



# A Case for Public Funding of Higher Education

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## 1. INTRODUCTION

"Every one has the right to education. ....and higher education shall be equally accessible to all on the basis of merit."  
Universal Declaration of Human Rights 1948

*'Human history becomes more and more a race between education and catastrophe.*

H.G. Wells The Outline of History

*Today, more than ever before in human history, the wealth –or poverty of nations depends on the quality of higher education. Those with a larger repertoire of skills and a greater capacity for learning can look forward to lifetimes of unprecedented economic fulfillment. But in the coming decades the poorly educated face little better than the dreary prospects of lives of quiet desperation.*

Malcolm Gillis, President of Rice University, 12 February 1999.

## 1.2 ABSTRACT:

Financing of higher education is a crucial issue both in India as well as outside. It has policy implications for the State and Central Government. On the one hand, costs in education have risen keeping with generally higher levels of inflation in third world countries. On the other hand, Governments have generally refrained from hiking budgetary allocations to higher education in particular. We have tried to look at these issues in this paper; specifically it has been argued that higher education, too, is a Merit good and deserves to be funded by the State. This study highlights the role of Government in financing higher education. Spending by Government has positive impact on equity and accessibility-two of the most important parameters of global growth of higher education.

## 1.3 BACKGROUND AND HISTORY

Higher education has registered a remarkable expansion practically all over the world. Globally, the percentage of enrolment (of the relevant age group) has gone up from 19% in the year 2000 to 26% in 2007. In terms of absolute numbers, the enrolment of students in tertiary education has moved up to over 152 million students in 2007. This represents an increase of roughly 53% over the year 2000 figure.<sup>1</sup> In India too, higher education has grown to become one of the largest systems globally. In parts of west, especially the US, Canada, New Zealand and Australia, the increase in demand for higher education is mainly due to export of higher education. These nations attract large numbers of students from the developing world. In the developing countries, incomes have increased over the last couple of decades. Amongst them are some of the fastest growing economies of the world; they have attracted huge inflow of foreign funds in to their economies. Naturally, on the one hand aspirations of people have gone up and on the other, more and more new opportunities are created by the growing knowledge economy. That is why the demand for higher education is for ever increasing in these countries.

Demographic shifts taking place all over the globe have also influenced the higher education scene. It takes much shorter time in developing countries for replacing the total number of students who leave their institutions after completing their studies. However, in the west, due to fall in birth rates, it takes much longer for replacing all those who are presently enrolled in tertiary education. Increasingly higher educational institutions in these countries are relying on students coming from third world countries. Governments practically the world over, have squeezed their budgetary allocations to education in general, and higher education in particular, in the last few decades.

As Knowledge for Development, the 1998–99 World Development Report puts it: "Knowledge is like light. Weightless and intangible, it can easily travel the world, enlightening the lives of people everywhere. Yet billions of people still live in the darkness of poverty – unnecessarily."<sup>2</sup>

## 1.4 OBJECTIVES:

1. To understand the role of the State in financing of higher education.
2. To analyse benefits to the society and the nation from a well developed system of higher education. The study focuses on the externalities produced by higher education.
3. The paper tries to make a case in favour of higher budgetary allocations by Governments to fund higher education.

## 1.5 METHODOLOGY

The study mainly uses the secondary data and information on the subject. There are a large number of research papers from the west in respect of financing of higher education. Studies in this regard in India and other third world countries are rather limited. MHRD (Ministry of Human Resources Development) is a repository of data base in respect of higher education; it has also appointed various committees such as CABE (Central Advisory Board of Education) and others to study various issues concerning higher education. Some of the pertinent ones are referred and used in this study.

## 1.6 HIGHER EDUCATION-NATURE AND IMPORTANCE

The 21<sup>st</sup> century will, undoubtedly, be driven by knowledge. Physical assets, in comparison will cease to have the same importance they had earlier. A knowledge based society pre supposes the existence of a strong higher education system capable of turning out men and women with varied skills and specialized knowledge in specialized domains.

The developed world has already made suitable changes in it's policies to ensure rapid progress in higher education, research and development. These nations have some of the finest international universities which have built in enormous reputation for quality education. Their training and education prepares every student to partake and benefit from the knowledge society. The academic world, especially the d's





finest and top universities and research Institutes. Not surprisingly, they are in a position to attract the global best talent in Faculty recruitment and the brightest students too, prefer to study in these institutions. Top class research in a large variety of areas is produced on a consistent basis by these high ranking universities. They provide break through and cutting edge technologies in practically all the emerging and niche areas. That is why they are ranked high by global rating agencies which have attained prominence in the post globalization period. The rating agencies use a variety of methodologies which are not always consistent. Some of them are swayed by extraneous considerations. Universities of third world countries are at the periphery and are up against heavy odds. The African Universities have not found a place in global ranking. Even the top Indian Institutes, IIT'S AND IIM'S, are well known and recognized for teaching-learning only and not for significant amount of top quality research output. After a long hiatus, tertiary education, has always been characterized by center and periphery phenomenon. The first world countries, and amongst them the leading nations are the U.S., U.K., Australia, New Zealand and Canada, are occupying the centre stage of global higher education. They have the world's finest and top universities and research Institutes. Not surprisingly, they are in a position to attract the global best talent in Faculty recruitment and the brightest students too, prefer to study in these institutions. Top class research in a large variety of areas is produced on a consistent basis by these high ranking universities. They provide break through and cutting edge technologies in practically all the emerging and niche areas. That is why they are ranked high by global rating agencies which have attained prominence in the post globalization period. The rating agencies use a variety of methodologies which are not always consistent. Some of them are swayed by extraneous considerations. Universities of third world countries are at the periphery and are up against heavy odds. The African Universities have not found a place in global ranking. Even the top Indian Institutes, IIT'S AND IIM'S, are well known and recognized for teaching-learning only and not for significant amount of top quality research output. After a long hiatus, things are beginning to change, albeit slowly. The 'London Times Higher Education supplement' ranking of the world's top 200 Universities included three in China, three in Hong Kong, three in South Korea, one each in India (an IIT at number 41-the specific campus was not mentioned) and Taiwan.<sup>3</sup>

There appears to be a renewed thrust, in India too, on allocating higher amounts of money to educational sector in general and higher education in particular. The 11<sup>th</sup> Five Year Plan has hiked the outlay for education to Rs.84,843 Crores; this is nearly nine times increase over the previous plan.<sup>4</sup>

Education, including higher education, is largely funded by the Governments all over the world. In fact, it was almost entirely funded by Governments in India till the decade of eighties. Till then, it was believed that education at all levels was a public good and produced large externalities. However, fiscal pressures forced governments of several countries to cut expenditure drastically starting from the decade of eighties. In India economic and financial reforms have been sited as reasons for substantial cut in allocations for education, especially the higher education. During the same time, it was felt that elementary education needed greater attention of the Governments and that it was a 'public good'. Higher education would benefit the individual rather than the society as a whole and hence it's funding has to be borne by the student.

### 1.7 HIGHER EDUCATION AS A MERIT GOOD

There are a larger number of takers now than perhaps a decade ago, for the argument that even higher education produces 'externalities' and that it must be regarded as a merit good. The IT revolution has changed many things including certain concepts and ideologies. The economic value attached to knowledge has undergone a radical change. Knowledge today is no more a matter in private or personal domain. It transcends sectors and has been translated in to huge economic values. In the by gone era, knowledge based society would thrive on social, cultural and intangible benefits. Today, in addition to all those benefits, we are also trying to leverage the maximum economic value out of knowledge workers. So, the knowledge based society that we are aiming to create, build and nurture, is based on solid economic foundation. We can not build a knowledge based society with out the State playing a greater role in the field of education. Education is too risky to be left entirely to the private initiative or diktats of the market forces. Even the limited participation of the private sector in the higher educational field has produced mixed results. Whereas such initiatives have certainly expanded the scope of education (especially the technical and management education), qualitative growth has been the causality. Interestingly, there is an argument that all education, including the higher variety, ought to the responsibility of the State. Since all education produce varying degree of social good, this argument holds good. Decades back, we would complain of brain drain especially from our best institutions, such as IIT'S and IIM'S. Now, it is being realized that these Indian professionals have helped create a strong brand image both for their institutions as well as for the country. As conditions in our country improve, these NRI's are returning back home armed with rich technological experience. Therefore, it is now being forcefully argued that even the rich should be entitled to subsidized higher education. After all, the same externality is being produced by them also as a result of education.<sup>5</sup> The argument that the Government does not have adequate financial resources has been put forward for several decades now. Hence, the Government needs to focus by restricting public funding to primary and probably secondary education. Though this might have been largely true in case of India in the past, things have changed significantly in recent times. In fact, Government has more money, in terms of foreign exchange resources, than it can employ productively. We are sitting over a pile of around \$287.4 billion foreign exchange resources, not knowing exactly what to do with this sort of funds.<sup>6</sup> This is in addition to incomes and savings generated in the internal economy. There are also those who argue that if higher education has become expensive (since the governments have virtually withdrawn from the sector), it can be supported by student loan programmes. They point out that social, cultural and intangible benefits. Today, in addition to all those benefits, we are also trying to leverage the maximum economic value out of knowledge workers. So, the knowledge based society that we are aiming to create, build and nurture, is based on solid economic foundation. We can not build a knowledge based society with out the State playing a greater role in the field of education. Education is too risky to be left entirely to the private initiative or diktats of the market forces. Even the limited participation of the private sector in the higher educational field has produced mixed results. Whereas such initiatives have certainly expanded the scope of education (especially the technical and management education), qualitative growth has been the causality.





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of 'non merit good'. After all, higher education has the potential to produce a large set of externalities in social, economic, cultural, demographic and political spheres. The Ministry of Finance has revised it's stand and now recognizes post elementary education as Merit 2 good and elementary educations as Merit 1 good. There are various ways in which a well developed system of higher education will help the society and the economy.

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#### **1.8. BENEFITS OF HIGHER EDUCATION**

Tertiary education contributes to social and economic development through four major missions:

- The formation of human capital (primarily through teaching);
- The building of knowledge bases (primarily through research and knowledge development);
- The dissemination and use of knowledge (primarily through interactions with knowledge users); and
- The maintenance of knowledge (inter-generational storage and transmission of knowledge).<sup>8</sup>

The importance of human capital in a modern society hardly needs any further emphasis. It has already become the most important asset for any nation. The 21<sup>st</sup> Century will belong to nations and societies which will produce and nurture best human resources. The human capital in the US is valued three times it's value of goods and services.

The importance of higher education lies in the following:

- a) It has the ability to unlock the potential of human resources at all levels; the resultant expansion is useful to all.
- b) It addresses issues and concerns which may not have immediate tangible value for the employers but have huge implications in future, for e.g., humanities.
- c) It facilitates developing and preserving of sets of values like democracy, freedom to discuss ideas and influence public opinion for welfare of the people.
- d) It helps in creating pool of human resources which after acquiring a critical mass can aid scientific and economic development in a big way. Factor productivity depends almost entirely on human capital and efficiency.





Besides the private benefit, there is no denying the fact that nations also benefit in a big way from dissemination of higher education. Now there is empirical evidence to show the macro-economic impact arising from delivery of tertiary education. East Asian nations recorded highest growth in their economies every year during 1991 to 1995 vis-à-vis their Latin American counterparts. Economists have calculated that higher educational levels of Asian nations were responsible for full half point of that difference. Education is also important in the context of working democracy and its values. Not only the primary education, even the higher variety is considered as an important human right as per the Universal Declaration of Human Rights of United Nations 1948. Higher education promotes equity and this becomes very crucial in a country like India with vast and diverse population. It also creates awareness with regard to freedom of choice, a principle, which is the corner stone of democracy. Social mobility and intellectual growth is associated with pursuit of higher education. Ability to earn higher incomes benefits the individual alright but the nation and the Government too gain in terms of higher contribution to State taxes.

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Figure 1: The Array of Higher Education Benefits

#### The Array of Higher Education Benefits

Public	Private
<ul style="list-style-type: none"><li>•Increased Tax Revenues</li><li>•Greater Productivity</li><li>•Increased Consumption</li></ul>	<ul style="list-style-type: none"><li>•Employment</li><li>•Higher Savings Levels</li><li>•Improved W Higher Salaries and Benefits</li></ul>
<ul style="list-style-type: none"><li>•Increased Workforce Flexibility</li><li>•Decreased Reliance on Government Financial Support</li></ul>	<ul style="list-style-type: none"><li>•Working Conditions</li><li>•Personal/Professional Mobility</li></ul>
Economic	
<ul style="list-style-type: none"><li>•Reduced Crime Rates</li><li>•of Civic Life</li></ul>	<ul style="list-style-type: none"><li>•Improved Health/Life Expectancy</li><li>•Improved Quality of Life for Offspring</li></ul>
<ul style="list-style-type: none"><li>•Social Cohesion/Appreciation of Diversity</li><li>•Improved Ability to Increased Charitable Giving/Community Service</li><li>•Increased Quality Adapt to and Use Technology</li></ul>	<ul style="list-style-type: none"><li>•Better Consumer Decision Making</li><li>•Increased Personal Status</li><li>•More Hobbies, Leisure Activities</li></ul>

#### Social

Source: The Institute for Higher Education Policy, "Reaping the Benefits: Defining the Public and Private Value of Going to College", March 1998 The private benefits of higher education accruing to individuals are rather well known and

have been well documented- higher salaries, better employment avenues and prospects, better working conditions and a tremendous potential scope for vertical and professional mobility. Further, higher education also endows benefits such as better and improved life quality, higher status, life-work balance and provision of more time for hobbies and leisure etc.

It is the public economic and social gains from tertiary education that need further reiteration. The list of social merits, as can be seen from the above, is indeed impressive. Social orientation, community service, reduced crimes and harmonious living are some of the non-economic gains. The externalities extend to the economic domain, too. Higher education gives a definite edge in terms of improved productivity and efficiency, reduced dependence on Government support, improved flexibility and more importantly higher resources to the Government in terms of taxes. The establishment and sustenance of a knowledge based society is closely interlinked with higher education.

Higher education needs to expand in India as also in other third world nations. It is also important to ensure equity and inclusion in growth and expansion. Hence there is a case for increased funding support by Governments.

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