The recent proposals to cut the fees charged by IITs and IIMs by as much as 80 percent are supposed to create equitable access to quality education for the poor. The goal is meritorious, the proposed instrument is wrong. How do we deliver world-class higher education to qualified candidates whose numbers far exceed the educational capacity the government has the money to subsidize? How do we ensure that poor have access to such education? Government policy on these questions will determine whether India, at a cusp in its development, will go on to take its place in the world economy or fail yet again to fulfill its promise.

Delivering quality education is expensive. Among other things, colleges need teachers who are as intelligent, knowledgeable, motivated, and inspired as their students. They must be able to attract the very best minds to the teaching profession to educate the next generation. Without powerful economic incentives, the talented will not pursue PhD degrees and teaching careers. There is no way around this large expense.

Until quite recently, most of the cost was borne by the taxpayer through government subsidy to colleges and universities. The subsidy enabled the poor have access to inexpensive higher education but the government budget could support only a limited number and size of such institutions.

A country of a billion people needs hundreds, not a dozen, centers of excellence in higher education. The IITs admit a mere one or two percent from a highly talented pool of applicants. Behind this proud statistic lies a painful truth: our educational policy shuts the door of opportunity on some 98 percent who do not get in. Many of those who have the money pay some twenty to fifty lakh rupees go abroad to get a degree, and rarely come back. The poor do not have the money to go abroad, and the government does not have the money to subsidize a hundred IITs.

Higher fees mobilize private resources to build additional educational capacity. Lower fees for the poor and educational loan programs are the two widely used devices for addressing the problem of access to education.

Lower fees for the poor place the administrative burden of determining the individual student’s ability-to-pay on college officials, often inviting corruption. Colleges can use some difficult-to-manipulate indicators to assess the financial means of students. For example, a student who paid fifty thousand rupees a year to attend an elite secondary school must make an exceptionally convincing case to qualify for lower college fees.

Education loans offer a simpler, widely used, solution. Commercial banks give loans for education subject to admission and good academic standing at approved colleges. Students get to choose the institution they wish to attend and pay for, imposing certain discipline on college administration. Given the level of compensation commanded by the
graduates of IITs and IIMs, the obligation to pay the loan with interest does not cause their students to forego their educational opportunities.

An efficiently run, and widely available system of education loans effectively addresses the problem of access for the poor. If the government must provide subsidies, it can do so by reducing the interest charged on such loans by one or two percentage points. It is unwise to provide government guarantees for such loans because guarantees invite abuse by the unscrupulous individuals and institutions.

Self-financing of higher education through higher fees and student loans allows the limited resources of government to be focused on subsidizing newer educational institutions in areas and disciplines where market forces have not yet developed. Some half-a-century ago, visionary governments squeezed their tight budgets to create and subsidize a few institutions of higher education in technology and management—fields that were new at that time.

India’s growing ability to compete in the world markets is the fruit of that foresight. Nations of the world compete by the quality and size of the educational systems. Many are watching with a touch of envy as India captures a chunk of the information and communications technology markets. If India stumbles by failing to use its limited educational budget productively—to create new “seed farms” for future talent—it will be left behind in the race.

Reducing fees for higher education is bad policy. Financing education by bank loans to fee-paying students lets the existing colleges increase their capacity for quality higher education for the rich as well as the poor. Such a policy will enable India to build its human capital to compete in the knowledge economy.

Educational institutions that are able and willing to finance themselves should not be forced to beg for handouts from Delhi. The proposal to cut their fees appears to be an exercise in bureaucratic and political control masquerading as access for the poor. Implementation of the proposal will starve these institutions of funds, tighten bureaucratic grip on their operations, drive away talent from the teaching profession, and slow down the expansion of higher education. History will not be kind to those who play games with the future of the nation.

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