CHAPTER II
AN OVERVIEW OF LITERATURE

In the previous introductory chapter, some references were made to the existing literature on educational financing. These highly selective references were made just to situate the present study in its proper context. In this chapter, we propose to make a more detailed survey of the literature on financing education in general and higher education in particular.

This study uses a generic definition of higher education that encompasses all formal post secondary institutions which offer research postgraduate, degree, diploma and certificate granting programmes. They embrace post secondary education in arts, science, humanities, technical, legal and other professional courses. The pattern of funding these varied forms of higher education shows variations in the sources and uses of funds.
2.1 Education and Development

After the human capital theory was postulated by T. W. Shultz (1961), analysis and research on education has been both extensive and intensive. The broad areas of research include the relationship between higher education and economy, modes of financing institutions of higher education, the impact of different modes of funding on quality and equity, the role of multiple funding sources, efficiency of resource allocation and the cost effectiveness of educational expenditure.

The studies have proceeded from different conceptual premises. One such premise is that education is a consumption good. Another premise considers education as an investment. A third premise accepts the position that education is both consumption and investment (Blaug 1970). These perceptions, either separately or in combination, form the basis of all major studies on the financing of education.

Shultz, who was an early proponent of human capital theory, stressed the need for investment in human resource development as it is the greatest source of wealth. Education, no doubt, has got high social and cultural values. But it is also an investment in people. For Galbraith, education is the most important and vital factor for the
development of the economy. He argues that education must be encouraged, and research and development in technology be advanced (Galbraith). The economic dimension of education is understood by spokesmen of industry. For instance, the American Chamber of Commerce noted as early as 1955 that "people with good education produce more goods, earn more money, pay and consume more goods, read more magazines and newspapers and are more active in civic and national affairs, enjoy a higher standard of living and in general contribute more to the economy than those who are not as well educated" (American Chamber of Commerce 1955).

Percy E. B., Vern, B. and Rulon, R. G., in their book "Financing Education in a Climate of Change" (1988) identify trained hands and educated minds as the greatest needs of the U.S economy. Training and education are recognized as investments, generating higher productivity, higher profits and better quality of life.

Studies have shown that ploughing more money and more resources into education raises its quality and that higher education produces higher economic productivity (Walter W Heller 1973). This according to Heller is supported by much empirical economic research. How much resources are available and how effectively
these resources are used are the crucial questions determining the
degree to which education meets the aspirations that people hold for it (Charles S. Benson 1981)⁷.

2.2 The Role of the State

The role of the state in education and its financing is dependent on whether the real benefits of education go beyond what is obviously gained by the students or their parents. It also depends on the political and economic philosophies. Karl Marx who advocated total control of all means of production by the government, was a very strong exponent of public education, controlled and financed by the Government (Marx)⁸. Even Adam Smith, the proponent of laisse faire theory considered education as one of the essential government services which would make capitalism work (Smith)⁹.

Public financing of education is required essentially due to its public good and merit good characteristics. Education is a public good and its social benefits far exceed its private benefits. That the externalities of education far outweigh the direct benefits was noted even by Friedman (M. Friedman 1985)¹⁰. "Buyers of education confer external benefits on those not purchasing education. By taxing those who receive these benefits and subsidising those
purchasing education, the welfare of both groups can be improved” (Blaug 1970). 

It is argued that subsidies for higher education exhibit pro rich, non rural bias. The white paper “Government Subsidies in India” issued by Department of Economic Affairs (DEA), Ministry of Finance, Government of India (1997) makes a case for reducing government subsidies to higher education from 90 percent to 50 percent in the first three years and to 25 percent in the following two years. The white paper classified all goods into three categories, merit, non merit and public goods. The paper classified higher education as a non merit good. They are consumed by the rich, says the paper and the poor are deprived of their use. According to this paper subsidy for higher education benefits the rich and takes away the money which otherwise could be spent on the poor.

In his paper “University Finances in India” P R. Panchamukhi (1996) dismissed the general misconception that higher education is a private good while primary education is a public good. This misconception may have been responsible for the gradual withdrawal of the state from the field of financing higher education. The paper emphasised the pivotal role of the state in higher education finances.
2.3 Higher Education: Access

Education must serve diverse objectives. Any discussion on access of students has to take into account not only the access based on merit but also based on equity. Role of the state in education is closely linked to its policy towards reduction of socio economic disparities. Universities must select the best minds for the future labour force. At the same time, they must make the best use of their resources for promoting social equity. Where there is excess demand for education, higher education institutions use restrictive access policies to select the candidates to reduce over crowding through rationing places according to specific criteria. But it would be unethical to restrict the entry to higher education to the first generation learners who enter the higher education sector, because of the liberal policy of promoting school education among the girls, under privileged, socially backward and economically deprived sections of the society. If admissions are made purely on merit, then the first generation learners would be the first ones who are likely to be screened out. Therefore unequals should be treated unequally. Though on efficiency grounds, admissions to the multiple generation learners cannot be denied, on equity grounds admissions to the first generation learners also cannot be denied (Panchamukhi 1988)\textsuperscript{14}. According to Panchamukhi (1991)\textsuperscript{15} there is need to provide
positive inputs for education equalisation supplemented by equalisation of opportunities for realising the returns from education”. Adiseshiah noted in 1987 that the policy makers are confronted with the problem of socio-economic inequalities which assume serious dimensions. It is widely recognised that “there exists widespread inequality within our country spatially as between urban and rural, sexually as between males and females, socially as between the children of the rich minority and the poor majority” (M. Adiseshiah 1987)\textsuperscript{16}

I G Patel (1993)\textsuperscript{17} in his key note address in World Bank’s Economic Development Institute Seminar Series on Higher Education and Economic Development expressed his concern about the elitist bias to education. Those who are rich and do not qualify to enter highly subsidised public institutions will gravitate to private commercial establishments or even go abroad or go to neighboring states and the poor seldom go in for higher education as they can ill afford to forgo the opportunity cost. A similar situation exists in Kerala where rich students with low ranks in entrance examinations for professional courses very often seek admission for engineering and medicine in the self financing institutions of the neighboring states like Karnataka and Tamil Nadu.
Education should not merely create but also simultaneously distribute human capital. Education in general and higher education in particular have gained an over riding importance in determining the future stratification of society (Bell 1973)\textsuperscript{18} This is particularly true of the Indian society which is highly stratified not only on class basis but also on caste basis. The society is highly inegalitarian where the physical and human capital are distributed unevenly and unequally. There is every likelihood that education, if left to market forces, would reproduce the stratified position. The observation of Pierre Bourdieu (1988)\textsuperscript{19} that the structure of University fields reflects the structure of the field of power, while its own activity of selection and indoctrination contributes to the reproduction of that structure is an added proof to the earlier statement “education generally reproduces”. Tawney (1931)\textsuperscript{20} says: the idea that differences of educational opportunity among children depend upon differences of wealth among parents is a barbarity. If we restrict admission on merit alone, it would only lead to the freezing of class structure of the society. It is to be understood that the poor were denied opportunities to acquire merit in the past. Hence merit as the sole criterion will be a long term disaster because it will perpetually keep the deprived and exploited to low level of skill, merit, efficiency and aspirations (B.C. Mehta 1993)\textsuperscript{21}. 
Ultimately it will be detrimental to the interests of even the meritocracy of the middle and upper class. Hence in all societies, socialist or capitalist, effective equality of opportunity is the desirable option (Coleman 1969). It may be clarified that unequal access to higher education often reflects deficiencies at lower levels of the education system. Preferential policies and remedial actions at the University level may not be able to fully redress inequalities arising from disparities in school quality. The World Bank examines this issue of access in detail and says that strategies must be multifaceted if they are to be effective in increasing representation of the weak. Their strategies include, improving secondary education, increasing the demand of the weaker section for higher education, diversification of institutions and subsidising their studies. On the other hand, prescriptions like reduction of demand for higher education, reduction of subsidies, steep increase of fees etc. may be considered as anti-poor which further encourage elitist trends in higher education.

2.4 Commissions Abroad

The National Commission for Excellence in Education, with David Gardner (1983) as the chairman in its, now famous report,
education as an economic good with multiple uses. It is a producer good as well as a consumer good. Education is a major force in human betterment. The quality of education is intimately related to its funding. Another important observation of the commission is that education as an industry does not and cannot operate in a vacuum without reference to the economic and political implications.

The Carnegie Commission (1973) on Higher Education also studied the financial constraints faced by the US higher education system. The Commission observed that public spending of colleges has increased during the course of the preceding three or four decades. This increase has been attributed to the growing enrolment of students in public institutions, particularly in the community colleges. It found that public cost of higher education grows much more rapidly than national income. Taking stock of the situation, the Commission recommended a review and general hike of fees but on a differential scale.

The Robbins Committee (1963) was appointed for a comprehensive review of British higher education system and to make policy recommendations on the basis of national needs and resources. The committee noticed the steep increase in public
expenditure on higher education both capital and recurring during the period 1953-1963. There were about 60000 full time students in higher education in UK during 1960s. In 1996-1997, there were more than a million. Robbins era was an era where higher education was available for all who wanted it, with grants to individuals to cover the cost. The share of education in GNP had risen from 2.5 percent between the wars to 5 percent in mid 1960’s. Its share in total expenditure had increased from 13.5 percent to 18.9 percent during the same period. But the times had changed and the whole university system was on the verge of a major change, as suggested by the report of Sir Ron Dearings Committee(1997). Dearings Committee report contains 93 recommendations which cover almost every issue in higher education like the issue of who should pay for higher education and the role of government. The report highlights higher education in a learning society and the need for life long learning as mentioned by Kirkman in his Cambridge letter (1997).

2.5 National Commissions

The contributions of christian missionaries in the field of education in India are remarkable. The Report of the Commission on Christian Higher Education in India by Lindsey A.D. (1931) deals with the funding pattern of higher education. The Commission
says... "We believe that one of the chief difficulties in financing our mission colleges today is the fact that as at present conducted they do not make a sufficiently large appeal to the imagination of those from whom this support must be drawn".

The Education Commission (1882) and the Calcutta University Commission Report of 1917 by Sir. Michael Saddler touched every aspect of University life. Another Commission under the chairmanship of Sir Philip Hartog was appointed to review the growth of education in British India. The Central Bureau of Education 1937 recommended the establishment of University Grants Commission by the Central Government.

By the 1940's, most of the Universities were in the red. The expenditure of Universities increased considerably without a proportionate increase in income. It is in this context that the Report of the University Education Commission was submitted (Radhakrishnan, 1949). The Commission laid stress on the finances of University colleges and affiliated colleges. One of the major recommendations of the commission was that the state should recognise its responsibility for the financing of higher education. The Government of India took the recommendations of the Commission seriously and central financial assistance to
Universities was revived from 1951 onwards. The University Grants Commission (UGC) was set up in 1953 and statutory status was accorded to it in 1956 when parliament adopted the UGC Act (Model Act).

The Report of the Education Commission by the noted educationalist 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 assessed the financial resources likely to be available during the next two decades, viz. 1966-1986. The commission recommended allocation of 6 percent of GNP for education. A similar recommendation was made by Acharya Ramamurty Commission (1992). 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 Punnayya (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. In a democracy, broad-based education will promote expectations and ambitions which must be supported by access to higher education (Punnayya 1993). The Committee recognised that no viable system of higher education could exist in any country entirely on its own without substantial societal subsidisation. The Committee strongly felt that no society which was out to fight poverty and social inequality should countenance subsidisation as wasteful expenditure. Nor should the affluent sections of society be exempted from paying a reasonable cost of its higher education. The humane face of this report lay in its emphasis on the accessibility of higher education to the weaker sections of society.

2.6 UGC- ICSSR Sponsored Studies

The Indian Council of Social Science Research (ICSSR) and the University Grants Commission (UGC) in the early 1970's felt the need to make elaborate studies on the financing of higher education in India. These two organisations jointly sponsored a series of studies on University finances and approached selected Universities for this purpose. The major studies include those of the
Universities of Kerala, Patna, Rajasthan, Calcutta, and Karnataka. The studies were conducted by Mathew, E.T. (Kerala University), Jha D. (Patna University), and Nigam M.S. (Rajasthan University), Mukerji M (Calcutta University) and Nanjundappa D.M. (Karnataka University). These studies had more or less the same objectives and covered the major sources of income, adequacy of the income and the financial stresses and strains which adversely affected the operational efficiency of Universities. These studies were largely based on University budgets, annual reports, University hand books etc. Many of these studies attempted a temporal analysis of University income and expenditure covering a period of ten years. Their main findings include (1) The government grant was found to be inadequate and as a result, the Universities were in the red. (2) Ad-hoc arrangements to cover the deficit were not satisfactory and had led to the curtailment of University autonomy (3) Diversion of plan funds to meet non plan expenditure had increased.

The ICSSR and UGC sponsored studies analysed the pattern of the flow of resources to the University system and pattern of allocation of resources by the Universities among its different functions and facilities. All these studies were case studies of individual Universities. These were not exhaustive analysis of the problems of University finances in India. Kothari, V.M. and
Panchamukhi P.R. gave an outline of the economics of education in India in their work: "A survey of Research in Economics of Education in India", 1975.

A study of the total costs of education in India were made by Kothari (1966). His study covered the years 1950-1951, 1955-56 and 1959-60. Panchamukhi P.R. in his study "Economics of University Finance" (1977) emphasized the basic principles of University finances in an operational sense. He estimated the total cost of education in India for the period 1950-1960. He computed resources and opportunity cost of education.

2.7 Private Studies

Panchamukhi (1977) explained the behaviour of the University as a non-profit institution and enunciated some general principles of financing education. Mukherje, K. (1981) argued that "without relating the finances to something that the Universities are supposed to achieve, no crucial appraisal of their financial aspects is possible". According to Mukherje, most of the studies on University finances in India did not discuss the cause and effect relationship between financing and educational outcomes. Secondly, any analysis of the financial aspects requires a clear understanding of the requirements of the University in physical terms i.e. physical
requirements per pupil or per university. While these studies dealt with the problem of the adequacy or inadequacy of resources, they did not present any idea of it in physical terms. Thirdly, working of agencies like the Finance Commission and Planning Commission in allocating resources for higher education have been kept outside the purview of these studies.

A study sponsored by the National Institute for Educational Planning and Administration (NIEPA) made a comparative assessment of the financial situation of higher education in Haryana and Kerala in 1986. The major findings of the study include (1) the relationship between educational growth and reduction in inequalities (2) a decline in private initiative and thereby drop in a major source of revenue. (3) the need for compensatory financing to make a breakthrough in equity. A similar decline in private initiative has been reported in Baroda and Punjab Universities. These studies had noted that the contributions of the above said sources declined over time in real terms.

Another study relates to equality of opportunity in the field of higher education in Uttar Pradesh and Kerala (1986). The study has revealed the following points. (1) There were inequalities in UP and Kerala but to a lesser extent in Kerala (2) The per capita expenditure
on education in Kerala is much higher than in UP (3) A comparative study of the pattern of revenue and expenditure for UP and Kerala showed wide disparity. Kerala had the highest non-plan revenue expenditure and highest per capita expenditure. There are a number of other individual research studies, mainly case studies of particular University/Institution. They cover issues like cost analysis, expenditure pattern, investment, management etc.

Panchamukhi (1975) examined whether the expenditure policy satisfied the objectives of democratisation and equity in higher education. He had found that the contributions from fees and private charities is on the decline while public financing is on the increase. He says that public assistance to higher education should be limited to the under privileged and the marginalised through scholarships, loans, etc and the fee rates should be high enough to cover the full cost of higher education.

Chalam (1978) analysed the cost of education in the colleges under Andhra University. The objectives of the study were (1) to examine social and private costs (2) to compare the costs between colleges, (3) to prepare socio economic profile of students (4) to find out the relationship between socio economic background of students and the state's expenditure pattern. Many of the objectives
of the study of Chalam and the present study are similar. With regard to financial management of Universities, several limitations have been noted by individual studies. In the absence of proper planning and foresight, budgeting had been loose. In Kerala University it was still worse and there was "virtual lack of management" (Mathew 1990). He also noted that "there was virtual lack of planning at different stages. According to him, development plans of the University are mostly characterized by ad-hocism. He also advocated performance budgeting. Panchamukhi (1977) considered that mere income and expenditure statements did not give a complete idea of the strength of an institution. The final conclusion reached by these studies was that most Universities in India were financially unsound not only due to inadequate resources, but also due to poor planning and financial management.

Chalam (1981) found that educational expenditure had grown much faster than SDP during the sixties and seventies. Azad, J.L (1979) tried to assess the pattern, procedure etc of financing higher education in India. It came to the finding that the large variations existed in the type and quantum of state grants. It argued for streamlining the UGC and establishment of state level University Grants Commission. Azad (1984) put it strongly that the financial assistance to University institutions is not an act of benevolence to
be grudgingly undertaken by an indifferent bureaucracy. The pattern of financial assistance by UGC shows a large degree of variations. It is characterized by uncertainty and ad-hocism (Panchamukhi, 1977). He suggested that UGC must evolve perspectives for financing so as to maintain and improve standards in education. It has also been found that the UGC grants do not have any relationship with the state grants (Azad 1975).

2.8 Recent Studies

Panchamukhi's paper on University Finances in India (1996) noted the fact that all the Universities in India were confronting with major resource crunch. He attributed this crisis to the lack of sound financial management. He suggested three principles as the basis for the financial management of any University. They were:

(i) The principle of adequacy of resources.
(ii) The principle of built-in flexibility of the resources.
(iii) The principle of autonomy in respect of resource mobilisation and use.

Panchamukhi reminded that a University was not an earning institution like a firm, but essentially a spending institution. Resource mobilisation by a University was possible, but only to a limited extent. Panchamukhi also explored the causes of the
financial crisis faced by the Universities. The following were the important causes identified:

(a) The unit cost of University education was very high but the per unit resource mobilisation was relatively low.
(b) The unit cost had a tendency to rise faster than unit resource mobilisation.
(c) The Universities' own resources including fees were sticky in the upward direction.

Most of the studies referred to above were conducted before the implementation of economic reforms in India with its emphasis on globalisation, liberalisation and privatization. These changes in economic policy have thrown up problems of larger magnitude in the field of higher education. These reforms have changed the earlier concept of financing higher education. J.B.J. Tialk (1997) narrated the dilemma of reforms. His study was made in the light of national and international experiences. The study noted that higher education in India was experiencing significant stress in the field of financing, especially after the implementation of the New Economic Policies from 1991. As a result of the Structural Adjustment Programme (SAP), public resources for higher education have become increasingly limited. The proponents of SAP advocated that more private investments, including inflows from abroad would
augment resources for higher education. On the contrary, these reforms created severe financial crunch. The study highlighted a few trends in financing higher education in India.

(1) The total expenditure on higher education increased remarkably in the years that immediately followed independence.

(2) The priority given to higher education later had been steadily falling.

(3) In the 1980s, the growth of expenditure in higher education had been showing erratic trends.

(4) The 1990s saw a period of austerity and higher education suffered most because of it.

Tilak also mentions a number of major policy prescriptions that were put forward by influential international organisations like the World Bank, International Monetary Fund etc. The author enumerates them.

(i) Reduce the state expenditure on higher education (subsidies)

(ii) Increase fees in higher education substantially (cost recovery)

(iii) Along with the enhancement of fees, introduce efficient scholarship schemes.

(iv) Introduce students loan scheme.
(v) Reduce the demand for higher education.

(vi) Concentrate all efforts on basic education until it is universalised.

Tilak examines each one of these prescriptions in detail and refutes them one by one as they are impractical. The author also sees these prescriptions as an attempt to enslave the developing nations to the intellectual hegemony of developed nations.

2.9 Kerala Scenario

Only a very limited number of studies have addressed financial aspects of higher education in Kerala. One of the earlier studies was by Ramachandran (1987) who attempted to analyse the problems of higher education in India but with special reference to Kerala. His objectives included (a) identification of problem areas in higher education like enrolment, expenditure and financing (b) assessment of the total cost of higher education (c) comparison of the cost of higher education by components and the sources of financing. The period of study was 1957-75. The study revealed substantial growth in enrolment, expenditure and number of institutions. The expenditure was found to be increasing year after year. At the same time, the growth in fee rates was found to be disproportionately low. As a result, the burden of the government
increased substantially. The major portion of public expenditure on higher education was utilised for development and maintenance of Arts and Science colleges in Kerala. Salary constituted the major component of the total cost of higher education.

We have noted earlier the study made by E.T. Mathew in 1974\textsuperscript{54} year on financing of Kerala University which was sponsored by UGC and ICSSR. Subsequently Mathew (1991)\textsuperscript{55} makes an attempt to evaluate the various sources and uses of funds, both public and private for financing private colleges in Kerala. The major share of resources is spent on payment of salary, while the allocations for components like the libraries and laboratories are meagre. Many private educational agencies try to overcome the inadequacy of government support by accepting 'donations' from teachers, students, parents, and the general public. This pattern of funding and its impact on the quality of education has been examined. The study has brought out that the practice of accepting donations for the appointment of teachers or admission of students has no bearing on the quality of education. He also observes that colleges which hire the best teachers and admit the eligible students without donations can raise funds from the general public and parents to overcome financial crunch. He has also called for a rational restructuring of tuition and other fees with adequate
safeguards to protect the interests of the weak. Mathew (1996)\textsuperscript{36} observes that privatisation of education means increasing reliance on private sources of educational finance.

George K.K. (1995)\textsuperscript{37} has examined in detail the financial crisis of higher education in Kerala. The genesis of the financial problems, according to him, must be placed before the structural adjustment programmes initiated in 1991. He notes that the share of public expenditure on education had been coming down over the years as a consequence of a gradual shift in priorities of the government. In terms of plan allocations, the share of higher education has been coming down very drastically. Most of the reasons for the financial crisis in the country and the state are common and are interrelated. But some of the reasons for the crisis are unique to the state. There exist conflicts of priorities between the Central and the state governments. While the centre wishes to provide priority to elementary education and its quantitative expansion, Kerala has been more concerned with higher education and its quality improvement. As a result, the central government agencies like the Finance Commission are not sympathetic to the requirements of the state.
2.10 Conclusion

An overview of literature on funding higher education shows that higher education is in crisis everywhere. The root of the crisis lies in the resource crunch. Demand for funds to diversify educational institutions and academic programmes to suit the changes taking place in science and technology is increasing. But the state is slowly withdrawing from higher education partly due to fiscal compression and partly due to the paradigm shift from welfare to market economy. One of the easier methods adopted recently to overcome the financial crisis in higher education is to introduce cost sharing programmes. "Let the buyer pay", is the principle of financing guiding these programmes. There has been a remarkable growth in private engineering and medical colleges in India even from the eighties. A large number of these institutions cover not only their costs but also make some 'quick' profits. Educational considerations never figure in this context. (JBG Tilak 1990) As a result, higher education is subjected to vulgar commercialisation. These colleges were referred to as "bastard colleges born illegally to do legal business or legally born to do illegal business" (Nirmal Singh 1983). These developments have thrown up new problems in the field of higher education.
Kerala was perhaps the last state to accept the principle of self financing. But it too joined the other states from the eighties rather haltingly. But this mode of financing was implemented on a large scale in engineering education in the state from 1993. The principle was extended to medical education in 1994. There has been no study yet to assess the impact of this mode of financing in the Kerala context. This is the rationale of the present study.

END NOTE


32. Govt. of India; Report of the University Education Commission Dr S. Radhakrishnan - Chairman Govt. of India Press, Simla, 1949.

33. Govt. of India Education and National Development, D S Kothari, Chairman Govt. of India Press, New Delhi, 1966.


