

**AN ANALYSIS OF STATE GOVERNMENT FINANCING
OF HIGHER EDUCATION: A CASE STUDY OF
TWO UNIVERSITIES IN BIHAR**

*Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements for
the award of the degree of*

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JAYA SINHA



**ZAKIR HUSAIN CENTRE FOR EDUCATIONAL STUDIES
SCHOOL OF SOCIAL SCIENCES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110067
INDIA
2007**




ZAKIR HUSAIN CENTRE FOR EDUCATIONAL STUDIES
SCHOOL OF SOCIAL SCIENCES

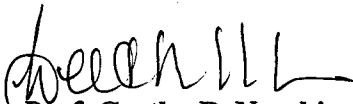
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CERTIFICATE

The dissertation entitled “An Analysis of State Government Financing of Higher Education: A Case Study of Two Universities in Bihar”, submitted in partial fulfilment for the award of the degree of Master of Philosophy is my original work. This dissertation has not been submitted for the award of any other degree of this university or of any other university.


Jaya Sinha

We recommend that the dissertation be placed before the examiners for the award of Master of Philosophy degree of this university.


Prof. Geetha B. Nambissan
(CHAIRPERSON) 30/7/07


Dr. Saumen Chattopadhyay
(SUPERVISOR)

CHAIRPERSON
Zakir Husain Centre for
Educational Studies
School of Social Sciences
Jawaharlal Nehru University
New Delhi - 110067

To

My Father

And

Fond Memories

Of My Grand Mother

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CHAPTER: I

INTRODUCTION

“Every individual has a right to an education that will enable him to develop his faculties and live a full human life. Such education is the birth right of every citizen. A state cannot claim to have discharged its duty till it has provided for every single individual the means to the acquisition of knowledge and self betterment.”

Maulana Abul Kamal Azad.ⁱ

This statement of the first Education Minister of State emphasises how much a state is responsible for provision of education. Education is the essential requirement for the well-being of the people as well as the nation. With the inherent shortcomings of the system and inequalities in the society, it becomes the great responsibility of the government to ensure the availability and quality of education. Accessibility to education ensures that people can realise their potential in conformity of the norm of equal educational and economical opportunity for all. Education is the major source for a person to open up his/her vista of life and to seize the opportunity according to one's talent. According to Sen (2000),

“Education is the major contributing factor to give the charge of life in person's own hand to realize his/her potential to lead a dignified life.”

Even a nation's advancement and capacity to utilise its potential resources depend on the level of educational advancement of its working force. As Yadav (2004)¹ aptly argues,

“For five centuries economic growth was dependent on land, population and technology which produced 'haves' and 'have-nots', but now it is the knowledge economy that is producing 'knows' and 'know-nots'.”

ⁱ,Cited in Das, Suranjan, 'The Higher Education in India and the Challenge of Globalisation', *Social Scientist*, Volume 35, March-April 2007, p.47.

It is education that acts as a great leveller to bridge the gap between the 'haves' and 'have-nots' as well as to carve out a niche in knowledge economy.

Notwithstanding this higher education sector in India is not in a well-shape to embrace the new dynamics coming up in this sector. We do have some pockets of excellence but the large picture as a whole is not heartening. This is because, though there are only 20 Central Universities, majority of student population is served by the 217 recognised State Universities located in different States of India. (Das, 2007, p.49). The Centre can easily meet the requirements and maintain the standard of the Central Universities. However, the fate of higher education career of more than 95%ⁱⁱ of students who study in the State Universities depends on the funding of respective State government to these Universities. States are reeling under financial crunch and restraining their expenditure. The ramifications of this state of affairs are affecting the functioning of these universities. They are starved of funds and languishing for want of proper attention towards their financial requirements from the respective State Governments. There is a need to examine the situation of higher education sector from the perspective of State finances. All the related issues in context of higher education sector in the State Universities have been discussed in the following sections.

1.1. Relevance of Higher Education in the Contemporary Era:

Higher education is the top level of the academic career and holds great importance to empower the people to utilise their potential to the best. In the changing dynamics of the world, a nation can avail all factors of economic growth such as raw-materials, capital, technology but the quality human resources. It is higher education that alone can turn the population burden into an asset of quality human resources. In the wake of globalisation, high level skills are more in demand which can be attained only through higher education. Schultz (1961)² also recognises the necessity of higher education for the 'orderly development of low income countries'. Education is indeed the requirement for a

ⁱⁱ Agarwal (2006, p.32) mentions that central institutions cater to less than 2% of the students.

developing country to compete in globalising world of knowledge. In the words of Stiglitz³ (1999), it is more apparent,

“... the best way to close the knowledge gap between the industrialized and newly industrializing countries is investment in all levels of the educational system.”

Stiglitz also holds the opinion that access to knowledge and education is clearly critical and since the market tends to undersupply knowledge, government support is to be sought. Carnoy (2006)⁴ also acknowledges this fact. According to Carnoy, human capital, especially higher-end human capital enriched through university education is crucial to economic development and the possibilities for sustained growth depend on its development and utilisation in the new information economy. Carnoy argues that the case for higher education as a key factor in economic growth has grown stronger in recent years. He highlights the fact that theories of development now contend that developing nations have a better chance of catching up with the more advanced economies when they have a stock of labour that have the skills to develop new technologies themselves or to adopt and use foreign technology. Bloom, Canning and Chan (2006, p.iii)⁵ underline the importance of higher education as such,

“In a knowledge economy, tertiary education can help economies gain ground on more technologically advanced societies, as graduates are likely to be more aware of and better able to use new technologies.”

Not only for technological advancement and adaptability, higher education is an agent to bring about positive change to all over the society.

The Government of India admits the importance of higher education as the National Policy on Education, (1986)⁶, characterizes higher education as

“a crucial factor for survival’ providing the Indian people with an opportunity to reflect on the critical, social, economic, cultural, moral and spiritual issues.”

Keeping in view all these opinions, importance of higher education cannot be contested in India, which is one of the aspiring as well as populous nations of the world, with more than 50% of the population comes under the youth generation. Das (2007)⁷ points out that only 6-7ⁱⁱⁱ percent of the age cohort go for higher education, of which only 10 percent could go for post graduation while only one percent pursues M.Phil. and Ph.D. programmes. This fact implores the plight of huge human resources that remains untapped in want of good education and training. By imparting high-skilled and quality education India can easily enjoy comparative advantage in human resources in the emerging 'global knowledge economy'. Thus for an aspiring nation like ours, it is provision of quality higher education which can enable India to embrace the path of sustainable high growth trajectory. Even the development strategy adopted in the Tenth Plan (2002-2007) is built on the need to exploit synergies between economic growth, desirable social attainments and growing opportunities for all. For this government's role is sought to expand in social sectors. The Eleventh Plan (2007-12) also emphasizes on the need of developing human resources and to ensure a continuous supply of quality manpower. It feels the requirement of large investment in public sector institution of higher learning which should be accompanied by "...*fundamental reforms of the curriculum as well as service condition to attract a dedicated and qualified faculty.*" (11th Plan). This plan has targeted to increase the percentage of each cohort going to higher education from the present 10% to 15 percentage by the end of the 11th Plan beside expanding facilities of quality education.

Thus, the delivery of higher education is really a serious and responsible matter where the government has to step in. The government subsidisation and support of educational services for people can be termed as investment to reap the rate of return from the skilled labour base of the nation.

Smith (1976)⁸ has also recognized education as an investment and states,

ⁱⁱⁱ This number is debatable. The Knowledge Commission in its Note on Higher Education (2006, p.1) mentions that 7% of the age cohort of 18-24 years enter the system of higher education. Tilak (2007) argues that and clarifies by quoting the reference of the ministry of human resource development (MHRD), that the gross enrolment ratio is nearly 10% in 2003-04 (9.2% in 2003-04, Educational Statistics, MHRD).

"A man educated at the expense of much labour and time.... may be compared to one.... expensive machine.... the work which learns to perform... over and above the usual wages of common labour will replace the whole expense of his education."

Indeed the level of expenditure on education in any country serves as an authentic reliable sign to show its progress and capability to harness and employ its resources for technological and economical transformation of the country. In order to be in the race for competitive advancement and prosperity, adequate provision must be made by the government for education and particularly higher education.

However, its quality largely depends on how the government is financing. Although India is recognized as having the third largest system of higher education in terms of absolute enrolment (around 11 million students) after China and the United States, in terms of gross enrolment ratio, it is small-just around 11 percent.⁹ Nevertheless, the reprehensible fact is that not a single Indian university comes under the list of top hundred universities of the world. (Mid-term Appraisal, 10th Plan, Para 2.183).

Since India strives to compete in a globalising world, the quality of higher education has increasingly gained importance. Former President Kalam (2003)¹⁰ also emphasises the need to improve the quality of higher education to ensure 'empowerment of higher education' in the wake of global competition in this sector. To attain large scale development, India has to attain a sophisticated knowledge based economy which in turn needs a robust higher education system. With the entailed benefits of higher education in terms of bringing about qualitative improvements in human resources and the quality of life; the aspects of financing higher education holds importance to look into. With the onset of economic reforms, decision makers are confronting problems in providing financial sustenance for the system. This problem has further aggravated by the changing perception on the subsidisation of higher education by the government as discussed in the following section.

1.2. Ongoing Scenario in Higher Education Sector:

The higher education system in India is grappling with the need for expansion to sustain a globally competitive economy on the one hand and an equally important government imperative to limit public expenditure on the other.

1.2.1. Problems:

Almost all the recent literature on financing of higher education has taken notice that the higher education system is in dire state and struggling with severe problems. Lack of adequate financing and policy attention has left this sector to grapple with adverse conditions and constraints. Thereby this education sector is unable to meet the challenges of mismatch between demand and supply of a qualified work force. Some palpable problems are inconsistency in policy decisions for the higher education sector, lack of uniform regulation, feeble regulating authority for want of enough funds to influence the standard of academic level, languishing infrastructure facilities, acute discrimination in funding of Central and States' universities, etc. The numerous problems in smooth functioning of State universities can be summed up at various fronts like at the academic level, in operation of university and at spatial and societal aspirations. The predicaments in academia are such as overcrowding and congestion due to increasing number of students, inadequate staffing, rigid academic structure, uneven capacity across various subjects, outdated curricula, deteriorating standards and quality, shift in demand from conventional to applied subjects, burden of unwieldy affiliating or constituent colleges, lack of funds for salaries, research, infrastructure and insufficient equipments, etc. There are some obstacles at the operation level, like declining public budgets thanks to carelessness and discrimination in public policy, dysfunctional regulatory environment, low coverage of the accreditation system, negligible autonomy, political interference and intrigues in appointments and administrative functioning, to name a few. The expectations of the society and at the local level cannot be fulfilled by these universities owing to uneven spread of higher education, inter-regional and inter college level variations in quality, quantity and equity dimensions. All these problems are common to

most of the State Universities in India and have been pointed out by various thinkers like Tilak (2003), Patel (2004), Altbach (2006), Agarwal (2006), et al.

Not only in India but the problem is pervasive even at the world level as admitted by a World Bank study (1994)¹¹ of the financial crisis, being experienced by the higher education sector;

“Despite the clear importance of higher education for economic growth and social development, investment in the sector is in crisis, in industrial as well as developing countries throughout the world. In an era of widespread fiscal constraints; industrial as well as developing countries are grappling with the challenge of how to preserve or improve the quality of higher education as education budgets- and particularly expenditures per student- are compressed.”

In the Indian context, Azad (2003)¹² laments that

“Higher education in India has also been facing an inexplicable sort of ambivalence on the part of the government, both central and states.”

This problem has become more severe after the adoption of economic reforms followed by the structural adjustment policies tied with ‘conditionality’ under which the government has to restructure and prioritize its public expenditure to prune and rein in mounting fiscal deficits.

Noss (1991)¹³ explains that

“Public recurrent and capital expenditures conditionality addresses the size and composition of the public investment program, as well as the recurrent expenditure allocation, in order to reduce the government budget deficit and rationalize the public expenditure program.”

Indeed the underlying feature of economic reforms on the part of the government is to reduce its role in economic activities. However the severe fallout of the change in policy is faced by the social sector. As a result, higher education sector has felt the incidence of

cut or no increase in the Plan expenditure (essential for expansion in universities' set up) and is just maintaining the level of non-plan expenditure. All these financial stringencies faced by these State Universities are being discussed in the following section.

1.2.2. Backdrop of the Crisis in Higher education Sector:

Higher education sector has always faced financial crunch for development. Under the federal system of India, states share a larger responsibility for providing education. The progress of higher education sector largely depends on the state government support. Although the central agency provides fund but that is development assistance only for the Plan period. Besides, the fund provided by it requires counter-part funds from the state government.¹⁴ Because of the slow growth of resource mobilization, universities and colleges have always been starved of the much-needed resources for investment purposes. Sometimes State governments even face difficulties in meeting the recurrent expenditure such as universities in Bihar.¹⁵ The situation became more adverse with the adoption of structural adjustment policies by the central government as per the recommendation of the International Monetary Fund to avail soft loans. 'Conditionalities' attached with these 'soft loans' demand restrain on deficit financing to secure macro-economic balances for bracing up the economy to compete in global market. In order to trim down deficit financing, the government is goaded into reducing the subsidies across the board. The purpose is to persuade the government to reduce the quantum of subsidies through cost recovery and cost sharing. In general, it greatly affected the mode of financing of the social services including education, but higher education is facing the impact in particular. This brings the policy to reduce government funding while encouragement to private initiative for education programmes (Tiburcio, 1993, p.14).¹⁶ As a result economically underprivileged students suffered the consequences.

Carnoy (1995, p.135) admits that the unavoidable outcome of stringent conditionalities were "... *a less equal income distribution and reduced access to and lower quality of education for the poor.*"

Tilak (1996)¹⁷ also supports this opinion in the context of our country. The biggest sufferer of this cut has been the overhead of scholarships in the budget of higher education. Scholarships meant for economically challenged and deprived students are a significant incentive for promoting equity in higher education. Although, scholarships constitute a very little proportion of the university budget, even then it came down from 0.5 percent in 1990-91 to 0.15 percent in 1999-2000 (Tilak, 2004).¹⁸

The CAGE Report (2005)¹⁹ concedes to the fact of declining expenditure and quality in higher education sector, as it explains,

“The most serious casualty of this decline in expenditure on higher education has been the quality of education, as investment in those inputs that have stronger relationship with quality, such as research is reduced. The reduction in expenditure on education first results in the falling investment in books and journals in the libraries, consumable material in the laboratories, infrastructure and other quality improvement programmes in colleges and universities.”

Consequently, the share of higher education in total planned resources, which had risen from 0.71 percent in the First Five Year Plan to 1.24 percent in the Fourth Five Year Plan, declined continuously to 0.53 percent in the Seventh Five Year Plan and to 0.35 percent in the Eighth Five Year Plan (1992-97). While the share of higher education in the total plan expenditure on education by the federal government declined from 25 percent in the Fourth Five Year Plan to 14 percent in the Seventh Five Year Plan and to 10 percent in the Ninth and Tenth Five Year Plans. In 2004-05, the Plan expenditure on higher education as percentage of total expenditure even declined to 6 percent.²⁰ The expenditure on University and Higher education has declined from 0.77 percent of GDP in 1990-91 to 0.62 percent in 1997-98 and 0.37 percent in 2003-04.²¹ This happened because of the curtailment in social sector expenditure by the Central government to bring about reduction in the fiscal deficit and thereby it adversely influenced the ability of the state governments to subsidise higher education.

A reduction in the Central budgetary allocation to education implies reduction in resources available to the states. Not only this, sometimes states rely on the Centre's initiatives to undertake new schemes or to implement the ongoing programmes. Any reductions in the devolutions of funds from Centre to the states would mean a severe cut in the allocation to the social sectors and development plans. Besides, higher education sector had to suffer financially not only because the Centre and states were undergoing a stringent fiscal stress on financial resources as per the structural adjustment and liberalisation policy; but also due to the policy switch over in favour of primary education. Carnoy (1995) mentions that structural adjustment in education sector is taking place as a result of structural adjustment policies at the macro level. These are the (a) Competitiveness-driven Reforms for ensuring quality, (b) Finance-driven reforms in response to cut in public sector budgets. It involves a shift in public financing from higher education to primary education and privatisation of secondary and higher education. The World Bank promotes this 'Finance-driven' policy on the argument that there is inefficiency and diseconomies of scale in higher education due to lesser number of students and huge administrative costs which renders expenditure on higher education less productive. This perception influenced the policymakers of India and primary education importance seemingly outweighed higher education. Jha (2005) argues that due to increase in the budgetary support to primary education, there is a decline in the secondary and higher education expenditure. The allocation has been increased on primary education, which is regarded as a merit good, at the cost of higher education that is termed as a non-merit good.^{iv}

Srivastava (2007) observes that,

“The share of higher education spending came down from 12.2 percent during 1982 to 1992 to 11.4 percent for the states in total expenditure on education. While for the Centre, it fell down drastically from 36.2 to 23.3 per cent for the same period.”²²

^{iv} The latest development on classification of different levels of education by the government is that now higher education has been recognized as Merit-2 good while primary education is a Merit-1 good. (Ministry of Human Resource Development, 2005).

It has been noted that the significant impact was on per student expenditure, which registered a negative rate of growth in this period both for central as well as state expenditure. Overall, per student expenditure has declined at a rate of 2.4 per cent since 1992-93. The average real expenditure on higher education per enrolled student declined from Rs. 8,322 in the period 1981-82 to 1992-93 to Rs. 6,790, in the period 1992-93 to 2003-04 (at 1993-94 prices).²³ The continuous decline in per student expenditure is a dampener on the quality of higher education.

Tilak (2004)²⁴ explains,

“There were steep cuts in budget allocations for libraries, scholarships, faculty improvement programmes, etc. Serious effects on the quality of higher education are also widely felt.”

All these trends are reflected in a cut in capital expenditure on education, as minimum maintenance expenditure cannot be curtailed. Chandrashekhar and Ghosh (2005)²⁵ comment that low capital expenditure is casting a significant impact on the education system, which is already marred by the large physical infrastructure gaps in the country. Currently capital expenditure is only 0.87 per cent of total public spending on education. However, the gaps in physical infrastructure, like lack of basic infrastructure not to mention advanced teaching aids including computers, can only be met with increased capital spending.

Chandrashekhar and Ghosh also warn that

“In the urge to ensure universal and compulsory primary education (which is an essential goal) the importance of increasing public investment in technical and higher education must not be ignored.”

From the above discussion it is clear that why higher education sector is experiencing a crisis and what are the causes that led to a decline in government support.

1.3. Policy Perspective:

Tilak (2004)²⁶ emphasises the fact that over the years the government has started showing apathy towards the development of higher education system. He suggests that this change in policy perspective has come through the culmination of certain faulty premises on provision of higher education around the world. He listed them such as the concept of estimates of rate of return and that developing countries like India could not fulfil their goals with respect to primary education, unless secondary and higher education are neglected.

‘This assumption juxtaposes one level of education against another, and leads to the fragmented look at education sector’ (Tilak, 2004).

Given the national or more particularly international commitment in case of elementary education, the government felt that there is no scope to continue its support to higher education at the same level as it used to do earlier.

To justify its stand, the government declared,

“The higher education system in the country is now sufficiently developed to meet the nation’s requirements. The unmet demand for higher education is not considered economically viable” (Government of India, 1994, p75).²⁷

The government considers that it has adequately funded higher education institutions and now they have over expanded, but this is a complacent perception on the part of the government as yet a large population has remained deprived of accessing higher education. Further, it is believed by the government that mostly affluent sections of the population usurp the benefits of subsidised higher education. Nevertheless, this should not be the logic to deny the opportunity to those lesser privileged section who somehow manage to enter higher education system on the back of public subsidy.

Under pressure to meet the targets of fiscal norms set by the International Monetary Fund the government readily accepted the policy prescribed by it which argued against the expansion of higher education and for an exclusive focus on primary education. The 1986 World Bank policy paper strongly recommends reallocation of public resources in favour of primary education and against higher education. This line of thinking finds support from some such as Mehrotra (2004)²⁸ who thinks that since Independence, higher education has been getting enough support from the government and in turn primary education sector has been getting lesser share. Mehrotra supports his opinion by stating that since private rate of returns to higher education are greater the government should withdraw its subsidy from higher education and mobilise it to the primary education sector. This policy is inducing the trend in switching over the government financing to primary education from higher education.

As recognised by Psacharopoulos and Patrinos (2004)²⁹

“Higher education has been more sidelined from the governments financing as it is believed that rate of return is larger in primary education as compared to higher education.”

The policy shift in the focus from higher education to primary education is clearly influenced by the World Bank document which states as;

*“Indeed it is arguable that higher education should not have the highest priority claim on incremental public resources available for education in many developing countries, especially those that have not yet achieved access, equity and quality at the primary and secondary levels. This is because of the priority that countries attach to achieving universal literacy; because the social rates of return on investments in primary and secondary education usually exceed the returns on higher education; and because investments in basic education can also improve equity because they tend to reduce inequalities” (World Bank, 1994, p.3).*³⁰

Subsequently in May 1997 the Government of India issued a Discussion Paper on 'Government Subsidies in India', which regarded higher education as non-merit good. As a consequence of all these influences on policy perspective; state participation and budgetary support started dwindling.

Jha (2005) points out that since the inception of economic reforms the government avoids referring to higher education in its official documents and emphasises on primary education.

On the ground of available limited resources there is a conflict between the two levels of education and it is sought that primary education should be given greater allocation. The allocation of expenditure to one level of education rather than the other is counter productive. Since neither of the level of education is replenish with funds, there should not be conflict in allocation for one against another. It is true that primary education builds the base but it cannot serve the nation to provide qualified work force resources. Universal school education can at best help in creating an enlightened society but higher education is the ultimate infrastructure for all kinds of human resource development. All the three levels of education are interlinked and interdependent. One level of education builds upon the previous level of education and creates value addition. Even for providing primary and secondary education there is a need to expand higher education. Not only this, mass expansion of primary education would also bring a surge in the demand for secondary and higher education.

It is higher education that provides the reliable support system such as administrator, competent leader, manager, thinker and policy-maker to run economy and administration. To expand and embark on the path of sustainable development we need higher education. Agarwal (1995) also emphasises on the need for higher education for reducing intra-group and inter-regional disparities for development and modernisation.

It is true that our one-fourth population is still illiterate but we should not only plan to make them literate rather enable them for availing education up to the level they desire

and live their life with dignity and prosperity. Thus, the biggest challenge for higher education in India is to provide world-class quality, within a framework of equity so that larger number of students would be able to access institutions of higher learning. The onus lies with the government to make this mammoth task feasible. The private sector can never come up to this expectation. Blaug (1987)³¹ enunciates the reasons such as, market failure, consumer ignorance, technical economies of scale, externalities in production and in consumption, public good, and inherent imperfections in capital and insurance markets which inhibit the attainment of 'Pareto Optimality' in education investments. All these factors deter and inhibit the private sector from taking up the task, which would be desired for the welfare and fulfilling development aspiration of the nation.

Hence, the government has to support higher education. Given the intra and inter regional divide in development process and widespread poverty, the government must yoke this great responsibility to ensure overall development. Kaw (2000)³² has aptly remarked that the greatest challenge is to include and look after the needs of the poorest students. Tilak (2003)³³ also observes that the government should not abdicate its responsibility of providing financial support to institutions of higher education. The CABE Report (2005)³⁴ presents the scenario of higher education and observes that higher education is still not accessible to the poorest group of the population. It asserts that higher education in India is in deep financial crisis with escalating costs and increasing needs of the system on the one hand, and shrinking provisions of the public budgetary resources on the other. It recommends the government support for higher education should be increased to at least 1.5 percent of GDP, out of at least 6 per cent of GDP for education, as per the recommendation of the Kothari Commission^v in 1966.

In fact, most of the governments in both the developed and developing world have recognized the necessity to expand higher education to attain global competitiveness in a knowledge driven world. The gross enrolment ratio in higher education in the developed countries is more than 60 percent. While China is catching up with 16 percent, India is

^v The Kothari Commission (1964-66), Education and development, Government of India, New Delhi.

still far behind with gross enrolment ratio at about 10 percent.^{vi} To be an active and beneficiary participant of the wave of globalization and trends in internationalization of higher education, India needs to develop a strong, vibrant and expanded higher education system.

Recently the government of India has taken some initiatives to revive the higher education sector, as the National Knowledge Commission (NKC) has been constituted in 2005. Although the NKC report covers a wide range from education to e-governance, the emphasis is on higher education.³⁵ The National Knowledge Commission has projected the three principle of the present phase of reforms viz., expansion, excellence and inclusion and recommended an increase in the number of universities to 1,500 in the next eight years. The Commission has sought to expand the higher education system without diluting quality and in fact by raising the standard of education imparted and making higher education more relevant to the needs and opportunities of a knowledge society. It also supports the view that there is a need to make higher education more accessible to all section of society

However, in the federal set-up of India, the success of any endeavour to get rid of the ills plaguing higher education system lies with the state governments. This is because the State Universities cater to the majority of students to fulfil their demand for higher education. Although, most studies talk about the problems in the higher education system, they are in the context of the central government financing at the country level. The CABE Report talks about the importance of state funding of higher education; it does not look at the problems from the states' finances perspective. However, the functioning of the State Universities depends largely on the financial performance of the respective state government. If the State governments' finances are sound, they could devolve more funds to maintain and run these universities well. The afflicting constraints of the State Universities have been discussed in the following section.

^{vi} Please refer Table-2.1, in Chapter-II.

1.4. State Governments and Financing of university and Higher Education:

As per the Constitution, higher education comes under the Concurrent List and hence it is the responsibility of both the Central and the respective States' government to look after this sector. Agarwal (2005)³⁶ finds that 85% of the total central funding to higher education goes to Central universities and other centrally funded institutions, where only about 3% of students are enrolled. Singh³⁷ (2004) also highlights the fact that more than 95% of educational activity is controlled by the states. At present there are 217 recognised state universities and holds the bulk of students' enrolment whose maintenance expenditures state governments have to meet. Therefore, the financial situation of the states government cast greater influence over this sector.

Singh (2004)³⁸ rightly remarks that,

“States are the weakest though a vital link in the entire higher education chain.”

Thus, states' fiscal performance is a matter of concern for the smooth functioning of the higher education sector.

1.5. Significance of the Study:

Despite acknowledging the importance of state governments financing of higher education, there is a dearth of literature focused on the relationship of states finances with the provision of higher education in the State Universities. Although some studies discuss state finances, they take a holistic view and mostly present the central funding situation. It may be due to difficulty in procuring data at the state level. It is easy to look at the situation of Central finances and functioning of a few Central Universities. However, the Central Government is not in the same financial crunch with its greater resource raising capacity. It is the States, with fewer resources, that are finding it difficult to support higher education expenses. Central Universities are flushed with funds to improve its standard and are equipped to meet the challenges of the information economy, whereas

the State Universities are longing for funds even to meet the basic requirements. However, given the increasing importance of higher education in the emerging knowledge economy for sustainable development and prosperity it would really be a mistake to overlook the importance of state universities. We cannot be content with creating the 'pockets of excellence'; indeed we are required to spread quality education to every pocket of the country to build quality human capital from our vast reservoir of human resources. This underlines the importance of state universities for arranging availability and accessibility of higher education to larger masses.

As discussed earlier, State Universities which cater to majority of students must be upgraded and properly financed. This requires an analysis of how and why the State Universities are languishing for want of funds. Since States share the major responsibility for providing higher education, their financial situation must have greater bearings on this sector. Thus the State government's financial performance is an area of concern for ensuring satisfactory functioning and performances of the State Universities.

1.6. Purpose of the Study:

This study intends to look into the financial situation of Bihar and its implication on the sector of university and higher education with the case studies of two universities in Bihar viz., the Patna University and the Tilka Manjhi Bhagalpur University. Since Bihar is the third most populous state of the country and is regarded among the poor and backward states, it is interesting to find out its financial situation overcast on the Universities' finances over the years.

1.7. Hypotheses:

- The study attempts to look into the trends in expenditure on education of the Bihar Government with reference to its state of finances particularly in the post-reform era and ongoing fiscal reforms of the states under the various Finance Commissions Recommendations.

- Whether these changes have influenced the financing of university and higher education.
- How the two universities are functioning with the changes in financial support from the state government.

1.8. Case Study:

The two Universities of Bihar, namely, the Patna University, Patna and the Tilka Manjhi Bhagalpur University, Bhagalpur; have been taken for the case study. Patna University is the oldest University in Bihar and regarded as the premier institute of higher education in the State. Tilka Manjhi Bhagalpur University is a reputed University. It caters to a large number of students as well as area.

An analysis of finances of the Patna University and the Tilka Manjhi Bhagalpur University, would give an insight into the functioning of the Universities system in the State as well as their dependence on the State government funding.

1.9. Reference Period of the Study:

This study has selected a reference period of 10 years of the recent past that is 1995 to 2005. The selection of this reference period is to get some insight in the changes of state government finances under the fiscal reforms programme for states after the adoption of the economic reforms in 1991. However, universities data of the recent period are available only from 2000 to 2005.

1.10. Methodology:

It is based on secondary data availed through the various documents such as the Budget Documents of the Government of Bihar, Economic Survey of the Government of Bihar, Ministry of Human Resources Development Educational Statistics Documents, University Grants Commission Annual Reports, Finance Commission Reports ,State

Finances Reports, Universities Annual Reports Annual Budgets, etc. Statistical techniques such as average growth rate, regression analysis, ratio-proportions, have been applied for the data analysis.

1.11. Structure of Dissertation:

To fulfil the objectives of this study, the dissertation has been framed in five chapters. The analysis has attempted to be very systematic by introducing the macro picture of the higher education sector and then zeroed in on the micro frame of Bihar's University system with the case studies of two Universities.

After introducing the subject and discussing the prevalent scenario and problems of higher education, the 'Introduction', which forms the Chapter-I, contextualises the relevance of the proposed study.

Chapter-II is titled as 'Rationale of Public Financing', gives the *raison d'être*, and advocates for government financing. Since higher education contributes to economic growth and development and promotes socio-economic mobility, it is very important how this service is financed. It explores why private sector cannot fulfil the requirements, expectations and aspiration of the nation from higher education.

Chapter-III elaborates upon the present financing system of higher education, along with a discussion of state finances after the onset of economic reforms, particularly in Bihar. It delves into the situation of states finances and the recommendations of various Finance Commissions over this period. In the federal setup, states are not devolved with much income earning resources and are heavily dependent on the transferred resources from the Centre. The fiscal constriction at the Centre and resultant restriction on fiscal deficit has also had ramification over the state finances. It deals with the financial performance of Bihar and the state of affairs, particularly after the separation of the State in 2000.

Chapter-IV is focused upon the financing situation of social sector services with reference to education and especially higher education by the government of Bihar. The chapter attempts to figure out the problems of the ailing education sector in Bihar. It further deliberates on the state government financing of the two Universities under the case studies. The analysis is drawn from the University finances to situate and relate the University financial system of Bihar with the condition of State finances. It also tries to look into the fall outs of the financial exigencies on the functioning and operation of the University system.

Conclusion of all findings and analyses has come under the Chapter-V. This Chapter makes an effort to put together the complete scenario of financing of higher education with reference to the finances of the Bihar government. The concluding inferences have drawn insights from the discussion of different chapters to make remarks.

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CHAPTER: II

RATIONALE OF PUBLIC FINANCING OF HIGHER EDUCATION

2.1. Introduction:

Higher education adds value to human capital to make it more productive and raise resources for development. The expenditure incurred on acquiring higher education to increase future income of a person is termed as an investment to build the human capital. Human capital is the outcome of the human resource development, which is a process of increasing the knowledge, the skills, and the capacities of all the people in a society. It involves large expenses with long period of gestation to bring forth its benefits. However, provision of higher education leads to several positive outcomes. In the era of changing dynamics of the economic world, the quality and skills of human capital are the ultimate factors that determine the pace of development and prosperity of economies. Higher education is an agent that prepares the economy to face the challenges of the advancing world. Thus, it holds the centre-stage in the revolutionary era of information-communication technology. In this context, everybody acknowledges this fact and upholds the importance of higher education. Importance of higher education has increased manifold in the wake of development of knowledge economy. Knowledge economy thrives on the production, distribution and use of knowledge and information. From this perspective, higher education is a vital source for the development of knowledge economies.

Given the urgency of provision of higher education, the question arises as to how higher education could be made available to larger masses. In our country, only approximately 10 per cent students can avail higher education.¹ Agarwal (2005)² writes that with this ratio of enrolments, it is still an elite higher education system. This shows

that there is still a large population outside the system, yet to avail this service. The importance of expansion of higher education to large masses has already been realized by the developed nations as evident by their enrolments and proportion of expenditure on higher education as exhibited in Table-2.1.

Table-2.1
GER in Higher Education (various developed countries vis s vis India) in percent of GDP (2002-03)

Country	GER (in percent)	Percent of GDP on Higher Education
USA	83	1.41
UK	64	1.07
Australia	74	1.19
France	56	0.99
China	16	0.50
India	11 ¹	0.37

Source: taken from Agarwal (2006), Table A1, p.155.

Since India is a low-income country, majority of population neither can afford nor can recognize the importance of higher education. Higher education can be provided by both the private sector and the public sector. However, their motives differ. The suitability of mode of provision depends upon the needs and concerns of citizens. Since higher education is not a commodity so, it cannot be left solely in the hands of markets through privatization. It is not only a service to buy and consume it. It contributes to raise earnings of not only the beneficiary, but also society and economy reap benefits through the spread of higher education. There are some special characteristics of higher education, which justify public financing of higher education.

Against this setting, this chapter intends to explain the rationalization of public financing of higher education because of the presence of the factors like contribution to economic growth, market failure, socio-economic mobility and incapability of private sector to fulfil the expectations.

¹ Tilak (2007), Table, p.630, finds the latest number as 9.2 (as percent of the Age group: 18-24) in 2003-04, which was 7.9 in 2000-01.

2.2. Contribution to Economic Growth:

There is an interdependent relation between higher education and economic growth. The greater the economic growth and development, the greater would be the demand for higher education. Higher growth rate would enable the government to garner more resources to finance supply of higher education services. While higher education in turn, through greater pay-off would create more income to support economic growth process. In the era of advanced technology based industries such as, chemicals, biotechnology, telecommunication, information system; the role of highly educated and scientifically trained labour is immensely felt in economic growth and development. Economists argue that the new types of production reward innovation and learning by doing on a broader scale, even among non-scientifically oriented workers.³ Propagation of higher education works in two ways; firstly, it adds skills to labour (i.e., creation of human capital) and increase their productivity and secondly, increase the workers' capacity to innovate through learning new ways of using existing technology and creating new technology. Progress on this front leads to increase in productivity of not only the recipient of higher education but also to other people of the society through spill over. As a result, self-sustaining economic growth process sets in the economy. In fact, the cycle of innovation and learning-by-doing form the basis of endogenous growth model. The endogenous model assumes that productivity increases are a self-generating process inside the firms and economies. [(Lucas, 1988)⁴, (Romer, 1990)⁵]. Carnoy (2006)⁶ adds that these learning by doing and innovation become part of the work process which bring opportunities and enhance capacity and participation of people.

Tilak (2007)⁷ also supports that there is sufficient evidence to show that higher education generated large positive externalities for growth and that the level of development of a country and the stock of highly educated manpower is related. There are studies that link spending on higher education and regional economic growth. Barro (1990)⁸ has shown that for a given level of wealth, the economic growth rate is positively related to the initial human capital level of a country. Plaut and Pluta (1983)⁹ find a statistically significant positive relationship between total employment growth and state spending on

education. Jones and Vedlitz (1988)¹⁰ show that levels of state spending for higher education and the level of education quality are positively related to state economic growth.

However, it seems true that even after heavily subsidising higher education sector since Independence; it has not paid off commensurately as the unemployment rate suggests. Nevertheless, it does not suggest that higher education should not be expanded and subsidized. It has been found that countries at different level of development gain differently with highly educated graduates. As Pritchett (1996)¹¹ elaborates that, the absence of a positive relation between the higher education graduates and economic growth is explained as a rent-seeking phenomenon, where educated people look for jobs that are not directly productive. When the economy enters its second industrialization stage of development these graduates take part in the productive dynamics of the country. Sorensen(1999)¹², and Funke and Strulik (2000)¹³ also support this through their model that, when a country reaches an advanced development level, the role of higher education in economic growth moves from a direct impact on labour productivity to an indirect impact through increasing the capacity of the labour force as a whole to manage innovation and technical progress. Carnoy (2006) writes that although, rates of return to education vary among countries, a dominant tendency worldwide in the past 30 years has been for rate of return to investment in lower levels of schooling to fall, and for rate of returns to investment in higher levels of schooling to rise. [Carnoy, (1972)¹⁴; Carnoy, (1995)¹⁵]. By 1990, in many developing countries and most developed countries, rate of returnⁱⁱ to higher education were greater than to secondary and to primary education. Carnoy (2006) concludes that as the research suggests, higher levels of education in the labour force were most likely to contribute to growth especially as economies reached higher levels of development. In the knowledge economy, it is the high-end human capital that would serve as the 'engine of growth' for a developing country, like India. This quality of human capital can only be attained through spread of higher education to the larger masses. Thus, it is quite evident that higher education does play a role in

ⁱⁱ The rate of return to an investment in a given level of education is the rate of discount that equalizes the stream of discounted benefits (monetary income) to the stream of costs (i.e., the expenditure incurred for its attainment) at a given point of time:

achieving higher economic growth. It justifies the government provision of higher education for achieving higher growth rate of the economy.

2.3. Market Failure:

The market mechanism is suitable for the provision of private goods that hold the characteristics of exclusivity and rivalry. The market operates by a price mechanism where price acts as a signal. Through the signal of prices, producers are guided by consumer demands and goods are exchanged according to the forces of demand and supply. This is all made possible through the application of exclusion. However, when there is a valuation problem because of the non-exclusion of the benefits, the price signal does not show the actual demand for and supply of that good and the market fails. The nature of higher education holds the characteristic of non-excludability, because its benefits spill over to the society. This particular attribute and associated externalities of higher education are illustrated as follows.

2.3.1. Nature of Higher Education as a Good:

Higher education can be regarded as a mixed good as its attributes lie between that of private and public goodsⁱⁱⁱ. This is because while availability of higher education is non-rival and privately demanded at the same time its benefits cannot be excluded from seeping through the society. As according to Musgrave and Musgrave (1989)¹⁶ there is a remarkable difference between private good whose benefits are wholly internalised as they hold rival characteristics and others such as air purification, the benefits of which are wholly external as they are non-rival. Higher education holds the rivalry characteristics as it provides direct and immediate monetary benefits to those who pursue it, nevertheless, the associated benefits of it cannot be stopped from accruing to the society. Thus, it is not exclusive to the person concerned. In this condition, the benefits from the

ⁱⁱⁱ Private good is that good, the consumption of which is rival as well as excludable so that market mechanism can provide efficiently; whereas, public good's consumption is non-rival and non-excludable, which creates the problem of free riders and thus market cannot provide efficiently.

products of higher education are not fully vested in the property rights of particular individuals, and the market cannot function. There arises the problem of free rider and since benefits available to all; consumers will not voluntarily offer payments to the suppliers of such goods. In this case, the private returns from higher education would be much lesser than social rate of return. To reap the social rate of return at large scale, the government must provide higher education to a greater number of people. Head (1974) also reasons government intervention for provision of mixed goods on the grounds namely (i) preference distortion; (ii) distributional problem; and, (iii) non-excludability. Preference distortion arises when individuals are unable to evaluate the benefits or consume little in lack of complete information. Sometimes it also arises in the case of unscrupulous advertisement by the private service providers. Higher education besides creating high-end human capital also helps in promoting socio-economic mobility, which the welfare government aims at. Public good's traits of non-excludability of benefits entailed with higher education make it more desirable in the optimum quantity, than what the private sector could provide.

Tillak (1993) classifies higher education as quasi-public good and defines it as a good which is neither a pure public good, benefits of which are received by all members of the society equally, nor is it same as a private good, the benefits of which are exclusive to those who consume.. Tilak elaborates that with quasi-public good; there may be demand for it because people would tend to buy in expectation of private returns. However, the returns would not be exclusive to those who buy it. People can get benefits of higher education with the person who opted for higher education without being a part of his/her investment decision. In this case, the private returns would be less than the total benefits. Nevertheless, purchaser of higher education does not consider the resultant social benefits. This may lead to a quantum of private investments less than the optimum that would be desirable to tender social benefits. In this situation, Tilak also advocates government intervention in the provision of quasi- public goods, like higher education to bring changes without overriding the tastes and demand of the people for quality and quantity as it represents a social merit good.

In the opinion of Marginson (2007)¹⁷,

“Higher education produces a complex and variable mix of public and private goods. Goods produced in higher education can shift from public to private and vice-versa, but their location is historically determined and policy sensitive. In general, market forces tend to augment rivalry, exclusion, and non-exclusion. There is a need of the policy to enhance those public goods that markets create and to compensate for those public goods that markets tend to suppress.”

Thus, it depends on the policy maker to recognise those products of higher education, which create large spillovers and cannot be made available adequately by the market forces. Birdsall (1996)¹⁸ regards basic research element of higher education as public good that promotes and contributes to the generation of new knowledge and to the acquisition and adaptation of existing knowledge to local conditions. In her opinion, training and research at the graduate level help build and sustain local capacity to extend and adapt new knowledge. The market cannot produce enough basic research from a social perspective.

Public good characteristic of higher education presents the case of market failure. From the above discussion, it is quite clear that higher education is a mixed good associated with the non-excludability characteristic of the public good. As a result, it creates externality and thus presents the case of market failure.

2.3.2. Positive Externalities Associated with Higher Education as a Mixed Good:

Positive externality arises when the benefits of consumption of a good do not remain confined to the person who pays for it. Being oblivious of the indirect non-economic benefits created; a person will demand only that much good for which he or she has the capacity to buy. Consequently, the demand remains underestimated and the price does not reflect the actual value of that good, as the good is offering much more benefits than what it costs.

Musgrave and Musgrave (1989, p.42) define positive externality as,

“...the situation where consumption benefits are shared and cannot be limited to particular consumers”.

They assert that the market cannot function effectively in the presence of externality.^{iv}

Mcmohan (1987)¹⁹ describes externality in education as,

“The external benefits of education as those benefits for society that are above and beyond the private benefits realized by the individual decision maker, i.e., the student and the family.”

These externalities are exclusive of monetary benefits of enhanced earnings over the educational and consumption benefits. The externalities of higher education are associated with the outcome of generation of ideas and technology and it lies in the inability of inventors to completely capture the benefits of research and development. By simply being a member of the society an educated person could be a source of various benefits to the society. In fact, it is perceived that a central purpose of higher education is to prepare talented young people to assume productive roles in their societies to foster the creation of human capital.

It comes through a better understanding and dissemination of human rights and political rights in the society. Highly educated people could participate in a better way for smooth functioning of democratic institutions and related freedoms. Higher education also propagates better attitude towards life, lower crime rates, more books, more newspapers, more literature, debates and discussion for the betterment of the society. Increased earnings of highly educated people allow not only better living standard for them but through their expenditure on social good benefit the society too. These individuals also provide good savings to create physical capital for undertaking further productive investments. Besides, higher education enables the person to do research in

^{iv} Externality-it occurs when the activities of an individual or a firm produce results that affect others but are not taken into account by those who produce them. Since it is very difficult to evaluate costs and benefits of those who get benefited, even a competitive market cannot produce efficient outcome.

respective specialized fields so as to build expertise and policies to benefit the society as a whole. If a scientist works in a laboratory and invents a new technology, it is not that he will get good remuneration for that but the whole society would become beneficiary through the use of invented technology by the virtue of his or her competence acquired through training of higher education. Economics literature emphasises the various positive externalities arising out of spread of higher education. These externalities include improvement in health, reduction in poverty, improvement in income distribution, reduction in crimes, rapid adoption of technologies, strengthening of democracy, ensuring of civil liberties, etc., and even dynamic externalities (Schultz,1988, Romer,1986,1990, Lucas,1988).

McMahon (2004)²⁰ illustrates that research discovery which depends on an educational base, benefits persons other than the researcher, including future generations, in substantial ways. Solmon (1987)²¹ writes that the non-monetary benefits of college are at least as important as the job related monetary benefits of college.

Bowen(1977)²² sums up exhaustive sets of positive attributes attained through higher education which spillover the society, such as, intangible changes in personality through knowledge, critical and rational thinking, cognitive powers, open minded attitude, appreciation of diversity of opinions and outlooks, besides some social traits like, relativism, tolerance, flexibility, reduction in gender discrimination and women empowerment, etc. He further explains that these positive attributes reach the society through the person who attains higher education. As a member of the society he or she can influence and bring about changes in attitudes of people to modify the general social environment. It helps people to 'appreciate the dynamics of social change, a sense of common culture and social solidarity'.

Ziderman (1994)²³ also underlines the positive externality characteristic of higher education and mentions under investment in higher education because of its presence. He argues that the presence of such positive externalities justifies the subsidy on higher

education, to raise the private demand for it and thus to ensure an adequate supply of higher educated individuals to meet wider societal needs.

A Task Force of World Bank (2000)²⁴ advocates for higher education on these arguments:

(i) it helps increase wages and productivity that indirectly enrich individuals and society; (ii) by allowing people to enjoy an advanced 'life of the mind' it offers wider society both cultural and political benefits; and, (iii) it is believed to promote independence and initiative both of which are valuable intellectual resources for the generation and dissemination of knowledge in society.

Thus, the major product of higher education is the generation of ideas and critical thinking while technology education serves as an input to research and development. In the globalising knowledge economy, where the boundaries are not limitation for intangible goods, the importance of higher education has increased manifold such as a new model or design, software programme, mathematical model, literary creation, etc. These items are invincible to law of diminishing returns and can be used by people all over the world at negligible cost. In this situation, the benefits of creating the product do not remain confined to the innovator but spill over the whole society. Thus, externalities associated with the acquisition of higher education itself demand government intervention to ensure its positive outcomes accessible to the society.

For a country, the invention and innovation of such products would increase per capita income with no rivalry. In such cases, externality creates the case of market failure and thus warrants government intervention. Despite all these acknowledged positive externalities associated with higher education, it is a pity that the Government of India (1997, DEA, p.2)²⁵ declared higher education as a non-merit good devoid of externalities.

It explains

"...subsidies are advocated when the social benefits of a particular service or commodity are greater than the sum of private benefits to the consumers." While items such as, *"...electricity, diesel, fertilizer and higher education..."* are termed as non-merit goods and services with respect to subsidies, because it believes that,

“... there are normally no significant differences between private and social valuation in these areas.” For higher education, it reasons that, *“... benefits of subsidies accrue primarily to the recipients. In contrasts, benefits of providing elementary education spread well beyond the immediate recipients.”* (Government of India, p.6).

However, the Government²⁶ later realised the importance of higher education and revisited its earlier stand and defined education beyond elementary level as ‘Merit-II good’ which would be subsidised at a lower level than the ‘Merit-I good’. Notwithstanding all these classification, it seems that in order to restrict its expenditure the government tends to overlook the benefits associated with higher education.

2.3.3. Absence of Capital Market in the higher education Sector:

Persuasion of higher education involves greater costs in terms of time and money. It is also full of risks for individuals. In a developing country like ours, which is relatively less endowed financially and lack enterprise; there exists structural unemployment and even graduates find themselves without jobs. Uncertainty in payoff from higher education keeps them away from making large investment in higher education. The capital and loan market also cannot function because of the same reason. Students cannot go for borrowing options, as they do not hold credit worthiness for want of security money and are unable to realise the present value of their future incomes. Moreover, they could not offer collateral security as human capital is endowed in person and unlike physical investment, a person cannot offer himself or herself as collateral security. Chattopadhyay (2006)²⁷ has elaborated on the dilemma of the lenders for higher education arising out of asymmetric information and difficulty in recovery of loans. Under these circumstances, it poses a great challenge to the students of economically underprivileged and marginalised section of the society to pursue higher educational studies, for want of capital. To rescue their ambitions and aspirations to realise their potential, the government must take up the responsibility for providing higher education.

2.4. Promotion of Socio- Economic Mobility:

Higher education is the sole source of improving a person's living standard and societal status. Its pursuance opens up myriad of opportunities for the person. In terms of capability approach given by Sen (2000), by acquiring higher education, one attains intellectual capability embodied with freedom, which offers a range of options to a person in his or her decision of what kind of life he or she wants.

Sen (2000)²⁸ suggests,

“Social opportunities which refer to the arrangements that society makes for education etc. which influence the individual's substantive freedom to live better. These facilities are important not only for the conduct of private lives, but also for more effective participation in economic and political activities.”

Higher education is a major contributing factor to enhance human capabilities. In this way, it may be viewed as an agent of social mobility and progress. It is higher education, which gives the opportunity to a poor person to switch over from his/her 'acquired status' to 'ascribed status' and facilitate the deprived sections of people for opportunity of upward mobility.

As according to the sociologist Durkheim,²⁹

“...education works as an instrument of social engineering, socializing individuals to the values of the society- social, ethical, cultural and political, so that societies become more virtuous with more and more people who have access to education”. Durkheim adds that education inculcates general values, which provide both the 'necessary homogeneity' for 'social survival' and specific skills to give 'necessary diversity for social co-operation'.

Public financing of higher education can also be viewed as a redistributive function of the Government as per the norm of process equity^v.

Long ago the Kothari Commission observed,

“One of the important social objectives of education is to equalise opportunities enabling the backward and underprivileged classes and individuals to use education as a lever for the improvement of their conditions. Every society that values social justice and is anxious to improve the lot of talent must ensure equality of opportunity to all sections of society.”(The Kothari commission, 1964-66).

To ensure equal opportunity and social mobility simultaneously, higher education is the most potent mean. The government subsidisation of higher education makes available opportunities equally accessible to all its pursuants irrespective of their financial capability. While social mobility ensures the ability of the individual to move within the distribution of income or wealth over time through raising potential of earning capacity. Kapur and Mehta (2004) also look at higher education from the perspective of society's demands as to create a merit based competitive social space and as a commitment to equality.

Even the executive summary of the World Bank Report (1994)³⁰ states,

“Higher education is of paramount importance for social and economic development. Institutions of higher education have the main responsibility for equipping individuals with advanced knowledge and skills required for positions of responsibility...estimated social rates of return of ten percent or more in many developing countries also indicate that investments in higher education contributed to increase in labour productivity and growth essential for poverty alleviation.”

^v Process-equity is the policy norm that ensures all opportunities equally accessible to all persons irrespective of their abilities along with socio-economic mobility.

Higher education has long been considered as a means to advance prosperity and socio-economic wellbeing. Anderson and Hearn (1992)³¹ also underline the importance of higher education in fulfilling the objective of equity of opportunities across socio-economic, gender and racial ethnic groups. In such a way, higher education promotes social inclusivity.

Bowen, et al. (2005)³² define

“Social inclusivity is full integration into economic life of the nation; roughly proportional access to universities is vital. Inclusiveness is an essential part of a broader affirmation of opportunity and is at the centre of our concern for equity.”

This is also recognised and emphasised by the National Knowledge Commission Report (2006). It states,

“Education is the fundamental mechanism for social inclusion through the creation of more opportunities. It is therefore essential to ensure that no student is denied the opportunity to participate in higher education due to financial constraints.”

This report also asserts that education is an essential mechanism for inclusion through the creation of equal opportunities. It is therefore essential that in addition to ensuring that no student is denied the opportunity to participate in higher education due to financial constraints, access to education for economically and historically socially underprivileged students be enhanced in substantially more effective manner. The CAFE Report (2005) also recognises the role of higher education in availing socio-economic mobility and contends for government financing, particularly in the wake of globalisation.

The societal goal of education is to assist individuals and enable them to explore the ladder of accomplishments according to their potential, talent and determination. It helps not only to access best paying jobs, but also prepares the individuals to participate consciously and aware of the functioning and decision making of the democratic system.

Moreover, it facilitates to lead a standard and dignified living. The government provision of higher education becomes important for economically challenged but talented and deserving students who would otherwise get demoralised and their sense of democratic legitimacy would undermine if they feel that rich can get admission to selective colleges and universities on the basis of financial capability. The higher education market cannot be expected to provide socially optimal results. Potential students may under invest in their own education. Because of this interest of society as a whole in outcomes such as preparation for citizenship, the promotion of social mobility and the advancement of learning may not be served adequately if market mechanisms alone have to be relied upon to determine the resources available to higher education and their allocation. Government at every level has a significant role to play in correcting imperfections and making sure that the needs of the entire society are taken into account. Gandhi (2000)³³ justifies public financing by arguing that education is a social responsibility and its cost should not be seen as expenditure but should be assessed in terms of its overall contribution to the country. It is necessary to make sure that every individual must avail a chance to discover his or her endowed potentialities which would in turn enable him/her to become an asset for the country. Generally, higher education tends to yield external benefits by strengthening the social fabric through nurturing notions of mutual respect, tolerance and co-operation among individuals. This builds and makes a cohesive, civilized society. In fact, the progress and prosperity of a country largely depend on full utilisation of the talent of its population.

With a dubious status of the second most populous country of the world and around one-fourth of population under the poverty line, it is imperative that the government should ensure the availability of higher education to deserving and willing individuals irrespective of their socio-economic background.

2.4. Incapability of the Private Sector:

Our system of higher education still lies in the 'elite' category with around 10 percent of gross enrolment (Agarwal.2006). This handicaps the leftover population to be a part of

decision and policy making in conformity with their aspirations. To ensure their involvement and participation, expansion of higher education sector is a *sine qua non*. Private sector enterprises, which always vie for profits cannot be expected to provide higher education on a large scale. However, in India, with the commencement of economic reforms, the government is trying to prune the expenditure on higher education.

Tilak (2004)³⁴ writes,

“An important development of the 1990s refers to sustained efforts towards privatization of higher education in India. There have been significant efforts towards financial privatization of higher education, which assign only to the motive of profit maximization. Private institutions of higher education all tend to become ‘entrepreneurial universities’.”

The issue of privatisation in higher education is a matter of concern to examine critically. Privatisation of education renders it as a commodity. When supply of higher education is offered by the private players they take it as an enterprise to yield profits. They transform the educational institutions as profit maximising corporation, ‘brands’ or entrepreneurs, scholarly worth is measured as market value. Thus the academia turns as a market where everybody is exchanging their respective endowments, guided by his or her own interest. Education loses its intrinsic value and cultural aspect and sells like a commodity.

Noble (2002) defines the ‘commodification’ of education as a process in which,

“...instruction has here been transformed into a set of deliverable commodities, and the end of education has become not self-knowledge but the making of money. In the wake of this transformation, teachers become commodity producers and deliverers, subject to the familiar regime of commodity production in any other industry, and students become consumers of yet more commodities.”

The private organisations treat the process of providing education as an investment and equate it to a production function. Majumdar (1983) explains the problem of treating

investment in education as an analogy to physical investment. Keeping this analogy in practice the private providers try to maximise output, given the level of investment costs, or attempt to keep the investment costs at minimum given the level of output. For this, the private institutions regard themselves as a firm in whose production function, students are assumed as the inputs and their degrees or diplomas serve as the output.

Majumdar (1983)³⁵ comments,

“Neither the purpose nor the outcome of a process of production can be easily and incontrovertibly defined as in the industrial process.”

He underlines some of the inherent complexities of education process to be compared as production function such as the different domains of decision makers, investment embodied in person, time horizon, faulty assumptions of rate of return approach, varying alternatives, etc.

The stages and provision of education are not an industrial process that a production function simulation will help to yield profit. Education builds character and knowledge for life time and above all, is concerned with the wellbeing of individuals. In the zeal of managing the service on the factory line, the private suppliers think of only optimising their cost with given quality to earn maximum profits. Nonetheless, in the process the soul and purpose of education go awry. Even the basis of rate of return to private investment for the private sector in higher education is flawed. For example, if a large number of students graduate from a particular stream, guided by the higher rate of return, they would later realise that their supply has increased in comparison to market demand and rate of return came down.

Majumdar (1983, p.38) elaborates,

“The usual rate of return approach to investment in education being basically linked to what might be called a strictly one dimensional characterisation of individuals’ revealed preferences, gives no clue to handling the social choice problem in either of the following two situations:-

(a) where some individuals are unable to reveal the 'whole truth' through the market or (b) where some individuals are inclined to reveal opposite preferences at the societal and the individual levels.

Moreover, there is a divergence between the social and private returns and the private sector do not take into account the social rate of return^{vi}. As a result, the number of graduating students from the private institutions, which is optimising their costs and maximising profit, would not be optimum for the society and liable to damage the cause of welfare of those who come from the underprivileged socio-economic group and fail to get admission in these institutions. Besides, in economic terms the higher education sector demands huge investments with fixed infrastructure setup and thus reaps the economies of scale; for which government can plan better.

Tilak (2005)³⁶ remarks,

“The emerging private higher education systems are found to be creating serious problems in terms of access, quality and equity in higher education.”

Usually, the proponents of privatisation argue on the grounds of efficiency and quality. However, in reality, these private universities function as a firm and fleece the money resources of student's parents in the name of quality. It has been found that graduates from these universities are not necessarily rewarded with high paying jobs in the job market. The quality argument tends to be exaggerated for the private institutions of higher learning. Privatisation cannot be the benchmark for ensuring quality. As in the case of Brazil, the government has allowed private operator to run the universities to absorb the surge in demand for higher education, but the quality is still missing (Carnoy, 2006). Moreover, these private institutions do not build character and values in a person; they just concentrate on career and foster consumerism, which our common masses hardly afford. In a democratic society, like us, the motto is to achieve equality of

^{vi} Social rate of return takes into account all the benefits accruing to the society as an effect of spread of higher education. However, it is very difficult to quantify all those non-monetary benefits and as a result, the rate of return from higher education remains under estimated. In fact, the government can meet the divergence between the private and the social rate of return through subsidisation of education service.

educational and thereby the economic opportunity. The cherished norm of 'equality of educational opportunity' can be usurped by the affluent class, in the guise of legitimacy of competition and merits, by the privatisation of higher education. This intimidation emphasises on and justifies the public financing of higher education to avoid its availability to a few and privileged section of the society. Under these circumstances, the government cannot shrug off its responsibility to take care of its poverty-stricken population and making accessible higher education to all.

Srivastava (2007)³⁷ also argues for public financing for expansion, improvement in quality and equity in accessibility in higher education which would not be considered by the private sector.

Thus, all these facts emphasises that the government has to support the higher education service for ensuring the socio-economic goals which the private sector is unable to fulfil.

2.6. Concluding Remarks:

On account of these special merits, higher education can neither be left completely under the private sector nor can be neglected. Even the contention that the rate of social return is low for higher education than the other levels of education loses its point. It is not possible to quantify the positive externalities of higher education, particularly, in developing countries, where the demand for professionals in every field is very high. The more the number of professionals, expertise and thinkers the more the country would embrace development by lowering the relative private rate of return and raising social rate of return. Thus the expansion of higher education is not only essential for 'creation and dissemination of knowledge, supply of manpower, specifically knowledge workers'; but also for bringing 'attitudinal changes for modernization and social transformation' to form a strong nation-state and promotion of high quality of individual and social life. Government financing of higher education is vital for embarking on the high trajectory of economic growth, demands of a transition economy, and cannot be overlooked for the

betterment of the society. However, before taking up the charge of mass expansion of higher education; there is a need to meet the crying needs of the fund-starved existing universities in backward areas. Mostly, state universities cater to large number of students in their local area. Since all States of India are not equally developed, so the quality of the academia of these and the Central universities varies. These universities require sound infrastructure set-up and equally competent teachers to raise the quality of imparted education. Oblivious of the importance of higher education, the government is neglecting the financial demands of these universities. Consequently, these universities, while absorbing the increasing number of students, which in turn create congestion and extra pressure on its resources; are languishing. In this situation, the initiative to democratise higher education cannot be efficacious unless the financial demands and management standard of existing state universities are not accomplished.

Since the finances of state universities depend upon the state funding, the financial performances of the States greatly influence it. The situation of states' finances is not sound after the onset of economic reforms. Its resultant adverse effect has been felt on the social sector expenditure and particularly on higher education. All these have been discussed in the next chapter along with the present system of financing of higher education.

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CHAPTER: III

Financing of Higher Education and Trends in State Finances in the Post-Reform Era

This chapter intends to present the funding system of university and higher education. It discusses about the shortcomings of the state government's grants-in aid system of financing. This system of financing and quantum of funding depend upon the situation of respective state's finances. It proceeds further to discuss the overall situation of state finances with special reference to Bihar after the onset of economic reforms.

3.1. Financing System of University and Higher Education:

In India, higher education is mainly financed by the government. Since 1976, education has come under the Concurrent List of the Constitution and thereby, the Centre and the States both jointly share the responsibility for development of education. Thus, they jointly provide funds for infrastructural facilities, maintenance expenditure and monitor educational programmes through mutual co-operation and coordination. The cost of education is partly borne by the individuals who receive education, or by their guardians. The educational fees and donations collected from the students, endowments and philanthropic contributions, constitute the internal sources of finance for the institutions of higher education. The onus of financing higher education largely lies with the States which contribute more than 80 percent of the total expenditure, as evident from Table-3.1.

Table-3.1
Government Expenditure on Higher Education in India (Percent Shares)

Year	State	Centre
1993-94	83.43	16.57
1994-95	80.59	19.41
1995-96	81.58	18.42
1996-97	83.29	16.71
1997-98	80.69	19.31
1998-99	73.84	26.16
1999-2000	73.31	26.69
2000-01	75.15	24.95
2001-02	79.63	20.37
2002-03(RE)	80.55	19.45
2003-04(BE)	80.91	19.09

Source: The CABE Report, (2005), Table-6.

Table 3.1 shows the importance of state financing for higher education, over the years. However, on the part of the Central Government, the Ministry of Human Resource Development, through the UGC, outlines national educational policy, sets priorities, grants funds and invigorates the system according to the changing dynamics. The agency involved in financing of higher education has been discussed in the following sections.

3.1.1. The Central Government:

The Central Government provides most of the development funds, which involve bodies such as the Ministry of Education, the University Grants Commission (UGC), the All India Council for Technical Education, the NCERT, the ICAR, the ICMR, the ICSSR, etc. The UGC is the sole funding agency for university and higher education. The Central government allocates the fund for education through the Ministry of Higher Education. The department of Secondary and Higher education takes care of the financing of the higher education sector. The concerned department besides giving direct allocation to some institution of national importance devolves the lion's share to the UGC.

3.1.2. The University Grants Commission (UGC):

The UGC has no funds of its own. It receives both Non-plan and Plan grants from the Central government, through the Ministry of Human Resource Development, to carry out the responsibilities assigned to it by law. It is responsible only for general education. The UGC has been accorded the statutory status by the Parliament Act of 1956. It has been delegated with dual tasks of providing funds and that of coordination, determination and maintenance of standards in institutions of higher education. It serves as the vital link between the Union and State Governments and institutions of higher learning and maintains standard of education.

The UGC Act empowers the Commission to allocate and disburse full maintenance and development grants to all central universities and deemed universities. The UGC provides both the maintenance and development grants for the central universities. At present, there are 20 central universities (Das, 2007, p.49). These universities account for the greater share of the UGC funding. State universities, colleges and other institutions of higher education receive support from the plan grants for programmes under which financial assistance is available for such activities, which promote career advancement and research. Plan grants are utilised for the development and expansion of physical assets such as the construction of new building, purchase of equipments for laboratories, expansion of library facilities and for the creation of facilities to meet other academic and administrative needs. In addition, separate development grants are received from the government for engineering and technology, management and computer courses in the university sector.¹

The UGC provides the requisite funds for teaching and research in the form of grants (plan, non-plan, recurring and non-recurring) with the concurrence of the concerned state governments.² Only colleges recognised by the UGC, in terms of section 2(f) and 12(b) of the UGC Act are eligible to receive development grants from the UGC. The quantum of grants is worked out on the basis of various parameters such as the level of teaching, student and faculty strength, etc. The pattern of UGC assistance to colleges for

development of undergraduate education is on a sharing-basis and for the Plan period. This implies that counter-part funds must be provided by the state government. Besides, after the Plan period, the entire financial burden reverts to the state government.

Matching Grants Formula:

The UGC system of giving grants to the universities on the basis of matching contribution by the state governments has not been equitable. In the case of financially sound states, matching grants may not be a problem but in the case of backward states with smaller resources, the matching grants become a real problem. . The net effect of such a system has been that universities in the financially robust states get more grants for their development while universities in the cash-strapped states could not avail of this opportunity and remain underdeveloped.

System of Planning for Education Expenditure:

The UGC's fund is a part of the outlays proposed for national development by the Planning Commission. Higher education planning involves concerted action on the part of the Centre (UGC), the state government and state universities. However, this tripartite arrangement is afflicted with various problems, such as, procrastination, lack of coordination, poor faculty involvement, inadequate reporting and evaluation of programmes under execution procedures. The key player in higher educational planning is the UGC, which interacts with the Planning commission at the Centre and state universities at the state level. While the UGC determines higher educational policy and accordingly prepares approach papers, policy-frames, programmes and projects, the operative mechanisms necessitate large-scale involvement of the state government. The state government has to provide supporting monetary assistance to the universities that adopt and implement these educational innovation policies (Sharma, 1981).³

The Agenda for the 21st century prepared by UGC (2002) highlights,

“The scope and demand for higher education is constantly increasing. The new paradigm involves the creation of intellects of world standard and also training if skilled human power on a mass basis without compromising on quality....”

It also asserts that,

“...broadening access to higher education is an ongoing process and shall continue to remain so...we will have to make pro-active efforts to attract young members from the disadvantaged groups into the main streams of higher education....”⁴

Table-3.2 shows the resources devolved over the decades under the different plans of the UGC.

Table-3.2
Resources (Rs. in crores)

	6 th Plan	7 th Plan	8 th Plan	9 th Plan (up to 31.3.2001)provisional
Plan	233	575	1030.96	1677.74
Non-Plan	388	845	1906.45	3518.97
Total	621	1420	2937.41	5196.71

Source: www.ugc.ac.in.

Table-3.3
Head wise Grant Allocation during 10th Five Year Plans to Central and State Universities (Rs. in lakhs); Allocation Details

Universities	Building	Equipments	Books & Journals	Staff	Others	Total
Central	15440.79 (55.44)	7160.58 (34.53)	2630.40 (31.63)	6482.00 (54.83)	3859.37 (56.03)	35573.14 (47.08)
States	12362.16 (44.46)	13575.16 (65.47)	5686.90 (68.37)	5339.85 (45.17)	3028.89 (43.97)	39992.96 (52.92)
Total	27802.95	20735.74	8317.30	11821.85	6888.26	75566.10

Source: www.ugc.ac.in.

Note: figures in parenthesis show percentage share in total allocation.

Table-3.3 indicates the UGC's preference for allocation to the central universities over the states' universities. In the Tenth Plan also central universities have been granted larger share in all overheads except on the items of books & journals and equipments. Agarwal (2006)⁵ points out that nearly 65% of the UGC budget is meant for meeting the operating expenses of the Central University and Delhi Colleges. It is also because the number of central universities and colleges has increased over the years. Singh (2004)⁶ observes that the resource demand of the Central universities exhausts the UGC's Fund. As a result, there would be little amount left with the UGC to dispense to state universities. On the other hand, the number of state universities has also increased

manifold, while its share in the UGC funds has remained constant. These institutions receive only the plan budget support for capital expenditure and even that is hardly sufficient. This is also one of the reasons for deteriorating condition of state university finances. It is even more challenging for these universities, with more than 90 percent of enrolments, to maintain the standard of academics in the context of dearth of funds. Since the UGC fund is meant only for the development needs, much is expected from the state government to run these universities.

3.1.3. State Government's Grant-in-Aid system of Financing:

The states are liable to meet the whole non-plan expenditure of the universities established by them. The finances for the development of higher education are largely provided by them from their own resources and partly from devolution of resources by the Centre through different channels of the Central Government especially from the Planning Commission and the Finance Commission.

Grant-in-Aid System:

State aid to universities is given according to an elaborate grants-in-aid code. These are known as:

- the maintenance or block grants to run the institution;
- the development grants for further expanding or creating capital assets for the institutions; and
- matching development grants by the state governments to the allocation granted by the UGC.

In most states, block grants for maintenance purposes are given to universities for one to five years. These grants are generally provided from the state government for buildings including hostels, strengthening of libraries and laboratories and for faculty improvement programmes for the teachers.

In addition to block grants, states pay matching grants for development schemes and ad hoc grants for specific purposes. Almost every state has an elaborate grants-in aid

code and in accordance with these rules, maintenance grants are made available to colleges. Ansari (1991)⁷ notes that some universities are provided funds on an incremental basis mainly in the range of 3 to 5 percent over the previous level of expenditure, others receive funds on deficit basis, in the case of which the entire expenditure on approved items are fully covered by the States. In the deficit basis funding, the states' grant-in-aid to institutions is generally fixed as a certain proportion of the net deficit, i.e. 'approved' expenditure minus 'approved' income. However, the method of assessment of financial requirements differs a great deal across the universities and the States as well. As a result, the basis of the share differs from item to item and sometimes for the same item from state to state.

Characteristics of State Grants:

There are divergences in practices of financing of higher education by the different states. These differences can be attributed, among other things, to large variations in the financial status of the states, and the relative priority accorded to education, particularly to higher education. The important characteristics of state governments' assistance to colleges may be summed up as follows:

- (i) **Diversity:** This is typified by the inter-state, institutional and inter-disciplinary variations in the types and quantum of assistance.
- (ii) **Terminological Imprecision:** In quite a few states, the grant-in-aid rules do not either define certain basic terms like 'approved' income and expenditure or give a very circumscribed interpretation inasmuch as it could be used as a convenient tool to deny or curtail the much needed assistance to colleges and universities;
- (iii) **Undependability:** Even when the proportions of the government assistance have been laid down, the actual quantum of assistance is generally subject to two limitations:
 - (b) Financial exigencies of the state government, and
 - (b) monetary ceilings, particularly in respect of schemes of a capital nature.

These ceilings are, in some cases, so low that the specified pattern of assistance is reduced more or less to a theoretical exercise. There are some inconsistencies and

limitations in the grants-in-aid system, which hinders the regular flow of the funds to the colleges and universities.

Shortcomings of the Grants-in-aid System:

There are several shortcomings inherent in the grants-in-aid system as being discussed in these sections.

Incongruities and Inconsistencies:

In the case of some states like Bihar, no fixed ratios have been prescribed, and the grants vary from year to year to be given on the basis of expenditure on staff and contingencies and income from fees during the previous year.

The vagueness in defining patterns and procedures about the admissibility of grant-in-aid to colleges and universities is a limiting factor in the availability of state assistance to the private institutions. In the absence of detailed guidelines, the quantum of grant-in-aid is largely determined by the state bureaucracy, mainly on the basis of the financial position obtaining in different years.

Definition of 'Approved' Expenditure:

Azad (1981)⁸ found that some states have not included certain essential items like telephone charges, repairs of buildings, libraries-including fittings and furniture, travelling expenses, etc. in the lists of 'approved' expenditure. All these items are essential for maintaining the institutions at a reasonable level of efficiency. In the absence of clear-cut definition, the grant-giving authorities are prone to be guided by the financial exigencies of the financial situation than the needs of the institutions.

Lack of Dynamism:

The rules of grant-in-aid are devoid of dynamism so that they hardly encourage academic or structural innovations in the educational system. Setting the rigid financial limits in an era of rising costs is not conducive to the maintenance of good academic standards.

System of 'Deficit' Grants:

The grant-in-aid to colleges and universities is fixed as a certain proportion of the net deficit i.e. 'approved' expenditure minus 'approved' income. It is arbitrary and does not take all the items of expenditure as approved items. Further, the basis of deduction made on account of those items is not intimated to the institutions. Sometime the deficit is calculated on the basis of the previous year's expenditure, which is not an appropriate guide for the purpose.

Thus, the system of government assistance to institutions of higher education does not follow a well conceived policy of university expansion and development. It seems as the result of various socio-economic, political and administrative factors operating in different states (Azad, 1981).⁹

Azad (1981) laments that university budgets are still patterned on old accounting line. This old pattern of budgeting does not help in cost analysis and in linking the utilisation of funds with functions or performance. The half starved and inadequately equipped institutions of higher education reveal a story of inadequacy as well as irregular flow of funds through the present grants-in aid system. Added to this is the problem of sharing or matching grants for developmental activities. The issue of matching grants for development activities is also not systematic in want of a definite formula. The bulk of UGC assistance comes to colleges through the universities to which they are affiliated. The college has to prepare an integrated plan relating to its development programmes. This is compounded by the further delay at the governmental level for unless and until government approval for matching share is received, UGC sanction for grants cannot be sought. Besides, the UGC releases funds in instalments. The UGC puts the onus for delays on the universities for they are unable to submit their proposals in time and moreover, these are often not in order. The UGC also finds it very difficult to cope up with pressures on its liquid assets as demands for payment are rushed through rather late to meet the plan deadline. Colleges generally take advantage of UGC schemes where the assistance is on a cent per cent basis rather than those, which have the matching principle (Pinto, 1995).¹⁰

This elaboration on states financing system suggests that the financial situation of universities and higher education largely depend on the respective state's finances and its policy for higher education.

An analysis of state finances would provide the trends of state government expenditure on social sector and the financing of higher education. The change in the states finances after the onset of economic reforms would also give an insight in the constraints in financing of social services including higher education.

Economic reforms have been brought through the combination of fiscal and monetary policies as well as structural reforms and have had a greater influence on the functioning and provision of government services. Prabhu (2001)¹¹ has elaborated on how the economic reforms policies influence the life of citizens and the social services made available to them by the government. She contends economic and social policy together formulates fiscal policy, which decides the aggregate demand and influences the level and pattern of government expenditure on social services. Social policy is very significant for efficient delivery of government services, creating the requisite institutions to benefit the poor and vulnerable, and thus enabling the human resource development. Inequitable distribution of assets and income in the society needs the support of social policy, which in turn requires the support of fiscal policy. In this way, fiscal policy occupies the main stage in determining the level and pattern of public expenditure, which influence the public provision of social services. In this context, it is necessary to comprehend the influence of economic reforms on the fiscal policy and thereby the policy for social services expenditure.

3.2. Economic Reforms:

India embarked on economic reforms under the framework of structural adjustment and stabilisation policies of the IMF to tide over the macroeconomic crisis that erupted in 1990-91. These reforms are aimed at placing the economy on the trajectory of sustainable economic growth. The term economic reforms describe 'significant changes in a sizeable number of economic policies as part of a package of policy changes' (Bates and Krueger,

1993, p5).¹² 'It refers to fundamental changes with respect to the extent of state intervention, greater reliance on market forces, institutional and administrative changes, stabilization efforts and removal or relaxation of controls' (Bates and Krueger, 1993).¹³ The reforms covered both macroeconomic stabilisation and structural adjustment programmes. Macroeconomic stabilisation programmes are complemented by structural adjustment programmes which are related to the functioning of markets and superiority of market-based over non-market based forms of resource allocation. Thus, in the short run stabilisation programmes corrects macroeconomic imbalances while the structural adjustment programmes support and strengthen the supply side to maintain sustainable economic growth. Fiscal adjustment forms the core of stabilisation programmes. It covers both expenditure switching and expenditure reducing policies. The following section discusses the fiscal adjustment measures in detail.

3.2.1. Fiscal Reforms:

The initiation of economic reforms in India led to a comprehensive fiscal reform programme at the Central level. Fiscal reforms were aimed to cover tax reforms, curtailment of expenditure, restructuring of Public Sector Units, and better coordination between monetary and fiscal policies. However, the crux of all these measures was to reduce fiscal deficit as a percentage of GDP. The preoccupation with this target to bring about fiscal consolidation ended up with cut in investment or capital outlay as revenue expenditure were committed while revenue receipts stagnated. Revenue deficit kept on increasing due to augmentation in salary bills and unproductive government consumption expenditure. In fact, this initiative was counterproductive as it proved detrimental to capital creation.

As evident by the analysis of Panda (2004-05)¹⁴,

“The burden of expenditure reduction mostly fell on capital outlays during the 1990s and distorted the structure of government expenditure in favour of current expenditure and away from investment. In particular, the central government capital outlays fell from 2.1 percent of GDP to 1.2 percent during the first half of

the 1990s and have nearly remained constant since then. This had adverse implications on the expansion of the productive capacity of the economy, particularly because public investment on economic and social infrastructure crowds in private investment in India.”

Thus, inability to rein in increasing revenue expenditure due to salaries, pensions, and interest payments left no leverage for the government to allocate resources for developmental and capacity creating activities.

3.3. Implications for States Finances:

Although there has been marginal improvement in the fiscal position of the Centre thanks to efforts in reducing capital expenditure but for the states, the situation has remained grim. Since states are very important in the Indian federal framework, they play an increasingly important role in devising and implementing policies to reduce poverty, to promote human development and to stimulate growth. The states have been given the major responsibility in the management of public service delivery and public expenditure and share the joint responsibility of providing education with the Centre. Therefore, the desire of India's sustainable growth and the welfare of its people are critically dependent on the performance of state governments. But the state governments' fiscal position has deteriorated. It happened not only on the part of their poor governance but also because of the Centre's finances. The Centre has effected a reduction in its own fiscal deficit by cutting down on grants to states. In this way, it can be said that the centre has improved its fiscal position at the cost of the states (Bajaj and Joshi, 2000).¹⁵ However, it can be realised that fall in the devolution from the Centre to states was not deliberate, since there were many factors involved which resulted in it. These may be enumerated as 'stagnancy in tax-GDP ratio of the Centre due to the black economy', debt liabilities of state governments because of the Central government and 'the fiscal correction sought to be implemented as part of the new economic policies, etc. (Kumar, Chattopadhyay and Dharan, 2005)¹⁶

Notwithstanding, the fiscal position of the states depends critically on the transfers both statutory and non-statutory from the centre, as their own revenue generation efforts are not adequate enough for meeting its development liabilities.

Table-3.4 shows the declining trend in transfers to states in terms of these given indicators.

Table-3.4
Decline in Total Transfers to States

Year	Transfer to States as % of State Expenditure	Transfer to States as % of GDP
1990-91	44.9	7.2
1991-92	41.8	6.9
1992-93	43.1	6.9
1993-94	43.1	6.7
1994-95	39.7	6.3
1995-96	39.2	5.9
1996-97	40.4	6.0
1997-98	41.8	6.3
1998-99	38.9	6.0
1999-2000	30.7	5.0
2000-01	31.0	5.1
2001-02	31.8	5.3
2002-03(RE)	32.3	5.8
2003-04(BE)	32.8	5.8

Source: Handbook of Statistics on State Government Finances, July 2004, Reserve Bank of India, Cited in Jha (2005)¹⁷, Table-7.

As a result, it becomes very difficult to finance the social sector responsibilities for the state governments. With the declining transfers from the Centre, state governments started facing constraints to finance social sector expenditure.

3.4. Trends and Facts of States Finances:

The stabilisation and structural reforms were aimed at bringing about discipline and improvement in the management of the finances of the country. It targeted the fiscal deficit and public debt in relation to GDP. The finances of state governments, however, have shown signs of deterioration in the 90's as compared to the 80's with the year 1998-99 witnessing a very high gross fiscal deficit to GDP ratio.¹⁸ The table below exhibits that revenue deficit kept on increasing from 0.45% of GDP to a high of 2.82% of GDP in

1999-2000. Since 1999-2000, it indicates declining trend but only marginally and thus remained at the high level over this decade. Fiscal deficit has also followed the same pattern and it shoot up to 4.64% in 1999-2000 corresponding to the revenue deficit. This has come down marginally but maintained the high level.

Table-3.5

Aggregate State Finances: Alternative Deficit Indicators (Percentage of GDP)

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit	RD/FD	Debt/GDP
1993-94	0.45	2.35	0.52	19.05	21.79
1994-95	0.69	2.72	0.79	25.55	21.4
1995-96	0.73	2.59	0.76	28.06	21
1996-97	1.31	2.77	0.9	47.37	21
1997-98	1.23	2.94	0.93	42.01	21.73
1998-99	2.61	4.31	2.24	60.48	23.02
1999-2000	2.82	4.64	2.34	60.87	25.2
2000-01	2.61	4.16	1.69	62.6	27.42
2001-02	2.68	4.09	1.41	65.49	29.37
2002-03	2.29	3.94	1.14	58.09	31.15

Source (Basic data): State Finance Accounts cited in the Report of the Twelfth Finance Commission, p.38.

Table-3.6

Aggregate state Finances: Expenditure Indicators (percentage of GDP)

Year	Total Revenue Expenditure	Interest Payments	Pension	Plan Revenue Expenditure	Non-Plan Revenue Expenditure
1993-94	12.41	1.82	0.61	2.22	10.19
1994-95	11.96	1.92	0.63	2.06	9.91
1995-96	11.63	1.83	0.66	2.01	9.63
1996-97	12.02	1.87	0.72	2.1	9.93
1997-98	12.03	2.01	0.77	1.93	10.1
1998-99	12.41	2.07	0.93	1.99	10.43
1999-00	13.08	2.3	1.16	1.87	11.21
2000-01	13.65	2.48	1.24	1.91	11.74
2001-02	13.31	2.68	1.26	1.85	11.46
2002-03	13.06	2.8	1.24	1.81	11.24

Source: Basic Data, State Finances Account, Twelfth Finance Commission.

The share of non-development expenditure in total expenditure kept on rising while the share of development expenditure declined. There is a downward rigidity associated with non-development expenditure, as over 85 percent of it comprises committed expenditures in the form of pensions, interest payments and administrative services in 1998-99. To aggravate the already precarious situation there was the implementation of the Fifth Pay Commission recommendations. The Fifth Central Pay Commission awards, phased in by the states since 1997-98, resulted in real wage increases of about 30 percent. Pensions overhead were already increasing than the rate of GDP through the 1990s. It grew exorbitantly as the Commission ruling indexed pensions to real wages. Although the salary bill has now begun to fall relative to GDP due to a freeze on hiring, state governments continue to pay the price of the Fifth Pay Commission: the salary bill is about 1 percentage point of GDP higher than it would have been without the pay rise, and the salary intensity of expenditure is higher than it was in the mid-1990s, despite zero net hiring.¹⁹

Table-3.7
Key fiscal indicators (2001-02)

Percent of GDP	Government of India (Central Govt.)	States	General
Debt	64.9	25.8	80.3
Fiscal deficit	6.3	4.2	9.9
Revenue deficit	4.4	2.6	7.0
Primary deficit	1.6	1.5	3.8
Interest	4.7	2.7	6.2
Revenue	11.2	11.0	17.1
Expenditure	17.6	15.2	27.0
Salary	1.5	4.3	5.7
Pension	0.7	1.2	1.9
Debt/Revenue	581.4	198.0	469.9

Source: Budget Documents cited in World Bank Report, 2005.

Notes: Government of India's revenue is defined on gross basis (i.e. pre-devolution), and expenditure adjusted to include devolutions. External debt is at current exchange rates. Fiscal deficit at the centre excludes divestment revenues. Central salaries include posts and railways.

The World Bank Report (2005)²⁰ remarks,

“while the coincidence of large pay awards and revenue shortfalls were the immediate cause for the sharp fiscal deterioration, the secular worsening in the revenue (current) balance of the state governments can be traced as far back as the past two decades, and is related to the growth of populist policies, symbolized by rapid growth in public employment, and the introduction in many states of free power to farmers in the 1980s. The growing revenue deficit was prevented from being translated into a higher fiscal deficit until the second half of the 1990s only because capital expenditures were compressed. On the expenditure side, the interest burden grew during the 1990s initially due to a hardening of interest rates as the old regime of financial repression and subsidized rates for government borrowing was brought to an end in the 1990s, and subsequently due to a rising debt stock.”

Thus, capital expenditure in states has suffered because of fiscal stress. The sharp deterioration in the fiscal position of the states created stringent liquidity problems and states found it difficult to pay their employees salaries. The fund starved condition of the most of the state governments limit their ability to play positive role in growth and development. States' weak financial position forces them to curtail their capital outlays even on the basic services. States had to face severe pressure on the allocation of funds for the maintenance of capital assets. Thus, the inadequate provision of funds has consistently led to the deferring of essential maintenance expenditure so that replacement of existing fixed assets was kept on back burner. This grim situation further complicates the macroeconomic balance in the economy. The impact of this financial crisis for the states is compared as the balance of payments crisis of 1991 that culminated in a decade of central government reforms push. Therefore, there is also a felt need of reforms at the state level.²¹

3.5. Reforms Recommended for States:

The Tenth Finance Commission (1995-2000) did not notice the severity of the Fifth Pay commission reward for the states. Furthermore, it also discarded the 'normative performance criteria'ⁱ in the assessment of fiscal performance of states, which was introduced by the Ninth Finance Commission. As Bagchi (1996) has pointed out that the "problem lies in the absence of a binding accountability and effective incentives (and disincentives) for public revenue expenditure management (or mismanagement) and that has a lot to do with a system of federal finance as it has been operating in the country." The Eleventh Finance Commission (2000-05) again adopted the normative approach for assessing the fiscal performance of states. The Eleventh Finance Commission recommended that 29.5 percent of the net proceeds of all Union taxes and duties allocated to the states.²² The Commission had been mandated to review the state of the finances and to suggest ways and means by which the government may bring about a restructuring of the public finances to restore budgetary balance and maintain macroeconomic stability. This is to plug the persistence of unsustainably large deficits in the government expenditure with a disproportionately large share of the receipts exhausted by interest payments and unproductive expenditure thus neglecting the social sectors and much needed investments. The Eleventh Finance Commission points out the long run structural weaknesses of the States, as expenditure growth tends to outpace the growth of revenues. The chasm between the two widened in the mid-90 as revenue growth stagnated and expenditure expanded rapidly. It was reduced partly by cutting back on development expenditure and investments but met ultimately, through large-scale borrowing, adding to the debt-servicing burden and casting shadows on the budgets of the future. The Eleventh Finance Commission (EFC) further noted that cost recovery is poor in the states more than the centre. It worsens the situation more when the subsidies are given for services in the non-merit category.

ⁱ The normative approach assessed the requirement of each state after taking into account what revenue they can raise on their own by exercising the tax authority available with them, and the share of central taxes that would devolve to them as per the formula prescribed by the Commission, as well as the likely expenditures of each state.

The EFC also points out that

“The tuition and other fees of State-run and State aided colleges, universities remain unrevised for decades, and medical services go practically free even for those who can pay.”

It recommends restructuring and defines the goals in terms of budget outcomes and the key budget variables viz., the level of revenue, expenditure and deficit. The scheme, which this Commission propounded, seeks to restore budget balance in the medium terms by reducing the fiscal deficit substantially and eliminating the revenue deficit at the state level. At the same time, the commission tries to ensure that the composition of government expenditure would undergo a change in favour of the social sector and capital expenditure.

3.6. Impacts of all these Initiatives on States Finances:

Since states have to take up larger developmental responsibilities, they face wide chasm between their revenue raising powers and spending responsibilities. This macro-economic instability is even more due to differences in the revenue elasticity and commitments on the expenditures as compared to the Centre. This has had an adverse impact on the health of state finances. However, states are not separate entities and their state of affairs greatly influences the overall macro-economic indicators of the economy. The first phase of economic reforms were meant for the Central Government but to ensure overall positive effects reforms at the state level were needed.

For undertaking the next phase of economic and fiscal reforms, states have signed Memorandum of Understanding with the Central Government. According to this framework the Ministry of Finance, Government of India agreed to extend financial assistance to these states to alleviate their temporary financial difficulties. All these reforms efforts are taking its toll on the developmental capital expenditures through compression and cutbacks while committed expenditures for administrative services, pensions and miscellaneous general services are still budgeted for larger share. Moreover,

to contain the aggregated expenditures, the composition of expenditures tends to have qualitative deterioration.

3.7. State Fiscal Reforms Measures:

By 2001-02, the state budgets started giving emphasis on fiscal consolidation, improvement in physical and social infrastructure and growth enhancing sectoral policies. All these measures are classified as fiscal consolidation, institutional and sectoral reforms. Fiscal consolidation measures target on expenditure moderation and revenue augmentation. This is to bring through compressing non-plan revenue expenditure. States are also contemplating economy measures such as freeze on non-essential recruitment, review of manpower requirements and cut in establishment expenses. Some states are aiming at undertaking a comprehensive rationalization of posts. Besides this, states were allowed to raise resources from the market to meet their structural adjustment requirement arising from Voluntary Retirement Scheme, downsizing of Public Sector Enterprises and Centre-state debt swap for bringing down interest liabilities [GOI, 2002].²³ All these measures are aimed to ameliorate the financial crisis of the states and also to enable them to carry their responsibilities towards the social sector.

Notwithstanding the good intentions of these reform policies, the problem is that every state's needs are different. The same set of policies imposed upon States through its fiscal transfers limits the flexibility of the State government's functioning.

3.8. Analysis of Social Sector Expenditure of States:

Social sector development constitutes a major component towards the path of sustainable development and growth. It also takes care of welfare concern of public. This is the overhead of the government budget which influence the public life directly. Any change in expenditure incurred on this sector shows its effect on living condition of people.

Panchmukhi (2000)²⁴ writes on its importance as,

“The human capital revolution of the post-1960s and focus on human development rather than on income growth have brought into a sharp focus the indispensable role played by the components of social sector in economic development.”

Economic Survey (Government of India, 2005-06) also mentions,

“Development and utilization of economic resources and the improvement in the overall quality of life of the people are central to any development planning.”

With the backdrop of fiscal crunch, states are indeed facing the daunting challenges to meet the development goals. The fiscal restructuring programmes of states also intend to enable the state governments to revive fiscal strength that in turn equips them to allocate the resources required for enhancing human development indicators. In fact, the human resource development requires liberal spending which pays in long run. Since long term, growth depends on human resource development and owing to its nature of investment lumpiness and long gestation period; it cannot be left in the hands of the private sector operator. Majority of the overheads of the social sector lies in the state governments' domain and share more than 80 percent of the social sector spending. In this context, Tsujita (2005)²⁵ finding is relevant for Bihar, which states that the real per capita social service expenditure in low-income states started to decline in the 1980s due to their worsening fiscal situation. The trends in expenditures after 1991 were a continuation of those from the pre-economic reform period. Rajmal (2006)²⁶ has enumerated the findings by the analysis of state finances in historical perspective since the mid 1980s as: (i) steady deterioration revenue receipts-GSDP ratio, (ii) stagnating social sector expenditure, (iii) inadequate investment for basic infrastructure sectors, (iv) pre-emption of high cost borrowed funds for financing current expenditure, (v) large and persistent resource gap, and (vi) accumulation of high debt stock and debt service payments.

The declining trend in social sector expenditure can be gauged from the observations of Dev and Mooij (2004-05),²⁷

“In 1990-91, share of the states for the total social sector was around 85 percent. However, the share of the states declined for most of the major heads in the course of the 1990s. In 2000-01, their share of the total social sector had been 80.7 percent; almost 5 percent less than what it had been decade earlier. This reflects the severe fiscal crisis many states are experiencing at present, but it also suggests that the commitment of the states to social development has declined during the reform period.”

Hence, this is evident that despite the importance of social sector expenditure to development, states are not in a position to finance it liberally after the onset of economic reforms.

3.8.1. Trends in Expenditure on Education by All States:

Under these circumstances, an insight into the states capability to finance can be inferred by the trends in the relative expenditure on education by different states. It suggests that the high income states could dispense more on education, in comparison to low-income states. Table-3.8 shows the relative expenditure on education by different states.

Table-3.8
Relative Expenditure on Education by Major States (2000/01)

State	Share of Population	Education Expenditure as % of SGDP	Government Per Capita Expenditure (Rs.)
Bihar	10.7	6.2	44
Andhra Pradesh	7.4	3.5	567
Assam	2.6	9.6	778
Delhi	1.3	2.0	809
Gujarat	4.9	3.7	812
Haryana	2.1	3.2	737
Karnataka	5.1	4.0	674
Kerala	3.1	4.3	902
Madhya Pradesh	7.9	7.0	838
Maharashtra	9.4	3.5	1070
Orissa	3.6	5.4	515
Punjab	2.4	3.7	845
Rajasthan	5.5	5.0	591
Tamil Nadu	6.1	4.1	784
Uttar Pradesh	17.0	3.9	387
West Bengal	7.8	3.9	1749
All India			705

Source: Taken from, Agarwal (2006)²⁸, Annexure A, Table A9.

From this Table it is apparent that Bihar is the lone state, which spends even less than Rs.50 per capita on education.

The expenditure on university and higher education incurred by all states, on the average, is shown in Table-3.9.

Table-3.9
Total (Plan and Non-Plan) Budgeted Expenditure on University and Higher Education (Rs. in crores)

Year	Expenditure by all States	Percentage Share of Total Expenditure on Higher Education	Expenditure By Bihar	Percentage Share of Bihar
1994-95(Actual)	2793.92	12.60	158.49	9.74
1995-96(RE)	3232.45	11.49	171.27	9.93
1996-97(BE)	3427.03	8.34	189.37	8.34
1997-98(Actual)	3822.04	10.79	268.48	10.79
1998-99 (RE)	4621.23	10.12	299.56	8.83
1999-2000(Actual)	5919.59	11.26	352.65	8.91
2000-01(RE)	7636.09	13.3	4628.43	11.73
2001-02(Actual)	6329.75	11.43	230.75	0.94
2002-03(RE)	6974.09	12.04	377.27	16.87
2003-04(RE)	7506.50	11.64	476.42	13.51
2004-05(BE)	7629.47	11.32	520.66	13.43

Source: Analysis of Budgeted Expenditure on Education, Ministry of HRD, Department of Secondary and Higher Education, Planning and Monitoring Unit, Government of India New Delhi.

The annual growth rate of expenditure on higher education by all states on the average is calculated as 11.56 percent from this data. While Bihar's expenditure on higher education is growing at the rate of 14.13 percent per annum, but given the gross enrolment ratio of 7.3%, it does not make much of a difference. Why the government of Bihar is spending less on education in comparison to other states can be comprehended through the analysis of its finances over the years.

3.9. Characteristics of Bihar Economy

Bihar is one of the large states of our country. It is identified as the third populous state in the country. However, it had a rich past but now Bihar holds the dubious distinction of being a poor and a most backward state. It has been a laggard in development process due to various reasons such as its geographical condition, socio-economic conditions, rickety

infrastructure, acute poverty, lack of education, absence of political will and initiative, institutional limitations, etc. Even wave of economic reforms since 1991 could not reach this state to bring about any remarkable change. When the major part of nation has been experiencing the fruits of dynamic changes brought about by reforms and globalisation, the financially developed and reforming states are busy in making hay of their investments; Bihar has to tell only its story of woes.

In a sense, Bihar sets a good example of Professor Gunnar Myrdal (1957)²⁹ theory of 'Circular Causation', which explains, that economic development results in a circular causation process whereby the rich are awarded more favours and the efforts of those who lag behind are thwarted. The 'backwash effects' predominate and the 'spread effects' are dampened.

Myrdal defines *backwash effects* as,

"... all relevant adverse changes... of economic expansion in a locality.....caused outside that locality. I include under this label the effects via migration, capital movements and trade as well as the total cumulated effects resulting from the process of circular causation between all the factors, 'non-economic' as well as 'economic'."

The *spread effects* refer to "*certain centrifugal 'spread effects' of expansionary momentum from the centres of economic expansion to other regions.*"

Myrdal (1957) regards the strong backwash effects and the weak spread effects responsible for the regional inequalities in underdeveloped countries.³⁰ These reasons are seemingly true for Bihar stuck with lack of sound economic fundamentals and inadequate preparedness to take up the challenges of economic development through the economic reforms and globalisation process. The backwardness of the Bihar economy underlies in low per capita income, widespread illiteracy and ignorance, mainly agrarian economy with low and stagnant productivity, over populated farming sector, negligent industrialization, languishing infrastructure facilities, absence of good governance, regular flood havoc, etc. In addition to this Bihar's social fabric is marred by the excessive casteism and naxalism. All these problems are further accentuated with the separation of mineral rich area as Jharkhand state in November 2000. After the separation, Bihar is left only with agricultural sector as its mainstay, which contributes 39

percent of Gross State Domestic Product (GSDP) and engages three-fourth of its workforce. Endowed with rich fertile soil and water resources Bihar could prosper on the back of the agricultural sector, but even this richness is eclipsed by the regular menace of flood and vagaries of monsoon. Geographically, 73.06 % of its total area falls under the flood prone area, which constitutes 17.2 % of the total flood prone area in the country. Confronted with these serious constraints, no doubt the state could not make any progress on development front. With no development and growth to support its economy, Bihar remained a backward state. As Economic Survey of Bihar for the year of 2006-07 remarks that during the last decade the overall Indian economy has experienced very high growth rates making the relative economic position of Bihar even more disadvantaged. The average annual growth rate of GSDP for the last decade (1993-94 to 2004-05) is 5.08% that is substantially lower than the growth rate of national GDP, approximately 6-7 % as exhibited by Table-3.10.

Table-3.10
Gross State Domestic Product of Bihar

Year	SDP (Rs. Lakh)	% Variation over the Previous Year	Annual Average Growth Rate at Constant (193-94) prices
1993-94	2281198	-	-
1994-95	2530210	10.92	10.92
1995-96	2178068	(-)13.92	(-)2.29
1996-97	2695960	23.78	5.73
1997-98	2592076	(-)3.85	3.25
1999-2000	2891397	3.68	4.03
2000-01	3423373	18.40	5.97
2001-02	3127800	(-)8.63	4.02
2002-03(P)	3687880	17.91	5.48
2003-04(Q)	3440738	(-)6.70	4.20
2004-05(A)	3933210	14.31	5.08

Source: Economic Survey, 2006-07, Ch-1, Table1.1, p2, Government of Bihar.

Since the population growth rate of Bihar is highest in the country, which averaged 2.5% and much above of the national average of 1.9%, between 1991 and 2001 Censuses, the divergence between the growth rate of per capita income of Bihar and India has grown even wider.³¹ Economic Survey (2006-07, Government of Bihar) further points

out that in the post-reform period, Bihar's economy lagged far behind the national average in terms of growth indices. This fact can be ascertained by Bihar's lowest per capita Net State Domestic Product, ranking 18th (Rs. 5780) among other states of the country. (Please see Appendix: III).

As if to match its lowest ranking with respect to per capita income, Bihar also occupies the bottom with respect to Human Development Index among all the States. These factors have adversely influenced the development process in Bihar and whatever capital formation is taking place they tend to flee away to other financially sound states for lucrative investment options. Even the natives and students tend to migrate to other developed states for better job opportunities and learning institutions respectively. Both the Census and NSS report that Bihar has the highest rate of gross interstate out-migration in India.³² Student's migration in large numbers at different levels of education after the schooling presents a case of brain drain, who would have contributed towards State's development otherwise.

Ahluwalia (2001)³³ remarks that the states, which were richly benefited in the post-reform period such as Gujarat and Maharashtra, are because of '*their ability to provide an environment most conducive to benefiting from the new policies*'. State government's conscious economic policies to enhance efficiency and productivity make the difference. Ahluwalia further comments,

"Reforms affect states differently because of differences in state specific characteristics and this could lead to a deceleration in some states. The resulting allocation of investment in the better performing states, and a consequent increase in their growth rate, with a corresponding reduction in investment in less well endowed or well governed states and a deceleration in their growth."

These adverse situations were very much true for the economic condition of Bihar. It is not that it happened just after the onset of economic reforms but the precarious situation was setting in even before the adoption of economic reforms. As argued by Tsujita,³⁴ low income states were reeling under financial stress even in 1980's and the

situation turned to worse after the burden of the Fifth Pay Commission recommended pay hike. Thus, Bihar lagged in economic development because of various reasons, which can be stated as, backdrop before the adoption of economic reforms, obsolete and limited infrastructure facilities, unfavourable state policy environment, inefficiency, prevalence of short-term populist measures, etc.

3.10. The Situation of Bihar Government Finances:

In the post-reform era, other major states with supporting economic environment experienced industrialization through private investments and foreign direct investments flows. But for want of quality physical infrastructure facilities and institutions, Bihar failed to attract private investments and foreign direct investments. Even public investments were not forthcoming with drying up state's exchequer.

Economic Survey (2006-07, Government of Bihar), rightly describes the situation as, *“Industrialisation seemed to have bypassed the state with no significant private investment after the dearth of public investment since the 1980s. The State government was caught in a crisis of confidence as the fiscal situation deteriorated with sources of revenue drying up as the tax base narrowed and dependence on grants from Central government became a big deterrent in the pursuit of growth enhancing policies.”*³⁵

The situation was so bad that the new incumbent government issued White Paper on the financial situation of the state. This White Paper³⁶ presents the financial situation of the State government as characterized by high debt, low capital expenditure with increasing pension and interest payment burden. It further reveals that the state government hardly spent anything on development from its own income. Whatever was spent on development was either from the grants-in-aid from the central government or from loan from the market. The state government was unable to meet even its non-development but committed needs from its income let alone the development expenditure.³⁷ The Comptroller and Auditor General (CAG) in his report for the year 2005-06 observed that the State has ‘alarmingly high liabilities’ and is caught in a debt

trap and has reached a point of 'debt un-sustainability', which means that the government's revenue is far less than the cost of public borrowings³⁸. The financial composition of the Bihar finance can be examined by the trends of these indicators.

Table-3.11
Trends in State's Income (Rs. in Crore)

Year	Income	Own Income	Central Tax-share	Own Income as Percentage of total Income
1990-91	3245	1585	1632	48.8
1991-92	3578	1692	1865	47.3
1992-93	4651	2253	2374	48.4
1993-94	4800	2274	2515	47.4
1994-95	5326	2526	2788	47.4
1995-96	6379	2886	3485	45.2
1996-97	7373	3285	4078	44.6
1997-98	7713	3624	4074	47.0
1998-99	8279	3828	4441	46.2
1999-2000	9225	4251	4963	46.1
2000-01	10108	3521	6576	34.8
2001-02	8795	2606	6177	29.6
2002-03	9587	3022	6549	31.5
2003-04	10620	2985	7628	28.1
2004-05	12897	3765	9117	29.2
2005-06	14837	4290	10480	28.9

Source: White Paper on State Finances and Development, 2006, Table-5, Government of Bihar.

Table-3.12 shows that Bihar's own income from its resources is continuously declining. This is also because the State's taxable resources are less elastic and there is a lack of political will and initiative to enhance the mobilisation. Since Bihar's about 40 percent population is reeling under poverty and the state economy is struggling with minimal development in the secondary and tertiary sector, the government has not much scope to raise taxable resources. With poor public services and rampant corruption as well as lack of political enterprise on this front, the state has no other option but to rely on the transferred resources from the Centre. As Principal Accountant General (Audit), Bihar³⁹ has remarked, "The area of concern in State finances is that the State's own

resources as a percentage of revenue receipts have declined from 27% in 2001-02 to 23 % in 2005-06.”

The major indicators of financial performance of the State are presented in the table below. It presents the fact that the government is unable to meet its day- to-day running expenditure from its revenue receipts and continuously incurring revenue deficit. To bridge this revenue deficit the government has to resort on borrowing which further adds up to the fiscal deficit and leaves little leeway to finance its developmental expenditure.

Table-3.12
Trends in the Revenue and Fiscal Deficit

Year	Revenue Deficit (Rs.Crore)	Fiscal Deficit (Rs.Crore)	RD/GSDP (%age)	FD/GSDP (%age)
1994-95	1257	1650	2.86	3.76
1995-96	826	1311	1.87	2.96
1996-97	619	1347	1.15	2.51
1997-98	1052	2240	1.71	3.65
1998-99	2267	3660	3.45	5.57
1999-2000	3702	5995	5.32	8.61
2000-01	2330	4075	4.72	8.25
2001-02	1320	2593	2.80	5.48
2002-03	1287	2988	2.38	5.52
2003-04	895	5170	1.59	9.18
2004-05	-1076	1242	-1.71	1.98
2005-06	306	5080	0.43	7.15

Source: White Paper on State Finances and Development, 2006, Government of Bihar.

White Paper of Government of Bihar, further explains that there have been peaks in 1999-2000 and 2003-04 to meet the payment requirement of the Fifth Pay Revision and securitisation of electricity dues of the central energy Public Sector Units. This has resulted in heavy interest burden. More to this, the rising salary burden and pension bills led to the precarious situation. The situation became unsustainable. It reveals that in 2004-05, the situation got ameliorated because of less borrowing because of elections. The year 2004-05 showed surplus in revenue and primary accounts while fiscal deficit indicated a steep decline over the previous year. However, the 2004-05 turnarounds were ‘primarily due to enhanced Central transfers and decline in capital expenditure coupled with accumulation of huge capital balance at the year end’. This situation highlights the

shaky situation of Bihar finance devoid of assets creating expenditure. The World Bank Report⁴⁰ affirms that Bihar inherited major fiscal problems that persist till now. These include large fiscal deficits, a heavy and growing debt burden, imbalances in expenditure allocation, and institutional shortcomings in expenditure management and budget implementation. The Report further points out that Bihar has a long history of fiscal and revenue deficits, which have doubled since 1999, except the year 2001-02 when there was a sharp decline. It reveals three observed trends (i) since the 1980s the revenue balance has been consistently negative, (ii) both the fiscal and revenue deficits have grown over time to roughly twice their level in the 1990s which made the state more dependent on borrowed funds, and, (iii) there has been a discreet jump in the fiscal deficit since bifurcation of the state. After the separation of Jharkhand in November 2000, Bihar's expenditure has surged from about 20% to 28% of GSDP while revenues augmented only by 16% to 20% of GSDP. The Comptroller and Auditor General (CAG) report for 2005-06 commented that the fiscal liabilities of Rs. 46,495 crore amounting to 76.72 percent of the Gross State Domestic Product were alarmingly high.⁴¹ At this level of deficit and consequent dependence on borrowings, Bihar's finances are precariously unsustainable. The following table shows the gross fiscal deficit of Bihar and its composition.

Table-3.13
Decomposition of Gross Fiscal Deficit of Bihar (Rs. Crore)

Year	Revenue Deficit	Capital Outlay*	Capital Outlay/GFD in %	Capital Outlay/GSDP in %	Net Lending	Gross Fiscal Deficit	Gross state Domestic Product	GFD /GSDP in %
2001-02	1320.04	7189.26	79.61	7.40	520.77	9030.07	97090	19.18
2002-03	1286.61	2503.20	55.36	4.71	731.60	4521.41	53161	8.51
2003-04	255.23	7202.15	71.91	13.77	2558.5	10015.9	52299	19.15
2004-05	-	4291.73	99.14	7.51	1113	4328.96	57145	7.58
2005-06	-81.60	3064.66	65.48	5.06	1697	4680.02	60607	7.72

Source: Economic Survey; 2006-07, Government of Bihar.

* [The capital outlay consists of capital expenditure and public debt. In 2005-06, Rs.3064.66 crore consisted of capital expenditure of Rs.2083.90 crore and public debt of Rs.980.76 crore].

Column 4 shows that though capital outlay contributes to the majority share of the gross fiscal deficit but forms miniscule amount as percentage of Gross State Domestic Product (GSDP) as exhibited by column 5 in the above table. The state government budget always runs in deficit, as there has been a large gap between the income and expenditure that too for non-development expenditure as presented by Table-3.14.

Table-3.14
Financing Non-Development Expenditure in Rs.crores.
Income-Expenditure Gap

Year	Income	Committed Expenditure (Non-Development)	Gap*	Gap as percentage of Income
1990-91	3245.03	4847.00	1601.97	49.37
1991-92	3578.35	6159.59	2581.24	72.13
1992-93	4650.53	7378.36	2727.83	58.66
1993-94	4799.69	7261.93	2462.24	51.30
1994-95	5325.77	7433.83	2108.06	39.58
1995-96	6379.41	8020.15	1640.74	25.72
1996-97	7372.96	8626.61	1253.65	17.00
1997-98	7712.54	9999.04	2286.5	29.65
1998-99	8279.09	10921.71	2642.62	31.92
1999-2000	9225.33	17768.17	8542.84	92.60
2000-01	10108.00	14155.00	4047.00	40.04
2001-02	8795.23	17272.20	8476.97	96.38
2002-03	9586.68	13124.14	3537.46	36.90
2003-04	10620.41	18982.58	8362.17	78.74
2004-05	12897.15	16582.08	3684.93	28.57
2005-06	14837.23	19181.39	4344.16	29.28

Source: White Paper on State Finances and Development, 2006, reproduced from Table-3, p8, Government of Bihar.

* {Gap=Committed Expenditure-Income}

Thus, it is evident from Table-6 that the gap has been widening over the years. There was a greater chasm between the two particularly in the year 1999-2000, because of the load of Fifth Pay Commission and then overall recession in the year 2001-02. The government spends 32% of its total revenue receipts on salaries of government employees and another 14% on the pensions of retired employees. The salary expenses of government employees (working and retired) alone account for 46% of its total resources that constitutes almost 14% of its GSDP.⁴² This backdrop and dwindling financial

position has its overcast on the quality of Bihar government expenditure as presented in Table-3.15.

Table-3.15
Trends in the Quality of Expenditure (Rs. in crore)

Year	Total Expenditure	Non-Development Expenditure		Development Expenditure		Capital Expenditure	
		Amount	% of Total expenditure	Amount	% of Total Expenditure	Amount	% of Total Expenditure
1994-95	8645	7434	86	1211	14	270	3.1
1995-96	9231	8020	87	1211	13	317	3.4
1996-97	10197	8627	85	1570	15	334	3.3
1997-98	12259	9999	82	2260	18	533	4.3
1998-99	13477	10922	81	2555	19	685	5.1
1999-00	20542	17768	86	2774	14	1176	5.7
2000-01	16070	14155	88	1915	12	1076	6.7
2001-02	18882	17272	91	1610	9	742	3.9
2002-03	15506	13124	85	2381	15	970	6.3
2003-04	21348	18983	89	2365	11	1175	5.5
2004-05	20058	16582	83	3476	17	1205	6
2005-06	25648	19181	75	6466	25	3193	12.5

Source: White Paper, 2006, Para 5.4, Government of Bihar.

On an average, around 85 percent of the government's income has been spent on financing the committed non-development expenditure. Therefore, very little could be spared for the development expenditure, let alone spending on asset creation that is capital expenditure. White Paper reveals that development expenditure has been extremely low. It came down from Rs. 1,472 crore in 1990-91 to Rs. 1211 crore in 1995-96 and then grew to about Rs.2774 crore in 1999-2000 which further came down to

Rs.1600 crore in the post-bifurcation stage in 2001-02. Later it improved and reached a highest level of Rs.3476 crore in 2004-05. Still it is meagre at just Rs.424 per capita. The situation of capital expenditure that creates assets is even more damaging. The expenditure on assets creation has been lying in the range of 3 to 6 percent of total expenditure over the period of 1994 to 2005 except in 2005-06.

3.10.1. Dependence on Transferred Resources:

As a result, the State had to depend on the transfer of central resources. States avail transfer of resources from the Centre in three ways: (i) via the devolution of shared taxes as determined under the Finance Commission; (ii) through plan resources determined in consultation with the Planning Commission; and (iii) via Centrally Sponsored Schemes under the Government of India ministries. Shared taxes constitute the largest source of transfers and are provided to state budgets without any conditions. The other two sources contain different conditions across programmes and schemes. The Finance Commission also gives discretionary grants to select states to help finance non-plan revenue deficits. The large transfer of funds by the Finance Commission from the Centre's devolution pool has rescued the State's weak revenue performance. The State has been a major beneficiary of the Eleventh Finance Commission's recommendations. The Commission raised Bihar's revenue sharing coefficient to 0.146, and as a result devolved revenues rose from about 7% to over 12% of GSDP. This has permitted Bihar to maintain and expand spending, but has also made the State very dependent on the Centre for finances. Bihar now relies on the Centre for about 75% of its total revenues, compared to 60% in the 1990s. Economic Survey (2006-07)⁴³ divulges the fact that the State's own revenue, tax and non-tax combined barely meet 20% of its total expenditure and the rest has to come from the Central Government. The share of State's own tax revenue in total tax revenue has remained between 22% and 28% in the period 2001-07. The own non-tax revenue of the State has also remained nearly constant in the period until 2005-06. The Comptroller and Auditor General's Report for 2005-06 has also pointed out that 77 % of the State's revenue receipts come from the Centre and that the share of State's self-generated revenue in its total receipts dropped from 27% in (2001-02) to 23% in (2005-

06).⁴⁴ Of the total centrally transferred resources to Bihar, more than 80% of the gross amount of transfer came from its share in Central taxes and the rest from grants and loans. There is no real difference between the gross and net figures of resource transfer because of the high repayment of central loans as palpable from Table-3.16.

**Table-3.16 (Please refer Appendix-IV)
Transfer of Resources from the Centre to Bihar (in percent of Gross State Domestic Product)**

Year	GSDP*	Share in Central Taxes	Grants-in-aid	Gross Transfer of Resources	Gross Loans from Centre	Net Loan from Centre	Net Transfer of Resources
2001-02	47116.00	13.04	2.24	15.29	2.29	1.16	16.45
2002-03	54083.00	12.07	2.58	14.65	2.32	-0.23	14.42
2003-04	56412.00	13.47	2.87	16.34	1.45	-2.77	13.57
2004-05	62792.00	14.53	4.51	19.04	2.63	-1.70	17.34
2005-06	71028.00	14.67	4.69	19.36	0.0025	-0.68	18.68

Source: Economic Survey, 2006-07, Government of Bihar, Table-7.12

* GSDP data from the White Paper, Government of Bihar, 2006.

The Twelfth Finance Commission has continued to support Bihar through changing the weights formula preferring population and efficiency factors and by doing away with the infrastructure index, which translates as additional resources for Bihar. It has also favoured the state by providing special purpose conditional grants of Rs.7,976 crore for its health and education sector and maintenance of roads and public buildings among others over the period 2005-10 given the government maintains its current level of expenditure on these sectors.

3.10.2. Utilization Level of Transferred Resources:

The World Development Report⁴⁵ finds that Bihar's overall utilization of central resources targeted for 'development purposes' is among the lowest in India. It states that it is revealed and measured through plan outlays, which constitute Centrally Sponsored

Schemes (CSS), Central Assistance, borrowed resources and state's own resources (excluding external assistance projects). Bihar ranked among the lowest and spent approximately one-fourth the per capita level of the top states such as, Karnataka, Gujarat and Punjab. The Report points out that the gap has been widening, particularly since the Eighth Five Year Plan. Bihar's actual plan has grown much more slowly, and is now about half that of Andhra Pradesh, and two-thirds the level of Karnataka. The White Paper (2006) also supports this fact as it states that Bihar's overall utilization of central resources targeted towards development purposes is among the lowest in India. The state government was unable to spend the money as per the approved plan outlay and used to revise the plan size at that level which could be possible, which would be much lower than what was approved by the Centre. It has become a practice since the state government could not submit the project proposal to the Central Government in time and get the projects approved under the various schemes.⁴⁶ The Year wise downward revisions of the state plan are shown as in Table-3.17.

Table-3.17
Scaling Down the State Plans (Rs. Crore)

Year	Approved Plan	Revised Plan	%of Approved Plan
8th Plan-(1992-97) Rs.13000 crore at constant prices			
1992-93	2202.73	1100.00	49.93
1993-94	2300.00	750.00	32.60
1994-95	2400.00	900.00	37.50
1995-96	2522.70	972.00	38.53
1996-97	2143.91	1649.00	76.91
Total	11569.34	5371.00	46.42
9th Plan-(1997-2002) Rs.16680 crore at constant prices			
1997-98	2268.42	1796.19	79.18
1998-99	3768.74	1850.00	49.08
1999-2000	3630.00	2471.99	68.09
2000-01	3155.00	1736.72	55.04
2001-02	2644.00	1655.44	62.61
Total	15466.16	9510.3	61.49
10th Plan-(2002-07) Rs. 21000 crore at constant prices			
2002-03	2964.40	2314.00	78.05
2003-04	3320.00	2642.00	79.57
2004-05	4000.00	3059.22	76.48

Source: White Paper on State Finances and Development, 2006, Government of Bihar.

White Paper estimates that the State was deprived of about Rs.8000 crore since the early 1990's. Because of these losses of transferred resources, crucial sectors of development have suffered including education. This constraint hindered the flow of resources for development in Bihar. The unused resources from the Central government allocation generally lapse and in some cases are transferred to states with greater implementation capacity. This leads to less release from the Central government. White Paper rued that the state government is unable to utilize even this lower releases. The whole sequence goes on as a vicious cycle. The Paper remarks that even when there is no requirement for state contribution such as food grains for mid-day meals; Bihar has had difficulties in drawing on the available funds because of implementation bottlenecks.

In this predicament, it is no wonder that the state government somehow just manages to run the existing setup and tends to overlook the crying needs of the social sector.

3.11. Trends in Social Service Expenditure of the Government of Bihar:

The budget of the government of Bihar specifies social services expenditure that includes education, family welfare, water supply, housing, urban development, information and communication, labour and employment, social security and welfare, and other social services. Thus with these components all contributing towards human capital formation and human development; social sector expenditure assumes greater importance for overall economic development of the state. Constitutionally State governments have been given the greater responsibility of social sector. They incur more than 3/4th of the total expenditure on social services, while they collect about 1/3rd of the total government sector receipts. Therefore, their fiscal position is the major determinant of their ability to undertake and perform the development function adequately and efficiently (Rajmal, 2006).⁴⁷ However, Bihar's record in maintaining a sound fiscal position has left much to be desired. Its financial record does not give a good report card that could boast of sound public finance management. A sound financial management requires efficiency on all three fronts viz., revenue mobilization, expenditure allocation

and management, and debt management, which supports the government's development effort.

3.11.1. State of Social sector in Bihar:

Bihar's fiscal stress and weak linkages between expenditure and social outcomes have adversely affected its performance in the social sector. This malady is chronic. As even before far-reaching economic reforms began in 1991, social service expenditures were particularly vulnerable to budget cuts, which generally affected state governments' social service expenditures (Harris-White, 1999:303)⁴⁸. Since the mid-1980s, expenditure on social services has remained at a little over 30% of total spending as presented in Table-3.18.

Table-3.18
Composition of Public Spending (percentage Share of Total Expenditure)

Overheads	1985-86 to 1987-88 (average share)	2002-03(actual) to 2003-04(RE) (average share)
General Services	23.3	43.0
Social Services	32.3	34.3
Economic Services	37.0	15.6
Grants-in-Aid	0.3	0.0
Net Loans by State	7.1	7.1

Source: Bihar: Towards a Development Strategy, Table-3.3, World Bank Report

White Paper (2006, Government of Bihar) discusses that the maintenance of public spending on social services in contrast to economic services in part reflects the difficulty of cutting salaries, which comprise 80% of social services as compared to only 16% of economic services. This has led to a drop in developmental and capital expenditure. The spending on non-wage operations and maintenance has also been minimal further compromising the quality of expenditure.⁴⁹

3.11.2. Outflow of the State Government Resources towards the Social sector:

However, the government of Bihar's own revenues averaged 7% of GSDP in the late 1980s; it registered a downward trend over the 1990s to reach an average of about 6%.

The sluggish revenue procurement has been a major determinant of decline in social service expenditures. In this context, Tsujita (2005)⁵⁰ finding is relevant for Bihar, which states that the real per capita social service expenditure in low income states started to decline in the 1980s due to their worsening fiscal situation. The trends in expenditures after 1991 were a continuation of those from the pre-economic reform period. All these reasons are also responsible for Bihar's poor performance in the social sector. Its ramification culminates in abject poverty in state as nearly 40% of its population lies below the poverty line.

Although Bihar government's expenditure on revenue account has been increasing at 5.24 percent per annum during the period 1992 to 2006; yet most of this expenditure goes towards meeting the salaries and pensions of the employees.

Table-3.19
Expenditure on Social Services at Revenue Account (in Rs. Lakhs)

Year	Amount
1992-93(Actual)	234260.20
1993-94(Actual)	233038.50
1994-95(RE)	281514.10
1995-96(Actual)	325107.70
1996-97(RE)	362768.70
1997-98(Actual)	359493.30
1998-99(Actual)	382440.90
1999-2000(RE)	622767.10
2000-01(Actual)	71016.41
2001-02(RE)	447019.70
2002-03(Actual)	298987.20
2003-04(RE)	461647.10
2004-05(Actual)	479497.90
2005-06(RE)	729904.00

Source: Budget Documents of various years, Government of Bihar.

The composition of social services expenditure as presented as in the Economic Survey of Bihar, 2006 is reproduced in the following Table-3.20 along with all states average expenditure on these overheads.

Table-3.20
Sectoral Composition of Social Services Expenditure at revenue Account in Percent

	General Education		Medical & Public Health		Water & Sanitation	
	2001-02	2006-07	2001-02	2006-07	2001-02	2006-07
Bihar	21.95	22.42	3.31	4.18	0.97	1.00
All States	16.99	16.99	4.26	4.22	1.77	1.61

Source: Estimated from the data of Finance and Accounts of Bihar and other States CMIE, Public Finance; 2006, cited in Economic Survey of Bihar (2006-07).

The above table shows that Bihar can boast of greater proportion of social expenditure only on general education as compared to all India average but remained way behind other developed states.

Table-3.21
Structure of Expenditure from Consolidated Fund (in percentage figure)

Items	20001-02	2002-03	2003-04	2004-05	2005-06
General Services*	33.49	42.40	31.92	38.90	37.76
Social Services	18.71	25.25	17.94	23.91	30.40
Economic Services	6.90	11.37	6.66	10.15	10.49
Grants-in-Aid	0.01	0.01	0.02	0.02	0.02
Capital, Public Debt & Loans#	40.90	20.96	43.46	27.02	21.32
Total Consolidated Funds	100	100	100	100	100

Source: Economic Survey (2006-07), Government of Bihar.

* General Services includes the overhead of interest payments.

Capital, Public Debt & Loans- consist of repayment of loans.

Economic Survey (2006-07, Government of Bihar) points out that though the expenditure on each overhead is increasing, these have increased at the expense of the capital expenditure that came down from 41% to 21%. Expenditure on social services on capital account has increased at the rate of 11.72% over the ten years period as exhibited in Table-3.22.

Table-3.22
Bihar Government Expenditure on Social services on Capital Account (in Rs. Lakhs)

Year	Amount
1995-96(Actual)	833.06
1996-97(RE)	23691.54
1997-98(Actual)	9720.81
1998-99(Actual)	15227.03
1999-2000(RE)	24004.68
2000-01(Actual)	3601.79
2001-02(Actual)	410.53
2002-03(Actual)	1712.66
2003-04(RE)	27119.34
2004-05(Actual)	13728.49
2005-06(RE)	43137.64

Source: Budget Documents of various years, Government of Bihar.

However, whatever growth in social spending appears gets nullified because of State's large teeming population. As a result, Bihar's per capita plan outlay is still lowest in the country as shown in Table-3.23.

Table-3.23
Plan Outlay and Social Spending (in Rs.)

Year	Plan Outlay	
	Total	Per Capita
2001-02	1471	175
2002-03	2207	258
2003-04(RE)	2642	303
2004-05	3059	345
2005-06(Approved)	5320	593

Source: State Finances, RBI, 2005.

The low per capita expenditure on social services by Bihar can be judged from the evidence presented by the 12th Finance Commission with respect to other states.

Table-3.24

Per capita Expenditure on Different Overheads (in Rs.) during the period of 1998-99 to 2000-01.

Overheads of Social Services

State*	General Services	Social Services	Economic Services	Education	Health	Water, Supply & Sanitation
Bihar	189.1	474.0	204.9	311.1	50.9	19.1
Orissa	224.2	931.2	406.5	463.1	94.7	56.2
Uttar Pradesh	267.5	555.8	324.9	340.4	63.4	20.0
Assam	334.4	929.9	369.3	615.2	92.2	59.2
Madhya Pradesh	235.6	781.3	469.0	344.5	86.2	63.4
Rajasthan	265.4	1020.7	405.0	545.3	128.3	111.5
West Bengal	262.4	958.2	392.6	512.3	136.8	42.5
Andhra Pradesh	255.8	1004.1	634.3	411.7	118.2	57.7
Kerala	318.2	1254.8	716.5	713.3	172.3	52.3
Karnataka	279.2	1083.9	755.8	558.3	135.7	60.3
Tamil Nadu	336.4	1240.9	685.3	651.5	154.3	38.3
Gujarat	274.6	1331.3	1285.7	664.4	154.3	39.0
Haryana	320.9	1145.4	902.4	587.6	122.1	102.1
Maharashtra	624.4	1276.1	647.7	730.9	131.7	79.7
Punjab	533.6	1220.5	733.9	716.3	221.1	55.0

Source: (State Finance Accounts, cited in The Twelfth Finance Commission, Table-4.6, p60).

* {States are arranged in order of per capita GSDP and Bihar, U.P., and M.P. are taken as undivided states.}

Thus, although the data of Bihar government on social services expenditure may suggest increase over the years; given the size of population, Bihar still remains frugal spender on this sector.

3.12. Concluding Remarks:

The above discussion presents the overview of the states finances and its dependence on the transferred resources from the Central Government. Since, the state governments mainly finance for maintenance of university and higher education through its grants-in aid system, any deterioration in its finance leads to constrained flow to them. The situation of Bihar has been discussed in detail. In absence of proper development and

industrialisation, low income from own resources and burden of non-development expenditure; the situation of its finances is in poor shape. Nevertheless, to abide by the fiscal regulation, the State government has been reducing the capital outlay and expenditure on the social sector. The trends in expenditure in education sector and particularly higher education sector have been discussed in the next chapter.

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CHAPTER: IV

Trends in Expenditure on Higher Education sector by the Government of Bihar

This chapter presents the overview of the education sector in Bihar and then focuses on the finances of university and higher education sector in the State. In the subsequent sections, it discusses about the finances of the two Universities of the case study.

4.1. Trends in Expenditure on All Three Levels of Education:

Bihar has had very bleak record in education parameters. As per 2001 Census, Bihar had a literacy rate of 47.0%, which was only a little higher than the national literacy rate in 1981. In other words, the state is nearly two decades behind the nation as the literacy status goes. Being the third largest populous State with a present population of 90.2 million, it's seemingly burden can be turned into a boon by building a large reservoir of human resources through proper education. In absence of proper government care, Bihar's comparative advantage may become a lost opportunity. To ensure equal educational opportunity for all strata of its population, the government has to provide enough resources for its expansion and maintenance given pervasive poverty and widespread socio-economic inequality in Bihar.

4.1.1. Condition at Present in the Education Sector of the State:

The present enrolment at all levels of education is far from satisfactory as shown in Table-4.1 with respect to all India enrolments.

Table-4.1
Total Enrolment by Education Level ('000): 2002-03

	Primary	Middle	Secondary	Senior Secondary	Graduate or above	Total
Bihar	9414(7.71)	1757(3.74)	1231(3.70)	16(1.33)	560(5.88)	12980(5.94)
All India	122136	46947	33303	1200	9516	218586

Source: Government of Bihar, Economic Survey, 2006-07.

Note: Figures in parenthesis show the percentage proportion of all India number.

There is a large variance between the enrolment of boys and girls as presented below.

Table-4.2
Enrolment of Boys by Education Level ('000): 2002-03

	Primary	Middle	Secondary	Senior secondary	Graduate or above	Total
Bihar	5414(8.34)	1144(4.34)	871(4.45)	15(1.54)	376(6.59)	7820(6.49)
All India	64946	26336	19574	977	5705	120403
Enrolment of Girls						
Bihar	4000(6.99)	613(2.97)	360(2.62)	2(0.89)	184(4.83)	5160(5.26)
All India	57190	20610	13729	224	3811	98183

Source: Government of Bihar, Economic Survey, 2006-07.

Note: Figures in parenthesis show the percentage proportion of all India number.

A large population is still deprived of even basic education, not to mention formal education up to higher level of education. Further, there is a large divide between the rural and urban population and among different socio-economic group of population as evident from Table-4.3.

Table-4.3
Educational Attainments by Social Groups in Rural Bihar

	Illiterate	Below Primary	Primary	Middle	Secondary	Higher	Total
50 th Round (1993-94)							
Majority	52	15	8	12	11	3	100
SC/ST	76	8	5	7	4	1	100
Overall	59	13	7	10	9	2	100
55 th Round (1999-2000)							
Majority	52	15	7	11	12	3	100
SC/ST	72	10	4	7	5	1	100
Overall	57	14	6	10	10	3	100

Source: 50th and 55th round NSSO surveys (Schedules 1 & 2), cited in Bihar Towards a Development Strategy, World Bank Report.

Table-4.4
Distribution of Educational Attainment by Level of Education (Age 20-24): 1995-96

Section	Primary	Middle	High school	Higher secondary
Rural	15.84	27.86	21.98	16.22
Urban	8.68	11.26	22.91	36.49

Source: 52nd round NSSO survey

Table-4.5
Percentage of Persons in 15+ by General education Level in Bihar: 2004-05

Rural	Illiterate	Primary	Middle	Secondary	Higher Secondary	Diploma/Certificate	Graduate/Above
Bihar	54.5	20.1	11.3	8.4	3.3	0.2	2.1
All India	45.2	23.8	15.2	8.2	4.1	0.7	2.5
Urban							
Bihar	25.8	17.3	15.6	16.5	10.8	0.4	13.5
All India	19.6	20.0	18.2	15.3	10.4	2.6	14.0
Combined							
Bihar	51.6	19.8	11.8	9.2	4.0	0.2	3.3
All India	38.2	22.8	16.0	10.2	5.8	1.2	5.7

Source: Economic Survey, 2006-07, Government of Bihar.

With all these shortcomings at the attainment level, the situation needs serious attention and resources. Moreover, the educational sector is challenged by large dropout rates because of all pervasive poverty. Children drop out of the school to cash on opportunities cost by getting petty jobs instead of continuing studies. The dropout rates are very high in case of Bihar as shown in Table-4.6.

Table-4.6
Dropout Rates in Primary Level: 1999-2000

	Total	Girls	% of population in age 6-17 attending school
Bihar	52.27	58.64	59.6
India	40.25	42.28	72.1

Source: Economic Survey, 2006-07, Government of Bihar.

As evident from the Table-4.6, the dropout rate is much higher among girls. Due to socio-cultural perspective of Bihar, particularly in rural areas, girls are discouraged to study for

higher level. Girls tend to drop out after primary level due to various factors such as; they are expected to do household work in their homes, parents incline to educate their sons until higher level than daughters as latter get married off to other family and leave the parental family. Parents feel that only sons can contribute economically to the family. Added to this lack of quality school infrastructure, distance of schools from home, absence of lady teachers, etc., also create obstacles for girl child to continue their schooling. The dropout problem has aggravated the education scenario as 40.4% of population of (6-17) age group is still away from the system. These tendencies continue until the higher level, this can be gauged from data presented in Table-4.7.

Table-4.7
Dropout Rates in All Levels: 2002-03

	Primary	Upper Primary	Secondary
Bihar	62.31	79.01	83.60
All India	34.89	52.79	62.58

Source: Government of Bihar, Economic Survey, 2006-07

Unless and until this trend is arrested and further expansion facilitated, it is indeed difficult to ensure equal educational and economic opportunities for all. Children would not be able to attain secondary and higher education if the quality and availability of education at lower level do not improve. Since every level of education is interdependent, one is to proceed to one stage after another. The higher stages of education capitalize on the lower levels of education to advance upon. Thus, there is a need to take the education sector as a consequence where any weak link can ruin the whole system of education.

4.1.2. Primary Education:

With the Central government effort and external agency aid, primary education is getting more consideration. In Bihar, there are a large number of persons in the schooling age group because of high growth rate of population and 20.25% of population is in the age group of 0-6 years. But the existing system does not have the adequate capacity to absorb the swarming population in this age group. The existing system is in poor shape as there

is 90:1 pupil teacher ratio in the government elementary schools as against national norm of 40:1. White Paper (2006)¹ bemoans that this ratio has worsened to 122:1 during the 1990s. Well-off section of population who can afford, send their children to private schools in search of quality education. But this trend sets the inequality cycle in system and denies the opportunity to poor for realising their potential. Since the launch of District Primary Education Project (1994) and Sarva Shiksha Abhiyaan (2001) along with mid-day meal schemes, the scenario of primary education has become better. However, lack-a-daisical attitude of the government of Bihar and lack of commitment led to non-utilization of funds released in the first instalments and therefore consistently failed to get the second instalments in all the previous years for the above mentioned purpose. In such a way, the State has lost Rs. 505 crore for education.² In the ongoing circumstances, primary education sector continues to reel under financial constraints and inefficiency.

4.1.3. Secondary Education:

The secondary level is the transitional stage of the education system that is a connecting link between the primary level and the higher education level. This level enriches the knowledge level of the students and prepares them to take up advanced and professional courses in furtherance of their academic career. In Bihar, the secondary education level is also facing the crisis in terms of inadequate number of schools, classrooms, teachers, lack of laboratories, etc. Even to provide gainful opportunities from vocational education at the secondary level, there is a need for resources and adequate expansion. Bihar's existing capacity to provide vocational education at secondary level is much lower as compared to the all India average exhibited by Table-4.8.

Table-4.8
Number of Schools Imparting Vocational Education by Section & Enrolment Capacity in Bihar: 2003-04

	No. of Schools	No. of Sections	Enrolment Capacity
Bihar	251	752	37600
All India	6800	19599	979950

Source: MHRD, Annual Report, 2002-03.

Thus, derisory resource inputs and insufficient infrastructure put a question mark on the quality and quantity of secondary education. This is also a serious concern since secondary education is a very crucial stage of education system and lack of efficiency nullifies the job eligibility of students.

4.1.4. The State government Expenditure Allocations:

Bihar government's budgetary allocation towards different levels of education is presented as below;

Table-4.9
Total Budgeted (Plan and Non-plan) Expenditure on all Three Levels of Education Incurred by the State Government (Rs. in Lakhs)

Year	Primary Education	Secondary Education	University & Higher Education	Total Expenditure on Three Levels	% of Primary Education	% of Higher Education
1994-95(RE)	109068.03	35308.46	16891.13	161267.62	67.63	10.47
1995-96(BE)	122079.88	38861.92	16895.05	177836.85	68.65	9.50
1996-97(RE)	148833.75	51924.78	19210.76	219969.29	67.66	8.73
1997-98(Actual)	162511.71	55815.65	26826.50	245153.87	66.29	10.94
1998-99(Actual)	164602.31	49727.17	301380.75	244467.55	67.33	12.33
1999-2000(RE)	284329.45	79219.17	43223.20	406771.82	69.90	10.63
2000-01(RE)	270194.57	69844.00	46284.34	386322.90	69.94	11.98
2001-02(RE)	195936.75	19985.99	34244.69	250167.43	78.32	13.69
2002-03(RE)	200540.94	58838.57	37599.11	296978.62	67.53	12.66
2003-04(RE)	229687.08	64560.16	47548.88	341796.12	67.20	13.91
2004-05(Actual)	141766.09	52785.50	53168.96	247720.55	57.23	21.46

Source: Budget Documents of various years, Government of Bihar.

The calculation of compound growth rate shows that expenditure on primary education has been growing at 16.8% per annum, secondary education is rising at only 2.48% and higher education is going up by 12.34% per annum. This brings light to the fact that the government is diverting larger resources to primary education. Despite the low incurring cost, primary education has got good share. The general higher education, which entails large costs, has been receiving lesser share of total expenditure. The unit subsidy given by the some state government at three levels of education has been shown in these following Tables.

Table-4.10 (a)
Unit Subsidy in Education for 1999-2000³
Unit Subsidy¹ in Elementary level of Education

States	Gross Expd. (lakhs)	Cost Recovery (Lakhs)	Total Amount of Subsidy.(lakhs)	Subsidy Per Student (Rs./annum)
Andhra Pradesh	128479	21190.3976	107288	1080.8425
Assam	78479	0	78479	1812.3708
Bihar	167689	69.94526	167619	2013.0672
Gujarat	171357	896.45934	170461	2014.2283
Haryana	54277	1904.07745	52373	1812.0794
Karnataka	130379	0.15499	130379	1729.0666
Kerala	90521	44.44204	90476	2838.803
Madhya Pradesh	169044	138.40784	168905	1181.3257
Maharashtra	234622	387.51631	234235	1299.5979
Orissa	80438	828.0092	79610	2043.1987
Punjab	50684	297.2666	50387	1648.1271
Rajasthan	150127	111.50314	150015	1590.8287
Tamil Nadu	183152	34.56343	183117	2087.2753
Uttar Pradesh	322879	2000.32353	320879	1643.0753
West Bengal	96434	1.31302	96432	1091.8817

Source: Analysis of Budgeted Expenditure on Education, Various years, MHRD, GOI Finance accounts of different states, 1999-2000 Ministry of Finance, GOI

* Recovery data is not available. Hence gross expenditure assumed to be the total subsidy.

¹ Unit subsidy has been calculated as total subsidy given by government on respective level of education divided by total number of students enrolled in the corresponding state for that level. It depends on demand for public education and public expenditure incurred by the state.

Table 4.10 (b)
Unit Subsidy in Secondary Level of education

States	Gross Expd. (lakhs)	Cost Recovery (Lakhs)	Total Amount of Subsidy.(lakhs)	Subsidy Per Student (Rs./annum)
Andhra Pradesh	76030	1698.5926	74332	7568
Assam	35494	186.15	35308	6410
Bihar	49768	786.55709	48981	6958
Gujarat	101691	420.9606	101270	7862
Haryana	49774	62.89995	49711	5867
Karnataka	78068	1802.8502	76265	4762
Kerala	60247	1811.6728	58435	7029
Madhya Pradesh	54519	5.84694	54513	3320
Maharashtra	198952	67.02645	198885	12297
Orissa	41669	0.08954	41669	5946
Punjab	94085	560.49917	93525	11220
Rajasthan	97627	243.09954	97384	8723
Tamil Nadu	146251	2592.8335	143658	7104
Uttar Pradesh	181722	8128.3643	173594	5041
West Bengal	148548	6.90751	148541	13675

Source: Analysis of Budgeted Expenditure on Education, Various years, MHRD, Government of India,

Finance accounts of different states, 1999-2000 Ministry of Finance, GOI

Table-4.10 (c)
Unit Subsidy in Tertiary Level of Education

States	Gross Expd. (lakhs)	Cost Recovery (Lakhs)	Total Amount of Subsidy.(lakhs)	Subsidy Per Student (Rs./annum)
Andhra Pradesh	49963.83	229.9141	49733.916	10045
Assam*	11718		11718	6042
Bihar	31427.15	11.0328	31416.117	6269
Gujarat	24087.05	599.023	23488.027	7824
Haryana	11566.5	63.54969	11502.95	6728
Karnataka	30878.75	0	30878.75	3871
Kerala	31062.87	882.6055	30180.265	16442
Madhya Pradesh	23560.39	690.52909	22869.861	9189
Maharashtra	49363.47	184.53238	49178.938	6431
Orissa	19510.87	101.39	19409.48	12119
Punjab	16528.17	165.26361	16362.906	10699
Rajasthan	19414.11	143.48832	19270.622	7319
Tamil Nadu	29533.2	688.90166	28844.298	11575
Uttar Pradesh	40876.23	424.07519	40452.155	4979
West Bengal	36230.54	12.27635	36218.264	8596

Source: Analysis of Budgeted Expenditure on Education, Various years, MHRD, GOI. Finance accounts of different states, 1999-2000 Ministry of Finance, GOI.

These data show that though Bihar is spending a good sum in terms of per student subsidy, it is still less than in comparison to other advanced states such as Maharashtra and Gujarat. Although per capita, subsidy on higher education looks larger, this is also because the cost of higher education is relatively high.

Table-4.11
Expenditure on General Education in Bihar: 2004-05 (Rs. in'000)

Revenue Account	Plan	Non-Plan	Total
Elementary education	225.08	2356.65	2581.74
Secondary Education	1.53	671.98	673.52
University & Higher Education	4.53	516.11	520.65
Total	238.05	3638.14	3876.22

Source: Government of Bihar, Economic Survey, 2006-07.

It is commendable that the State government is taking primary education seriously and making it available to a larger population. Primary education is indeed necessary as it forms the foundation upon which edifice of one's academic career builds. In fact, the whole system of education proceeds as a linked chain of consequent levels of education and every stage is equally important for a person's educational qualification. However, the problem is that given the limited resources for education, allocation sets the one stage of education against another. Apparently, to make visible the priority and urgency to primary education the government tries to purge the responsibility of providing higher education. It is also convenient for them to argue that since mostly rich get benefit of higher education, the public provision of higher education is not warranted. But this argument disregard the reality that whatever the few number of poor who pursue higher education are availing this only because of government funding. It is not that poor do not want to go for higher education but they fail to make it for want of competitive edge. Even targeted scholarship cannot be efficacious since higher education demands a proper functioning infrastructure setup which can come only through government provision. By believing that only rich avail higher education is tantamount to deny the equal educational opportunities to poor. In order to contain their escalating expenditure the government finds it easy to take the refuge of the World Bank perspective and to be

popular they curb allocation towards higher education. Since the fund allocation is not earmarked for each level of education, the state government is free to transfer the fund from one to another at its whims.

Singh's (2004)⁴ remark is quite relevant in this context,

"...even in the State Annual Plan, which is discussed with the Planning Commission, he claims of one sector of education as against another sector are hardly defined. The States prefer an arrangement wherein they are free to change budget allocations and, by implication, their priorities, as it suit them at a particular point of time. Most decisions are made in an ad-hoc manner, quite often in response to the pressure mounted at that particular point of time when the decisions are being formalised."

This confrontation approach for education sector is liable to damage the goal of enrichment of human resources especially higher-end human capital for economic prosperity for which higher education is meant. The plight of higher education sector in the state can be discernible by analysing the government expenditure trends.

4.2. Trends in Expenditure on Higher Education:

This section will try to look into the overall financing of universities and higher education by the Government of Bihar.

4.2.1. Prevalent Scenario of University and Higher Education in the State:

In Bihar, there are 11 State Universities at present, which are supported by the state government. But for want of proper monitoring and adequate fund they are not of equal standard and those which hold some reputation are not of exacting standard at par with the Central University or other advanced universities. The universities have been just 'managing' to survive on the inadequate funding. This has resulted not only in poor infrastructure, but has also lowered the morale, increased unproductive bureaucratic work, regulation, and dampened spirit of innovations and modernization. Universities do not even possess adequate faculty members to deliver and maintain the quality of

academics. One news report says that there are approximately 5000 vacant posts of teachers in the colleges and universities all over Bihar.⁵ All this sets the situation gloomy for the higher education sector in Bihar. These universities have lost their lustre as talent pool (whether good students or good teachers) just tend to be away from these universities and shift to other advanced universities in other states. Students who cannot afford to go to other states have to opt for these universities as a default option where there is no great scope and environment of nourishing and promoting their potential talent. The state economy is not booming and expanding and is thus unable to provide different job avenues to the young generation who complete their schooling. Majority of them come from the government schools, which are also languished due to lack of adequate fund. As a result, their schooling education is not of required standard. In effect, they cannot get through the entrance examinations of professional colleges. Besides, at the school level, they could not realise their potential in the absence of proper teachers' attention and motivation. This state of affairs intimidates them from going for advanced and specialised courses. They end up with the conventional and seemingly less challenging courses. In such a way, they are compelled by the circumstances to get admission in these colleges, as they have nothing else to do. Singh (2004) has equated this situation as 'disguised unemployment'.

Singh describes

"...availability of this relatively respectable outlet is regarded as preferable to open unemployment. The system is not attuned to the job market."

This is really a sad situation for both the students and the development aspiration of the State.

4.2.2. Expenditure Trends:

The allocation of funds for expenditure are incurred mainly on two overheads namely, plan and non-plan. Generally, plan expenditure is meant for development purpose, for creation and expansion of the facilities. Non-plan expenditure is regarded as non-asset creating and maintenance expenditure for the setup. This blurred distinction is a

hindrance to well functioning of the higher education sector. The Eleventh Finance Commission⁶ has also mentioned that the dichotomy between 'plan' and 'non-plan' in expenditure, apart from creating problems in keeping the revenue deficit and thereby fiscal deficit in control, has had a deleterious effect on the quality of public services. Thus, sometimes in order to cut the non-development expenditure, the axe falls on the essential maintenance expenditure, which adversely affects the performance of colleges and universities.

Plan expenditure, which initiates some new schemes and expands the sector, has been extremely low all throughout. Moreover, it has been very erratic during the period 1995 to 2000, showing sudden bumps and downfalls. In this situation whatever new schemes and plans be introduced, they get shelved in want of more funds for its completion. The year 1999-2000 was particularly bad in the sense as in this year the State government did not provide plan assistance to any single university as shown in Table-4.12.

Table-4.12
Plan Expenditure on University and Higher Education (in Rs. Lakhs)

	Direction & Administration.	Govt. Colleges & Institutions	Assistance to Universities	Tribal Area Sub-Plan	Other Expenditure	Total
Year	State	State	State	State	State	
1995-96	0	142.43	175.67	76.06	13.50	407.67
1996-97	0	53.72	45.01	113.85	30.00	242.60
1997-98	0	177.33	82.40	21.55	10.00	291.29
1998-99	0	153.59	976.50	334.97	0	1468.96
1999-2000	0	229.15	0	101.53	0	330.69
2000-01	0	201.00	120.00	44.13	0	365.13
2001-02	0	415.87	86.00	0	0	501.87
2002-03	0	450.06	76.50	0	0	526.56
2003-04	7.21	480.30	41.48	0	0	521.78
2004-05	7.00	361.83	374.00	0	0	735.83

Source: Finance Accounts of Bihar of various Years.

However, the plan spending is growing at a low rate of 1.39 % per annum, which is less than the non-plan spending on higher education. The non-plan expenditure has been presented below in Table-4.13.

Table-4.13
Non-Plan Expenditure on Higher Education (Rs. in Lakhs)

Year	Direction & Administration	Assistance to Universities	Government Colleges & Institutions	Scholarships	Other Expenditure	Total
1995-96	6.98	18436.64	323.65	14.22	72.49	18853.99
1996-97	28.81	23279.54	269.98	14.22	66.99	23674.56
1997-98	38.38	258290.45	616.15	0	83.19	259028.18
1998-99	61.51	28954.79	840.88	0	101.00	29958.19
1999-2000	60.19	38342.50	1146.11	0	239.85	39788.66
2000-01	55.62	38265.68	838.68	0	159.63	39319.63
2001-02	57.38	29618.31	611.96	0	145.00	30432.66
2002-03	84.90	34455.56	637.02	0	151.00	35328.48
2003-04	104.26	42607.94	795.16	0	175.67	43683.03
2004-05	91.28	51119.92	1062.58	0	189.71	52463.49

Source: Finance Accounts of Bihar of various Years.

The non-plan spending on higher education is rising at the rate of 2.18% per annum over the period 1995 to 2005. This signifies that this overhead is rising because of rise in the salaries and pensions and not because of improving the academic standard. White Paper (2006, Government of Bihar) asserts that after the implementation of the UGC Pay package with effect from 1.1.1996 the burden on the government increased considerably. The salary hike has constrained the flow of funds for essential overheads, which is required to maintain assets in good working conditions. Since the government is unable to reduce or restrain the salaries raise, the fall out from this has been the suffering of maintenance overheads. The government in its tight budget just wants to provide only

that much fund which would meet the running expenditure for the existence of the system. The outcome of this inattentive approach is the dilapidated state of infrastructure of the colleges and universities. This also leads to constant decline in the quality content of imparted education. It is evident by the fact after 1995-97 no amount has been granted for scholarship, which is a major incentive to encourage students, particularly students of underprivileged class, to undertake higher education and nurture their potential talent. Besides this, in the name of capital expenditure for the university and higher education, an amount of Rs.108.74 lakhs annually has been remained unaltered from 1996-97 till 2004-05. This meagre amount cannot expand the capacity to absorb the number who wants to pursue higher education. To expand this sector, attract, and retain talent pool in state universities, the government of Bihar needs to spend more on higher education sector. This is all the more important with greater progress in elementary and secondary education, which would necessitate greater expansion in higher education sector. With this hindsight, a study of financing of two universities can present the scenario more elaborately.

4.3. Case Study: Trends in the State Government Financing of the Two State Universities:

The ongoing trend would be clearer at the micro level by examining the university finances. This section is going to discuss the case of the Patna University and the Tilka Manjhi Bhagalpur University of Bihar.

4.3.1. Patna University:

This University was established in 1917 by the Patna University Act, 1917 at Patna on 1st, October, 1917. The University has 9 faculties, 32 Post Graduate Department and 13 constituent colleges. All the constituent colleges are in the city of Patna. The University also provides limited residential facilities to the students. It imparts education to more than 25000 students, which includes around 2100 students of the university department.

Presently 522 teachers are catering to the large number of students of this university. This University is regarded as the premium University in Bihar because of its glorious record in the past. Now its performance and quality is losing its sheen because of the financial constraint and exodus of talented students at an early stage. There are a large number of vacant seats of teachers in the colleges and University coupled with the retiring of old teachers; the institutions are facing acute shortage of faculties. The university is somehow managing through ad-hoc and part time teachers but this is not helping the cause of the quality of imparted education.

4.3.2. Finances of the Patna University:

Dwindling state finances and declining state government support has imposed serious financial constraint on the university. The flow constraint in the fund can be gauged through the large gap between the revised budget estimates of government recurring receipts and the actual receipts. Before 2005-06, the University always received lesser amount from the government than the estimates. The difference between the two lied in the range of more than 50 percent except in the year of 2004-05 when the difference was 6.1% only. The situation started improving only from 2004-05 when the State finance had surplus as discussed earlier. Although the university received, the actual amount for 2005-06 little higher than the revised estimates yet it remained 21.4 % less than the budget estimates. These data are presented below in following Tables.

Table-4.14
Revised Budget Estimates of Government Recurring Receipt (Amount in Rs. Lakhs)

Year	Grants from the State Government	Statutory Grants	Additional Grants	Total
2001-02	4980.47	161.00	0	5141.47
2002-03	4470.13	301.00	2569.05	7340.18
2003-04	7828.66	322.00	0	8150.66
2004-05	3444.00	319.00	0	3763.00
2005-06	2729.15	164.00	34.16	2927.31

Source: Budget Documents of various Years of the Patna University.

Table-4.15
Actual Recurring Revenue Receipts from the State Government (Amount in Rs. Lakhs)

Year	Grants from the State Government	Statutory Grants	Additional Grants	Total	Ratio of Grants in Total Receipts (in %)
2000-01	1982.78	161.00	0	2143.78	68.55
2001-02	2279.84	161.00	0	2440.84	57.55
2002-03	2657.86	161.00	0	2818.86	59.97
2003-04	3594.28	161.00	0	3755.28	72.40
2004-05	3369.12	161.00	0	3530.12	75.61
2005-06	3906.91	161.00	464.51	4532.42	76.73

Source: Budget Documents of various Years of the Patna University.

Table-4.16
The Gap between Revised Estimates and Actual Receipts from the State Government

Year	Difference of Amount between the RE and Actual Receipts (in Rs. Lakhs)	(Actual Receipts/Revised Estimates) in %
2001-02	2700.63	47.47
2002-03	4521.31	38.40
2003-04	4395.37	46.07
2004-05	232.88	93.81

Source: Budget Documents of various Years of the Patna University.

The realisation of lesser receipt amount than the budgeted estimates from the government hampers the functioning of the university. This is all the more important as the university solely depends on the state government's grants-in aid for its income. The grants-in-aid forms the major chunk of the revenue receipts of the University and has risen by 15.80 % per annum during the period of 2000 to 2006. The dependence of the university on the State government grants for its income is presented in Table-4.17.

Table-4.17
Dependence of the University Income on State Government Grants

Year	Proportion of the State Government Grants in Total Income of the University (in %)
2000-01	68.55
2001-02	57.55
2002-03	59.97
2003-04	72.40
2004-05	75.61
2005-06	76.73

Source: Budget Documents of various Years of the Patna University.

In addition to this, the inordinate delay in releasing the sanctioned amount because of bureaucratic regulation badly hinders the smooth functioning and operation of the University. By the time whatever the amount gets sanctioned, is spent without proper planning and assessment of needs, in urgency of disposing of the sum before the plan terminates.

The shortage in procurement of the grants receipts is also reflected in financing the expenditure of the university. Because of the difference in the actual income and the budgeted estimates, expenditure side also shows hiatus between the actual and budgeted expenses; as depicted by the following tables.

Table-4.18
Revenue Revised Budget Estimates of Patna University Rs. in Lakhs.

1. Pay & Allowances (Recurring)	2001-02	2002-03	2003-04	2004-05	2005-06
I.HRD	7810.98	6723.04	7293.94	6061.90	5628.31
II.DST	913.06	1401.03	1519.57	548.89	1432.20
III. DDE	46.21	45.50	55.75	59.36	62.15
Total	8770.25	8169.58	8869.25	6670.16	7122.67
2. Contingencies & Provisions					
I.HRD	716.22	1180.47	1623.38	875.43	906.57
II.DST	399.93	50.32	49.91	0	0
III.DDE	59.87	95.08	70.07	79.20	112.18
IV. Vocational Courses	0	0	0	31.06	22.80
Total	1176.01	132.59	174.34	985.68	104.16
Grand Total (1+2)	9946.26	9495.44	10612.61	7655.84	8164.24

Source: Budget Documents of various Years of the Patna University

Note: Keys of abbreviationsⁱⁱ

ⁱⁱ (a) HRD-Human Resource Development, it includes pension requirement, provision for vacant posts, post retrieval dues and miscellaneous dues in these tables; (b) DST- Department of Science and Technology which includes Bihar College of Engineering known as National Institute of Technology since 28.01.2004

In 2005-06, the expenses on human resource development (HRD) indicate some decline in the revised estimates; but that is not because of decline in salary but in miscellaneous outstanding dues.

Table-4.19
Actual Revenue Expenditure of the Patna University (Rs. in Lakhs)

1. Pay & Allowances (Recurring)	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
I.HRD	2337.81	2866.11	2895.97	3670.45	4040.09	4350.35
II.DST	244.52	362.76	742.12	292.01	0	0
III.DDE	43.28	40.36	61.45	60.44	63.30	68.53
Total	2625.62	3269.23	3699.54	4022.90	4103.40	4418.88
2. Contingencies & Provisions						
I.HRD	338.83	957.67	641.13	1087.16	606.13	882.07
II.DST	203.54	38.32	31.68	0	0	0
III.DDE	33.04	36.94	3836376	41.27	55.58	73.60
IV. Vocational Courses	0	0	0	25.36	26.95	25.48
Total	575.41	1032.99	711.16	1153.79	688.66	981.15
Grand Total (1+2)	3201.03	4302.16	4410.70	5176.69	4792.06	5400.04

Source: Budget Papers of various Years of the Patna University

Table-4.20
The Gap between the Revised Estimates and Actual Expenditure of the Budget

Year	Difference of Amount between the RE and Actual Expenditure Rs. In Lakh	(Actual Expenditure/Revised Estimates) in %
2001-02	5644.09	43.25
2002-03	5084.74	46.45
2003-04	5435.93	48.78
2004-05	2863.78	62.59
2005-06	2764.21	66.14

Source: Budget Documents of various Years of the Patna University.

and now is fully financed by the Ministry of Human Resource and Development, Government of India; (c) DDE- Directorate of Distance Education

4.3.3. Details of Expenditure:

On the expenditure front, too the variation between the actual realised expenditure and the estimated expenditure is large as depicted by Table-4.20. The university just manages to spend on extremely essential items and put the maintenance of existing setup on the back burner. Although the major development funds come through the UGC still the matching grant from the university makes the difference in performance. Moreover, the responsibility of maintenance fully lies with the State government. The salaries, allowances and pensions absorb the major portion of budgeted expenditure of the university. After meeting this requirement, a little could be saved for the maintenance needs of the University. The expenses on salaries and allowances grew by 10.10% over the period of 2000 to 2006. The budget of the Patna University includes the maintenance expenditure under the overhead of 'Contingencies and Provisions' which also contains pension, gratuity, arrears and post retiral dues. In fact, the budget document does not divulge much detail on the maintenance expenditure. Whatever amount is spent it remains too little to deserve attention! It can be judged by the fact that lately the estimates of this item have mention in the budget document but does not reveal the actual expenditure. Once in the actual expenditure of 2003-04 it is mentioned, which is only 0.17% of the total expenses of the item "Contingencies and Provisions' and represents a miniscule amount 0.04% of the total budget outlay. This is almost negligent in terms of real value as the inflation averaged 5.24%⁷ during the period 2000 to 2006. With this meagre amount, little can be expected for renovation and expansion of the existing decrepit buildings of the university let alone the erection of new buildings. The respective proportion of the major components of the actual expenditure of the university budget during the period of 2000 to 2006 is presented in Table-4.21.

Table-4.21
Respective Proportions of Salaries and Contingency

Year	Proportion of Salary in Total Expenditure (in %)	Proportion of Contingencies in Total expenditure (in %)
2000-01	82.02	17.97
2001-02	75.99	24.00
2002-03	83.87	16.12
2003-04	77.71	22.28
2004-05	85.62	14.37
2005-06	81.83	18.16

Source: Budget Papers of various Years of the Patna University.

Although 'Salaries' as an item exhausts nearly 80% of the budget, nonetheless, a large number of seats are lying vacant, as there is hardly any recruitment over the years. There is a need to recruit the non-teaching staffs and officers to run the administration. With these, many unfilled posts it is any body's guess how the university administration runs. The budget document declares sanctioned vacant posts since 1999-2000 as exhibited by Table-4.22.

Table-4.22
Vacant Posts (HRD) in 2003-04

	Sanctioned Posts	Working	Vacant	Budget Estimates for 2003-04 (Rs. in Lakhs)
1. Teaching Staffs				
Full Time	981	525	456	491.28
Part Time	23	14	9	1.84
Total	1004	539	465	493.12
2. Non-teaching Staff	1436	1198	238	114.41
3. Officers	37	27	10	13.56
Total (1+2+3)	2477	1764	713	621.08

Source: Budget Documents of various Years of Patna University

In addition to the financial constraint, the other reason for the posts lying unoccupied, is also the excessive control and centralization of the recruitment procedure, not to mention the political interference. Earlier, the teachers' recruitment was conducted by the College and University Services Commission. However, now a seven members' expertise committee is being constituted with the vice-chancellor as its chairperson.⁸ Thus there is

now an initiative to dispense some autonomy to universities for the recruitment of lecturers.

4.3.4. Tilka Manjhi Bhagalpur University (TMBU):

This University was set up by the Bihar State University Act, 1960 on 12th July, 1960. Earlier this university was known as the Bhagalpur University. It was given its present name in 1991. The university is much larger in terms of the students' strength as compared to the Patna University. It is because the university has 29 constituent colleges including Engineering, Medical and Law colleges. The university constitutes of 9 faculties, 34 university departments and nearly 1055 teachers. At present, it is catering to about 60,000 students.⁹

Although the University boasts of such a large size and capacity, its constituent colleges are not of the uniform standard. There is a large variation in the quality and standard of education across the colleges of the university. While the colleges situated in the city of Bhagalpur could manage to maintain the standard, other colleges manage barely to live up to its desired standard. It is very difficult to percolate down the quality and standard to the constituent colleges situated in remote rural and sub-urban areas of other districts of Bihar. This university provides umbrella to these constituent colleges. Since the fund is scarce, it cannot monitor properly the quality of academic standards in each and every college. The problems and needs of these remote constituent colleges take so much time to be conveyed to the university administration that the problems remain unattended to.

4.3.5. State Government Grants Outflow to the Tilka Manjhi Bhagalpur University:

Although this university is much larger than the Patna University, it still qualifies lesser amount of the statutory grant from the state government. The flow of the State government grants to this university is presented in Table-4.23.

Table-4.23

Non-plan Grants allocated by the State Government (Rs. in Lakhs)

Year (Actual)	Statutory Grant	Matching Recurring Grant	Total
1997-98	19.03	2478.91	2497.94
1998-99	19.03	2730.16	2749.19
1999-2000	19.03	3535.08	3554.11
2000-01	19.03	3111.61	3130.64
2001-02	19.03	3689.37	3708.39
2002-03	0	4071.95	4071.95
2003-04	19.03	4030.73	4049.76
2004-05	0	5759.75	5759.75

Source: Budget Documents of Government of Bihar and Annual Report of the TMBU for various years.

The non-plan grants which the State government for meeting the maintenance costs of the university provides; is rising at a rate of 10.46 % per annum, which is low as compared to the Patna University. The plan grant has not been allocated by the State government since 1998-99. The University manages to raise some resources through its farmland possession under the estate department. This source is very useful to meet its expenditure excesses over the grant receipts. Besides this, the university has introduced a number of self-financing professional courses to raise internal funds. At present, it offers 16 certificate / diploma courses and 6 vocational courses.

The impact of constrained flow of funds reflects in the functioning of the university. The university is unable to fill the large number of vacant seats for teachers. One news report reveals that there are around 550 seats of lecturers lying unoccupied in the university.¹⁰ There is a shortage of books and magazines and no purchase of subject wise magazines due to non-availability of requisite grants. The most disappointing fact is that despite having constituent colleges in rural areas where mostly poor get benefits, the university is unable to provide scholarships on account of resource crunch. Under these circumstances, the university can just manage to conduct the examinations, evaluating students of the constituent colleges and declaring results.

4.4. Impact of the State Government Financing on the Functioning of the Universities:

The state universities largely depend on the grants flow from the state government for fulfilling its maintenance costs. The resultant effect of restrained grants allocation is the implication on the performance of academic functioning of the university. The decline in the funds of university erodes the quality of education and the standard deteriorates. With an increasing number of students pursuing higher education, the university faces congestion and demand pressure on its poorly maintained existing setup. Some of the indicators can be enumerated to reflect the impact of dwindling finances of the university on its functioning, such as discussed in the following sections.

4.4.1. Large number of vacant posts of lecturers and staff:

On account of non-availability of funds and restrain on university finances the universities are unable to fill up the vacancies of teachers. As a result, the present number of teachers has to face greater challenges to teach in the classroom. Sometimes they have to teach those papers of a subject at post-graduation level in which they are not specialized. The student –teacher ratio sometimes become so large that no efficiency can be expected from the performance of class. Students and teachers both lose motivation to learn and teach in such a big class. The lectures just become a routine work and as discharging the duties for the teachers. Teachers do not interact much with students and do not encourage interactive participation. They also avoid being accessible after the time of class schedules. They tend to adopt indifferent attitude towards the betterment of academic environment. This tendency surfaces more when they do not get their salaries on time. Besides this, the teachers due to dearth of funds do not get the opportunity to enrich and update their knowledge through the orientation and the refresher courses meant for the teachers. As a result, students fail to nurture their inquisitive curiosity for their courses in want of proper encouragement and motivation inspired by the teachers. In this environment, students also get more interested in passing the examinations somehow and obtain their degrees in order to attain minimum eligibility in the job market. Thus,

the undefined mutual responsibility between students and teachers lose the hold. In some cases, universities hire teachers on ad hoc basis but it does not improve the academia. These ad hoc teachers do not enjoy the stability of their jobs and lack incentives to perform well. Under these circumstances, the university starts losing its real value and role to contribute positively for the economy and the society.

The shortage of staff in running the university administration also impedes the smooth functioning of the universities. The setup of universities requires large number of staff to support the day-to-day academic and administrative activities of the university. Less than the required number of staff handicaps the maintenance and carrying on the operation of the universities and colleges. Such as shortage of librarians, storekeepers, caretakers of various departments cause many problems and even non-availability of existing facilities due to manpower to run them. All these problems arise due to non-filling of vacant posts in order to contain the expenditure.

4.4.2. No Scholarships:

Scholarships are a significant incentive to encourage and retain the talented students especially for the students of deprived section of the population in higher education. Higher education entails higher opportunity costs for the students in terms of their foregone potential earnings. Besides this, despite providing subsidized tuition fees and libraries students have to bear the expenses of transportation, stationery, purchase of books, residential costs, etc. The importance of scholarship is more in the state universities, which cater to local population. In a poor state such as Bihar, scholarship is the necessary requirement for the students who come from poor and rural background to motivate them for higher education. The scholarship is also a great leveller to bridge the gender disparity in higher education by promoting girls students. But as the universities are in the financial crisis, there is almost no provision of scholarships.

4.4.3. Poor Infrastructure:

Infrastructure plays a great role in the production function of education and a major component of investment in the process of building human capital. The system cannot dispense with these requisite inputs. The infrastructure components of a University are mentioned as library, electronic publications and the internet, technical support staff, mechanical, electrical and optical fabrication facilities, uninterrupted water and power supplies, campus transport, guesthouses, canteens, student hostels and faculty housing for residential campuses, campus environment and security, etc. The input is directly responsible for the level of output from the universities (Ghosh 2004).¹¹

The infrastructure has to bear the brunt most of the shortage of funds. Building set up serves as fixed assets for the universities and once created do not need much expenses in short run. Nevertheless, in absence of proper care they also have worn out. If any problem related to buildings crops up it remains overlooked for long. Old and damaged furniture are continued to be used in absence of release of resources. The structure remains in a dilapidated state for a long period unless some urgency attracts the administration attention like leaking and falling of roofs. Even the buildings are not well provided with necessary basic facilities like drinking water cooler or tap, toilets etc.

4.4.4. Languishing Libraries and Laboratories:

Libraries are the most important component of academic ambience. It should be well equipped with facilities, books, and reading materials. Students spend a longer period of their academic year in the libraries. It must be well furnished to enable the students to stay inside for longer period. However, both the mentioned universities are facing problems in libraries maintenance. In the Patna University, though there is one centralized library beside the libraries of the colleges under this university. But the centralized library does not have computer assisted catalogue and hardly procures new books. They do not have online journals. The problem is more severe for the university department libraries. They do not have full time librarians, helpers and enough books and

reading rooms. Besides, they are not provided with proper security arrangements to guard the assets of libraries. For the Tilka Manjhi Bhagalpur University the library does not possess modern equipments and facilities. It is not air-conditioned and books collections long for funds. It has not been subscribed to the subject wise magazines and journals. Laboratories are also facing the impact of financial constraints, as they need expansion to cater to large number of students with advanced equipments.

4.4.5. Absence of Modern Equipments:

Necessary electronic gadgets and equipments are virtually missing from these universities. They lack internet facilities and old and tiring process of registration, filling examination fees and enquiries continue in this era of advanced technology. Equipments of classrooms, libraries, health dispensaries, sports stadium, and dormitories are not of exacting standard in want of funds.

4.4.6. Missing Information and Communication Technology

The role of information and communication technologies is changing the character of education in advanced institutions of higher learning. New educational methodologies such as, enhanced learning process by multimedia, computer simulation, audio-video conferencing and online learning have brought revolutionary changes in quality of education. However, Bihar's universities are way behind them due to fund starvation and absence of initiatives.

4.4.7. Poor quality of Education and Research:

Research is one of the important functions of the universities. Under the financial depressing situation, this function has got seriously affected. In fact, teaching and research are an integral and inter dependent part of the university system. Quality research requires substantial infrastructure, sophisticated instrumentation, well-endowed laboratories and adequate budget for consumable, in addition to qualified faculty. As the

universities are longing for funds even to meet its basic needs it is very difficult to upgrade and facilitate quality research in these state run universities. Moreover, there is a shortage of teachers even to teach regular courses. Working teachers are loaded with extreme demand on their part to take classes. In this condition, it is impossible to expect their undivided attention to research scholars. The environment is very discouraging for the research career and students prefer not to pursue. Despite this, some students dare to continue but end up struggling for attention of their guide who is pre occupied and has to supervise so many research scholars. This presents a dismal situation on the front of research in these state universities.

4.4.8. Haphazard Expansion:

There is no planned expansion of academic infrastructure. They manage and create infrastructure in unplanned manner. As for example, the universities have introduced the variety of self-financing courses but they do not possess permanent faculty members, required classrooms, books in libraries, laboratories, buildings and supporting staff manpower. They just manage to run these courses as milking cows to raise their internal income to bridge the deficit in fulfilling the universities essential expenditure demands.

4.5. Concluding Remarks:

Against the backdrop of all these issues discussed and mentioned, it can be concluded that the state universities functioning and academic environment are largely influenced by the financial situation of the State government through grants-in aid system. These universities are just surviving and not functioning in real sense because of paucity of funds. They are facing the financial crisis and challenge same as the state government finances. To escape the crisis, universities are offering self-financing courses. But these courses are making hole in the pockets of parents of students with little return. These courses are also critical of the norm of equal opportunity to all. As a consequence, the whole university system and higher education sector of Bihar are in disarray.

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- ² Ibid.
- ³ This table has been cited in Kundu, Protiva's paper, 'Incidence of Public Expenditure on Education', www.isical.ac.in/~wemp/papers/paper_protiva_kundu.doc.
- ⁴ Singh, Amrik, (2004), *Fifty Years of Higher education in India- The Role of the University Grants Commission*, Sage Publications, 2004.
- ⁵ The Hindustan Times, Bhagalpur Hindi Edition, Daily, dated the 12th April, 2007.
- ⁶ Government of India, Report of the Eleventh Finance commission for 2000-05, June, 2005.
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- ⁸ The Hindustan Times, Bhagalpur Hindi Edition, Daily, dated the 12th April, 2007.
- ⁹ Source:<http://tmbu.org/>
- ¹⁰ The Hindustan Times, Bhagalpur Hindi Edition, Daily, dated the 12th April, 2007.
- ¹¹ Ghosh, Rupamanjari (2004) Infrastructure in the Universities, in Arun Kumar (ed.), Challenges Facing Indian Universities, Jawaharlal Nehru University Teachers' Association (JNUTA), New Delhi, October, 2nd.

CHAPTER: V

CONCLUSION

5.1. Overview of the Study:

It is well established that higher education contributes immensely to development. The role of higher education as the sole source of new knowledge and competent workforce, even to disseminate information cannot be over emphasised. No denying the fact that the lower level of education is necessary but equally important is the fact that it is not the ultimate goal; neither for a person's ambition nor for a nation's aspirations. There comes the value of higher education.

Presently, higher education system in India is facing financial challenges. Given the prevailing socio-economic conditions of our majority of population, it is imperative that the government should undertake the responsibility of providing higher education. As discussed in the introduction, the government under pressure of meeting its other responsibilities tends to overlook the significance of higher education. The government, in order to contain its huge expenditure finds it convenient to reduce the expenses on higher education. It is also because; the propagation of higher education is not that much popular and politically sensitive as the provision of primary education. To withdraw its share and reduce its task in higher education, the government advances some erroneous arguments. Some of these arguments are based on the rate of return approach, adequate financing of higher education, rich and those who can afford only benefit from public financing, etc. Since the adoption of reforms, privatisation is being promoted to enhance efficiency and quality. All these issues have been discussed in details and analysed in the second chapter. On those elaborations, it can be said that the government financing is necessary to make the accessibility and availability of higher education to all. The majority of students are in state universities and the responsibility for maintaining and developing these universities lies with the State government. Although the University

Grants Commission (UGC) provides development funds for these universities, but due to lesser quantum of funds, it is not in a position to regulate uniform standard at par with the Central Universities. There are delays due to the missing co-ordination in the three involved institutions viz. the UGC, the State government and the university at the implementation level of the plans. The university management is not efficient, inhibited by political interference and is characterised by built-in inflexibility even in the daily administrative routine. Procrastination in decision making process, lack of autonomy, cumbersome and drudgery of paper work, time lags in approval and execution of expenditure of overheads, practice of making ad-hoc rules, sudden and prolonged agitations by staff or teachers; all these culminate in dissatisfaction and inert functioning of the higher education system in the state. Since, state government is the major financing institution for the state universities; it can bring changes through its efficient financing system and purposeful funding.

However, the present system of state financing of higher education and universities by the state is not free from flaws. There are inherent weaknesses of the state's financing system of grants-in-aid. The problems of this financing system restrain flow of adequate liquidity to university and higher education as mentioned in the third chapter. One of the significant reasons for disparities in the financing of the state universities among different states is the need for matching grants for the development fund provided by the University Grants Commission. The system of grants-in-aid also depends on the financial situation of the respective state. This gives the clue that if the state finance is sound, the state provides grants liberally to state universities.

The situation of state finances turned worse and particularly financing of social services expenditure with the declining support from the Central Government transfers since the economic reforms. The Central Government was required to reduce the fiscal deficit under the stipulated 'conditionalities' for availing 'soft loans' from the International Monetary Fund. This condition led to diminishing Central transfers to the states. As a result, states which do not enjoy much resources and are heavily dependent upon the Central Government grants, came under financial stress. Add to this that state

governments were already reeling under huge debt. To ameliorate the situation, the Eleventh and the Twelfth Finance Commission have recommended certain reform measures which are to help states to meet their social sector liabilities.

However, the stringent fiscal conditions sometime prove counterproductive for states which are facing different specific problems. The uniform condition on a set norm for all states takes away their leeway to spend on its needs according to the specific requirements. As a result, social services expenditure suffered except in the cases where either the State is resource rich or politically determined.

The analysis of interstate per capita expenditure on education showed that Bihar is the least spender among other states. It is also because the finances of the Government of Bihar went into a vulnerable position, since the bifurcation of the State. The third chapter also attempted to analyse the worsening financial situation of Bihar over the years and its consequences over the spending on social sector and particularly education sector. It came to the conclusion that Bihar's vulnerable financial situation owes to several reasons; some of them are poor governance, lack of initiatives, poor infrastructure capacity and agrarian economy, burden of large population and unproductive expenditure, etc. besides the burden of hefty pay packages to its employees as per the Fifth Pay Commission recommendation. In this situation, it is very difficult for Bihar to dispense enough funds for the university and higher education system in the State. It just manages to meet the liability of primary education because of the Central pressure and has totally neglected the needs of higher education system in the State.

The data analysis performed in fourth chapter from the budget of the Government of Bihar shows that the budgeted expenditure on higher education has increased by only 12.34% annum over the period from 1994 to 2004-05, while expenditure on primary education has been growing at 16.8 % per annum over the same period. This indicates that the emphasis is more on primary education.

The analysis of actual data for expenditure (non-plan) on higher education shows that it has grown at only 2.18% during 1995 to 2005. Moreover, the Plan expenditure, which is utilised to expand buildings, new colleges, recruitment of teachers and staff, introduction of new schemes and equipments, has grown even less (only 1.39%). Under the plan expenditure, the overhead of 'Assistance to Universities' shows a declining trend and strikingly it is nil in the succeeding year of the implementation period of the Fifth Pay Commission in 1999-2000.

In this situation university and higher education system in Bihar seems to be in financial crisis. The universities are facing congestion and shortage of facilities. There is large number of vacant seats for teachers and staff. But the universities were not able to fill vacant posts due to decreasing grants from the State government. Universities are just managing to meet the committed expenditure of salaries and pensions, and overlooking the maintenance needs. Even under the non-plan expenditure, scholarship did not receive any fund from 1997-98 to 2005. Capital expenditure was also maintained at such a low level that it did not make any difference. This was the plight of higher education in Bihar during the reference period of study. Some of the findings from the case study of two universities in Bihar have been summed up below:

5.2. Research Findings of the Study:

- Although the trend in receipt of grants from the State government is increasing for both the universities, but there is always a hiatus between the budgeted and the actual receipts of the grants. For the Patna University, this gap was always in the tune of more than 50%. It is only in 2004-05, that this university could receive around 94% of the grants according to its budgeted estimates.
- There is increasing dependence of the universities on the State government grants for their income, but the quantum of grants dwindles with the financial position of the State government.
- Although, the Tilka Manjhi Bhagalpur University is larger in terms of the coverage area and students' enrolment, yet it receives lesser amount of statutory

grants from the Government to meet its basic requirements as compared to the Patna University. Moreover, the Tilka Manjhi Bhagalpur University has not received any plan grants since 1998-99. This reflects the fact that with the deterioration in state finances, the State government withdrew its contribution from universities and left them to fend for themselves.

- In the Patna University, the large gap between the actual and the budgeted estimates of receipts in grants also mirrored in the gap between the actual and estimated expenditure. A sign of improvement, on expenditure front, is visible only since the year 2004-05, when the actual expenditure showed lesser gaps in the budgeted and actual amount.
- The inability to meet the expenditure according to the budgeted estimates led to several problems, such as, procrastination of expenditure even on the necessities, no timely payment of salaries and pension for teachers and staff, huge arrears of dearness allowances, no fund for research and teaching improvement programmes, etc. All these situation work as a dampener for the environment of academia.
- In order to contain universities expenditure, recruitments of teachers have not been undertaken. University is managing through the ad-hoc teachers or the guest lecturers. Even the administration work and university functioning is suffering owing to inadequate number of staff. Despite this, the salaries component which includes pension and arrears exhaust more than 80% on the average of the budget of the Patna University.
- After meeting the salary requirements, little could be saved for maintenance and development expenditure of the University. As in the case of the Patna University, non salary expenditure comes around less than 20% on the average, that too includes the expenditure on post-retiral dues, gratuity arrears, etc, In fact, there is negligent expenditure on the maintenance needs of the setup of the University during this period.
- In lack of adequate maintenance expenditure, these universities are facing a crisis to meet even the necessities of academia like maintenance of libraries and its assets, laboratories, sports facilities, computers centres, etc.

- There is virtually no scholarship provision for talented but underprivileged students in both the universities.

All these findings suggest that the university system in Bihar is in a deep crisis. They are somehow managing to survive and exist in deficit spending. Nevertheless, universities are not such institutions, for which survival is the only concern. They exist with a purpose to fulfil. Universities are meant to build academic career to enable and prepare the students to seize equal opportunities and realise their potential in the job market. This purpose gets compromised in the situation of inadequate financing. Consequently the expectation of the society from the government to take care of the marginalised section that comes here to study is not fulfilled. It is not the students' fault, if they have not studied market relevant courses as the universities do not offer those with updated syllabi and curricula for want of teachers and finances. Yet, students have to face the problems and blame their destiny for having studied in these universities, which do not prepare them according to the changing dynamics of subjects and the job markets. As a result, they get disillusioned and keep away from these universities for higher education or even if they get enrolled, they lack sincerity. This also happens because there is virtually an absence of motivation and incentive factors from the academia. Teachers are facing financial crisis because of delayed salary payments, ad-hoc teachers lack that drive to inspire students and add to this no scholarship system exists to encourage students to take their studies earnestly.

With the gross enrolment ratio in higher education of Bihar at 7.30%, it is really a pity, if such a large number of students, after studying in these State Universities find themselves much behind in the race to seize the opportunities as compared to the students of other advanced universities. This situation deprives them of the chance to attain equal opportunity and socio-economic mobility in the academic milieu. It is all the more disturbing that it happens despite their investment of valuable time and hard-earned money of their guardians. Over the years this situation has precipitated in the mass brain drain of students from the State and whoever is remaining there, these universities are just frittering away their talent and potential. All the findings suggest that the State

government is least bothered about the plight of higher education in the state. In the zeal of other priorities and to contain expenditure, it is not able to recognise the advantage and arguments for high-end human capital, which could contribute positively towards the development and prosperity of the state in the long run. Despite the obvious and as discussed crisis in higher education sector in Bihar, it seems the government has adopted self smug attitude and is content with its inadequate financial support.

It is quite apparent from the statement in White Paper (Government of Bihar, 2006, Para 7.4.2.) as,

“Despite this level of support, infrastructure is lacking and the quality of higher education is far from satisfactory... This is in stark contrast to the situation in primary and secondary education which is a high priority area for the State government... In any case, parents send their wards to the universities and colleges outside the State... there can be fewer number of universities providing quality education and developing into centres of excellence in a given area. This will also help in generation of internal resources which at present are rather insignificant.”

This is really unjust on the part of the government to state that in any case ‘parents send their wards for education outside the State’, so seemingly, it does need not take care of this sector seriously! This is like denying the hard core reality of inadequate financing and shrugging off the responsibility on the part of the government for ensuring the well-being of its residents. Students are going outside the State not because of their opted choice but due to their keenness for good academia and non-availability of the same in the State. The ‘centres of excellence’ would not be able to meet the aspirations of all those students who come from the rural and underprivileged section of the society. To expand the reach and quality of higher education to larger mass of students, there is a need to look after the requirements and development of the existing state universities and their constituent colleges.

5.3. Limitations of the Study:

The data at university level (micro level) are difficult to procure. University administration is very secretive about the financial data. The data procurement task becomes more difficult when there is shortage of staff even in the administrative functioning. They are least bothered to make the data available for the research work as they are overburdened with their own official works.

Even after getting hold of some documents of the university it is very difficult to comprehend the classification of expenditure as the accounts are not maintained in updated terms. Another limitation of data is that they cannot reveal the actual scenario of expenditure and so many truths lie behind. It is difficult to fathom the quality and efficacy of expenditure due to reasons like, governance problems, spread of corruption in the system, improper utilisation of funds, and lack of monitoring as well as accountability in delivery of services.

At the state level (macro level), in absence of particular indicator, it was too obscure to relate with the parameters of university financing. Although the State government documents present the data on capital expenditure they do not show the separate allocation for capital outlay which is utilised in asset creation. The expenditure on education classification becomes more complicated as it comes under the revenue account. Besides, the dichotomy of plan and non-plan expenditure on education is also confusing.

The study made an attempt to look at the State government expenditure data on higher education and the university level data on grants coming from the State government to figure out the financial support given to the universities.

5.4. Upcoming Scenario:

There is now a changing perception for higher education and the Central Government has shown some interest and taken initiative by setting up the National Knowledge. The National Knowledge Commission has highlighted the three principal objectives, viz., 'expansion, excellence and inclusion' for the present phase of reforms. It has recommended an increase in the number of universities to 1,500 in the next eight years to attain a gross enrolment ratio of at least 15%, besides creating 50 national universities as "exemplars of excellence".

In this context, there is even a greater need to upgrade and advance the development and quality of academia of universities in Bihar, which houses more than 8% of population of our country. There is also a need to examine the management aspect of universities and ensuring economy and efficiency in university budget expenditure. However, there are some efforts to grant autonomy to the universities for recruiting lecturers. It will hopefully, make the recruitment policy more transparent and would help appoint competent and talented teachers. This would be a first step to advance and improve the quality of studies by coming out of the clutch of political intrigues and vested interest in internal affairs of the universities. Hence, through keen interest and serious effort the government can make the difference in the quality of the imparted studies, besides coming up to the expectations of the larger society and developing aspiration of a human resource endowed State.

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Appendices

Appendix: I

The Eleventh Finance Commission Recommendations (2000-05):

The recommendations sought to formulate the fiscal rules by fixing the size of the fiscal deficit, which is to contain profligacy of expenditure. It also considers the existing level of the debt of the government. Higher the debt level, larger the interest burden will be. It further points out that states' interest payments constitute on an average about 22% of revenue receipts. The interest payment liabilities drive up the revenue receipts in the nineties. Restructuring of public finance requires the level of debt to be brought down to a sustainable level. This in turn helps to limit the interest payments to a manageable proportion of revenue receipts. This gives the leeway to the government to spend on essential public services. As interest payments pre-empt most of the resources the government has to borrow to garner the fund to meet the basic requirements. As a result, the state slips into a vicious circle of debt trap. The Commission fixed the certain norms to restructure the finances such as for the states the proportion of interest payments to revenue receipts including devolution and grants should be about 18% as against the present average proportion of 22%. Although it has given the advantage of interstate variation to suit the local needs. {Para 3.20 (iii)}

It has also remarked that while interest payments, pensions and salaries hold downward rigidity in the short run; there is a need to augment the expenditure on items like those on education, health and infrastructure. This is essential to sustain the growth of the economy at the desired level. Thus, the Eleventh Finance Commission initiated the state finances reforms by recommending bolder expenditure control, aggressive downsizing and revenue enhancing measure supported with the incentive system in place. It also suggests setting up a sinking fund in each state for the amortization of debt. (Para 11.46 & 11.47).

Appendix: II

The Recommendations of the Twelfth Finance Commission:

To restructure the states finances it has fixed the target of fiscal deficit of 3% of GDP by 2009-10. It has also exhorts the states to enact their fiscal responsibility legislations so as to bring down the revenue deficit to zero and fiscal deficit to sustainable levels by 2008-09.¹

It suggests to states to raise the level of revenues relative to their respective revenue bases and exercise restraint in undertaking unwarranted expenditure commitments to meet the responsibilities of providing public and merit goods².

Appendix: III

Table-A
Per Capita Net State Domestic Product at Current prices for Major States (Rs.)
(2003-04)

State	Per Capita Net SDP (in Rs.)
Andhra Pradesh	20757 (10 th)
Assam	13139 (14 th)
Bihar	5780 (18th)
Chhattisgarh	14863 (12 th)
Gujarat	26979 (4 th)
Haryana	29963 (1 st)
Himachal Pradesh	24903 (5 th)
Jharkhand	12509 (15 th)
Karnataka	21696 (8 th)
Kerala	24492 (6 th)
Madhya Pradesh	14011 (13 th)
Maharashtra	29204 (2 nd)
Orissa	12388 (16 th)
Punjab	27851 (3 rd)
Rajasthan	15486 (11 th)
Tamil Nadu	23358 (7 th)
Uttar Pradesh	10817 (17 th)
West Bengal	20896 (9 th)
India	21142

Source: Economic Survey; 2006-07, Government of Bihar

¹ GOI (2005): Report of the Twelfth Finance Commission, Government of India, New Delhi.

² Education as a whole holds the characteristics of a merit good. Musgrave defines merit goods as those that are in the nature of private goods and their consumption may be rival, yet may not be for various reasons provided by the market to the extent the community would like. In Musgrave's opinion, the concept of merit goods itself provide the rationale for the redistributive function of the state

Appendix: IV

Table-B (Appendix)
Transfer of Resources from the Centre to Bihar (Rs.Crore)

Year	Share in Central Taxes	Grants-in Aid	Gross Transfer of Resources	Gross Loans from Centre	Net Loan from Centre	Net Transfer of Resources
2001-02	6144.95	1057.02	7201.97	1076.66	548.43	7750.4
2002-03	6526.09	1397.31	7923.40	1255.16	-126.12	7797.28
2003-04	7598.53	1617.62	9216.15	819.71	-1559.99	7656.16
2004-05	9122.04	2831.83	11953.87	1654.18	-1068.53	10885.34
2005-06	10421.43	3332.72	13754.15	1.81	-486.05	13268.10

Source: Economic Survey, 2006-07, reproduced from Table-7.12; Government of Bihar.

