

Review of The Literature

Section I

2.01 Introduction

During the recent years, various issues relating to financing of higher education have been gaining attention, especially in the context of socio-economic change and economic development across the globe in general and India in particular. Over the years, a significant body of literature has emerged based on studies carried out on the economic aspects of higher education. However, virtually all these studies were carried out in the pre-liberalized era and very few address the issue of privatization of higher education. A comprehensive analysis of bibliography on higher education in India by Konnur M. B. and Bhalla Veena (2000) also reveals a paucity of studies on the financial aspects of higher education during the 1990s. Books and articles on the subject were relatively few and the number of micro studies small with only a few of these having reference to India. The authors found that a majority of the studies related to higher education in general, more than those on the financial aspects. This is shown in the table below.

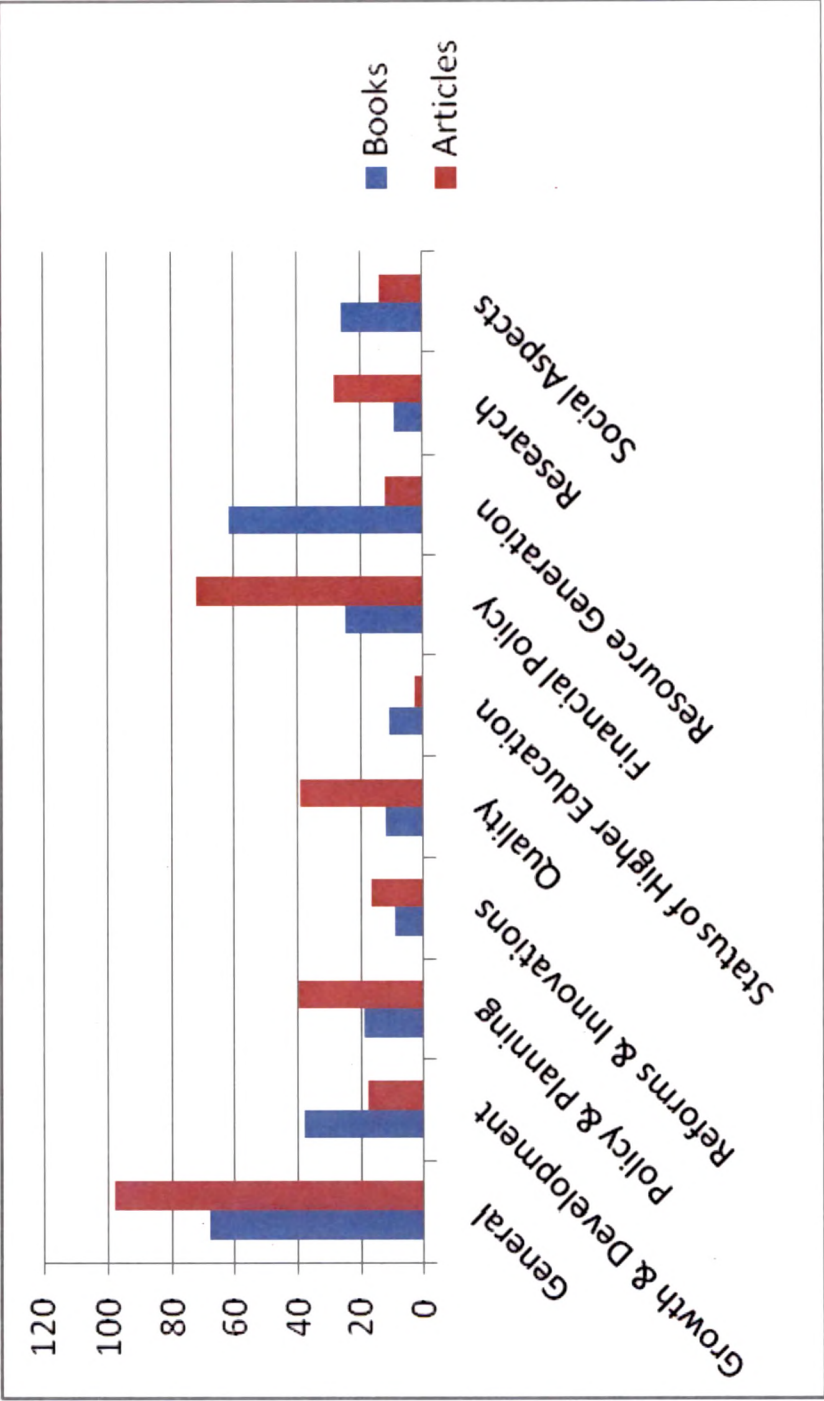
Table 2.01
Bibliography of higher education in India during 1990 to 2000

Theme	Number of studies		
	B	A	Grand
General	68	98	166
Growth & Development	38	18	56
Policy & Planning	19	40	59
Reforms & Innovations	9	17	26
Quality	12	39	51
Status of Higher Education	11	3	14
Financial Policy	25	72	97
Resource Generation	62	12	74
Research	9	28	37
Social Aspects	26	14	40

Source: M B Konnur, Veena Bhalla, Youd Vir Singh Bibliography of Higher Education in India, 1991-2000 Association of Indian Universities, New Delhi

Note : B - Book & A :- Articles

Chart 2.01
Bibliography of higher education in India during 1990 to 2000



The table clearly shows that during the period 1990 to 2000, books and articles on higher education have been published in relatively small numbers. More articles and books have been published on general aspects, growth and development and policy. A relatively few number of articles and books have been published on the subject of "Status of Higher Education," and "Reforms and Innovations." Similarly, not many studies have been carried out to understand the resource generation by the higher education system.

Research on the "Economics of Education" has been given consideration in a very general manner rather than precision with several contemporary studies undertaking the financing of higher education as a research subject. According to Parikh G.D. (1974), the financing of universities and colleges is a relatively neglected field in discussions on Indian higher education. Therefore, "financing of higher education" remains a promising area for research.

The era of globalisation combined with growth of the services sector that resulted into a spurt in the demand for education has led to the economic aspects of education becoming imperative.

In this chapter, an attempt has been made to review theoretical and empirical work in the area of financing of higher education. The chapter has five sections. Section I deals with the introduction. Section II deals with theoretical views on the economics of education. Section III reviews the reports of the various Committees and also reviews the landmark case studies on university finances in India. These studies were initiated by ICSSR jointly with UGC during the 1970s. Section IV deals with other empirical studies on financing of higher education. Section V attempts at the theoretical and empirical work related to the recent trends in the privatization of higher education. Finally, Section VI deals with concluding remarks.

Section II

Theoretical Views on the Economics of Education

2.02 Financing of Higher Education: A Theoretical Approach

Classical economists such as Adam Smith and Marshall recognized the economic importance of education. American writers led by Schultz analyzed the contribution of education to economic growth of the country, as well as returns to individuals. According to them, there is a positive relationship between educational expenditure and the national income. The economic value of education in the process of economic development is broadly assessed by the resources involved in the formation of human capital and the corresponding increments in productivity of the labour force (Denison E.F. 1964).

In his *Wealth of Nations* Adam Smith (1776) advocated art as a pre-requisite for the division of labour and for increasing stock earnings. He also emphasized the need for education to promote moral and civic peace. He emphatically stated that, “the acquisition of such talents, by the maintenance of the acquirer during his education, study or apprenticeship always costs a real expense, which is a fixed capital, as it were, in his person. These talents as they make part of his future earnings, so do they likewise that of the society to which he belongs.”

Irving Fisher also treated education as a strong source of human capital formation, to increase income streams (Irving Fisher 1929). Thus, at the end of the eighteenth and beginning of the nineteenth century, education was being looked upon as a means of bringing about improvements in the purchasing power of the labour force, economic welfare and social peace (Mill J.S., 1848).

According to Karl Marx, education is one of the correctives to the distortions and imbalances created by the capitalist mode of production (Karl Marx, 1954).

The neo-classical school gave an analytical shape to the study of education and its returns. It accomplishes investment in human beings as the most valuable

form of investment. Recognizing the benefits and importance of education, Alfred Marshall remarked, "But a good education confers great indirect benefits even on the ordinary workman. It stimulates his mental activity, it fosters in him a habit of wise inquisitiveness; it makes him more intelligent, more ready, more trustworthy in his ordinary work; it raises the tone of his life in working hours and out of working hours. It is thus an important means towards the production of material wealth" (Marshall Alfred, 1930). In Neo- Keynesian or Post-Keynesian thought, such as those of Harrod, Domar and Robinson, the role of education shifted to the factor determining the rate of economic growth.

Economists like Theodore Schultz, Gary Becker, F. Haribson, and C.A. Myers attempted to incorporate investment in education into the mainstream of economic analysis. Subsequent studies showed that education is a critical input for accelerating the process of economic development. Consequently, a new branch of economics transpired called 'Economics of Education.

According to classical economists, there is a direct and indirect relationship between human capital formation and economic growth. Few were of the opinion that education can be a means to enhance human capital and its proper utilization and also to remove and correct the distortion and imbalance created by capitalist mode of production. Post-Keynesian economists also related education with individual i.e., human capital development, which in return will accelerate the process of economic progress. Investment in education is justified by the contributions which education makes to economic growth, poverty reduction and social welfare. Education contributes to economic growth directly by increasing the productivity of labour. It also facilitates the development of new technologies, and integrates these technologies into economic activity (Psacharopolous, 1977).

T.W. Schultz (1961) established the importance of investment in education and saw an imperative need to examine the subject from two aspects: (1) the economic value of education, and (2) economic aspects of the education system. According to him, the first is concerned with the impact of education on labour productivity, occupational mobility and the distribution of income; while the

second is concerned with the internal efficiency of educational institutions with reference to the cost of education and the method of financing these costs. These two aspects are generally taken as broad parameters within which modern research on education as an instrument of economic development seems to have consternated (Harbinson, Frederick and Myers, Charles A, 1964).

Coombs (1968) held that acute scarcity of resources restricts the educational system from meeting new demands for expenditure required to develop the desired areas of training and research. He saw education as the means by which a nation can improve the process of human capital formation. Thus, investment in education is imperative to increase the rate of economic growth.

Since 1950, higher education has been the fastest growing segment of the education system the world over, also in the in developing countries, whether measured in terms of enrolment or in terms of financial outlay (Blaug Mark, 1987).

In 1962, Robbins Committee was appointed to review the pattern of full-time higher education in the light of national needs and resources and to determine the principles for long-term development. The Committee expressed its opinion in favour of increasing public expenditure on higher education. The Committee's report also highlighted that increased capital expenditure on higher education helped in accelerating the rate of economic development in that country.

The study by Coombs and Philip (1972) emphasized the need for revolutionary changes in crisis ridden educational structures, contents and methods to match the growing needs of a nation and of individuals in a rapidly changing world. They pleaded for a detailed cost analysis as a powerful and necessary tool of modern educational management for the most appropriate utilization of financial resources. This cost analysis should aim at: (1) evaluating the performance of the educational system against well defined and updated objectives, and (2) discovering ways and means to improve efficiency and effectiveness and to plan for the future in a right perspective.

Section III

Reports and Landmark Case Studies on University Finances

2.03 Reports on Higher Education in India

There has been a growing awareness about the importance of education in India and several attempts have been made to improve it. In typical government fashion, commissions were appointed to look into the matter. First such Commission was appointed in 1948, under the scholarly Chairpersonship of Dr. S. Radhakrishnan to report on Indian University Education and suggest desirable improvements and extensions to suit the present and future requirements of the country.

The Commission reviewed the aims and objectives of university education and research in India and proposed necessary and desirable changes in the constitution, control, function and jurisdiction of Indian universities and their relations with government- central and provincial. The Commission recommended the maintenance of high standards in teaching and examination. The commission also recommended the need for more universities and institutions of advanced research, together with the qualifications, conditions of service, salaries, privileges and functions of teachers and the encouragement of original research.

The report of the Education Commission headed by Dr. D.S.Kothari (1966) made a survey of the growth of educational expenditure in India in the post independent period and the sources of educational finances. The Commission recommended allocation of 6 percent of GNP for education.

Acharya Ramamurthy Commission (1992) also made a similar recommendation. The Commission maintained that it was justifiable to increase the fees of students in higher education and the increase must be related to the cost of higher education and the income level of the parents. Rich should therefore pay more and less privileged pay less.

The UGC Committee headed by K. Punneya (1993) went into the various aspects of higher education and its funding. Its conclusions are based on national and international experiences. According to the Commission, the funding of a university must have a direct relationship to its objectives and should be designed to promote efficiency, quality, autonomy, accountability, and relevance. According to the Committee, the state makes substantial funding of higher education all over the world. The committee strongly felt that no society which was out to fight poverty and social inequality should counterpace subsidization as wasteful expenditure. Nor should the affluent sections of society be exempted from paying a reasonable cost of its higher education. The Committee emphasised the accessibility of higher education to the weaker sections of the society.

In general virtually all the Committees have recommended an increase in the expenditure on education and increase in fees for those who can afford it.

2.04 Studies on University Finance During 1970s

In the early 1970s, the Indian Council of Social Science Research, New Delhi, and the University Grants Commission (UGC) jointly sponsored a series of studies to examine the financing of higher education in India. These studies were carried out in the selected universities viz., University of Mumbai. This study was undertaken by Dr. P.R. Panchamukhi, Kerala University study undertaken by Mathew E.T., Rajasthan University by M.S. Nigam, Patna University study by D. Jha, study of Calcutta University by M. Mukherji and Karnataka University study by D.M. Nanjundappa. These studies relied exclusively on data collected from secondary sources and case studies of individual universities.

These studies are reviewed separately since the universities are under different state governments and cover different study periods. The scope of this cluster of studies includes the sources of university finances and their relative magnitudes, financial stringency experienced by the universities and the structure of resource allocation and the patterns and trends of expenditures. While the studies were designed jointly, the treatment and analysis explicitly reflects the

investigator's approach, experience and originality. These studies on university finance differ in their objectives, scope, coverage and time frame.



Panchmukhi P.R. (1974) examines resource mobilization and utilization of University of Mumbai as a case in point, in the framework of theoretical generalizations. The study attempted to lay down principles of economic university finances. The objectives were to analyze the University's attempts at attaining its objectives through raising and using resources, and define the objective function of the University in an operational sense. The study also examined the resource utilization and mobilization activities of the University and also the economic behaviour of the source contributing to the University.

The study arrived at some significant conclusions. The financial condition of Bombay University was found to be unsatisfactory in comparison with other universities, based on the principles of financial soundness. Income elasticity of expenditure was high indicating that expenditure was rising faster than income. The expenditure pattern showed that around 40 to 65 percent of total expenditure went to the postgraduate department. The share of administrative expenses showed a tendency to increase whereas that of the academic departments showed a declining trend. From 1945-46 to 1970-71 the State Government's share in the total revenue grants to the University was very high.

Mathew E.T. (1974) carried out a micro-level study on financing of higher education in Kerala. The period covered in his study is 1947-48 to 1974-75. The main thrust of the study is on the development of the University since 1960. The study utilizes a sample of 25 arts and science colleges and proposes long-term solutions for higher education finance in the state. The study sought to identify sources of steady and adequate income of relative importance to the university and discover whether the university was subject to any financial stress that was adversely affecting its operational efficiency.

The study found that university expenditure expanded rapidly due to more money being spent on examinations than on teaching and research. In terms of finances, Kerala University was entering into a period of stringency.

Nigam, M.S. (1974) studied the finances of University of Rajasthan for the period 1960-61 to 1970-71. Data was collected from the published annual budgets, annual reports and minutes of the meetings of various bodies of the university. The financial position of the university was analyzed in the context of autonomy, adequacy and flexibility.

The study revealed that due to the phenomenal development of the university since 1962, there was a huge recurring deficit in the university budget and that the government grant was inadequate. It was also found that the fixing of non-plan maintenance grant was a welcome measure. But the accompanying conditions curtailed the University's autonomy in reallocating the fund for optimal use. In this context, it was observed that a state-level body patterned on the UGC would help improve the management of financial issues. Within the university, a selective allocation of funds to different departments would promote better settlement. The method of ad-hoc grants to cover deficit was found to be unsatisfactory.

"A Study of Calcutta University finances" by K.M. Mukherji, (1974) examined the financial sources of Calcutta University together with the relative importance of each source and also the relationships between the University and the State and Central authorities. The study covered the period 1947-48 to 1971-72. The detailed study was restricted to the year 1970-71. Methodologically it was a descriptive and analytical survey.

The study revealed that the University of Calcutta had no formal legal support from the Government in respect of financial liabilities, although institutional grant was increasingly becoming important. In the past the trusts and endowment funds had gone a long way to sustain the university's finances. The administrative expenditure during the study period remained stable but the salaries of teachers were high initially but falling gradually.

D. Jha in his study on "Finances of Patna University" (1974) covered the period 1952-53 to 1972-73. Data was collected from annual budgets, audit reports, annual reports, minutes of the various university bodies, handbooks and

notifications and through questionnaire. The major objectives of the investigation were to study the sources of income and their relative importance and also to ascertain whether the university was under financial stress that was adversely affecting its operational efficiency.

The study found that the major sources of university finance were grants received from the State Government, UGC, fees and other charges collected from the students. It was observed that the income from examination fees was growing continuously. When the University ceased to be an affiliating university after 1952 and became a teaching-cum-residential University, the expenditure increased enormously.

Development of new departments and modernization of courses also entailed an increase in expenditure. The attempts to meet revenue expenditure by diversion of funds from capital grants prevented the University from receiving further capital grants, adding to the hardship. Additionally, the Finance Committee failed to function properly due to the absence of adequate financial rules and lack of suitable conventions.

Nanjundappa, D.M. (1975) undertook a detailed examination of the financial relationship between universities and the government with special reference to Karnataka University for the period 1949-50 to 1972-73. This study emphasized the different sources of finances for universities, the allocation of funds for various activities and disciplines, and the growth in revenue and expenditure and their components. Data was collected from the university records.

The study made some important observations. In university financing, the share of the State Government was high whereas contribution of fees was low. There was a decline in the per-capita grants, indicating a comparative decline in the University finances, when compared to increased enrolment.

Over the four plan periods the proportion of grants for teaching staff was quite low. The economic-cum-functional classification showed a non-optimal

allocation of funds among the different items of expenditure, indicating the need for utmost economy of expenditure.

The establishment of UGC and its introduction of a four-tier pattern of grants was a boon to the university. The larger share of UGC grants in approved schemes helped the university to reduce its reliance on the State Government. Thus, the study offers suggestions regarding the criteria for fixation of grants and restoring stability to university finances.

The above studies were largely on university finance and recommended the relevant policy options. The criteria studies throw light on different aspects such as criteria for fixation of grants and allocation of resources given the principles of adequacy and equity.

Section IV

Empirical Studies on Financing of Higher Education

2.05 Empirical Studies

OECD conducted an Economic Survey of India (OECD, 2007). It suggested that there is an urgent need to improve education in India. The study found that there are marked differences in educational attainment across gender and social backgrounds. However, higher enrolment is just a first step to better outcomes. More needs to be done to raise the quality of education, including providing stronger incentives for teachers to work and improving both the attendance and completion rates of students and teachers' training. Educational reforms at the state-level and in OECD countries suggest that decentralisation helps to raise efficiency and should be encouraged.

Agarwal Pawan (2006) in his paper on 'Higher Education in India: The Need for Change' lays down an agenda for reforms in the higher education sector in India. The paper relates to the growth of higher education in India in relation to the changing funding pattern and suggests ways to ensure that higher education remains both affordable and accessible to all. The author emphasizes the need for greater adaptability in the higher education system so that it continues to provide the needed skills and trained workforce to the economy as it integrates with the

world economy. The author also suggests policy measures required to promote, sustain, and enhance world-class research. Considering the weaknesses in the prevailing regulatory and quality assurance environment. The paper provides a roadmap for reforms towards improved accountability of the system.

Pradhan and Subramanian (1999) in their study on ‘Structural Adjustment, Education and Poor Households in India: Analysis of a Sample Survey’ point out that rapid globalization and fast paced technological progress across the globe present new challenges for India with gradual opening up of its economy to international competition. The amount and the quality of education and skills that India possesses are becoming critical factors in taking advantage of the rapid technological transformation and the transition to a more open economy. This also reiterates the role of education and skill development in mitigating social and economic vulnerability. This paper reports evidences from an all-India household survey on demand and supply issues. In India, most studies attribute poor educational performance to poverty. Though this factor is important, the survey points out that just lack of interest cannot be the major factor explaining low enrolment and high dropout rates. This may also be because of the lack or low expected future earnings. The paper argues that the solution to this problem lies in reorienting the educational sector to demand led supply transformation towards skill enhancement.

Okwach Abagi (1998) in their study on “Revitalizing financing of higher education in Kenya: Resource utilization in public universities” examine the utilization of resources (human and physical) in the public universities of Kenya and Nairobi. The study specifically sets out to outline the academic programs and describes the current state of resources in the two public universities. It also seeks to examine the efficiency in utilization of physical and human resources and also the financial position of the public universities. The study found that while the public universities had their missions well stated, the universities were unable to adequately rationalize the existing student/staff ratios. Compared with other universities, particularly those in the industrialized countries and the standards

recommended by UNESCO, the ratios for the labour force of the public universities were on the higher side and needed urgent attention.

A more worrying fact was that most of the academic staff in the public universities was 'under-employed' within the universities, but very active in outside teaching and consulting. The public universities had failed to provide opportunities for the academic staff to direct their energies to university work. At the same time, the universities were not able to efficiently make use of the existing physical resources; agricultural land lay idle and student residential facilities remained unused for months during long holidays. Therefore, resource utilization in the public universities needed a complete overhaul, to increase efficiency of operation and achieve the mission of the universities at low cost. With their deteriorating financial position and the government's policy on university financing, there is an urgent need for the public universities to work towards financial viability. The author suggests cost-reduction measures and alternative sources of financing for university education.

Bryan Cheung in his study "Higher Education Financing Policy: Mechanisms and Effects" (2003) has discussed the significant and consistent worldwide agenda for reform in the financing policy in higher education. He tries to analyze the factors that drive these reforms and identify the reasons why governments and higher education keep searching for funding alternatives. He tries to show the relationship pathways among funding sources and discusses the funding mechanisms and models adopted by some Asian and Western countries. He examines the effects of funding policy on student access, institutional autonomy, competition, stability of institutes, quality and performance of education, responsiveness to market demands and fiscal burden.

Mark Bray (2007) in "Policies and Tensions in the Financing of Education: Perspectives from UNESCO's International Institute for Educational Planning" has focused on IIEP's role within the UNESCO framework and some of the opportunities and challenges ahead. He also remarks on the complementary roles that IIEP and NUEPA can play in the contemporary times.

Adetanwa I. Odebiyi in his study “Alternative modes of financing higher education in Nigeria and implications for university governance” (1999) has attempted to investigate some of the avenues for improving funding in Nigerian universities noting in particular, the economic, social and political costs of such actions.

Mukherjee A.N. in his study “Public Expenditure on Education: A Review of Selected Issues and Evidence” (2007) discusses the role of education in economic development which has been recognized in mainstream economic literature. Divergence between the private and social rate of return from education is the rationale for intervention by the state in ensuring equity in opportunity across the population. The ‘New Growth Theories’ predict that higher levels of schooling and better quality of workforce will lead to an increase in the growth rate, further strengthening the case for public expenditure on education. The outcome of such research has implications for the financing of education. However, the effectiveness and efficiency of resource allocation by the government has generated considerable debate, both from ideological and technical points of view. It is widely acknowledged that there is a large scope for improvement in both the level and the quality of publicly funded education. New institutional arrangements are being designed to address the deficiencies in incentives and monitoring, thereby improving quality.

Azad (1972) has studied macro-level “Financing of Higher Education in India” and has attempted to analyze the pattern of higher education finance, procedures and policies of providing financial assistance at central and state level. The study also discussed certain policy implications related to financing of higher education in order to assess the adequacy of financial administration.

The study found that as a percentage of national income, the increase in expenditure on higher education was larger than that on education as a whole. The study found that the emergence of UGC had led to a reversal in the share of central and state grants in respect to developmental expenditure.

The aggregative analysis revealed a trend towards increasing state support and declining fee contribution. State grants were erratic, irrational, and iniquitous. A major share of the grants was poured into universities and colleges of professional education. The author suggested the introduction of educational technology, delineation of roles of the central and state government, rationalizing of fee structure and adoption of a system of loan financing.

Azad, J. L. (1975) investigated the “patterns, procedures and policies of government grants to institutions of higher education” This study was conducted in two stages. In the first stage the State Government, central ministers and specialist organizations were requested to supply information about the patterns and procedures of grants-in-aid to institutions of higher education adopted by them. Two questionnaires were prepared in the second stage. The first questionnaire on patterns and procedures of the State in regard to the grant-in-aid was mailed to 356 principals of colleges, representing 10 percent of private colleges in each state with some weight given to women’s colleges. The second questionnaire on policy issues regarding financing of institutions of higher education in India went to 89 vice-chancellors and 54 expert economists and educationists.

The study sought to examine the basic issues of financial policy such as the purposes of central and state grants, fees, mechanism of student-aid programs and the responsibilities of the central and state governments. It aimed at analyzing the patterns, procedures and policies of institutions financing higher education in India. The study also set out to assess the adequacy of financial administration with a view to identifying the bottlenecks.

There were several important findings of the study. In some states, grants-in-aid rules were discriminatory towards private management, women’s colleges and rural colleges. A significant number of respondents wanted the central government to concentrate on quality improvement, post-graduate education and research. These respondents were also of the view that the state governments should concentrate on under-graduate education and the maintenance and

development of collegiate institutions, especially in the regional languages. Most of the respondents felt the need to streamline the UGC, extending its operational jurisdiction to all types of higher education. Half the respondents thought it desirable to enhance tuition fees. The respondents did not favour the practice of deficit grants and the requirement of approved expenditure. They favoured the establishment of an informal committee of vice-chancellors to advise the state government in formulating the grant-in-aid rules and in allocating grants. There appeared to be a lack of coordination between the universities and the state governments in matters of affiliation and releasing of grants. Respondents felt that central and state grants should be used to equalize the spread of educational facilities, locate and develop talent and persuade private enterprise to help achieve nationally determined educational goals.

Lakdawala D.T. and Shah K.R. (1978) studied the funding pattern of education in Gujarat state during 1960-61 to 1969-70. The study examined the unit cost in colleges and their economic and optimum size. The study proposed policy actions and revision of funding pattern in higher education.

Shah A.B. and Inamdar C.S., (1980), carried out a study on "*The Unit Cost of Post-graduate Education in the University of Poona: A Case Study.*" The study found that the income and expenditure of the University had steadily increased. At the post-graduate level the per-student expenditure incurred by the University had grown significantly. The cost per student was highest in the science faculty and lowest in humanities.

Garg V.P. (1981), in his case study on the "Cost Analysis of the University of Punjab," aimed at an ex post facto cost analysis of the economic and educational processes within Punjab University. In particular, the study looked at the teaching departments and affiliated colleges, which affect the efficiency of allocated resource-inputs.

The study also examined the trends in expenditure by objects and with respect to the functions of the university. It analyzed the trends in the levels, variation and subsidization of unit costs and determined the level of private costs

by types of courses. It also examined the applicability of cost-functions in relation to the optimum use of resource-inputs. The cost factor was systematically examined covering various aspects.

The study found that the general administration had the largest allocation in recurrent expenditure, followed by a shift in favour of teaching, municipal services, student's welfare and general welfare function of the university. The level and composition of university expenditure showed an upward trend in recurrent and capital expenditure. University expenditure was mainly affected by inflation, displacement and development. Some departments were making optimal use of their resources in terms of enrolment and teachers. Some departments were undersized and some had more enrolment as compared to the number of teaching staff. Subsidization of unit cost from public funds had increased over the years with the exception of a few departments. Investigation of the dynamics of internal organization in relation to enrolment, number of teachers and variations in unit costs revealed a relative consistency in some, whereas other departments were relatively inconsistent in their internal organization. Students from the teaching department were found to be economically better than those from the affiliated colleges.

Shah K.R. and Srikantiah S., (1981) have studied "Education Earnings and Income Distribution: An inquiry into Equity Issues Involved in Government Financing of Higher Education in India." The study examined the structure of subsidy and equality of educational opportunities in the context of the Indian economy. It was based on human capital theory and enquired into the extent of financial help given to identify target groups in the shape of general and specific subsidies and their effect on the earnings of the groups. The study classified subsidies into general and specific subsidies. General subsidies refer to the price charged by educational services which are below cost, and specific subsidies refer to cost of helping backward sections of society aimed at the qualitative vertical expansion and distribution of educational facilities.

Analysis was based on primary data collected through a field survey of randomly selected graduates from four benchmark years of 1961, 1965, 1970, and 1975 from M.S. University of Baroda, and partly on secondary data. The survey was conducted during the latter half of 1979 and the data related to earning males, classified as respondents, respondent's parents and respondents' brothers and sisters. Cost calculations were based on private costs and data was collected through the field survey.

The study arrived at several significant conclusions. It found that the tendency towards better size distribution of income was very slow and not consistent. However, the financing of education had not furthered any inequalities. The bridging of educational distance inter-temporally, the creation of an efficient human capital stock and better distribution of income were clear social benefits, with far-reaching effects on the future course of the economy. Education and earnings were positively related only after a critical minimum education was reached, which was ten or more years of schooling. The growth rates of earnings were higher for those with more schooling. Earnings were marginally subject to diminishing returns and the efficiency of investment in education.

Jena S.L(1983), in his study on "University Finances: A case study of Maharaja Sayajirao University of Baroda" examined the sources of revenue for the university as well as operating expenditure of the university. The study examined the possibilities of augmenting the resources of the university in terms of conventional sources and supplemental sources during the 29 years of the university's existence (1949-50 to 1979-80). A ten-year period (1970-80) was selected for detailed and in-depth examination of non-plan revenue account. The study found that the average share of state grants constituted was much higher compared to students' fees and receipts from the university's activities. There was a trend of increasing reliance on grants from the state government as internal receipts decreased.

The study also analyzed the grant-in-aid system, which had evolved through a process of confrontation, and was in dissonance with the parameters of adequacy, efficiency, equity, elasticity and specificity.

Mridula (1985) in her study "State Funding of University - A study of Block/Maintenance Grants to Universities," analysed the problems of the system of financing from the point of view of the state governments as well as the universities. The Study discussed the formulae, processes, and adequacy, efficiency, flexibility, autonomy and equity aspects of the system of block and maintenance grants-in-aid.

The Study had set out to identify the government's method of giving grants-in-aid to universities in India, the adequacy of these grants and whether the universities had any say in the fixation of these grants and to document the opinions of the government and the vice- chancellors on its functioning. It examined the efficiency of the system of financing universities and its flexibility to meet changing needs. It also looked at the basis of allocating finances to determine if it was equitable or not.

The study revealed that this system of financing universities had outlived its utility and therefore there was an urgent need for reformulating the system, which may be the only effective tool in influencing the qualitative and quantitative aspects as well as the structure of education. However, the study acknowledged that highly skilled human resources are produced not only by universities but also by other institutions of higher learning. Equally, it recognized that universities are also financed through sources other than the block/maintenance grant. Therefore, a comprehensive plan of educational development at the national, state and institutional levels becomes an integral part of the overall economic planning of the nation.

Tilak J.B.G. and Varghese N.V. (1991), in their study entitled "Financing of Education in India," analyzed various aspects of public financing of education in India, particularly the centre-state partnership in deciding the total amount of resource allocation to education, its distribution by levels of education and inter-

state differences. The study also discussed possible alternative sources of financing education.

The study argued that fee is an important source of additional financing for education in India. Majority of the resources spent on education come from government sources, which has little possibility of any further increase. Therefore, optimum utilization of existing resources and mobilization of additional resources becomes very important for financing education in the coming years. Another important aspect is the devolution of financial and other authority between the state and districts for evolving policies on financing education in India in the coming years.

Gupta (1994) studied the various "Financial Problems Faced by Agra University." He studied the maintenance grants provided to the colleges affiliated to this University. He concluded that the funding scheme of the government of Uttar Pradesh is deficient since it makes no contribution towards the betterment of academic facilities.

Tilak J.B.G., in his study "The dilemma of reforms in financing higher education in India" (1997) has discussed higher education systems which according to him are increasingly starved of financial resources. India is not an exception and the recent trends in financing of higher education in the country are indeed disturbing. In this context, national governments and global organizations are making several important proposals. International experience will be of considerable importance in formulating new policies. This paper described a few select proposals together with the relevant national and international experience and the lessons learnt. The study also showed that the suggestions being made for developing countries have no empirical validity if the practices of developed countries are taken as guidance.

Patel K.A. (2002), in his study, "University Finances in the State of Gujarat," examined the status of education in India in general and Gujarat state in particular. He studied the role of UGC finances in higher education and the funding patterns of universities in Gujarat between 1995-96 and 2000-01. This

included a comparative study of two universities. The study suggested raising additional sources of finances to help students and parents to cope with the process of globalization in education. It also suggested a continuing evaluation of the funding of higher education by impartial agencies. Though this study was undertaken for the post reform period, however, it did not study what steps have been taken by the universities in generate sources of self-financing.

In her article, "Economic Reforms and Financing Higher Education in India" P. Geetha Rani (2006) discussed the important economic rationale for government funding of higher education that has been neglected under the deep waves of globalization and competition. Public support for higher education remains essential to ensure a balanced achievement of educational and social missions, apart from surviving in a knowledge-based society. She suggested that it is essential that funding sources be diversified but cost-sharing with students has social and political limits and excessive commercialization of higher education should be forbidden.

Tilak J.B.G (2005) in his study, "Funding higher education in India" analysed the need for continuation of the crucial role of the state in funding higher education. There is a need to raise more resources including fees and loans. He argued that while the industrial sector was ready to make huge investments in higher education and research development, the state should continue to play the dominant role in financing higher education. There is a need to improve the mechanism of UGC and government grants to universities and institution of higher education. Efforts can also be made to raise resources from non-government sources. The study concluded that all aspects of higher education, including grants, costs, fees, cost of recovery, scholarship, direct and indirect subsidies, generation of other internal resources, should be completely transparent.

Agarwal P (2006) in his paper "Higher Education in India: The Need for Change" provided an overview of the structure of higher education in India, the regulatory environment in which it functions, its financing, governance, academics, technology and other important issues. He argues that while the higher

education system particularly the private sector in India has expanded rapidly over the last 20 years, it has done so with little regulation and decreasing standards in all but a few quality institutions. Moreover, the expansion in enrolment has taken place at a time when public funding has declined in real terms and public universities have started charging higher tuition fees. These changes have had a negative impact on access to education by the poor given the absence of substantial financial aid programs for students. The paper consolidated a number of recommendations into a broad framework for action. Within this framework, it identified several strategies for making higher education affordable and accessible to everyone including the introduction of an income contingent loan program and the establishment of a Social Equity Fund that would administer financial aid programs for poor students.

Naveen D (2007), in his book on “Higher Education - Emerging Trends” saw the global market of higher education in a state of flux and transformation. Higher education has become increasingly international over the past decade and dominated by significant private sector participation. Such liberalized attempts, at least in a few sectors of higher education have definitely made the market competitive in terms of service quality and price as well as in terms of student accessibility and eligibility. The changing profile of students, the proliferation and growing need for distance education, an inclination for professional courses and the utility of education in increasing employability are some of the major forces driving the higher education market in the modern era. According to him, today’s students are consumers looking for quality, recognition, access and equity. They are concerned about financing and cost, building of intellectual capital and capacity as well as policy coherence. The author focuses on such issues, while taking into consideration the recent policy implications such as implementation of GATS requirement which comprises other service sectors besides education.

AIU (2003) publication on 'Privatisation of Higher Education' compiles articles on privatization of education; particularly higher education and a cross-section of views on the issue of private initiatives in higher education are presented. The themes covered broadly include, Public and Private partnership,

present trends in higher education , privatization of higher education ; an appraisal phasing out government subsidy through self -financing of Programs, legal and administrative framework for the emergence of private universities.

AIU (2003) studied 'Globalization of Indian Higher Education'. The articles include covering different dimensions of globalization of higher education, which has emerged as an area of increasing concern. The articles deal with a wide variety of issues such as international student mobility, restructuring of academic courses, quality assurance, policy planning and management, institutional collaboration, academic franchising, impact on culture etc. The volume provides a comprehensive reading to the stakeholders of higher education who may find some insights to face the challenges posed by the globalization.

In short some other studies laid emphasis on information of the higher education system and other studies discussed the alternative sources of financing education. While other studies talked about the role of UGC in funding pattern of universities. There is only one study that discussed the effect of New Economic Policy and financing of higher education. But it also emphasised the role of the state and general in funding higher education. Virtually all the studies are macro in value and do not study alternative sources of funding for the universities.

Section V

Theoretical and Empirical Work Related To The Privatization of Higher Education

2.06 Privatization in Higher Education

Several decades ago, private higher education ranked as a major force in the higher education realm in many countries. In Latin America, expansion had begun in the 1960s and the private sector was dominant in several East Asian nations. At that stage, the forces shaping higher education were relatively stable but in the last quarter of the 20th century the dynamics changed dramatically and private higher education has now become the fastest-growing segment of higher education worldwide, expanding rapidly in almost all parts of the world. This is true for India as well. (Gupta A &, K.B. Powar, 2008)

Taneja Nalini (2005) wrote about 'Commercialisation of Higher Education' in India. According to her, the theme of commercialization of education gives a lot of useful information as well as analysis of the direction that higher education has been given in this country.

A paper at AARE Conference titled "towards Integration: Stalking Horse for Privatisation?" in 2008 outlined the background to the New Zealand commitment to a free and secular public education system and considered the forces that have either intentionally or unintentionally undermined that aim. The lesson from the examination of the history of state education in New Zealand is that, it is characterized by well-intended initiatives that promise to make education fair and equitable for all students but are then confounded by funding shortfalls or short-term electoral self-interest (AARE Conference, 2008).

James T. and Pauline D (2006) in their study "De facto privatisation of education and the poor: implications of a study from sub-Saharan Africa and India" identify three types of privatisation involving demand-side financing, supply-side reforms related and de facto privatisation, where responsibilities are transferred to the private sector. Although de facto privatization may arise because of parental dissatisfaction with state education, it is perceived as undesirable in the literature.

India's First Periodic Report on the CRC (2007) had focussed on 'Financing of private schools'. According to the report, the present period is characterised by a global wave of privatisation. It is being increasingly felt that privatisation is an effective answer to augmenting public budgets. The role of the private sector in educational development in India is totally different from that of the private sector in general. In India, private education necessarily means a privately managed system, but not necessarily a privately funded system of education. The researcher revealed that privatization is much higher in the states of Kerala, Maharashtra, Tamil Nadu and West Bengal.

According to David R. (2008) 'Education is not a tradable commodity'. One of the most dramatic developments within education in recent years has been

the emergence of the “international trade” in educational services. The aggressive recruitment of fee-paying international students by schools, the explosion in borderless commercial e-learning, the franchising of offshore schools and campuses, and the sale of course material overseas are all features of an emerging multi-billion dollar trade in education.

Trade agreements are legally-binding treaties that promote liberalization, not just by eliminating barriers to trade and investment, but also by encouraging domestic liberalization in the form of privatization, commercialization, and deregulation of public services like education. If a country agrees to open up its education sector, these two rules could threaten a number of important policies. More controversially, it has been argued that if countries were to fully include education services, National Treatment would require them to provide the same public subsidies to overseas institutions as they provide to domestic schools. Alternatively, governments could be forced to eliminate those subsidies altogether.

Sahni and Kale’s paper (2004) ‘GATS and Higher Education – some reflections’ discussed the present system of higher education and attempted to find the possible implications for India in being a signatory to GATS. It analysed the broad structure of GATS and concentrated on some of its articles. Since the agreement is diverse, there are intrinsic pressures for pushing negotiations of ‘interest groups’. In the absence of a coherent education policy, the effects of opening up could lead to a distorted function of education in our society.

Narayana M. in his study “Privatization Policies and Post Privatisation Control Devices in India’s Higher Education: Evidence from a Regional Study and Implications for Developing Countries” (2006) has discussed and analysed the economics of privatization policies and post privatization control devices in India’s higher education. As a case study, he emphasized the experiences of Karnataka State in collegiate education under general higher education. A change in public financing, rather than a shift from public ownership and management to private sector is the most dominant feature of privatization policies. The impact of

privatization is evaluated in terms of fiscal effect, price effect and effects on quality, equity and affordability. The study argued for the need to have post privatization control devices to overcome the negative effects of privatization policies. A few policy devices are also suggested. The experiences of the Organization for Economic Cooperation and Development in post-privatization control devices for manufacturing and infrastructure privatization are shown to have relevance for both privatization and globalization of higher education services, especially in view of bringing education services for negotiations under the World Trade Organization's General Agreement on Trade in Services.

Tilak J.B.G., in his paper entitled "*Financing higher education in India: principles, practice, and policy issues*" (2005) stated that financing of higher education in India has been complicated due to theoretical and practical problems. He argued that it has largely been a state funded activity with about three-quarters of the total expenditure being borne by the government. The share of non-governmental sources such as fees and voluntary contributions are declining. It is increasingly realized that public budgets cannot adequately fund higher education, particularly when sectors of mass education are starved of even bare needs. Hence, several policy proposals have been made recently including 'privatization. He critically reviewed these proposals and argued that the Indian higher education system is not yet ready for 'privatization'.

In "International Trends in Private Higher Education and the Indian Scenario" Gupta A (2005) has discussed the political, economic, socio-cultural, ethical, philosophical, legal and practical aspects of the far-reaching theme of international trends in private higher education. She also focused on the driving forces, in particular the causes and consequences of the emergence of private higher education in India during the last three decades. She argued that though there are more acceptances of private higher education institutions in India today than the 'trepidation' felt at their emergence three decades ago, certain basic questions about its role remains. Her paper discussed at length the role of judiciary in private higher education in India. She concluded that in many advanced economies, private higher education institutions have themselves

welcomed the idea of external quality control in order to gain legitimacy, acceptability and a competitive edge. What private higher education institutions in India actually need for the time being, is not stricter regulation by the UGC, AICTE, or NAAC, but rather an effective regulation by independent bodies that allow them enough space to grow without questioning their prudence or stifling their autonomy and creativity.

“Indian Higher Education Reform: From Half-Baked Socialism to Half-Baked Capitalism” is a study by Kapur D and Mehta P (2004). This paper examined the political economy of Indian higher (tertiary) education. They have provided an empirical mapping of Indian higher education and demonstrated that higher education in India is being privatized *de facto* on a massive scale. This privatization is not a result of changing ideological commitments of the key actors—the state, the judiciary or India’s propertied classes. Rather, this privatization has resulted from a breakdown of the state system and an exit of Indian elites from public institutions to both private sector institutions within the country as well as abroad. Private philanthropy in higher education, which was supportive of public institutions in the past is also increasingly withdrawing its support. Consequently, the ideological and institutional underpinnings of this form of privatization remain exceedingly weak. The paper also questioned the extent to which the political economy of Indian higher education can be explained by the hypothesis of “middle class capture” and suggested that education policy far from serving the interests of the middle class is actually driven by a combination of ideology and stakes. The authors argued that it is the judiciary system is an important actor shaping the regulatory landscape of higher education, but in a manner that has done as much to confuse as clarify. Instead of being part of a comprehensive program of educational reform, private initiatives remain hostage to the discretionary actions of the state. As a result, the education system remains suspended between over-regulation by the state and a discretionary privatization that is unable to mobilize private capital in productive ways. The result is a sub-optimal structuring of higher education and the most potent consequence of this is a secession of the middle class—ironically the very class

whose interests these institutions were supposed to serve—from a stake in public institutions.

Niazi H Khan and John M in their article “Efficiency and Equity and private higher education in Pakistan” (2007) explore the contribution of the private sector with particular respect to efficiency and equity in higher education provision in Pakistan. The study involved 10 private universities/degree awarding institutes within the twin cities of Rawalpindi and Islamabad. The main research question sought to discover the extent to which private sector contributes to efficiency and equity in higher education provision. The study found that all higher education institutions are established in the urban and commercial localities of the main cities and this may be seen as inequitable as it indicates that they are neglecting the major sections of the population living in rural areas. Students enrolled in privately managed higher education institutions were mostly into professional courses such as management sciences, computer science, telecommunication and software engineering. Findings of the study showed that a majority of the faculty in these institutions were in full-time employment. Tuition fees was quite high indicating that access to private higher education is likely to be beyond the financial means of a majority of the people in the country. The cost makes higher education provision inequitable and results in inefficiency if able students are denied access.

Rena R (2006) analysed Higher Education in Africa – A Case of Eritrea. An attempt is made in this paper to analyze the higher education and its impact in economic development of Africa. It mainly deal with the education in Eritrea. He found that educational investment is an engine of economic development in Eritrea and is one of the important economic activities that can play a major role in boosting a country’s economy. Past studies linking education to economic growth have focused predominantly on the effects of primary and secondary education. Tertiary education also has an important role in promoting economic growth. The analysis suggested that increasing tertiary education may be important in promoting faster technological catch-up and improving a country’s ability to maximize its economic output. Therefore, investing in tertiary education

in Eritrea may accelerate technological diffusion, which would decrease knowledge gaps and help reduce poverty in the country and the same is applicable to the African continent. Accelerated poverty reduction and economic growth will however, be achievable and sustainable only if an adequately educated work force is available. The ever increasing pressure for structural adjustment by the World Bank and other donors aside, the tertiary education sector itself is being questioned internally for its limited capacity to provide access to most eligible applicants. This limited participation in higher education is compounded by gender, socioeconomic status, and regional disparities.

Precisely one can say that, all these studies show that presently, there is no reverting from the process of privatisation in the present times despite many limitations. However, there have to be checks on this process. Moreover, studies are general in nature.

Section VI Conclusion

2.07 Bridging the Research Gap

The main objective of many of the studies was to examine the financial position of the public universities and to suggest cost-reduction measures and alternative sources of financing for university education. Some worldwide agenda for reform in the financing policy in higher education is required and to search for funding alternative and what are the private and social rates of return.

In recent times, the burden on the government is increasing due to the financing of higher education although several studies have clearly shown the inability of the government to financially support higher education. Many studies have been undertaken but most of the micro level studies were carried out during the early 1960s and 1970s. More recently, some studies have been carried out on financing of higher education in India but only a few of these are case studies. These studies fail to explain whether privatisation or even self financing could be a sustainable solution for the financial stringency of the higher education system. Moreover, no study has been undertaken from a holistic perspective and particularly with special reference to privatization/self financing of higher

education. Since the 1990s, higher education has seen enormous growth while inadequacy in policy and planning has led to a financial crisis in the financing of universities. Research in this critical area of university finance would contribute towards correcting systemic anomalies and help face the educational and socio-economic challenges of the 21st Century in particular and national development in general. The present study is an attempt in this direction.

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