

## Prestige Matters

### Value of Connections Formed in Elite Colleges



#### In brief

- Tertiary education has fuelled the economic growth in India in recent times. This has in turn generated excess demand for a highly educated skilled workforce.
- It is crucial to understand whether public institutions should be expanded or private institutions could provide high quality education so public subsidies could be targeted on merit-cum-need based scholarships.
- Public colleges are very prestigious in India, and the average scores of graduates in college exit tests and earnings in the labor market are higher than those of private college educated graduates, suggesting a higher quality of education. However, only the very best students are admitted to public colleges, thus, this could imply the difference is only due to positive sorting. Understanding whether this is the case could help inform which type of policies to favour.
- Although the individuals who graduate from public colleges have higher exit test scores and labor market earnings, on the margin of admission, there is no difference in college exit exams.
- The wage premium is due to the firms rewarding connections that students form with their peers while at college. Public college students learn how to network better and their networks are well placed. Firms value these connections.
- It is better to let private colleges expand under the current system of standards. Public subsidies should be targeted to merit-cum-need based scholarships instead. Private colleges can offset the labor market disadvantage by encouraging networking activities and promoting internships within industry.

## Policy Motivation

Tertiary education has fuelled the economic growth in India in recent times. This has in turn generated excess demand for highly educated skilled workforce. Against this backdrop, it is vital to understand whether public institutions should be expanded or private institutions could provide good quality higher education so that public subsidies could be targeted towards merit-cum-need based scholarships. In India, public colleges are considered very prestigious and the average scores of the graduates in college exit tests and earnings in labor markets are higher than the private counterparts suggesting that public institutions provide higher quality education. But only the very best students are admitted to public colleges. This could imply that the Directed and Organised by difference is purely due to positive sorting. It is essential to understand whether this difference is indeed due to high value added as this would inform which type of policies to favour.

*“The results will inform the debate on high value added of public colleges. The findings will also address the question of whether private colleges undercut quality due to cost considerations.”*

## Policy Impact

The results will inform the debate on high value added of public colleges. The findings will also address the question of whether private colleges undercut quality due to cost considerations.

## Audience

Ministry of Human Resources Development, Department of Higher Education

## Policy Implications

- The individuals who graduate from general education public colleges on average score higher on college exit exams and also in labor markets. But on the margin of admission, there is no difference in college exit exams. However, despite this public college graduates receive a wage premium in the labor market.

This paper uses administrative data and survey data to compare outcomes of students who barely got into public colleges to those who barely missed and attended private colleges. There is no difference in the college exit test scores on the margin but there is a wage premium. Public college graduates earn more.

- The wage premium is due to the firms rewarding connections that students form with their peers while at college.

Using the survey data, this research shows that the public college premium is not on account of students' learning, training or getting good referrals. Public colleges also do not serve as signals of quality. The public college students learn how to network better and their networks are better placed. Firms value these connections in labor markets.



*“The important caveat is that the private colleges that are observed in the sample are not the unregulated private colleges that can operate without meeting any standards “*

## Implementation

If public colleges were to be expanded, this would imply relaxing the cut-off of admission. Therefore students who were willing to pay for their higher education would receive a huge subsidy. If there were social return to this loss in revenue by way of higher quality of education received in public colleges, this would be a good approach. But what this research finds is that there are only higher private returns to public college attendance. Thus it is better to let private colleges expand under the current system of standards. Public subsidies can be targeted towards merit-cum-need based scholarships instead. Private colleges can offset the labor market disadvantage by encouraging networking activities and promoting internships to foster ties with the industry. The important caveat is that the private colleges that are observed in the sample are not the unregulated private colleges that can operate without meeting any standards. They are all accredited. So the institutional set up to accredit and keep checks and balances in place goes hand in hand with this recommendation.

## Dissemination

- Dr. Mangapati Pallam Raju, Cabinet Minister, HRD
- Shashi Tharoor, Minister of State, HRD
- Jitin Prasada, Minister of State, HRD

## Further Readings

Devesh Kapur and Pratap Bhanu Mehta (2004), “Indian Higher Education Reform: From Half-Baked Socialism to Half-Baked Capitalism” CID Working Paper No. 108

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