

MONOGRAPH—VIII

**Task Force on
Educational Finance**

NOTES ON FINANCING OF EDUCATION IN INDIA

BY

Prof. A. R. Prest

Manchester University



EDUCATION COMMISSION

University Grants Commission Building

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I

These notes are not intended to serve as more than a basis for discussion at the meeting of the Task Force on Educational Finance on August 6 and 7. It would be ridiculous to pretend that with my very limited knowledge of Indian Education, I can possibly do more than sketch in a few superficial impressions. If these provoke and promote discussion, they will serve their purpose.

I shall start with a sketch of the U.K. system of educational finance, in the hope that some of the practices prevailing there may throw light on, even if not provide solutions to, some of the financial issues facing the Commission. I shall then set out very briefly some of the main considerations which will have to be taken into account in financing arrangements. Then I comment on the character and problems of Centre-State financial relations; finally, I shall conclude with comments on relationships with local bodies, both public and private. There are a number of financial issues which I shall not touch on at all e.g. possible additional earmarked taxes cost control, relative pay structures of teachers at different levels, rates of return to different stages of education etc. It is not that there should be

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considered unimportant but simply that I do not have sufficient time or knowledge to deal with them.

II

This brief description of the U.K. system of educational finance will start with an account of ~~general Central-Local~~ financial relationships as they are at present. Then we shall pass to the finance of the lower stages of education; then to the higher stages; finally we shall add a word on adult education.

The U.K. is a unitary and not a federal State and although there are considerable differences between the powers and functions of the different local authorities, these can be ignored here. The essential pattern of local authorities' finances is that they raise about half their revenue from taxes etc. and about half comes in the form of grants from the Central Government (there are no assignments or devolution of taxation). Since 1959, the grant system has worked in the following way. First, there is a so-called "Rate deficiency grant" which is allocated among local authorities by a complicated formula which essentially results in making awards to the more rural local authorities; this takes up about 1/8th of total grants. Second, and much the most important (about 70% of the total), is the general grant. This is distributed on the basis of a formula giving plus marks to items such as population, number of children under 15, population density, areas with a high rate of emigration and minus.

marks to the value of property in a local authority area. Third, a number of specific grants are given for miscellaneous purposes such as school welfare services, police, housing etc., some being on a percentage basis and some on a unit basis. There amount to some 15% of the total. Before 1959 specific grants applied to other major items of local authority expenditure such as education and therefore were a much larger fraction of the total. The principal reason for the change were the ideas (a) that the new system would be simpler to administer and (b) that the old system had reached a stage where specific grants were in some cases such a high proportion of local authority expenditure as to endanger their freedom of action.

Turning to the financing of the lower stages of education (i.e. up to the end of the grammar school or secondary school stage), we have to distinguish three main streams - the public, the semi-public and the private. In the public sector, schools are run throughout the country by local authorities. It is usual to have separate schools for primary education (ages 5-11) and these are usually co-educational. After age 11, there is a bifurcation between secondary modern schools and grammar schools, but in both cases the tendency is to have separate schools for boys and girls. Places in

1 Some local authorities also run nursery schools for children under 5.

grammar schools are awarded on the basis of competitive entry (the famous "eleven plus" examination) and it would be rare for pupils to leave them before the age of 16, with an ever increasing number staying on until 18, the standard age of University entry. In secondary modern schools, on the other hand, very few pupils stay on after the age of 15, the present school leaving age.² This bifurcation of secondary level education is due to be phased out over the next few years as the move to "comprehensive schools" (i.e. larger schools combining all streams of ability) gathers pace.

As far as finance goes, there is very little to say. All education in the public sector is provided completely free (apart from part-charges for mid-day meals, special school subscriptions etc.) and the costs fall wholly on the local authorities (apart from the 100% grant for school welfare services).

In the semi-public sector, one must distinguish between two different types of school - though there is sometimes an overlap between them. First, there are a lot of church schools of different denominations which in fact are financed by the local authorities but they maintain a certain freedom of management which gives them some degree of independence. Again, no fees are charged. Second, there is the important category of direct grant schools - important for their prestige and reputation (e.g., Manchester Grammar

² It is to be raised to 16 in the near future.

School (boys), North London Collegiate Schools(girls) rather than their number (some 200 in the whole country)³. These schools are not under local authority control at all but receive a capitation grant from the Central Government. At the same time they agree to keep free a certain proportion (usually 25% to 50%) of their places for children for whom the local authority is willing to pay. (These would normally be selected on a double basis - partly the local authority eleven plus examination, partly a special examination set by the school). They then charge fees (on a scale determined by the Central Government) to all pupils, but a sizable proportion will have theirs⁴ paid for by the local authority or authorities. By and large, these schools incur current expenditure out of grants and fees but have to rely on endowments and appeals to meet major non-recurring costs.

In the private sector of the economy, there are a number of independent schools of different types. A division which is frequently, though not always, found is between schools taking children up to the age of 13, ("preparatory schools") and schools for older children ("public schools"). These schools rely^{al} most entirely on fees and endowments though there are a few isolated

3 Direct Grant Schools are not found in Scotland and N. Ireland. In fact, the system of education there differs somewhat from the English one and so the whole of this description should strictly be read as applying to England and Wales only.

4 The prestige of some schools is such that local authorities from some distance away may be willing to pay the fees of selected pupils e.g. some boys commute 60 miles each way each day to Manchester Grammar School

instances of local authorities paying fees of children who attend them. But normally the only concessions which such schools enjoy are the ordinary tax relief to charitable institutions in respect of income tax,⁵ property tax, etc. Something like 5-10% of the total number of pupils attends these schools.

We now turn to higher education. The first component here is that of technical colleges and similar institutions.⁶ These are mainly under the control of local authorities although there are a few specialised national institutions. These colleges perform an immense variety of functions providing courses for all sorts of vocational, technical and academic qualifications, most of the students being on a part-time, and frequently on an evening, basis. The second component is that of teachers' training colleges which again are largely run by local authorities though frequently outside bodies such as Churches are represented in the management. These are partly financed by the local authorities and partly by charges to students, though most of the latter would in fact be in receipt of local authority grants which more or less cover their tuition and living costs. The third component is that of the Universities. (Colleges of Advanced Technology, formerly under direct control of the Ministry of Education, are in the course of being converted into

⁵ It so happens that the relief for property tax is very considerable in these cases.

⁶ In fact, technical colleges etc., also perform functions which can hardly be described as higher education e.g. teaching shorthand to girls of 16. But it is convenient to take all their functions together at this point.

Universities and so they will be subsumed under this head). Some 70% or more of University expenditure is met (on a quinquennial basis) from the University Grants Commission, originally an agent of the Treasury but now one of the Ministry of Education. The remainder is met from fee income (and in turn most of the students paying fees receive grants from local authorities if undergraduates, or from the Central Government if graduates), subscriptions from local authorities, donations and endowments.⁷ The fourth component of higher education is a rather miscellaneous ragbag - correspondence colleges, language schools and the like. Essentially these are commercial institutions not supported by public authorities but paying their way from fees.

The last aspect of U.K. education is adult education. This has taken a variety of forms over the years - University extension departments, local authority sponsored courses, special organisations such as the Workers' Educational Association and so on. The kinds of courses given, the levels of institutions and the sources of finance are almost as varied. As far as the latter are concerned, one can find anything from evening courses for businessmen (for which firms are often willing to subscribe quite heavily) to purely nominal charges for instruction in cooking, handloom weaving and so on (the rest usually being met by local authorities). In a sense, this type of activity

7 It should be noted that the Colleges of Oxford and Cambridge, as distinct from the Universities, do not receive U.G.C. funds.

must be considered partly social as well as educational.

III

There are several features of the Indian educational pattern which particularly strike one foreigner. The first is the very large effort which is already being made in the field. The very considerable advances in the last twenty years are clearly a major factor here. But at the same time India differs from many underdeveloped countries in having a substratum of educational institutions with a very long and extremely reputable history. At the same time, there is obviously a lot of very low quality and low calibre work being done. I would not like to suggest that the University of Madras falls in this category at all. But, as I understand it, the reading list for the B A. Economics consists of books which would have been read by students before entry to the best British Universities; and at the weakest of these, the books would certainly be covered in the first two terms of the first undergraduate year. Another feature of the Indian educational system is excessive rigidity. This comes out in all sorts of ways at all sorts of levels - close prescription of textbooks and courses, far too much control by senior people of junior people and so on. This sometimes leads to ridiculous regulations such as a refusal to allow economics and mathematics to be taken as a combination of subjects. One might as well go a step further and tell students to write

examination replies with pens without ink in them

These are well-known points and so I will not dwell on them further. In the future, India is clearly faced with a further large expansion in educational provision and at the same time with the need to pull up the quality of instruction and standards wherever possible. Given the low level of income per head in India and the many other claims on resources, this is a colossal financial task whichever way one looks at it. But in the same way, as some animals are more equal than others, some tasks are less colossal than others. The first and most important principle seems to me to give the maximum possible incentive to private enterprise in this field. Private enterprise has done a great deal in Indian education, relatively to many other countries. It is clear that there is an enormous popular demand for education and so people should be given every encouragement to set about providing it. In many sectors of the economy e.g., provision of roads or electricity, the government has to do the job itself - the private sector obviously cannot undertake such tasks. But education - or some parts of it - can be provided by small scale public financial efforts and so the utmost use should be made of this characteristic. Encouragement of private initiative is also the most likely way of attacking many of the rigidities in the system; and so this is very much a matter of killing two birds with one stone. I realise that there are disadvantages

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in this general strategy - those of a lot of small or unsuitable units being set up, those of unscrupulous characters posing as educationists and so on. But this is always true of private endeavour in any field and the answers which normally apply in other fields hold here too, i.e., the forces of competition, plus those of Government to deal with flagrant abuses.

So much for the general role of private rather than public enterprise. Within the public sector itself, there are many serious issues. One of the most important is the relative role of the Central Government and the State Governments. I shall come to this topic in more detail shortly but in the meantime, the essential problem is: how to maintain the freedom of general action on the part of the States whilst ensuring that their detailed actions are more liberal than they have often been in the past. In general terms, the right kind of answer seems to be to give the States, if anything, a greater freedom in the usage of revenues at their disposal but to provide for the Centre to give more help of a selective nature to specially worthwhile institutions, individuals etc. As for State Local relations, I suspect that there is not yet much of a case for further devolution of authority, but I shall return to this later.

One final point is the inter-relationship between equality and uniformity. Even in the course of as short a span as two weeks in India, I have heard the cry raised on several occasions about the need

for much greater uniformity among degree giving institutions. This seems to me completely misplaced. All countries that I know of have good and bad educational institutions. It is fully recognised in the U.S.A. for instance that a degree from an Ivy League University on the East Coast is something very different from a broken down college in Mississippi or Alabama. Nor does the proposition carry conviction that prospective employers are bamboozled by the apparent equality of B.A. and M.A. degrees from each and every college, or University. One of my jobs in the U.K. is to scrutinise applications from Indian students to do post-graduate work in my subject in my University - and I should certainly be discharging these duties very badly if I did not learn to recognise the relative merits of degrees from different Universities and Colleges.

On the other hand, the arguments for greater equality of educational opportunity in different regions, among different classes etc. are highly relevant and important. I shall return to this point with some suggestions later. All I need do at this stage is to reiterate that these two issues - greater equality of opportunity and greater uniformity of education - are radically different from one another.

IV

I shall start by describing the present system of Centre-State financial relations, then mention the main criticisms which seem to have been levelled against the system and finally discuss possible

reforms. Inevitably, a discussion on these lines must take us outside the confines of educational finance and on to wider matters. It is almost equally inevitable that there will be mistakes of factual detail, for these I apologise in advance and only hope that the outlines are essentially correct.

The system which now seems to be operating is that the States have to place the details of their financial position before the Finance Commission in the first instance. On the expenditure side, States set out their non-developmental expenditure (administration, debt interest and the like), their "inherited" expenditure (e.g., recurrent expenses arising from developments under previous plans) and finally their non-Plan developmental expenditures. On the revenue side, the States set out their expenditures from the present set of taxes (at present rates) including Central taxation which must be paid to the States (essentially Estate Duty) but excluding other tax devolution proceeds. On the basis of these revenue and expenditure expectations, the Finance Commission then makes awards of taxes and grants in aid to all States to meet their needs. There seems to be a good deal of flexibility here in that the overall need for grants depends inter-alia on the percentage of income-tax and excise tax proceeds which is allocated from the Centre to the States. A mixture of principles is involved in the shareout between the States - partly origin of tax, partly population, partly special needs.

The other main part of Centre-State assistance stems from the Planning Commission. Once the pattern of Finance Commission assistance is determined, the revenue and expenditure aspects of the forthcoming Plan can be looked at in detail. On the revenue side, the states will have a surplus (i.e., over the relevant needs) arising from the awards of the Finance Commission, together with any new source of revenue likely to become available during the next Plan period. Once the size of the State Plan is determined (and this includes current as well as capital expenditure) it is then the task of the Planning Commission to ensure sufficient funds by grant or loan to meet these needs.

Several points should be noted about Planning Commission procedures. First, these grants (unlike Finance Commission grants) are specifically attached to particular projects and paid on a percentage basis. In fact there is a further complication here in the distinction which is made between Centrally aided and Centrally sponsored schemes. Centrally aided schemes are those falling within the State Plan and general State competence. Centrally sponsored are those falling within the Central Plan but supernumerary to the State Plan. The latter often carry a higher percentage grant than the former, as an inducement to the States to undertake them. However, Centrally sponsored schemes were unimportant for education in the Third Plan period. Secondly, Planning

Commission procedures are very different from Finance Commission procedures. Whereas the Finance Commission is appointed once every five years, does its job and then disappears for a time, the Planning Commission keeps careful watch of the schemes under its aegis. Performance is matched against promise each year, and if States turn out to have been pessimistic in their revenue forecasts, the surplus is used to cut down the grants or loans provisionally promised by the Planning Commission, at the start of the five year period.

To complete the description, mention should also be made of some other items of grant from the Central Government such as the National Scholarships Scheme. These are outside both the Finance Commission and the Planning Commission awards and are usually based on a (high) proportion of the relevant expenditure

To illustrate the working of the system in more detail, the following figures of total revenue for Madras (1963-64 Accounts) are relevant:

	Rs. lakhs
Share of Central Taxes	19,51
State Taxes	64,96
Non-tax revenue	33,60
Grants-in-aid	16,70
Finance Commission	3,87
Planning Commission	311,36
Others	1,48

8. Roughly speaking, variations in intra-group but not in inter-group spending are allowed

It can be seen from the above that the total of Central assistance in all forms in 1963/64 was just over a quarter of the total revenue, and out of this Central assistance more than half was in taxes rather than grants; and the Planning Commission component in grants was by far the most important. At the same time one should note that net loans from the Centre to the State were Rs.38,00 lakhs in 1963/64, and that for 1964/65 (estimated) the total of grants was put at 23,05 relatively to 21.51 for taxes and 28,90 for loans. A substantial shift in the importance of grants (especially Planning Commission and miscellaneous grants) relatively to taxes therefore seems to be taking place.

Finally, on the expenditure side, it is worth noting that in Madras the 1965/66 estimates amount to Rs.37,00 lakhs (approximately) for Education altogether, of which Plan schemes expenditure takes up (approx) Rs.10,00.

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The main criticisms which can be levelled against this system seem to be as follows:

- (1) There is some overlap between the functions of the Finance Commission and those of the Planning Commission.
- (2) The total amount of expenditure on education may not be as great as it should be relatively to other spending.

9. Apologies are made for drawing these illustrations from one State only. These were the only illustrations available to me at the time of writing.

- (3) The "quality" of educational spending (e.g. weight given to different types of spending, methods of administration etc.) may be below what it should be.

Various suggestions have been or can be made in respect of these problems and we shall look at the following in turn:

- (1) The working of the Finance Commission.
- (2) The tied grants issue.
- (3) A viable tax-grant system.

(1) The working of the Finance Commission :

At the time of the Third Finance Commission Report in 1961, there was some argument about whether the responsibility for providing finance for the revenue component of Plan expenditure should in effect be provided through Finance Commission or Planning Commission awards. It would have seemed to me logical to make the Finance Commission responsible for finance and the Planning Commission (in effect) for expenditure. However, I understand that the decision went the other way and so no doubt this issue is now settled. Two other points remain. One is whether the two Commissions work in such a way as to overlap unnecessarily and so cause duplication of effort. I suspect that this must be so to some extent - it is inevitable when responsibility in what after all is a single field is divided into two - but as far as I can judge the sequence of proceedings in respect of the Fourth Plan seems to have been much more logical; and so most of the difficulties may be avoided.

The remaining question is whether the Finance Commission should be a standing body or an ad hoc one. This seems to depend on two factors. First, does one want to give the Finance Commission more standing relatively to the Planning Commission? I imagine the answer to this will depend on political more than economic and administrative matters. So I offer no comment. The second point is whether one thinks Finance Commission grants should be much more specific than at present. If so, it would obviously be necessary to have a standing Committee ready to pounce on the States to call them to account at regular intervals. This leads us straight to the second main heading.

(2) The tied grants system.

The arguments about specific grants versus block grants are old ones. The essential points are that the former may be more effective in securing more resources for one particular line of expenditure; the latter gives greater freedom at lower levels of government. In India, the emphasis from one system to the other could be shifted in various ways. One would be to make more of the Finance Commission grants of a specific character and this would involve a change in its role and character as we have seen. Another would be to reduce the awards made by the Finance Commission to the States and to render more assistance either via the Planning Commission or direct through the Ministry of Education, U.G.C., etc.

I must confess that I am not yet persuaded that this is the right line of policy. First, one must remember (as illustrated with the Madras figures above) that tied grants are now very much more important than untied ones. To go further might seriously endanger the independence of lower-tier governments. In fact, I would have thought that the present percentages for specific grants - a number of them are 100% - are in themselves highly dangerous. One of the reasons for the major change in the U.K. grants system in 1959 was the feeling that the old 60% education grant was undermining the independence of local authorities. (As long as the U.K. remained largely on a specific grant basis, it was not possible to reduce this grant percentage and make corresponding increases in others, because of the importance of education in local authority budgets). Nor does it seem to me to follow that education would necessarily get a larger slice of the cake if there were more in the way of specific grants. From all I have seen and heard, there is tremendous pressure on the State and lower level governments to increase educational expenditure and this is sufficient to keep up the tempo even with the present proportion of untied grants. And if the ratio of tied grants were greater, it does not seem to me to follow that education would win out in the process - this would presumably depend on the pressure for tied grants for health, roads and the like. It might be worth noting that a number of teachers' organisations argued against the U.K. change-over of 1959 on the grounds that education

might suffer thereby - but in fact this did not happen in the event. I understand that there was an element of grant liberalisation under the Planning Commission arrangements for the Third Plan period but from all I have seen and heard this has not prevented an enormous expansion in education expenditure.

I fully realise that these arguments have not touched on the "equality" aspects. One relevant principle here seems to me to be that of a negative grant levied in such a fashion as to impose a penalty on those governments which are misbehaving grossly. This is another device which has been employed in the U.K. for a long time, although for a rather different purpose. I will illustrate its use in more detail later.

(3) A Viable Tax-Grant System:

We have argued against any reduction in the relative importance of untied grants to the total of assistance rendered by the Centre. This still leaves open the question whether a greater share of common taxes (income tax and excise duties essentially) should be devolved to the States, thereby reducing their reliance on Planning Commission grants. Given the trend of the share of the tax component in total assistance in recent years (see above p.14) there is clearly something to be said for this view. Perhaps a reasonable working rule for the States as a whole might be that tax devolution might be fixed at not less than half the total of the revenue tax payments and grants thereby restoring the position which obtained in the earlier years of the Third Plan

period. But one might have to go further still if the aim were to make a significant reduction in the dependence on Planning Commission grants.

The question then remains how to share out among the States the untied grant and that element of tax devolution for which no statutory basis exists. I should have thought the right principle here would be to take a weighted average of a number of variables e.g., number of children aged (say) 6-13, number of backward people, number of people living in towns, road mileage etc., and combine these with total State income as a negative factor. This is an extremely flexible device as one can incorporate whatever variables are thought to be important indicators of needs of the quinquennial award. It should be noted that the relative weight of the negative factor, income, will tend to diminish, the larger the number of positive variables. This type of expenditure device has been used in one form or another for many years in the U.K.

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To illustrate the working of the principle, assume 3 States A, B and C and three variables I, II and III. Variable I might be the share of each State in the total number of children in the country, variable II the share of backward people and variable III the share of total income generated. Let the relevant shares be as follows:-

<u>Variable</u>	<u>State</u>		
	A	B	C
I	$\frac{1}{4}$	$\frac{1}{4}$	$\frac{1}{3}$
II	$\frac{1}{2}$	$\frac{1}{3}$	$\frac{1}{3}$
III	$\frac{1}{6}$	$\frac{1}{6}$	$\frac{4}{8}$
A's share =	$\frac{1}{4} + \frac{1}{3} + \frac{1}{6} = 11/24$ of total grant.		
B's share =	$\frac{1}{4} + \frac{1}{3} + \frac{1}{6} = 5/24$ -do-		
C's share =	$\frac{1}{2} + \frac{1}{3} + \frac{4}{8} = 8/24$ -do-		

contd

If it is considered necessary to lengthen the strings attached to Planning Commission assistance, the same general principle can be applied even if the details differ e.g., the percentage of assistance given for a new educational project might be varied from State to State according to indicators of inequality of income or of bad performance (e.g., in the educational context drop outs or percentages of failures in examinations.)

The fundamental point in all these intricacies of Centre-State relations is how to get a better performance at lower levels without a major increase in the authority of the Centre relatively to the States. I suggest that something on the lines above may be a working basis for discussion.

V

Our next topic is the relationships between the upper tiers of Government (i.e. Centre plus States) and the lower ones (town corporations, municipalities, districts, etc.). I have very little to say here as I have not been able to study this area ^{the} in/time at my disposal. But from what I have gathered, it seems to me that the system is reasonably satisfactory at present. In so far as grants are made by States to lower levels these are essentially on a percentage basis (e.g. land revenue cess for education, mid-day meals programme). It may be that these grants should be oriented differently in some cases (e.g. should local cesses be further encouraged? Is there a case for differentiated payments to teachers to get them to take up jobs in unpopular areas?) but this requires

detailed investigation. There is clearly no case for block grants at this level. To the extent that States misbehave in allocating monies among different local authorities, there seem to be ways in which the Centre can take the necessary corrective action, e.g., a Centrally-sponsored grant direct to a corporation. It may well be that in the course of time there will be scope for further tax devolution and for untied grants from States to lower tier authorities, but probably not at present.

VI.

These are three topics in the field of public sector-private sector relations on which I propose to comment. First, I shall say something about fees in public schools, colleges, etc., Second, I shall look at the relations between the State and private institutions. Third, I shall discuss the role of the Central Government.

On the first, I should have thought the right principle is to distinguish between sectors of education which are enjoyed by all (or at any rate a great majority of) those eligible from those not so fully available. By and large, this is likely to mean that primary education should be provided free but secondary and higher levels should not for sometime to come. There are two reasons for this: one is that it seems to me eminently fair and reasonable that those who receive a "trade union ticket" in this way should pay for the privilege rather than raise the funds out of taxation, where the burden is likely to be on non-beneficiaries as well as beneficiaries. The second point is that the abolition

of fees at the secondary (and a fortiori at the higher levels)¹¹ may raise some extremely awkward problems for private institutions. We shall return to this point later. It goes without saying that there should be relief from fees in some way or other for able students from poor families. For these reasons, I should have thought that the recent abolition of secondary school fees in Madras State is a move in the wrong direction at a stage when only 28% of the eligible boys and girls are in fact enrolled in standards IX-XI. It should also be noted that for All India the proportion of educational costs (public and private) met from fees has fallen from 20% to 15% in the period 1950-51 to 1965-66 (estimated).

On the question of grants from State Governments to private institutions, the fundamental point is that those people who elect to send their offsprings to private institutions save the States the cost of educating them at public expense. The principle should, therefore, be that grants should be payable to private institutions on the basis of the saving in costs (net of fees, if any) to the public sector.¹² There may well

¹¹. There is a perfectly good case in principle for charging differential fees at higher level institutions according to the relative costs of the courses undertaken.

¹². The proposition that, on this basis, those who do not agree with defence expenditure should be given tax concessions is a red herring. Defence expenditure is a public good the benefits from which are not allocable to single individuals. Although there are externalities associated with education there are substantial private benefits too. It is, therefore, much more of a market good than defence.

be administrative reasons for sub-dividing the cost savings or the grants but I will not go into these. I see no reason why this provision should not apply at all educational levels, from pre-primary to post-graduate, if relevant. Given the straitened budgetary circumstances of India and the enormous educational task in front of it, there is need to encourage private enterprise at all points in the spectrum.

What sorts of controls should be placed over private institutions in respect of such grants? Clearly, there must be provisions to secure efficient running but two other points which are frequently made are less clear cut. First, should teacher salaries in private institutions be formally controlled? I can see that in some circumstances there may be a case for fixing minimum levels but I should certainly not subscribe to the idea that maxima should be fixed too. Second, should fees be controlled? The arguments here are (a) that if private institutions can charge unlimited fees, then those able to pay them will have unwarranted advantages in teacher quality etc. and (b) that some school owners may make high profits if they enjoy a monopolistic situation and put fees up accordingly. Neither of these arguments seems to me to be overwhelmingly persuasive. As for as equality is concerned, we do not prescribe identical food, housing and medical treatment for everyone and so the proposition that education conform to a uniform pattern is not obvious. I can see that a situation may arise

in which monopoly profits may be made and so "price" control may be the way of dealing with it. But on balance I should have thought that as long as the States have ~~background~~ powers to deal with serious abuses, this should be sufficient without laying down hard and fast inflexible rules - there appear to be too many of these already any way.

Whether recognised private institutions should be given other tax favours as well as State grants is more doubtful. They will not normally be liable to tax on endowment monies; the more controversial point is whether they should be fully assessed to local property taxes. All such institutions only pay 50% of normal property tax in the U.K. but I am not in a position to advance a firm view on this point in India.

Finally, I want to refer to the role of the Centre. It is quite clear that the major burden of assistance to Universities will have to fall on the Centre, as it does in most countries of the world apart from the U.S.A. It is highly unlikely that much in the way of large private endowments will reach Indian Universities in the future, given the progressiveness of the tax system. Indeed, I should be strongly in favour of finding some way of making more Central assistance available to colleges as well as universities. This might be a very salutary way of differentiating between sheep and goats and giving extra grants to those colleges of proved standards and reputation.

In principle, assistance of this sort can be given directly to the institutions concerned or

indirectly via more liberal and more plentiful grants and loans to students. From what I have seen there is quite a lot to be said for the latter as a means of increasing student mobility between centres of learning and keeping these centres on their toes. I realise there are formidable administrative problems here - perhaps a compromise might be to put the major emphasis on the indirect method at the post-graduate stage only.

There are two other ways in which Central financing might be deployed. One is to encourage the spread of low-level higher education by setting up or making grants to correspondence colleges, evening institutions and the like. A similar kind of idea is the proposal for a "National University of the Air" which has recently received a lot of discussion in the U.K. Finally, I should like to refer back to the direct grant system for schools in the U.K. whereby the Central Government makes specific

13.

One particular problem is the working of a five year grant period. This raises many difficulties, as Universities in the U.K. have frequently found, especially towards the end of the grant period. On the other hand, legislatures have a natural reluctance to guarantee funds in perpetuity. One possibility might be to explore the idea of a "rolling programme", whereby a university or college always knows its fate for five years ahead, irrespective of the stage of the general planning period which has been reached.

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grants to selected grammar schools of outstanding merit. Is there not a model here for the Union Government in its attempts to safeguard the existence and well being of important institutions, if they do not receive fair treatment from their State Governments?

4th August, 1965.

A.R. Prest

APPENDIX

Illustration of Working of Grant with
(Negative Component (1960/61 data))

(1) <u>State</u>	(2) <u>% share of backward classes</u>	(3) <u>% share of children aged 6-13</u>	(4) <u>% share of net domestic product</u>	(5) <u>% share of total grant</u>
Andhra Pradesh	6.8	8.0	7.2	7.6
Assam	3.0	2.9	2.8	3.1
Bihar	11.6	11.2	7.2	15.6
Gujarat	4.5	5.1	5.7	3.9
Jammu & Kashmir	0.3	0.8	0.7	0.4
Kerala	1.8	4.0	3.7	2.1
Madhya Pradesh	11.8	7.3	6.5	12.6
Madras	6.9	7.2	7.9	6.2
Maharashtra	5.0	9.2	13.0	1.2
Mysore	3.6	5.4	5.0	4.0
Orissa	7.6	4.0	3.4	8.2
Punjab	4.5	5.1	6.4	3.2
Rajasthan	6.1	4.9	3.8	7.2
Uttar Pradesh	16.7	16.8	15.3	18.2
West Bengal	9.8	8.1	11.4	6.5
Total	100.0	100.0	100.0	100.0

Source: Educational Opportunities in India

(Study of Cost of Education in India - Monograph 4),
National Council of Educational Research &
Training, New Delhi, 1965. Tables III, VI and VII.

Notes: (1) Union Territories excluded

(2) Col. (4) Component treated as negative item