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Cost-sharing in Higher Education

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Abstract:
Higher education plays a very important role in the national development. It brings many economic and non-economic benefits to individuals and societies. It is associated with higher productivity and growth of a nation. Since last three four decades financial issues in higher education has been very important, driven by a belief in higher education as a principle engine of social and economic advancements both for individuals and societies as a whole. Higher education is a major engine of national economic growth and a provider of individual opportunity and prosperity. Cost sharing in higher education refers to sharing of costs between government or taxpayers and students or families. This paper is an attempt to present the debate in cost sharing and rationale behind it. This paper will elaborate on access, equity, and affordability issues in Indian context and how these issues can lead to the question of cost sharing. Further it evaluates the desirability and affordability of the alternative schemes that lead to generation of additional revenue so as to make our education system more and more inclusive.

Keywords: *Higher Education, Cost-sharing, Financing, public funding*

1. Cost sharing in higher education

Cost sharing in higher education refers to a shift in the burden of higher education. So, the cost from being borne exclusively or predominately by the government or taxpayers, to being shared with parents and students is what this paper glance at. This cost sharing, as articulated in Johnstone (1986) Johnstone (1992) Johnstone (1993) Johnstone (2002) Johnstone (2006) may take the form of tuition, either being introduced where it did not hitherto exist or being rapidly increased where it already did, or of public institutions charging more nearly break-even, or full, cost fees For room, board, books, and other costs of student living that may formerly have been covered mainly by the government (Johnstone, 2006). Freezing of student grants and reduction of the effective grants also leads to shifts of cost burden from government to students and family, changes in the public policies may also shifts the enrolments. In all these ways and in combinations the burden of higher education costs worldwide is being shifted from government or taxpayers to students and families.

2. Rationale of cost sharing

There are three principle rationales of cost sharing that has been taken into account. The first rationale is the sheer need for other than government revenue and this need begin with drastic increase in the public and private demand for higher education. The demand pressure is the function of the demographic increase in the traditional college-age cohort, compounded by the increasing secondary school competition which eventually increases the numbers of the students who want to go for higher education. This demand pressure is more severely felt in low income countries that are trying to become more competitive globally and aim at shifting of ‘elite’ to ‘mass’ higher education participation. But it is not necessary that only countries with low level of income face this problem, countries already at near- universal participation rates also face the same as the average student

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'consumes' ever increasing amounts of higher education or post-secondary education over his or her lifetime. However, institutions delivering higher education are everywhere in developing countries these institutions suffer from severe and worsening austerity. This austerity is a function of at least three measures, first, is the demand pressure, second, is the high or rising per student cost and third, is the decline in the available public revenue (taxpayer base). In the light of above forces consequent financial struggles in the higher education and institutions have to supplement their government revenues not only with cost sharing but also with entrepreneurial activities[1]. Raising tuition fee from students and families can subsequently augment the increasing scarce public revenues. But there lies an objection that rising tuition fee would exclude potential students from poor or rural or otherwise disadvantaged families. In that case, children of wealthy people will always have alternatives.[2]

The second rationale of cost sharing is based on the notion of equity-the view that those who benefit should at least share in the cost. This principle comprises of four observations, firstly, 'free' higher education is actually paid for by all citizens, whether or not they know that they have been taxed. Secondly, most taxes in public policies are collected on regressive or proportional basis. Thirdly, disproportionate numbers of beneficiaries of higher education are from middle, upper middle- and upper-income families who could and would pay a portion of at least a cost-thus demonstrating the value of higher education to them and the available educational opportunities Such students and families would probably prefer that much or all of this particular benefit be paid for by the general taxpayer (Johnstone, 2006). In this scenario subsidised higher education should make low or no difference to the enrolment behaviour of the affluent societies. Fourthly, the extent to which the potential students are excluded from higher education due to the presence of tuition, a portion of tuition can be funded through means-tested grants or loan subsidies (at least in the theory) that can enhance the accessibility.

The third rationale of cost sharing is the neo liberal economic notion of higher education- a price of valuable and highly demanded commodity which brings higher education some virtues of the market the first such virtue is the presumption of greater efficiency: that the payment of some tuition will make students and families more discerning consumers and the universities more cost-conscious providers. The second virtue attributed to the market is producer responsiveness: the assumption that the need to supplement public revenue with tuition, gifts, and grants will make universities more responsive to individual and societal needs (Johnstone, 2006).

3.Cost Sharing in the Indian Scenario

In almost all the countries developed or developing countries the responsibility to impart higher education rests practically on the state. In developing countries, it is largely financed through public subsidies where as in developed countries it is largely financed through private subsidies[3]. Whether it is a public or private subsidy both can cover the 'private costs' or 'institutional costs' of higher education in the Indian context. Subsidies to private costs are meant to cover the provision of low-cost rent hostel accommodation, low priced meals, free medical care etc. and it may also incorporate a compensation for private opportunity cost of education incurred in terms of the foregone during learning. Similarly, subsidies to institutional costs can be identified as those grants to educational institutions which cover the fixed and recurring costs of education, like building, libraries, laboratories etc. These classifications of subsidies give rise to notion of 'domain-distinction' in investment in education (Majumdar, 1983). According to this notion individual learner's investment of resources to procure education and institutional investments in societal domain to provide education are

[1] Such as sale of faculty services, sale or lease of university faculties, vigorous pursuit of grants and contracts and fund raising from alumni corporations and friends.
[2] In the private sector, higher education abroad
[3] Private subsidies are Endowments, donations, and contributions.

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complementary components of aggregate investment in education. Both the components are equally important in 'production' of education (Khadria, 2003).

Indian higher education system is undergoing a series of reforms which have an impact on access, quality, governance and finance. Expansion of higher education is important for policy change and the major argument in this favour is that there is a need for strong educated and skilled human resources to reap demographic dividend. The mobility of skilled persons is also very important so as to reap the benefits of globalization to name a few arguments that are in favour of access to higher education. To meet the sufficient demand for higher education it is important to ensure supply of institutions. Even if the institutions are not sufficient, high opportunity costs of higher education would not ensure to achieve the target. Now arises a question that how can the opportunity of higher education be lowered to ensure demand for education?

The solution to this problem can be- so long the st(Psacharopoulos, 1977)ate is bearing the burden to expand higher institution at low cost the issue of access can be resolved thereby enabling inclusiveness in the higher education system. However, if the state fails to employ the resources needed for expansion. In that case the state would favour privatization. This will increase the opportunity costs which may deter access to higher education. Thus, affordability is a very serious issue which lead to question of cost sharing in Indian context.

Huge and indiscriminate public subsidisation of higher education in a society characterised by high levels of socioeconomic inequities on the one hand, and mass illiteracy and low levels of school enrolments, on the other, may be highly inequitable, as well as inefficient. The perverse effects of huge public subsidisation of higher education are well known (Blaug, 1982; Psacharopoulos, 1977). Having said that, stated below are some of the policy choices India can adopt on the generation of additional resources for financing higher education.

3.1. Public financing for higher education

Higher education benefits society and generate externalities, hence there is a case for society to invest in higher education. In fact, the whole idea of public spending arises from the public good characteristics of higher education and externalities associated with it. Due to the resource constraint it is very difficult at the present juncture to sustain the present level of spending. If all the students are having access to higher education via general taxation system it may be equitable as more and more people are benefitted from higher education. However, such an indiscriminatory system public subsidisation may not be equitable. As all those who are paying taxes, may not go for higher education, therefore there are more serious arguments in favour of reducing public subsidisation in higher education.

- From the equity point of view, in India the underprivileged do not reach the higher education sector, as in many other countries (Hansen, 1989). They wither away before they reach the tertiary levels of education. Higher education is found to be clearly benefiting relatively more the upper income groups (Bhagwati, 1973; Tilak & Varghese, 1991).
- From the economic efficiency point of view, as rates of return to higher education are found to be lower than the rates of return to primary and secondary education (Tilak, 1987).
- It also becomes necessary as mainly public budgets for education are at best stagnant, and indeed declining in real prices, and more particularly in relation to other sectors of the economy. In the present context because of the financial constraints the government is not in a position to maintain, not to speak of increasing the present level of public subsidies to higher education significantly (Tilak & Varghese, 1991).

Therefore, these are some arguments which favour reduction in public subsidies and depicts clear shift from public subsidies to private financing.

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3.2. Student's loan

Student's loan is helpful in encouraging the students to support their cost of higher education in the long run. Theoretically it is an attempt to shift the burden on the students and their families whereby they can pay the cost later for the education they received earlier. Students loan programme suffer from some problems in India such as: -

- Psychologically people don't prefer starting their career with seeking loans
- Credit market is not so well developed in India. Private institutions may ask for such security which students may not be able to provide. Therefore, public intervention is required in order to provide guarantee, assurance etc for providing loans.
- What would be the rate of interest is also an important issue? Will the same rate of interest prevail or it will differ from other rate of interest?
- Excessive debt burdens and default rates is a common phenomenon which raises a question of repayment of loan. As Hansen (1989) mentioned, 'student loan defaulters have become a major political issue in Washington in the past year because they now cost the federal government over $ 1.50 billion annually'. If this is a case of a developed country like US that one expects what would be the case of the developing countries where mechanisms to recover loans is not efficient.
- Finally, if education does not guarantee employment and if repayment is compulsory how would people from poor sections of society would repay their loans

All the above reasons would aggravate the inequities among the groups regarding the participation in higher education.

3.3. Graduate taxes

A graduate tax is an education specific tax to be levied from those who use the educated manpower (Tilak & Varghese, 1991) as manpower produced is used in all economic activity. These sectors do not contribute directly in financing of the education but they are the direct beneficiaries in terms of the productivity gains. Hence there is every reason why employers should be taxed on the number of graduates they recruit. Since graduate tax is linked with cost of education, tax should be levied according to the type of graduate employed. Once the employer starts paying this graduate tax, it will be continuous source of financing education in years to come. However, the major drawbacks of graduate taxes that may work as a disincentive to employers to employ graduates' employers are likely to recruit cheaper graduates. All this may lead to the problem of educated unemployment, unless education productivity relationship becomes very strong, and the elasticity of substitution between several types of higher education becomes less (Tilak & Varghese, 1991).

3.4. Student fees

Student fee is a method whereby incidence will be on the students or on the families. In this method cost is charged from those who are direct beneficiaries of the system. But this may act as a negative factor influencing the enrolments of the disadvantaged segments of the society. The fee structure in the Indian context has remained unaltered over the years, rising costs of education is leading to cost fee disparity, therefore fee should be charged whereby costs fee disparities are reduced or at least maintained at reasonable rate. Uniform increase in the fees may affect the equity adversely. Therefore, discriminatory fee structure should be advocated. Discriminatory pricing minimises the perverse effects of public subsidisation of higher education reflected through uniform and low levels of fees. Indiscriminate public subsidisation is inequitable because the incidence falls heavily on the relatively less privileged sections. Therefore, to equalise the public subsidy a differential fee structure is essential (Tilak & Varghese, 1991).

The basis for discriminatory pricing therefore should be

- The Cost fee disparity
- The share of fee to the expenditure per person across disciplines, and levels.
- Family income of the students.

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- The likely benefits for a given type of education.

The above discriminating pricing model may be efficient as it would lead to generation of additional revenues in order to finance the higher education in the country.

3.5. Higher education surcharge on personal income tax

This is a proposal for the introduction of subsidy-offsetting surcharge on personal income-tax of the individual beneficiary of higher education during his/her earning life cycle. This is a method whereby we can continue public financing of higher education but with provision for the recovery of the subsidies later. Since subsidies continue but are subsequently taxed away, this model is known as subsidy-taxation model (Khadria, 2003). This model stand firm on equity-efficiency model as it taxes people on the actual achievements rather than the uncertain promise that higher education makes to students. In this the burden of financing higher education also shifts from indirect taxes which everybody pays, to direct taxes which only the beneficiary would pay. This model is also operationally feasible as recovery of subsidies through educational surcharge on income-tax can be made, this task of recovery can be made manageable through computerization of permanent income –tax numbers and their allocation to not actual taxpayers but also to potential ones receiving subsidizes higher education (Khadria, 2003).

One can see that subsidy-taxation model is relatively feasible in Indian context as it not only charges the direct beneficiary of higher education but also easy to practice and politically tenable than the full cost user charge model.

4. Conclusion

The view that higher education ought to be ‘free’ or at least very highly subsidised may also be 4mainly pragmatic and strategic, regardless of ideology or politics. For example, many opponents to the view of cost sharing, as presented above, accept the notion that means-tested financial assistance and loans might in theory preserve accessibility in the face of rising tuition and diminishing taxpayer subsidies to the ‘well-off’. However, they claim that children of the poor may not understand that high tuition can be offset with grants and hence might not aspire to a university education during the middle and secondary years, when the absence of such aspiration may effectively preclude the option of any higher education (Johnstone, 2006).

A major plank in the critical opposition to higher educational cost sharing and marketisation is the assertion that, contrary to the prevailing neoliberal position, taxes can be raised, both substantially and progressively, if there is but the political will and leadership. Doing so, they assert, would obviate the need for tuition and other forms of cost sharing, and would also avoid the danger of losing enrolments (particularly among the poor) and risking failure in possibly ineffective and expensive financial aid and loan schemes (Buchert & King, 1995; Colclough & Manor, 1991).

The supplementation of higher educational revenues by non-governmental sources – primarily students and family – is one of the major recommendations from the World Bank and most other development experts as one important solution to increasingly underfunded and overcrowded universities in the developing world (Johnstone, 1991, 1993; Johnstone, Arora, & Experton, 1998; Woodhall, 1992; World Bank, 1994; Ziderman & Albrecht, 2013). Due to these recommendations the beginnings of tuition and other kinds of fees can be seen in countries like China, Vietnam, India, Latin America and Africa. We see the dilemma of Russia, Eastern Europe, and the other countries of the former Soviet Union, all struggling with the need for tuition to supplement increasingly inadequate public revenues for higher education, looking for loopholes in their present constitutional guarantees of free higher education(Johnstone, 2006). In light of increasing expenses borne by the students and parents, individual institutions face the challenge of maintaining the higher educational accessibility, especially for the poor, minority, rural, and other underserved populations. In US and other countries many strategies have been adopted in order to include more and more people in the domain of higher education with means tested financial assistance or with available governmentally guaranteed student loans or graduate taxes, but there lies a problem that these policies are financially, technically, politically, and culturally difficult to practice. For example, 'financial need' is exceedingly difficult to ascertain and verify, especially in non-Western countries, where private sector incomes may be neither reported nor even recorded (or certainly under-reported) and where tax evasion is everywhere prevalent (McMahon, 1988). However, in order to relieve the public treasury and truly shift the cost burden to the student and parent, the loans must be repaid – and at something at least near the generally prevailing rate of interest. This is as true for 'contingent repayment' or 'income contingent' loans, such as those employed in Sweden and available in the US, as for conventional 'mortgage type' loans (Johnstone, 1974, 1986; Woodhall, 1992; Ziderman & Albrecht, 2013). It is also true of other forms of deferred payment where the student presumably bears a share of the higher educational cost burden, but only repays in the future, over time, and only as long as he or she is gainfully employed.

Such repayment schemes include the so-called graduate tax (often advocated, but never fully implemented) see Barr (1989), the 'income surtax' repayment employed in Australia through the Higher Education Contribution Scheme (HECS), and the 'drawdown' of governmental pension payments employed in Ghana to repay the student loan fund. In all of these repayment schemes, the present discounted value of the stream of future payment must equal the original value of the loan, or of any forgiven tuition, for the cost burden truly to have been shifted to the student.

Arguments given above regarding cost sharing are depicting the feasibility of the different schemes in developed and developing countries. The application of these schemes will depend on various factors such as nature of the country (developed or developing), demand of higher education, opportunity cost of higher education etc.

With the rising challenges of constrained budget and global workforce competition, Indian higher education system is facing a lot of problem and to solve this problem now a day's corporations are getting involved in education sector for a number of reasons such as, improved financial performance, building financial reputation, goodwill among consumers etc so as to ensure that right needs are being met on both ends. In order to restructure the Indian higher education system corporate should also perform their responsibilities towards society; this is known as corporate social responsibility. In order to reap benefits, they must help these universities /colleges to produce such skilled and trained manpower by providing funds for research and development, organizing various workshops, training and development programs, cross over exchange programs, infrastructural support and last but not least providing facilities for qualitative education that quantitative. In this way the individuals and society at large are likely to benefit (Chopra & Marriya, 2013). This is how we can try and solve the problem of cost sharing in Indian context.

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