is required.

IV. COST RECOVERY OF HIGHER EDUCATION

Cost recovery debates are a recent trend. Many reasons have been advocated Foremost is the need for stringency in public budgets. Without cost recovery at some levels, government will not be able to meet the growing demand for higher education and there can be underinvestment in higher education. Another reason advocated is most students opting for higher education can be from relatively richer households. So government subsidized institutions are actually regressive in nature. Therefore some form of cost recovery is actually working towards equity. Also this will not affect the demand for education, as for the upper income classes, the demand for education is relatively price inelastic. Cost recovery can also lead to increase in quality of education, as sometimes higher fee structure can attract more serious students. But there are many arguments against cost recovery too most of them are based on the presence of externalities and the merit/quasi good nature of education. It is also argued that equity of access to higher education can be last by poorer household's so on the whole, we can say that there can be case for judicial use of cost recovery measures but with safe guards for the poorer sections.

V. VARIOUS OPTIONS FOR COST RECOVERY

Higher education has been financed both through government and private sources. Government not only directly invests in the public sector through grants in aid , both periodical and one time grants. The reasons for putting emphasis on cost recovery are several. It has been argued by many economists that rates of return are much higher in the primary sector so funds can be re-allocated. The government can also promote educational loans through development of credit market which at present is very skewed and not symmetric. It is imperative to decentralize management of public sector institutions and encourage private sector to invest in higher education.

One of the most important methods of financing higher education is student fees. Surveys have pointed out that family income is a very important source of enrolment in higher education. If income elasticity for higher education is high, one should be careful about increasing fees of the relatively low income households. Also another important factor is that there are other costs apart from tuition fees, such as costs of books, transport costs and opportunity cost as well. Surveys show they can be sizeable cost of total costs of higher education in India. Therefore a differential fee structure is advocated.

The other way of recovery is through offering students loans and which shift burden from the public to the private sector. This way the poorer students won't be forced to opt out of higher education. This will preserve equity as well as efficiency.



But there can be problems as the credit market is not so well developed and returns are not certain problems of non-repayment may deter the loan agencies and they try to seek security. Therefore students might be deterred from undertaking these loans.

Lastly the government may also consider taxes earmarked for education, but they have a limited base.

VI. CONCLUSION

Methods of cost recovery can be regressive in nature. Thus they may go against the principle of equity. So one can look at differential fee structures, grants in aid and scholarships. Targeted measures should be preferred but they often involve many administrative costs. A judicious mix of taxation and subsidies of a progressive nature should be thought of.

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