General Studies-2; Topic: Issues relating to development and management of Social Sector/Services relating to Health, Education, Human Resources.

Subsidies for Higher Education

1) **Introduction**
   - The debate on the desirability of subsidies for higher education is an old one in economics
   - It is linked to the question of how beneficial it is in the creation of a developed and egalitarian society.
   - The demand for public education has been growing.
   - Public universities are still flag bearers of good education and this true all over the world.

2) **Subsidy in Education**
   - Subsidy in education produces positive externalities such as health improvement, and reduction in population growth, poverty and crime, and strengthening of democracy.
   - An educated citizenry extends benefits to the society at large.
   - Higher education has expanded both through public and private institutions.
   - There are many first-generation aspirants and they are seeking access to higher education, particularly in public institutions.
   - Large numbers of the poor and the marginalised are beginning to express their aspirations for social mobility through access to public higher education
   - Public provisioning of higher education can also serve as an important tool in reducing inequality.
   - No public funding invariably means that students have to pay for most of the costs involved, often by taking loans.
   - As many students in the US are discovering today, a bleak macroeconomic outlook may mean that it takes a long time for students to pay back the debt.

3) **How does subsidy increase equality of opportunity?**
   - Bright children are there in poor families too.
   - We cannot have a society where 50% of the people are poor; we will lose a lot of talent if they don’t get in.
   - Education is one of those genuinely long-term businesses.
   - The state has to fund this need of the future as a priority. If it does not do it, it is neglecting the country’s future.
   - Inclusiveness and equity are very important characteristics of a good public institution.
   - Public higher education cannot have any equity or inclusiveness without public funding, and subsidising it.

4) **Gains from Higher Education**
   - Direct economic gains, such as research leading to the invention of vaccines and new technology
   - Indirect gains, such as an increase in tax collection, a more flexible workforce that can adapt to the changing demands of the market
   - Greater appreciation of social diversity, leading to greater harmony.

5) **How education contributed much less to growth than expected?**
   - Although education might have increased private benefits, it could have led to socially unproductive activities as well.
• Government employees resorting to rent-seeking (corruption) was one such way.
• Surplus supply of educated labour in the wake of weak demand leading to diminishing returns to an educated workforce.
• Poor-quality education not generating any benefits.

6) **Experience of China**
• Rapid growth of China’s higher education as a result of the focus it has been given in the country’s 10th and 11th Five-Year Plans
• China has been devoting the bulk of its resources to “elite universities”.
• China’s higher education sector also saw a wave of mergers of small institutes and universities into larger universities.
• Chinese universities have also been using funds generated from profits of university-owned companies.

7) **Concerns / Challenges**
• Growth in national income did not result in an increase of public expenditure for education as a whole.
• There is a major reduction in the effort to uphold the minimum acceptable levels of quality of education particularly in State institutions.
• There is considerable unevenness in the distribution of public finances.
• Subsidies for premier institutions like the IITs and engineering colleges are incomparably higher than those for liberal arts institutions.
• There are major disparities in allocation of funds per student in Central universities and State universities, and between colleges in the metropolises and those in the towns, between mainstream and distance education.
• Institutions where the poor and the marginalised access higher education, are likely to get a considerably smaller share of funding.

8) **Way Forward**
• Expenditure recovery from students can be set at 20% ceiling as recommended by the Punnayya Committee and National Knowledge Commission.
• Differential fee structures based on income levels
• Levying a graduate tax on employers hiring graduates.
• An effective policy would require that the ongoing debates and experiences of various models of higher education functioning are critically examined.