Traditional Sources of Financing Higher Education

K R SHAH

The exploration of alternative sources of financing higher education (October 20, 2007) should have examined further the traditional sources like the state and families of students. The state is yet to keep to its promise of increased spending. And university fees should at least be indexed to inflation.

K R Shah (*krshahoo@yahoo.com*) was formerly at M S University, Baroda.

In the article 'Exploring Alternative Sources of Financing Higher Education' (October 20, 2007) Saumen Chattopadhyay finds none of the sources of financing higher education – traditional or non-traditional – foolproof as they are all beset with problems. This is true with regard to the non-traditional sources such as human capital contracts (HCCS), income contingent repayment schemes (ICRS), income contingent loans, graduate tax, education vouchers and even education loans.

Of the four traditional sources on which higher education has been dependent for its funding, like state grants, tuition and other fees (household's contribution), endowments and colleges and universities' own contribution, the last two have virtually dried up and are now not dependable. Even the nature of university-industry (corporate sector) partnership in financing higher education is not clear though the industry is very much concerned with the declining quality of higher education and treats its rejuvenation as its social responsibility. Privatisation of higher education is not a solution for its funding problems. It is a different story in a country like the US where private colleges and universities come to the rescue of meritorious students (with high scholastic assessment test (SAT) scores and grade point averages) either by providing grants for families earning less than $ 40,000 per year or by reducing loans for every student receiving aid or by cutting costs for the middle class. These measures, beneficial to parents, were recently announced by Harvard, Stanford, Yale, Duke and Amherst universities (*San Ramon Valley Times*, December 11, 15, 2007) in the wake of a new law cutting federal subsidies to student lenders, straining further the student loan industry in a period of recession facing the American economy. Philanthropic privatisation of higher education of the US type is welcome here.

Sourcing Funds

We have to explore the possibility of generating more resources from two sources – the state and households. Let us begin with state funding. Historically speaking, in the development schemes of the state, education has rarely been accorded the place it deserved. We have observed the prolonged underinvestment in education since the publication of the report of the National Commission on Education (Kothari Commission 1964-66). The state has proved to be a timid investor by turning its face away from its much propagated commitment to accomplish the target of spending 6 per cent of the gross domestic product (GDP) on education within the time frame (1966-86) suggested by the commission. Undue delay in attaining the target has caused intra-sectoral imbalances in the allocation of resources from the one suggested by the commission – 3.5 per cent of GDP for elementary education and 1.5 per cent each for secondary and higher education.

In defence of the virtual state inaction in this regard, it can be said that the Indian economy failed to grow at the rate of 6 per cent annually as postulated by the commission. The Indian economy grew at the average annual rate of 3.5 per cent during 1950-80. But the so-called defence loses much of its power when the state apathy to achieve the target continues even after the economy started growing at 6 per cent per annum till 2003 and around 8 per cent between 2004 and 2007. The state's failure to invest 6 per cent of GDP and the consequent resource allocation imbalances within the education sector seem to have dealt a death blow to the quantitative and qualitative expansion of this sector. However, this cannot be advanced as an argument supporting further state withdrawal from financing education.

On the contrary, 6 per cent GDP allocation to education should be taken as the "minimum" and the state should strive to achieve this without further loss of time. Sustained rapid economic growth since 1980 with buoyancy in tax revenue and improved fiscal situation should prompt the government to expedite the fulfilment of its commitment. The prevailing state of the Indian economy does not allow the state to stick to its "resource crunch" argument put forth successfully in the past. At least this suggests the laying down of a reasonable "floor", if not ceiling, for the proportion of the state budget to be allocated to education, say, during the 11th Five-Year Plan. On the premise that there is an association between the amount spent and quality of education, the floor should be so set that it will not allow per pupil public expenditure in real terms to fall at the higher education level. Or alternatively, the floor should be set keeping in mind the goal of spending 6 per cent of GDP on education taking us closer to the "ideal" allocation of resources between the three interconnected layers of the education system recommended by the education commission.

At present, the share of higher education is just 0.34 per cent of GDP. Its share under this scheme is set to go up to 1.5 per cent. Whether the four times increase in allocation for education during the 11th Plan proposed by the Knowledge Commission will take us nearer to the floor suggested above is to be seen in this context. Otherwise, the increase recommended may turn out to be an eyewash. Nobody challenges the role of higher education in making our economy globally competitive and pushing up economic growth further. But whether higher education makes the growth socially inclusive is debatable. Here, I beg to differ from the author.

Debatable Assertions

Enrolment at the higher education level accounts for around 8-10 per cent of the population of the age-group 17-24 years, which implies that it is accessible to a very small section of society. High dropout rates at the elementary and secondary levels of education may be one of the important factors for the reduced participation of the concerned population in the education process. The notion of "option value" of education (completion of one level of education allows one to proceed and benefit from the next level of education) has limited applicability in India at present. It is confined to the privileged section.

According to the United Nations Educational, Scientific and Cultural Organisation (UNESCO) report, *Global Education Digest-2007*, households pay for 28 per cent of the costs to send their children to primary and secondary education as against 14 per cent of the costs for university education. It is the expensive school education and not university education that poses a bigger barrier to the children of poor families. In this sense, the fundamental right to basic education for the Indian poor appears a distant dream. "Systems that are overly reliant on private contributions especially at the primary level of education, raise the risk of excluding students from poorer families" the report warns. The option value under this scenario even in future will be the prerogative of the well-to-do middle and upper middle class as they are the major beneficiaries of high economic growth. Socially inclusive economic growth is mainly dependent on broadening the option value at the primary education level itself thus permitting the majority from diverse socio-economic backgrounds to go to higher levels.

At the primary level of education, it is not the economic goal of education, namely, preparing people for the world of work, but social, cultural and political goals (primary functions) that should have ascendancy. In that case, whether returns to elementary education are high or low or rising or falling is less important. Regardless of the pattern of rates of returns or the funding capacity of the government, basic education deserves top priority. It is here that the attainment of equity objective is critical. It will make its fulfilment at the higher levels relatively easy and smooth. The same can be said about the quality of education. It is the quality level of the base of the education system that governs the quality at higher levels. So, if the age-old problem of equity-efficiency quandary is addressed first at the primary education level, economic growth can be inclusive leading to social cohesion.

Pricing and Standards

Let us turn to the second traditional source of financing higher education namely students or their families by way of different types of fees. Recently, the human resources development minister, addressing the vice chancellors' conference said, "Students from public schools should pay the same amount in college that (they) were paying in schools" (*Times of India*, December 11, 2007). This is tantamount to altering the present fee structure at the higher education level with a view to lowering the extent of subsidy.

Revising and better rationalising the fee structure at the higher education level is long overdue. It boils down to the issue of pricing of education. It amounts to price distortion between the lower (elementary and secondary education) and higher (college and university education) levels. Price distortion has originated from the persistently low and by and large uniform tuition fee rates for different courses in the government-aided colleges and universities even in the face of inflation. This has given place to subsidising higher education which has disproportionately benefited the better-off families. Also, over time the beneficiaries have continued to be the small privileged section of society as demonstrated by the notion of option value.

The advent of privatisation has ushered in the era of dual price structure. Private unaided but government recognised educational institutions started charging exorbitant tuition fees amounting to almost full cost pricing whereas fees in government supported colleges and universities (private aided) remained unchanged at a low level. This has been further worsened by capitation fees, payment seats, donor and non-resident Indian (NRI) seats, self-financed courses and colleges and in the process merit has been relegated to the background. The end result is the emergence of an imperfect market for the provision of higher education which has rightly or wrongly created an illusion of product differentiation in the minds of the buyers of education. The exodus of Indian students going abroad for higher education hints at the same.

These trends point to a growing demand for "quality" education at a much higher price outside the government aided educational institutions. The possibility of government funded institutions capturing this market seems distant when 75 per cent of all colleges and 56 per cent of universities have so far not been accredited by the National Assessment and Accreditation Council (NAAC) on quality parameters. Quality improvement is to be taken as a precondition for the correction of price distortion in a scenario dominated by globalisation of higher education.

Household Sector Can Pay More

If the government is committed to raising the standards of education in general and higher education in particular, rationalisation of the fee structure on the lines suggested below with a view to asking the household sector to pay more for higher education is not very difficult.

First, evaluate the composition of enrolled students at the higher education level during the period of last two decades of high economic growth characterised by (a) increasing income inequalities, and (b) sizeable outflow of students for higher education. Second, evaluate the trend in private costs – tuition and non-tuition – of higher education in relation to per capita income to assess the changes in households' paying capacity. Reduced family size with at the most two children to support for education may be one more indicator of capacity to pay. Also, the estimate of cost burden of education on families should be net of financial aid and scholarships received by students from various sources. Third, tuition and other fees such as examination, hostel, laboratory, enrolment, etc, are mandatory whereas non-tuition costs of private coaching, books, stationery, equipment, etc, are not. Expenditure incurred on these items depends on the economic position of the students. If fees of different types have lagged behind other prices, fees (price of education) should be aligned with the inflation rate. It is also observed that many universities show deficits in their statement of accounts under such heads as hostels, examinations, etc. At least such services should be provided on no-profit no-loss basis if not on commercial lines. Fourth, fee rates for professional courses having high market value (in terms of employability) should be so fixed that these rates cross-subsidise the relatively low charge general education courses.

And finally, along with raising households' contribution to the financing of higher education, the state should also make sincere efforts to raise its share and focus more on better utilisation of resources.