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Mortgaging the Future? Indian Higher Education

Our university system is, in many parts, in a state of disrepair... In almost half the districts [340] in the country, higher education enrolments are abysmally low, almost two-third of our universities and 90 per cent of our colleges are rated as below average on quality parameters... I am concerned that in many states university appointments, including that of vice-chancellors, have been politicised and have become subject to caste and communal considerations, there are complaints of favouritism and corruption.

Prime Minister Manmohan Singh's address at the 150th Anniversary Function of University of Mumbai, June 22, 2007.¹

Introduction and Overview

This paper analyzes two interrelated facets of higher education policy in India: the key distortions in higher education policies and what explains them. It first sets the stage by laying out the principal conceptual issues that need to be considered when thinking about an appropriate policy framework for higher education in India. It then examines three key distortions in Indian higher education with regard to the markets, the state, and the civil society (philanthropy). The next part of the paper examines the political economy of Indian higher (tertiary) education and seeks to explain the ideological and political underpinnings of these distortions and how they work in practice. We conclude with some indicative and policy directions for Indian higher education. The purpose of this exercise is not to make detailed policy recommendations, but rather to flag the kinds of issues that ought to be addressed.

1. <http://pmindia.nic.in/lspeech.asp?id=555>.

The key argument of this section of the paper is twofold. The first is that higher education in India is being *de facto* privatized on a massive scale.² But this privatization is not a result of changing preferences of the key actors—the state, the judiciary, or India’s propertied classes. Rather, this privatization has resulted from a breakdown of the state system. As a result, it is a form of privatization in which ideological and institutional underpinnings remain very weak. Instead of being part of a comprehensive program of education reform, much of the private initiative remains hostage to the discretionary actions of the state. Consequently, the education system remains suspended between over-regulation by the state on the one hand and a discretionary privatization that is unable to mobilize private capital in productive ways, on the other. Any policy intervention, if it is to succeed, will have to change this political economy equilibrium. However, vested circles of interest will impede reform, whether of public or private institutions. We focus on the political economy not just because it explains the current regulatory regime. This political economy also explains why even *conceptualization* of issues in higher education is likely to remain distorted for some time. We begin with an overview of Indian higher education.

Structure and Scale of Indian Higher Education³

In 1950–51 India had 27 universities, which included 370 colleges for general education and 208 colleges for professional education (engineering, medicine, education). By 2007, India had 361 universities (comprising 219 state universities, 21 central universities, 110 deemed universities, 11 private universities) and 18 institutions of national importance (five established under state legislations and 13 Institutes by Central Legislation). In addition, there are 18,064 colleges. The total number of students enrolled in the universities and colleges was 14 million (Planning Commission, 2007). While we do

2. The authors would like to thank Atul Kohli for his insightful comments, and Jandhalya Tilak, Urjit Patel and Pushpa Sundar for access to their work and some important bibliographical tips. For assistance with the research, we are grateful to Mihir Sheth and in the preparation of this manuscript, Anjali Salooja and Megan Crowley. An earlier version of this paper was presented at a conference organized by the Center for the Advanced Study at the University of Pennsylvania on “Economic Reforms, Human Development and Governance in India: Changes in Institutional Structures and Incentives since 1991.”

3. In this paper, we focus on that part of the higher (tertiary) education that encompasses colleges and universities. We do not address issues related to technical education in India’s industrial training institutes (ITIs), which are an important component of higher education imparting technical training in a wide range of trades and crafts. Also see Agarwal (2007).

not have data for the distribution of students by discipline, in 2003 of the 2 million-odd graduates, engineering and medicine graduates accounted for 7 percent and 0.7 percent, respectively.

Nearly two-thirds of the colleges in 2005 were classified by the University Grants Commission (UGC—the apex government regulatory body for higher education) as “Arts, Science, and Commerce Colleges” (table 1). Recent growth is much greater in professional colleges (especially engineering, management, and medicine), as well as in private vocational courses catering especially to the IT sector.

TABLE 1. Type-Wise Number of Colleges in the Country: 2004–05

<i>Type</i>	<i>Number</i>
Arts, Science, and Commerce Colleges	10,377
Teachers Training	1,082
Engineering/Technology/Architecture	1,302
Medical	817
Others*	2,431
Total	16,009

Source: Government of India, Department of School Education and Literacy, 2007. *Annual Report 2004–2005* URL: <http://www.education.nic.in/AR/AR0607-en.pdf>.

Note: *Others includes colleges exclusive for Law, Management, MCA/IT, Agriculture, and so on.

There has been a rapid expansion in higher education, with student enrollment growing at about 5 percent annually over the past two decades. This growth is about two-and-half times the population growth rate (table 2), and results from both a population bulge in lower age cohorts as well as increased demand for higher education. However, even today’s gross enrollment ratio of Indians in institutions of higher education is approximately 11 percent of the age cohort, which is considerably higher than developing country averages, but lower than the average for Asia as a whole and much lower than Organisation for Economic Co-operation and Development (OECD) countries. Enrollment ratios vary across Indian states, with the southern and western states faring better than their eastern counterparts (table 3). Women now constitute about 40 percent of all student enrollments, varying from a low of 20 percent in Orissa to a high of 58.8 percent in Kerala (table 3). The bulk of students (nearly two-thirds) are enrolled in Arts and Science, with another 18 percent in commerce/management (tables 4a and 4b). This is of some importance because most “private investment” in higher education is concentrated in engineering, medicine, and management and consequently does little for the majority of students. Notwithstanding the great hopes reposed

TABLE 2. All India Growth of Student Enrollment (1983-84 to 2004-05)

<i>Year</i>	<i>Total enrollment</i>	<i>Increase over the preceding year</i>	<i>Percentage</i>
1983-84	3,307,649	174,556	5.6
1984-85	3,404,096	96,447	2.9
1985-86	3,605,029	200,933	5.9
1986-87	3,757,158	152,129	4.2
1987-88	4,020,159	263,001	7.0
1988-89	4,285,489	265,330	6.6
1989-90	4,602,680	317,191	7.4
1990-91	4,924,868	322,188	7.0
1991-92	5,265,886	341,018	6.9
1992-93	5,534,966	269,080	5.1
1993-94	5,817,249	282,283	5.1
1994-95	6,113,929	296,680	5.1
1995-96	6,574,005	460,076	7.5
1996-97	6,842,598	268,593	4.1
1997-98	7,260,418	417,820	6.1
1998-99	7,705,520	445,102	6.1
1999-2000	8,050,607	345,087	4.5
2000-01	8,399,443	348,836	4.3
2001-02*	8,821,095	421,652	5.0
2002-03*	9,227,833	406,738	4.6
2003-04**	10,009,137	781,304	8.5
2004-05**	11,777,296	1,768,159	17.7

Source: University Grants Commission, various years.

Notes: *Provisional

**Government of India, 2007. *Selected Educational Statistics 2004-2005*.

by a spate of committee reports on alternative sources of funding for higher education, the state will continue to have to occupy the commanding heights of at least this sector of the economy.

Although total expenditure on higher education has risen since independence, from 483 crore to 2418.3 crore between 1980 and 1995, spending per pupil in real terms declined for nearly two decades. Higher education occupies a low priority in public expenditure (table 5). Real public expenditure per student in higher education declined by 21 percent between 1993-94 and 2003-04 (Planning Commission, 2007). Its share of gross national product (GNP) was nearly 1 percent during the 1970s, just 0.35 percent in the mid-1990s, before increasing modestly to 0.6 by the end of the decade. After the formulation of the New Policy of Education (NPE) in 1986, the Central Government gradually increased its contribution to the funding of elementary education, and this trend continued in the 1990s. As a result, the share of higher education spending in total expenditure on education

TABLE 3. State-Wise Student Enrollment (2004–05)

<i>S. No.</i>	<i>State/UT</i>	<i>Total enrollment</i>	<i>Women enrollment</i>	<i>Women %</i>
1.	Andhra Pradesh	1,056,719	397,103	37.58
2.	Arunachal Pradesh	6,745	2,519	37.35
3.	Assam	214,342	88,732	41.40
4.	Bihar	553,693	135,423	24.46
5.	Chhattisgarh	163,254	60,028	36.77
6.	Goa	21,643	12,569	58.08
7.	Gujarat	645,689	274,198	42.47
8.	Haryana	264,331	113,939	43.10
9.	Himachal Pradesh	103,628	48,813	47.10
10.	Jammu and Kashmir	80,405	36,327	45.18
11.	Jharkhand	209,176	76,559	36.60
12.	Karnataka	706,241	313,202	44.35
13.	Kerala	313,155	184,170	58.81
14.	Madhya Pradesh	758,418	237,364	31.30
15.	Maharashtra	1,534,613	577,892	37.66
16.	Manipur	38,679	17,422	45.04
17.	Meghalaya	30,716	14,284	46.50
18.	Mizoram	12,180	4,325	35.51
19.	Nagaland	13,644	6,139	44.99
20.	Orissa	367,187	73,332	19.97
21.	Punjab	279,707	143,422	51.28
22.	Rajasthan	394,478	131,986	33.46
23.	Sikkim	6,596	2,711	41.10
24.	Tamil Nadu	809,366	379,493	46.89
25.	Tripura	22,447	9,491	42.28
26.	Uttar Pradesh	1,507,991	581,460	38.56
27.	Uttaranchal	131,742	62,447	47.40
28.	West Bengal	746,509	276,298	37.01
29.	A & N Islands	2,706	1,479	54.66
30.	Chandigarh	51,309	25,329	49.37
31.	D&N Haveli	0	0	0
32.	Daman & Diu	619	325	52.50
33.	Delhi	709,169	342,469	48.29
34.	Lakshadweep	0	0	0
35.	Pondicherry	20,199	10,326	51.12
	Total	11,777,296	4,641,576	39.41

Source: Government of India, *Annual Report 2006–07*, www.education.nic.in/AR/AR0607.en.pdf.

declined from 12.2 percent during 1982–92 to 11.4 percent for the states, and more dramatically, from 36.2 percent to 23.3 percent for the Center. Notwithstanding the high growth rate after economic liberalization, the real rate of growth of public expenditure on higher education declined from about 5.5 percent during 1982–92 to 5.3 percent between 1993 and 2004, largely because of deceleration in spending by the states. The average real

TABLE 4A. Student Enrollment by Academic Discipline (2002-03)

No.	Faculty	Total enrollment	Percentage of total
1.	Arts	4,158,606	45.07
2.	Science	1,834,493	19.88
3.	Commerce/Management	1,660,238	17.99
4.	Education	132,572	1.43
5.	Engineering/Technology	692,087	7.50
6.	Medicine	300,669	3.25
7.	Agriculture	55,367	0.60
8.	Veterinary Science	14,765	0.16
9.	Law	298,291	3.23
10.	Others	80,745	0.88
	Total	9,227,833	100.00

Source: University Grants Commission, various years.

TABLE 4B. Student Graduation by Academic Discipline (2002-03)

No.	Faculty	Undergraduate		Graduate	
		Total	% Female	Total	% Female
1.	Arts	972,720 <i>of which: B.A. 843,073; B.A. Hons. 114,596</i>	43.7	306,416	45.2
2.	Science	327,775 <i>of which: B.Sc. 280,982; B.Sc. Hons. 38,698</i>	40.2	74,295	43.0
3.	Commerce	373,192 <i>of which: B.Com. 330,664; B.Com. Hons. 23,690</i>	40.0	94,426	37.4
4.	Education	106,048	45.1	4,713	35.4
5.	Engineering/ Technology	127,610 <i>of which: B.Tech: 22,070; Civil: 9,179; EE 21,745; ECE 13,042; Mech 19,844 CS: 13,943</i>	20.7	12,370	17.5
6.	Medicine	38,787 <i>of which: Dental: 3,764; B. Pharm. 5,751 Nursing: 3,260; MBBS: 14,182</i>	41.3	8,219 (M.D. 3,441)	29.0
7.	Agriculture	7,801 <i>of which: B.Sc. Ag. 6,892</i>	16.4	3,716	19.0
8.	Veterinary Science	1,497	23.1	700	17.6
9.	Law	58,228	19.3	2,193	35.5
10.	Others	38,539 <i>of which: BCA (Comp.App.): 17,248</i>	28.7	33,607 (BCA: 20,972)	29.8
	Total	2,052,197	39.8	540,658	41.3
	Grand Total All Graduates:			2,592,855	40.1

Source: University Grants Commission, various years.

TABLE 5. Public Expenditures on Higher Education¹

(Share of GDP and Total Education Expenditures)

<i>Year</i>	<i>Expenditure on education as percent of GDP</i>	<i>Expenditure on higher education as percent of expenditure on education</i>	<i>Expenditure on higher education as percent of GDP</i>
1981–1990 ²	3.59	15.6	0.34
1991–2000	3.77	19.3	0.72
2001–2002	3.82	17.9	0.69
2002–2003	3.80	18.5	0.70
2003–2004	3.50	17.8	0.62
2004–2005 (RE)	3.68	18.0	0.66

Source: ¹ Ministry of Human Resource Development, *Selected Educational Statistics 2004–05*.² Ministry of Human Resource Developments, *Analysis of Budgeted Expenditure on Education*.

Note: Based on the new series of GDP with base 93–94 = 100.

RE: Revised estimates.

expenditure on higher education per enrolled student declined at 2.4 percent annually during this period from Rs. 8,322 in the period 1981–82 to 1991–92 to Rs. 6,790 in the period 1992–93 to 2003–04 (at 1993–94 prices).

Until very recently, most state governments had virtually ceased to expand the list of government-aided institutions, thereby increasing the percentage of “self-financed” or “private-unaided institutions,” most noticeably in professional and technical education. In contrast to cash-strapped state governments, in June 2007 the Center announced plans to set up and fund 30 new central universities across the country. India has 20 central universities (18 funded by the UGC), spread over just nine states, Delhi and Puducherry. The remaining 19 states of India would receive first priority in getting central universities. In addition, the Central Government announced that it would work with the states to support the expansion of colleges to the 340 districts that have extremely low college enrollments. To increase the likelihood of enrollment from these districts it also announced plans to set one high-quality school in every block of the country (6000) which would also establish benchmarks for excellence in public schooling.

Conceptual and Policy Issues

The conceptual and policy issues relating to higher education in general (and not just in India) face an analytical conundrum: any discussion of these issues has to begin by acknowledging that from a policy point of view it is not easy conceptualizing what “good” higher education means, and therefore what kind of regulatory framework is appropriate (Kapur and Crowley, 2008). India is not unique in experiencing a crisis in the higher education system,

and the debate on optimal regulatory frameworks across the world is quite indeterminate in its conclusions.

Appropriate policy frameworks for higher education are difficult to design for several reasons. First, there is considerable disagreement over the social rates of return in higher education. This confusion over this issue is reflected in the World Bank reports on this issue (*Higher Education: The Lessons of Experience*, 1994 and *Priorities and Strategies for Education: A World Bank Review*, 1995). The confusion and obfuscation in the 1994 report is evident in its contradictory claims. To quote:

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

Ironically, the executive summary of the same document reads:

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 indicates that investments in higher education contributed to increase in labor productivity and to higher long term economic growth essential for poverty alleviation* (World Bank, 1994, p. 1).

There is a substantial technical literature on the social rates of return on investment in higher education, which is not our concern here. But there is a judgment call governments have to take in making the appropriate allocative decisions. All we would like to stress here is that allocative decisions in India have, by and large, not been governed by any serious debate over this question. They are rather determined, as we shall see later, by political economy considerations. While recognizing the difficulty of this question, any sensible public policy ought to be able to publicly justify its allocative priorities on rational grounds. The Eleventh Plan draft, for instance, envisages doubling public investment in higher education. But much of this has been driven by the need to defuse the political backlash caused by India's affirmative action policies, rather than by a rigorous examination of allocative priorities.

The second issue concerns the *distribution* of investments within an education system. In any optimum system of regulation this question will have two aspects. First, how are private investment decisions made? Second, given (as we explain later) significant market failures in higher education, public investments will be required. But on what informational basis are public investments made?

We first address the question of private investment decisions in higher education. In the Indian context, it is important to emphasize that while there is considerable private investment (detailed later), it would be an exaggeration to describe this as entirely market driven. Most private investment requires regulatory approval, and its character will be determined by the character of regulatory regime. Regulatory bottlenecks distort the character and degree of private investment in higher education in several important ways.

Distorted Markets

First, the process of regulatory approvals diminishes the capacity of private investment to respond to market needs. In some areas like management and IT diplomas, institutions have managed to skirt the regulatory process by running “unrecognized” institutions, but in most areas severe distortions remain. Two examples illustrate this point. There has been an explosion in the demand for nursing. Yet setting up nursing colleges, or even increasing seats in existing ones requires regulatory approval that can frequently take years. So paradoxically, India remains a country that produces more doctors than nurses. India’s civil aviation sector experienced phenomenal growth from 2001 onwards, yet approvals for aviation engineering schools were not forthcoming. As a result, India is a net importer of aviation engineers and pilots. Second, if the regulatory process is perceived to be corrupt and opaque, it produces an adverse selection in the kind of entrepreneurs that invest since the success of a project depends less upon the pedagogic design of the project but rather on the ability to manipulate the regulatory system. The cumulative effect is to deter entrepreneurs who are interested in education rather than expending their energies in manipulating state functionaries. Third, there are significant market failures in acquiring physical assets that are necessary for institutions. Land is one such key asset. But the land market in India is severely distorted, and this has ramifications for the ability of educational entrepreneurs to set up institutions. Fourth, the templates under which approvals are given to institutions are extremely rigid on two dimensions. They stipulate infrastructure requirements irrespective of costs or location. And regulatory agencies insist that new institutions

instead of innovating academically, conform to centrally mandated course outlines, degree structures, and admissions policies. Fifth, a key element of a well-functioning market—competition—is often severely distorted. For instance, foreign universities are not allowed to set up campuses in India, and this arguably prevents benchmarking to global standards. There are other micro rules, about institutions not being allowed to operate outside the state they are registered, high entry barriers for universities, the ability of the state to withhold operating licenses on the grounds that there are already enough institutions in a particular area, all of which impede competition. Sixth, the central element of a well-functioning market, informational transparency, is woefully inadequate. The state's view is that accountability is best imposed through two instruments. The first is direct state inspection. The second is bringing these institutions under an accreditation process. Both mechanisms are deeply flawed. It is literally not possible for the state to physically inspect thousands of colleges, and the inspector *raj* is subject to abuse and corruption. The accreditation process is deeply flawed because one single accreditation agency does not have the capacity to fairly, rigorously, and transparently accredit a large number of institutions. Instead, the state might be better off creating some competition in the accreditation process by licensing a number of agencies. The state would also be better off focusing on enforcing transparency: requiring institutions to share basic information that empowers students to make more informed choices. Although the regulatory agencies have made attempts in this direction, output-related information is critically lacking particularly information on the performance of an institution in terms of where its students end up after graduation. Few institutions are even required to track their own performance, let alone share this information publicly. Another significant lacuna on the issue of transparency is that while the state has a plethora of laws to regulate institutions (and if need be even close them down), there are no laws specifically pertaining to fraud or misrepresentation in the education sector. Under current law, the regulatory institutions may close down fraudulent institutions, but they do not have the legal instruments for prosecuting those who have engaged in outright fraud. For instance, some institutions admit students and grossly misrepresent their legal status. In the middle of the degree course, the institution simply “vanishes” leaving the students with a number of “wasted” years and large financial losses. There are no laws specifically to prosecute such cases of fraud. So the irony is that the one piece of legislation that could strengthen student protection in relation to private institutions, without curtailing their autonomy, is missing. But a whole series of other restrictions

are selectively enforced by regulatory agencies. Finally, the private sector will for some time to come, free ride on years of accumulated scarcity. This scarcity is of two kinds. On the supply side, it is not easy to overnight tap into the kind of human capital that might be required to run good institutions; on the demand side, the scarcity is such that even weak institutions that would not have otherwise survived a competitive environment do so. There is an important analytical point here. Even if a system is formally competitive, in that there is a choice of institutions available and no institution (or a small number) commands a large market share, competition alone may not ensure accountability if aggregate demand remains high. The cautionary tale is that the accountability effects of competition will not kick in until demand is met. In the short run measures like regulating fees seem to create access, but in the long run they diminish the supply of the education system as a whole. At least with regard to private investment, the distortions can be removed by crafting regulatory regimes that address the aforementioned concerns.

State Distortions

We take it to be the case that public investment will play a major role in higher education. There will be significant market failures in education. For instance, it is not clear that even under the best of conditions the market will create an environment conducive to research that has long time horizons or which responds to important social needs. These will have to be met through public funding. If higher education has significant public good aspects it will be under-supplied. If it is a private good there could be significant credit market failures that impede access. The important policy questions are who should be making the allocative decisions on behalf of the state and what principles should guide them?

The question of who should be making allocation decisions is particularly significant in the Indian context. At the moment, it is fair to say that these decisions are centralized to an extreme degree. The Planning Commission and the Ministry of Human Resource Development not only determine aggregate higher education budgets but also the forms in which they will be spent (this includes everything from the kinds of institutions, subject areas, and so forth). The University Grants Commission, the premier funding body for public institutions, has also greatly centralized allocation decisions. The quality of these allocation decisions will depend entirely upon the informational resources a very small group of decision makers have access to. In our view such extraordinary centralization of allocations is bound to produce significant distortions because it presupposes an omniscience that

few decision makers can have. For instance in the Eleventh Plan draft, the Planning Commission envisages 30 new central universities. How was this number arrived at? Who determined the tradeoff between investing in existing institutions and creating new ones? As a first step, it is important to bring these allocations under some metric of public reasons. But it is also important to empower a variety of institutions, including universities themselves to make allocations.

The question of what principles should guide these allocations is a tricky one. There are different kinds of tradeoffs here. First, it is almost impossible for centralized planning to second guess what the structure of the labor market will be. Obviously, an education system, to a certain degree has to respond to the needs of the labor market. But trying to tailor an education system too closely may be like a general fighting the last war. Yet in the debates over how much to allocate for vocational as opposed to general education, it is precisely this knowledge that is assumed. There is a considerable debate in the OECD whether investment in general education (maths, articulation, and reasoning) has greater payoffs for future labor markets than investments in domain specific knowledge (Wolf, 2002). We would urge two considerations. First, decision makers need to address these questions with great care. Second, we also recognize that these questions are also both difficult and indeterminate. But this is precisely what suggests that an optimal institutional architecture for making these allocation decisions must be diverse (so that there is more information) and flexible (so that changes can be made in real time). Decentralization of these decisions at various levels is the only way of achieving diversity and flexibility in the basic architecture of public investment in higher education.

SUBSIDIES IN INDIAN HIGHER EDUCATION. An important issue in Indian policy debates is the extent to which the state should be investing and subsidizing higher education. The allegedly low social rates of return on higher education were frequently deployed during 1990s to reallocate public expenditure away from higher education. It has become commonplace to argue that India was anomalous in the emphasis it placed on higher education at the expense of elementary and secondary education. While the unconscionable neglect of primary education has distorted India's social policy, it is difficult to make a case that this is because of an overemphasis on higher education. India's gross enrollment ratios in higher education are still relatively low (around 10 percent) and, as table 5 shows, since 1999s, expenditure on higher education as a percentage of total expenditure on education remained roughly 18–19 percent, or about 0.6–0.7 percent of GDP. These ratios hardly signal an overemphasis on higher education.

Inspired by the same World Bank documents mentioned earlier, the Department of Economic Affairs, in its 1997 discussion paper, *Government Subsidies in India* (GOI, 1997), argued for a reduction of subsidies to higher education. It claimed that education beyond the elementary level is a “non-merit” service because the benefits of the subsidy accrue primarily to the recipients. It argued that the private rates of return are greater than social rates of return in higher education; hence, subsidies should be phased out.

One of the assumptions of this paper was that “most subsidies to higher education accrue predominantly to the better-off sections of society.” This argument has been frequently deployed and has become a staple criticism of government subsidies to higher education. And it has been used to explain the contours of India’s higher education policy. But this argument has to be taken with a grain of salt. For one thing, there is little doubt that marginalized groups have been given much greater access to education as a result of government subsidies. The ratio of male to female students in higher education dropped from 8.3:1 in the 1950s to almost 1.5:1 by the late 1980s. All the evidence from studies of primary and secondary education suggests that the place where parents discriminate most against a female child is in the preference for public versus private expenditure. Parents are more likely to incur private expenditure for sons than daughters. If this is the case, it is difficult to imagine these ratios dropping in the absence of public subsidies.

Another piece of evidence against the proposition that education subsidies go largely to the privileged is the increase in enrollment of India’s most marginalized social groups, namely the Scheduled Castes (SCs) and the Scheduled Tribes (STs). The ratio of general to SC/ST students has dropped from almost 12:1 in the late 1950s to 8:1 during the late 1980s to just above 6:1 in 2004.⁴ There is no reliable study on this, but there is strong suggestive evidence to show that the proportion of first generation graduates in universities has been rising dramatically in both state and, to a somewhat lesser degree, in Central universities. If one uses the fact that at least one parent was a graduate as a proxy for privilege, then the dramatic increase in the proportion of first generation graduates belies the claim that state expenditure only subsidises the privileged.

Global patterns of funding clearly show that higher education remains very much a state-dominated sector. In the OECD countries such as Denmark and Holland, public funding provides 98 percent of the resources

4. As of 2004, total enrollment in higher education in India was 11.77 million of which SC was 1.26 million and ST 0.434 million (MHRD, 2007).

for higher education; the figure is almost 90 percent for Canada. Even in the United States, the figure is as high as 78 percent. There is absolutely no doubt that the public sector has a pre-eminent role to play in higher education (Kapur and Crowley, 2008).

The need for subsidies is not at issue. What is at issue is their form and structure. Historically in India there have been few moves by the government to remove subsidies and recovering user costs. The recovery of user costs (or costs recovered from students) remained at roughly 5 percent during the entire decade, substantially less than the Punayya Committee's recommendation that the government aim at recovering 25 percent of costs from students.⁵ The general principle has been more widely accepted both by the Eleventh Plan and the National Knowledge Commission. But there are risks in the way in which this might be implemented for public universities. While this proposal is a good aggregate *target*, the outcome will be sub-optimal if this is converted into a simple formula applicable to *each university*. For the ability of institutions to raise fees and resources will vary considerably. The risk of rigidly imposing this formula may be to enfeeble weak institutions even more.

The second issue with subsidies is that the cost of education bears no relationship to the earning potential of degrees. In other words, the issue is whether fees structures are rationalized in relation to markets for *individual* students based on their potential earning capacity, background, and so forth. There is a sense in which a lot of middle-class students are beneficiaries of subsidies in that the fees they pay has no relation to their earning potential. But the emphasis on uniformity translates into uniformly low fees. Indeed, it is an astonishing application of the uniformity principle that even in areas of fees, the requisite degree of variation is not allowed, adding to the impression that subsidies go to the rich. Thus, even as Indian students are going abroad in droves, spending nearly two orders of magnitude per capita than the Indian state spends per student in India, even elite public educational institutions are constrained from raising fees that correlates with the earning potential of graduates. A proper fee structure requires that fees should bear a relationship, not to the cost of education but to the initial earnings of students after graduation. This is equivalent to a risk-sharing contract or a "claw-back"

5. The target of recovering 25 percent through fees was probably arrived at by looking at the East Asian example. South Korea has gross enrollment ratios in higher education of 47 percent and recovers 23 percent of its expenditure as fees; Indonesia has an enrollment ratio of 11 percent and a recovery of 25 percent; Malaysia has an enrollment comparable to India's of around 8 percent and like India recovers only 6 percent in fees.

mechanism based on real future stream of student earnings rather than costs of a monopolist, which is also more fair to both parties.

Public universities in India need radical reform on every single dimension imaginable. Detailing those reforms would take a paper in its own right. These institutions are run on an endless series of perverse incentives that militate against productivity and excellence, much of the investment is not matched to the objectives and educationists have little control over pedagogical and evaluation decisions. To take a few examples: One of the striking features of university expenditure is that most of it goes to salaries; in some instances as much as 95 percent of total expenditure. The result is, to put it mildly, very poor infrastructure and intense competition for scarce resources resulting in intense politicization. The second feature leading to a dramatic politicization of university life was the introduction of the so-called promotion schemes during the late 1970s. Under this scheme university promotions were considered analogous to civil service promotions, in that one ought to be entitled to promotion if one had demonstrated minimal competence. In principle, this scheme had all kinds of review mechanisms built into it, but it essentially resulted in two things. It enabled many mediocre academic professionals to rise to top positions of responsibility and decreased the mobility of individuals who were seeking promotions across universities. In some ways, this scheme did most damage not by removing incentives for performance (it could, in principle, have attracted more talent to universities), but by ensuring that non-academically oriented administrators got the upper hand in university administration. There is some argument over whether this scheme was a response to real pressure from the teaching community or a pre-emptive attempt by the state to buy them off. But the net result is that the clout of the teaching community is considerable. It does not take the form of policy formation (teachers unions do not have that sense of corporate identity), but as a powerful lobby that has resisted attempts at change and reform in the education system. One striking feature is that of the ten universities we surveyed, it was almost always teachers who went on strike rather than students during the past decade. The point is that a nexus of state power and the entrenched educational establishment more or less governs policy in the area of education.

One area we would like to highlight that cuts across the public and private divide is the issue of “quality.” At one level, there is a great concern with quality. But the credibility of institutions depends largely on the *selection mechanism* for students. In fact, part of the ideological evolution of the system has been the displacement of debates over pedagogy to debates over

selection mechanisms. But even this focus on selection mechanism is largely at the top institutions (table 6). There is a potentially radical conclusion that could be drawn from the Indian experience. Rather than worry about the quality of higher education institutions per se, India should simply replicate the success of Indian Institute of Technology (IIT) or Indian Institute of Management (IIM) selection mechanisms on a larger scale and across different domains across the country. The success of the National Law Schools in resuscitating legal education is an example.

TABLE 6. Selectivity of Elite Indian Higher Education Institutions

<i>Entrance exam</i>	<i>Higher education institution</i>	<i>Number of examinees</i>	<i>Successful candidates</i>	<i>Percentage successful</i>
CAT	Indian Institutes of Management	180,000	1,200	0.66
JEE	Indian Institute of Technology	300,000	5,500	1.8
All-India PMT	Pre-Medical	214,503	1,654	0.77
All-India Engineering Exam	National Institutes of Technology	490,193	11,000	2.24

Source: Authors' estimates.

As a thought experiment, suppose India simply abolished most of its non-performing universities and dispensed with formal requirements of having a degree and instead put in place a series of well-designed exams, which students can take at periodic intervals. How they choose to “study” for these is left entirely up to them. These exams would be such that they would carry the kind of credibility IIT–JEE does at the moment; except that they would send credible signals to employers about the “quality” of recruits. To be sure, there are soft skills that may not be captured by this process, but it is hard to see how it could be worse than the status quo. On this view, what India needs is simply a deepening and widening of some objective “selection mechanisms” and the focus on institutions is of comparatively little consequence. In a *de facto* sense, the Indian system is moving more in this direction. The focus here is picking out good individuals through centralized selection mechanisms rather than building good institutions. But there might be huge externalities associated with picking out quality only through objective, non-discretionary exams. The first is that it makes education more Darwinian. The second is that it gives up on the idea entirely that institutions can help *improve* the average quality of students.

We have stressed how incentives and ownership of institutions militates against *pedagogical* diversity and debate. Currently the “legitimacy” of academic institutions in India are entirely premised on their selection

mechanisms, and very little on pedagogic achievements (which, in any case, are difficult to benchmark). The political, policy, and ideological debates in higher education in India pay virtually no attention on pedagogical debates to what it is that college educators claim to be providing. It is perhaps a sign of how low the system has sunk that, at least in the “public” system, the debate over what it means to be a university in the 21st century has barely begun.

Distorted Philanthropy

In discussions on the privatization of education, a good deal of emphasis is placed on the potential of private philanthropy to make up for the deficiencies of the state or the market.⁶ It is for this reason that we decided to examine some of the broad trends in philanthropy in education. To put it briefly, there is very little evidence so far that philanthropy has been able to even make a dent in the deficits bequeathed by the state in this sector. Indeed, we argue that the structure of philanthropy has exacerbated the distorted forms of privatization, we discussed above, in the following ways:

1. There is a good deal of confusion in Indian official assessments and public discourse at large between philanthropy and not-for-profit educational institutions.
2. Philanthropic commitment to public institutions of higher education has been steadily declining since the middle of the century. Philanthropy is being “privatized” in two senses. First, donors to higher education are more likely to retain effective control over the resources they donate. Second, philanthropy is being conflated with creating not-for-profit but financially sustainable institutions. In these institutions, financial sustainability does not refer to receiving income from endowments and investments, but to charging the beneficiaries for the services being provided to them.
3. This form of philanthropy is having many adverse consequences for the credibility of public institutions and philanthropic activity related to higher education in general.
4. Public institutions of higher education are unlikely to attract significant amounts of philanthropic investment in the near future because of their own weaknesses and the lack of a philanthropic sensibility

6. For an analysis of policy issues on charitable contributions see Modi and Mukhopadhyay (2000); for patterns of philanthropy see Sundar (2002); for an early study of voluntary contributions see Tilak (1983); and for diasporic philanthropy see Kapur et al. (2004).

amongst most potential donors of the kind that existed in pre-independence India.

5. Philanthropy can still play a significant role in higher education in India, but it will have to take different organizational forms than the ones we have seen in the recent past.

Philanthropy is one of the ways in which the relationship between public and private is negotiated. All philanthropic activities, or non-profit organizations claiming tax benefits, must pass the following two tests:

1. The Public Purpose Test: The organization that claims tax exemption must operate *primarily* for some purpose other than private gain. The idea is not that such organizations avoid profit (understood as excess of revenues over expenses), but rather on the existence of a substantial public purpose.
2. Non-distribution of Surplus: Such organizations are barred from distributing their net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees. This is known as the “non-distribution constraint.”

A major difficulty in the Indian case is whether most private institutions that claim tax-exempt status qualify as “philanthropic.” This has been a major legal conundrum and, as we have noted in another section, judicial decisions have done little to add clarity on the issue. There are major legal and conceptual difficulties in fixing the boundaries of what ought to be regarded as tax-exempt, philanthropic or non-profit activity in the field of higher education. By definition, all Indian universities and private colleges (excluding non-degree giving diploma institutes like computer training conglomerates NIIT and Aptech) are “non-profit” organizations, but this category is too blunt and does not distinguish between say, capitation fees colleges in the south and a regular college run out of trust funds that does not charge students. Technically, both are non-profit institutions and qualify for tax exemptions. But there is a good deal of suspicion whether investment in private unaided colleges can be called “philanthropic” at all, even though they are formally not-for-profit.

Indeed, it was the recognition of this difficulty that led a GOI committee (the Parthasarathi Shome Committee) to propose an amendment to the legal definition of the term “charitable.” The Shome Committee recommended that only organizations that receive 90 percent of their annual receipts through

donations or grants be treated as organizations for a charitable purpose. The underlying rationale is that donors are best placed to judge whether the activities of an organization are charitable or not. To the extent that an organization receives the bulk of its income from donations, the activities of the organization could be perceived to be predominantly charitable in nature. However, the criterion presented by Shome Committee's definition of "philanthropic" or "charitable" would disqualify most existing organizations. Donations are an uncertain source of income for most organizations; free-rider incentives often keep the flow of funds to organizations below the socially optimal level; trusts run on donations are only part of the spectrum of philanthropic activity; and many NGOs are engaged in economic activities designed to generate incomes to make the poor self-reliant. The Shome Committee wanted a criterion of charitable that was based on *source of income rather than end purpose*.

But whatever the difficulties with the Shome Committee's recommendations, it did highlight a central issue in the field of higher education and philanthropy: should institutions of higher education that derive almost 100 percent of their revenue from charging students for goods and services be classed as "philanthropic"? Or should a classification of "philanthropic" take into account some criteria of the source of income?⁷ The extent of philanthropy in higher education in India depends upon whether or not one classifies a large number of private colleges as surrogate businesses or as genuinely philanthropic. This phenomenon is of some interest because it helps to shed light on an apparent paradox—while the number of "trusts" set up for philanthropy in higher education has been rising steadily, the total share of "endowments and other sources" in higher education (that is, resources excluding government expenditure and fees) has declined sharply and is now 2.74 percent of all education expenditure, down from a high of 11.62 percent in 1951 (Modi and Mukhopadhyay, 2000). In other words, while the number of educational trusts is increasing, most of them are generating revenue by charging for services rather than through donations or endowments. Although more comprehensive data is needed on this, it appears that philanthropy in higher education has increased, if one uses as a measure the total number of trusts and volume of activity. However, the picture is the opposite if the measure is the source of income.

7. Interestingly, the formal legal definitions of "charitable" in India are all based on objectives of the organization concerned. Formally, even the Board of Cricket Control in India (BCCI) is a charitable organization because "cricket" appears on a government list of objectives that it desires to promote.

The pre-independence period, or that between 1892 and 1947, has been termed as the “Golden Age of Indian Philanthropy” (Sundar, 2000). Indian philanthropy not only made the transition from merchant charity to organized, professional philanthropy but did so on an impressive scale. This period saw the establishment of some of India’s most enduring trusts and foundations and public institutions of enduring significance. Aligarh Muslim University, Banaras Hindu University, Jamia Millia, Annamalai, Indian Institute of Science, among others, were created largely through voluntary donations. Higher education, especially institutes of research were widely considered to be “pioneering.” Of the 16 largest, “non-religious” trusts set up during this period, 14 were major patrons of higher education.⁸ India’s most renowned research institute, the Indian Institute of Science, is a case in point having been set up with the strong support from the then Maharaja of Mysore and Jamsetji Tata (Bhagwan, 2003).

What is even more striking is that a major proportion of their grants went to “public institutions” such as universities that were either directly under state control or some form of public authority. It is not only the object of their spending that is of interest but also the manner in which money was spent. Arguably, philanthropy had much closer links with public institutions in the most literal sense of that term. Grants, although emanating from family trusts were, once made, not under the control of family trusts and were deployed for specific purposes by the terms set by the receiving institutions and not by the trust itself. The net result was that the net share of private philanthropy in shouldering the burden of public institutions was as high as 17 percent in 1950 and is now down to less than 2 percent. That this share would decline does not come as much of a surprise as the government has expanded its role in higher education. Even so, the extent of the decline is striking.

Alumni contributions are beginning to rise but have been most noticeable only in the case of IITs (since about the mid-1990s), which have been able to tap into a large base of professionalized alumni among the Indian diaspora. However, even as this effort was gathering pace, the Indian government’s Human Resource Development Ministry formed the Bharat Shiksha Kosh (India Education Fund) in 2003. The Indian Parliament’s Standing Committee on Human Resource Development simply noted that “the contribution of the Government to the Bharat Shiksha Kosh should

8. These trusts are Tatas (Sir Ratan Tata, Sir Dorabji Tata, and JRD Tata), Bajaj, Birla (G. D. Birla and B. M. Birla), Lalbhai, Sarabhai, Godrej, ShriRam, Singhanian, Modi, Annamalai Chettiar, Murugappa group (AAM Foundation), Naidu, Ramco, Mafatlal, and Mahindra.

definitely have been more than Rs. 1.00 crore considering the mammoth task of funding from the Kosh.”⁹ But by centralizing all overseas donations for education to the fund, the move effectively denied would-be donors any say in the purposes for which the money was used. Since the fund was set up, individual contributions to IITs dropped dramatically. Kanwal Rekhi, a founder member of TIE (The Indus Entrepreneur) who had funded an IT school at his alma mater IIT-Mumbai, called the Fund “the most asinine thing I ever heard in my life.” He went on to say, “Donors are making voluntary gifts because of emotional attachment or commitment to the institutes. They will not hand off money to a nameless bureaucrat or a feckless politician (Lakshman, 2003).”

While the decision was reversed by the successor UPA government, allowing alumni to contribute directly to their alma maters, its populist stance on reservations for Other Backward Castes (OBC) at the IITs and IIMs has hardly helped in this regard, underscoring the uncertainties of the regulatory structure in this sector. The lack of autonomy of educational institutions has been one of the biggest impediments in attracting diasporic philanthropy for higher education. Alumni who are prepared to give substantial resources also want to have a say in its use and an institutionalized mechanism to have their voices heard. However, the governance structures of most higher education institutions are so poor that such mechanisms are non-existent. Nearly half of the alumni of the All India Institute of Medical Sciences (AIIMS) are overseas, but they have balked at contributing since they have little say in the governance of that organization (Kapur et al., 2004). The recent intrusiveness of the Health Ministry in the institution’s governance, has all but paid put to any possibility of alumni contributing to the institution.

The Political Economy of Higher Education

The previous section has demonstrated that all three areas of higher education provision in India—state, private, and non-profit—suffer from severe distortions. Why do they persist and why is it so difficult to change them?

9. Parliament of India, Rajya Sabha, 145th report on action taken by government on the Department-related Parliamentary Standing Committee on Human Resource Development recommendations/observations contained in the 139th report on demands for grants 2003–04 (demand no. 57) of the department of secondary and higher education (Ministry of Human Resource Development). (Presented to the Rajya Sabha on December 12, 2003; laid on the table of Lok Sabha on December 12, 2003; Rajya Sabha secretariat, New Delhi, December, 2003.)

De Facto Privatization

The starting point of our discussion of the political economy of higher education is an overview of the trends towards privatization in Indian higher education. For Indians, higher education has been, in Stanley Wolpert's (1999: 147) evocative words, "the swiftest elevators to the pinnacles of modern Indian power and opportunity." This realization, coupled with the severe limitations of publicly-funded higher education institutions and the greater purchasing power of the middle class, means that Indians are prepared to pay rather than be denied. According to the National Sample Survey (NSS) data, the government's share in overall education expenditure has been declining steadily, from 80 percent in 1983 to 67 percent in 1999. For states like Kerala, the decline is steep, from 75 to 48 percent, while for Madhya Pradesh it is from 84 percent to 68 percent. Indeed, while private expenditure on education rose 10.8 times between 1988 and 2004, that for the poor rose even faster, by 12.4 times. Many students who formally enroll in publicly-funded colleges and universities barely attend classes there. Instead, they pay considerable sums to the burgeoning private sector vocational IT training firms such as NIIT and the Aptech or in new professions such as the "Aviation University" being set up by the UB group.¹⁰

However, the most noticeable trend has been the transformation in the provision of professional education, especially engineering, medicine, and business schools. We analyzed data on all medical and engineering colleges in India to understand how the ownership structure has changed over the last four decades. Data for medical colleges was obtained from the Medical Council of India's website, which gives the year of establishment, an ownership classification as "Government" or "Private" (institutions set up under the Societies Act or as trusts), and the number of seats for each institution.¹¹ We examined data for 19 major states of India—Assam, Andhra Pradesh, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Tamil Nadu, Uttar Pradesh (UP), Uttaranchal, and West Bengal. Similar data for engineering colleges was obtained from the All India Council for Technical Education (AICTE).¹²

The data are presented in table 7, and figures 1 and 2. In the case of engineering colleges, the private sector, which accounted for just 15 percent

10. According to Finance Ministry data cited in *The Hindu*, since its launch in 2001 the Education Loan Scheme has grown from roughly 50,000 accounts and Rs. 670 crore loans as on March 31, to approximately 153,000 accounts and Rs. 2,600 crore loan amounts on March 31, 2004. "Education loan scheme simplified," *The Hindu*, August 11, 2004.

11. See <http://www.mciindia.org/apps/search/>

12. See <http://www.aicte.ernet.in/>

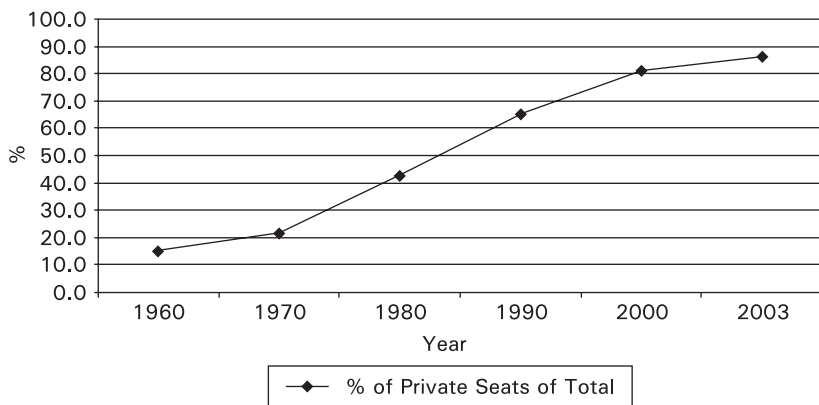
T A B L E 7 . Management Structure of Engineering and Medical Colleges Across States (2003)

State	Medical colleges		Engineering colleges		% Private
	Government	Private	Government	Private	
Andhra Pradesh	14	14	10	213	95.5
Assam	3	0	3	0	0.0
Bihar	6	2	4	3	42.9
Chhattisgarh	2	0	2	9	81.8
Delhi	5	0	7	7	50.0
Gujarat	8	4	9	16	64
Haryana	1	2	7	29	80.5
Himachal Pradesh	2	0	2	3	60.0
Jharkhand	0	2	4	2	33.3
Karnataka	4	22	13	99	88.4
Kerala	7	8	31	51	62.2
Madhya Pradesh	5	1	6	47	88.7
Maharashtra	19	18	16	133	89.3
Orissa	3	0	6	38	86.4
Punjab	3	3	11	27	71
Tamil Nadu	12	7	16	234	93.6
Uttar Pradesh	10	2	25	58	69.9
Uttaranchal	0	2	5	4	44.4
West Bengal	7	0	15	37	71.2

Source: Data supplied to the authors by the Medical Council of India and AICTE.

of the seats in 1960, accounted for 86.4 percent of seats and 84 percent of all engineering colleges by 2003. In the case of medical colleges, the private sector dominance is less stark, but the trend is unambiguous: the proportion of private seats has risen from 6.8 percent in 1960 to 40.9 percent in 2003. While we do not have precise data, the situation in more than 1000 business schools suggests that 90 percent are private. Even in general education, there is now a mushrooming of private, self-financing colleges. In Kanpur University (in UP), the number of such colleges outnumber

FIGURE 1. Private Engineering Seats (% of Total)



Source: Authors' estimates based on AICTE and MCI data.

FIGURE 2. Private Medical College Seats (% of Total)



Source: Authors' estimates based on AICTE and MCI data.

state-assisted colleges 3 to 1, while in Tamil Nadu, self-financing colleges comprise 56 percent of general colleges and 96 percent of engineering colleges (Srivastava, 2007). Educational institutions, including private universities and coaching centers, have emerged as the largest advertising spending category in print media (which has the largest share of the advertising market in India) (Mookerji and Kaul, 2005). Even as political parties rail against *de jure* privatization, *de facto* privatization continues unabated.

For long, it was taken for granted that private universities (as distinct from private colleges) needed approval from the UGC. After the break-up of Madhya Pradesh, the Ajit Jogi-led Congress government in Chhattisgarh saw a regulatory loophole and enacted the Private University Act in 2002. Hundred and eight such universities came up in the state, with 94 in the state capital (Raipur) alone. After a new BJP government came to power, it passed the Private University Amendment Bill in 2004, under which proprietors of all private universities would have to deposit Rs. 2 crore with the government and prove that they have 25 acres of land for their institutions. Belatedly, the UGC came up with the UGC Establishment of and Maintenance of Standards in Private Universities Regulations 2003. Each private university would now require a separate State Act conforming to the relevant provisions of the UGC Act. Interestingly, the private universities set up were using the state's regulatory largesse, and, even to the limited extent, they were delivering educational services, were doing so outside the state, under the nomenclature of these being off-campus centers. The new UGC regulations try to curb this loophole as well. A university set up under a State Act shall operate "ordinarily within the boundary of the State concerned," and can open off-campus centers (outside the home state), off-shore (abroad) centers, and study centers only "after the development of main campus... and after five years of coming into existence." Even then, it would require the prior permission of the UGC and the government of the host state, and such approval would be forthcoming in unspecified "exceptional circumstances." On the other hand, the admission, fee structure, and programs of study of the private university will have to conform to the norms and regulations prescribed by the UGC and other statutory bodies.¹³

13. "A private university shall fulfill the minimum criteria in terms of programs, faculty, infrastructural facilities, financial viability, etc. as laid down from time-to-time by the UGC and other statutory bodies such as the All-India Council for Technical Education, the Bar Council of India, the Distance Education Council, the Dental Council of India, the Indian Nursing Council, the Medical Council of India, the National Council for Teacher Education, the Pharmacy Council of India, and so on (Government of India, 2003)."

The degree to which states have allowed the establishment of private higher education institutions varies considerably (table 7). The number is greatest in the southern states and Maharashtra, and least in states like Bihar and West Bengal. However, most other state governments are now following suit. Caught between escalating demand and ballooning expenditure on higher education, even communist West Bengal has begun to reduce funds to meet the salary requirements of teachers and non-teaching employees for private undergraduate colleges in Calcutta (Mukherjee, 2004a). Gradually, the state plans to eliminate its annual commitment of Rs. 350 crore on the more than 240 general-degree colleges run by private bodies. However, the state government has been adamant that any self-financed undergraduate general degree colleges be affiliated with the state-run University of Calcutta.¹⁴

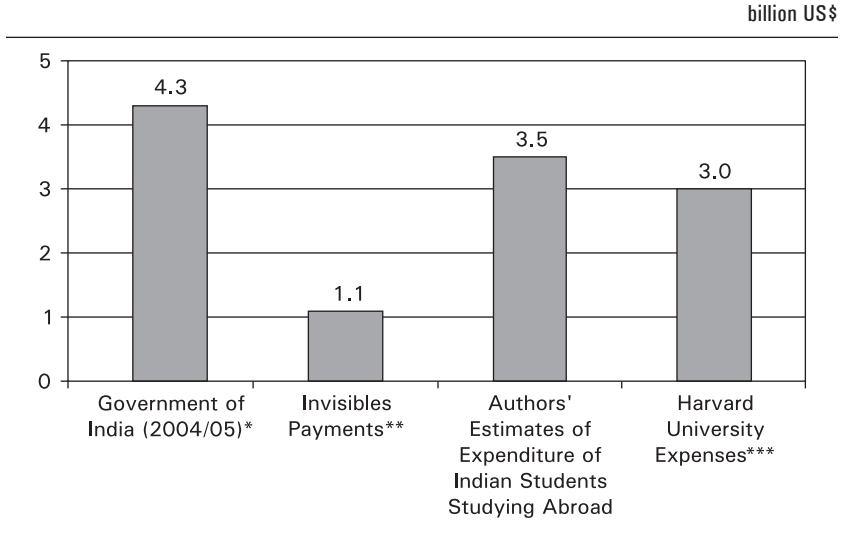
There are three key reasons for the expansive stance of political parties from all ends of the ideological spectrum: the state's fiscal limitations; partial diffusion of the reservation conundrum by expanding supply; and, with earlier sources of patronage exhausted, the search for new sources of patronage. The license *raj* may have been dismantled in industry, but it is flourishing in higher education. The non-profit status allows for tax exemption and makes it easier to launder money; it also gives access to free land without inviting a PIL; and, given the demand, virtually any institution has a market. We examine the governance of private sector institutions in greater detail in the next section.

The exit of students to private suppliers of higher education is a phenomenon not limited to India's borders. While the numbers are lower, the overseas purchase of higher education has much greater financial implications. In 2006 we estimated that there were more than 150,000 Indian students studying abroad—nearly 80,000 in the US; about 40,000 in Australia; 19,000 in UK; and another 11,000 in Canada, New Zealand, and Singapore. Pre-liberalization, the figures were barely one-fifth of this number. The main growth has been in undergraduate education and professional degrees (especially MBAs), both of which require students to put up their own money. We have two estimates of the amounts spent by Indians on consuming education abroad: invisibles data from the Reserve Bank of India (RBI) balance of payments and our own calculations based on average costs of education in these countries with allowances for scholarships. The RBI estimate was \$1.06 billion in 2005–06, more than ten-fold the amount in 2000–01 (\$95 million). This is a lower bound, since in many cases the money is paid

14. The one condition on the self-financed colleges is that they have to offer courses in emerging areas like bio-technology, molecular biology, and business administration. See Mukherjee, 2004.

from overseas. Our estimate for 2005–06 is about \$3.5 billion, a staggering amount for a poor country whose own educational institutions are starved of resources (figure 3).

FIGURE 3. Higher Education Expenditures (2005–06)



Sources: *MHRD Annual Report 2006/2007, Table 35.

Notes: **Statement 3, RBI Bulletin "Invisibles in India's BOP" November 2006.

*** Harvard University 2007 Online Factbook.

Even more important than the financial costs are the implications for public education when elites leave. Indeed, the dilemma is a more basic one—the consumption of public services by elites has adverse distributional effects. But when elites exit, so does their voice. The big difference between the higher education systems of Pakistan and India is that elites in the former invariably sent their children abroad even for undergraduate education and consequently had little stake in the system. The results have been disastrous for higher education in Pakistan. Could India face a similar problem?

This reality is lost to Indian policy elites, especially in the HRD Ministry which is strongly opposed to the General Agreement on Trade in Services (GATS) (although the Ministry of Commerce has been an advocate). The Indian policy is expressed by the HRD Ministry:

The revised offer made by India at the GATS was to partially open up the Higher Education Sector under the condition that Higher Education Institutions can only charge fee as fixed by an appropriate authority and that such fees do not amount to charging capitation fee or lead to profiteering. The provision of the Higher

Education services would also be subject to regulations already in place or to be prescribed by an appropriate regulatory authority (MHRD, 2007: 232).

Hardly the most welcoming policies to attract the world's best universities, especially when so many countries are vying for their attention.

Whose Interests Does this System Serve?

The three key variables that help to understand the political economy of India's higher education are the structure of inequality in India, the principal cleavages in Indian politics, and the nature of the Indian state. While India is not exceptional by conventional measures of income inequality, it is an outlier when measured by educational inequality. Indeed, India is to educational inequality what Brazil is to income inequality (Kapur, 2007). Such extreme inequalities inevitably result in populist redistributive backlash. However, the specific redistributive mechanisms are conditioned by the principal cleavages in Indian politics and the nature of the Indian state. The growth of identity politics has sharply enhanced political mobilization around two key cleavages in Indian society: caste and religion. Consequently, redistributive measures follow these two cleavages rather than other possibilities such as income and class, region (urban-rural), or gender. Moreover, given the fiscal constraints of the Indian state and the shifting locus of rents, since the resources available for redistribution are very limited, redistribution focuses on much more "visible" forms. This explains why India's poverty alleviation programs focus on "visible" club goods such as employment programs rather than less visible public goods such as health and education. And this is also why in recent years Indian politicians have obsessed over reservations in elite institutions in higher education rather than improve the quality of primary and secondary schooling, and the thousands of colleges of abysmal quality.

The battle over admissions to higher education institutions in India is as old as independent India. In 1951, a Brahmin girl was denied admission to a medical college in Madras even though she had scored sufficient marks. The student appealed to the Supreme Court claiming she had been discriminated only based on her birth (caste). The Court agreed and struck down the Madras government order.¹⁵ Major agitations broke out in the state and the resulting pressure forced India's first constitutional amendment even

15. Champakam Dorairajan challenged a government order issued by the government of Madras Province (as it was then called), earmarking admission of students to engineering and medical colleges of the state strictly on the following basis: of every fourteen seats, six were to be allotted to Non-Brahmin (Hindus), two to Backward Hindus, two to Brahmins, two to Harijans, one to Anglo-Indians and Indian Christians, and one to Muslims.

before the Lok Sabha had been formed. The amendment (adding Clause 4 to Section 15 of the Constitution) now read: “Nothing in this Article or in Clause 2 of Article 29 shall prevent the state from making any special provision for the advancement of any socially and educationally backward classes of citizens or for the Scheduled Castes and the Scheduled Tribes.” The unambiguity implied in “nothing” combined with sufficient ambiguity of the term “socially and educationally backward classes” would prove fertile terrain for political populism.

The social re-engineering that began in Madras province gradually spread to the rest of the country over the next half century. The confluence of identity and redistributive politics meant that higher education—the erstwhile preserve of India’s upper castes—would inevitably become the battle ground of politics, especially as the “silent revolution” empowering lower castes gathered force. Indeed, the mismatch between new social groups holding political power and erstwhile dominant social groups entrenched in universities led the former to deliberately undermine state universities (exemplified in Bihar in the 1990s), since in doing so they were also undercutting the social power of old upper caste elites.

The other cleavage of Indian politics—religion—is also manifest in higher education policies. The Constitution of India (Articles 29 and 30) provides special protection to linguistic and religious minorities in the country, allowing them to preserve their culture and traditions through minority institutions with few government controls. However, when government controls are circumscribed for “minority” institutions but mount for all other private higher education institutions, the incentives for each group to classify itself as a minority are obvious. Meanwhile, those minorities—Muslims—for whom the original protection was put into place get little more than symbols. The HRD Minister Arjun Singh’s declaring Aligarh Muslim University (AMU) “a minority institution”—later declared unconstitutional by the courts—even when the Muslim community was not pushing for it, is a case in point. When the Sachar Committee on the status of India’s Muslims showed that the socio-economic status of Muslims was relatively lowest in the states ostensibly most committed to secularism—the Samajwadi Party (SP)-governed UP, and the CPM-governed West Bengal—the states rushed to announce the creation of special universities for Muslims. A day after the final exit polls for UP elections in 2007 showed the SP losing, the government of Mulayam Singh Yadav called a special session of the State Assembly whose sole agenda was to pass a bill granting minority status to the Mohammad Ali Jauhar University in Singoor, Rampur (the constituency of his Urban Development Minister, Azam Khan) and making Khan the university’s lifelong chancellor.

With the university having been accorded minority status, any irregularity in its functioning could be probed by the UGC only after being cleared by a three-fourths majority in the Assembly. The analytical point is that when entry barriers arising from regulatory control vary across communities, the consequences are worrying both for politics and for education.

In 2007, India's best known liberal arts college, St. Stephen's College, announced a new reservation formula for Christians and the introduction of a separate quota for Dalit Christians citing the college's "Christian foundation" and unambiguous identity as a "mission college" to justify the new quotas. Forty percent of the seats in the college will now be reserved for Christian students as against the earlier 32 percent, and 25 percent of these will be set aside for Dalit Christians. Quotas for SC, ST, disabled, sports, and children of defense personnel will add another 20-odd percent. Only 40 percent will be purely on examination results—this, in an institution where 95 percent of the funding of the college is from the Government of India (via the UGC). The creation of many new central universities is also driven by similar motives. The Babasaheb Bhimrao Amedkar University and Mahatma Gandhi Antarrashtriya Hindi Vishvavidyalaya have total enrollments of 435 and 200 respectively, a decade after they opened—hardly the sorts of numbers that would enhance the ostensible social goals underlying their creation.

Nonetheless, the choice of instruments used by the Indian state to advance the cause of "backward classes" remain puzzling. Consider the recent extension of reservations to OBC in the IITs and the IIMs on grounds of helping India's "depressed classes." The total number of annual admissions in the IITs are just 5500 and in the IIMs a further 1200. The second-tier national engineering colleges [the National Institutes of Technology (NIT)] have another 11,000. The number of engineering colleges in India nearly tripled in the last decade—from 562 in 1997–98 to 1,522 in 2006—while their annual intake grew from 134,298 to 550,986 (MHRD, 2007). Thus, although the IITs account for just 1 percent of all engineering graduates, they attract most of the attention.

It may appear that equity goals may be better pursued in expanding the size and quality of the base on a *prima facie* basis. The dismal condition of public primary education is a stark testimony to the level of commitment to this ideal. However, it could be argued that even with the best of intentions the sheer magnitude of the task means that it would take a long time. Why not try something that would promise faster, though more limited results? If that were the case, then interventions at the secondary school level would be warranted. The gross enrollment ratio in Class IX–X is 51.65 percent

but drops sharply to 27.8 percent at Classes XI–XII. Even a modest reduction in the dropout ratio could significantly increase the potential college-going pool among the backward classes. But there has been little effort directed to this end. Let us suppose that there is an imperative need to immediately improve access to tertiary education for the backward classes. Clearly, sharply increasing the resources directed for this purposes would be a beginning. At the secondary level, the Annual Plan expenditure for the purposes of improving “Access and Equity” is Rs. 3.9 crore while another Rs. 3.7 crores has been earmarked for “Quality Improvement in Schools.” At the tertiary level, UGC’s entire expenses to this end are Rs. 84 crore: Rs. 26 crore for special development grants to universities and colleges in backward areas; Rs. 25.6 crore for remedial coaching of SC/ST students and disadvantage minority communities; and Rs. 8.8 crore for coaching SC/ST students and disadvantage minority communities for entry into services. There is no evidence of the effectiveness of these programs.

An insight that might explain the choice of instruments comes from Mani and Mukand (2007), who argue that a “visibility effect” distorts governmental resource allocation and explains why governments neglect provision of essential public goods, despite their considerable benefits. Greater democratization widens the gap in resource allocation between more visible (such as specific poverty projects) versus less visible (such as malnutrition prevention) public goods, up to an intermediate level of democracy (after that this gap decreases). The specific instruments to address distributive issues in India illustrate this trend.

The university system in India is the collateral damage of Indian politics. The vast majority of government colleges in small towns offer dismal educational outcomes, the result of tight control of appointments, fees, curriculum, and capital improvements. With fees in some of these colleges capped as low as Rs. 9 per month, and the state picking up salaries for civil service like faculty jobs, with little work burden, there are considerable rents around to get those jobs. Running government higher education institutions to the ground is not the result of limited resources but a matter of deliberate strategy. For politicians, there are four benefits of the license-control *raj*:

1. Old-fashioned rent seeking on contracts, appointments, admissions, and grades:¹⁶ At the Center, the HRD Ministry appoints more than 100 heads for the key higher education institutions. There are hundreds

16. The examples cited here draw from various issues of *Education World* as well as newspaper articles.

of discretionary grants to government-aided institutions and building contracts. The situation is far worse at the state level as examples from just two states illustrate.

Karnataka: The credentials of the nominees of JDS (Janata Dal Secular)-BJP coalition government to the governing syndicate of Bangalore University were so dubious as to be rejected by the previous vice-chancellor (VC). A new more pliable VC accepted all of them—and their power to steer contracts and appointments despite the Karnataka Universities Act, 2000 which requires all members of the governing syndicate of Bangalore University to be “eminent educationists.” The first VC of the all-women Karnataka Women’s University, Bijapur, has been indicted by the Justice S.R. Venkatesh Murthy Committee for large scale misappropriation and maladministration. Despite this indictment she remained in office. In Tumkur University, which exists on paper, the VC was investigated for running up huge personal bills on the university account. At the Rajiv Gandhi University of Health Sciences, Bangalore, the Central Bureau of Investigation (CBI) recommended the filing of criminal charges against the VC, former registrar, and 30 other officials for deliberately leaking question papers to favored students writing the university’s post-graduate entrance test and tampering with their answer papers.

Uttar Pradesh: In September 2005, the VCs of four universities—Mahatma Jyotiba Phule University, Rohilkhand, Bareilly; Veer Bahadur Singh Purvanchal University, Jaunpur; Sardar Vallabh Bhai Patel University of Agriculture & Technology, Modinagar; and Chandrasekhar Azad University of Agriculture & Technology, Kanpur—were dismissed by the governor, T.V. Rajeshwar Rao, on corruption charges. In August 2006, Class V students were found grading the postgrad answer papers of LLB, BCA, MCA, and nursing students of Chaudhury Charan Singh University, Meerut.

2. Old-fashioned patronage and partisan politics: The use of state resources for higher education directed for partisan purposes has been an accepted practice ever since Mrs Gandhi put large resources into the creation of Jawaharlal Nehru University (JNU) to enlist the support of intellectuals of a specific ideological bent. In the last decade this has become more blatant, ranging from Murli Manohar Joshi’s (the HRD Minister in the BJP-led NDA government) attempts to pack various Indian Council for Social Science Research (ICSSR) institutions with academically inept partisans to the Left Front government in

West Bengal refusing to grant autonomous status to the venerable Presidency College, since it would then be unable to pack the faculty with its own supporters.

The demand-supply imbalance for affordable quality institutions means that the battle over the location of a few brand name institutions is even more intense. This includes not just the IITs and the IIMs but also the central universities. Recently members of the Left parties and the Dravida Munnetra Kazhagam (DMK)—fellow travelers in the UPA government—nearly came to blows in the Lok Sabha over the introduction of the Indian Maritime University Bill, 2007 which sought to locate a national-level maritime university in Tamil Nadu (the state from which the minister is from) rather than Kolkata (which has had a long-standing marine engineering college) (Hindu, 2007).

3. New entrepreneurial activities: Parliament in independent India was initially dominated by lawyers. Subsequently, agriculturalists became dominant. Today “educationists” are probably the most prominent. In many cases they have a direct interest.¹⁷ In other cases, their names are used to signal protection, be it the Sharad Pawar University or the Arjun Singh Street in Jamia Milia Islamia University. The promotion of professional (medical, engineering, business management, and so on) colleges has become the private preserve of small-town politicians doubling as “educationists.” It makes good financial sense to run government-run higher education institutions to the ground since it forces students and parents to look for more meaningful alternatives in the private sector—which are controlled by them. Politicians have emerged as the single largest provider of new higher educational institutions. The license control *raj* in higher education and the apparent horrified reactions to education becoming a commercial enterprise result in capitation fees being driven underground, thereby ensuring large amounts of untaxed income. And since the institutions are classified as Trusts and Societies, their reporting requirements are much less than if they were under the more transparent Companies Act.
4. Colleges as screening mechanisms for politics: It is usually assumed that an important function of higher education is to act as a signaling device to potential employers and labor markets. The better institutions indeed play that role in India. But the majority of government

17. The Union Health Minister Anbumani Ramadoss’s father and Pattali Makkal Katchi founder, S. Ramadoss, established the Vanniyar Educational Trust which has recently set up a deemed university (Menon, 2006).

institutions (where the education is a farce) appear to serve a signaling role to an entirely different audience: political parties and politics. Since the education in these colleges—mostly in small towns and cities—have little effect in job markets, especially in the growing private sector, student politics serves as the signaling mechanism for aspiring politicians. The ability to win student elections and resort to street violence is an asset to all political parties.

The Three Vicious Circles

This section draws together the three fundamental effects of the preceding political economy. The first such vicious circle is the diminishing signaling effect. As evident from table 4, more than four-fifths of Indian students in higher education are not in professional schools like engineering or medicine. Investment in these institutions, on a per capita student basis, has been declining. In addition, most of 300-odd universities (especially state universities) to which the bulk of the student population is affiliated have stopped performing the essential functions of a university. The primary purpose of a university is to provide a minimal signaling effect to the job market. Most observers agree that Indian universities, with a few exceptions, do not perform this signaling effect. A degree from any of these universities could mean anything in terms of quality. Anyone familiar with the Indian education system knows that competitive exams have virtually replaced performance at the university level as a passport to further education or jobs. University degrees serve as formal minimal requirements but little else. A tacit acknowledgement of the breakdown of signaling effects of degrees comes from the principal regulatory authority of higher education, the UGC. For instance, in order to be eligible to teach at a public university, candidates with even a PhD have to take another qualifying test; this test was introduced to remedy the fact that the candidate's PhD in and of itself did not indicate anything about his or her abilities.

Once the signaling effect of a university system breaks down, three consequences follow. First, the curriculum and pedagogy of the university become less compelling. There is little incentive to take education at the college degree level seriously because these degrees are no more than purely formal requirements—they do not signal quality. Hence, there is no compelling demand for quality improvements in the bulk of higher education. Second, greater attention and resources are devoted to those arenas which now *de facto* perform signaling functions, such as entrance exams and competitive tests. This leads to the creation of an almost parallel system of education. Since the formal institutions are disconnected from these signaling mechanisms,

informal institutions such as coaching classes dominate the intellectual space. Third, there is an attempt to secede from the system. The breakdown of the signaling system is such that an Oxford Brookes University or a Deakin University are thought to be more credible signal providers than most Indian institutions. But of equal importance is the fact that almost all of these institutions incur significant private expenditures (systematic data is not available), which are largely borne by the middle class. Indeed, if the middle class was influential, one would expect that there would be great pressure and momentum to restore the credibility and signaling effects of higher education.

A second vicious circle stems from an ideological entrapment between half-baked socialism and half-baked capitalism, with the benefits of neither. In some ways this is best exemplified by the fact that officially there is an enormous reluctance to see education as an industry or business. Officially, as per the Supreme Court's decisions education can still not be a "for profit enterprise," though the Court will allow institutions to deduct "reasonable operating and other capital expenses." Second, the courts have been very strict about merit-based admissions (except in cases of affirmative action). In public institutions the Court has come down severely on discretionary power of institutions in admissions policies. In the case of "private" institutions the situation remains murky, but the Court has tried a compromise formula whereby half the seats are reserved for pure merit and half are based on the ability to pay. The details of regulatory control over education are complex but a few points stand out starkly.

First, there is a severe prohibition on public institutions mobilizing private resources in any form—higher fees, licensing arrangements, or philanthropy. While some of these regulations have been relaxed somewhat (discussed earlier in the section on philanthropy), the net result has been that a vast pool of private resources available has not been mobilized for public institutions. Although it seems only fair that no one ought to be able to "buy" one's place into an institution of education, from another angle this prohibition seems almost perverse. It has the consequence of saying,

If you have money, you can spend it on education abroad, you can come to a private arrangement, or even waste it on any form of consumption, but the one thing you will not be allowed to do is to spend it at public institutions or on getting an education in India.

In effect, ideological commitment to some principle of equality has precluded the state from mobilizing the vast reservoirs of private money available for higher education. In a context where the sum total of private expenditures considerably exceeds expenditures by the state, this policy

needs to be rethought. One would have thought that it would be in the interest of both the middle classes and the newly rising social groups to find ways to access these resources. But ideological commitments have precluded such a mobilization. And since these funds have not been mobilized, the system of education deteriorates which, in turn, necessitates even higher private spending by the very classes that the egalitarian system was meant to protect.

Second, there has been a proliferation of private institutions, largely in the area of professional education. But again, the pattern of this expansion suggests that the middle class had very little influence on this policy. The rapid expansion of “capitation fees colleges” came about not as a result of great middle class pressure but rather from the entrepreneurial activities of politicians. While there is no systematic data on this trend, there is little doubt that a majority of these institutions have been supported or made possible by the direct involvement of politicians. In fact, we would argue that the growth of private colleges, while it helps to relieve the pressure on public institutions, is not simply a rational response to expanding demand but is an opportunity to collect rents. This explains a couple of features of the rapid expansion of private colleges. First, all of these, in principle at least, come under the same panoply of regulations as state colleges. For instance, unless an institution is declared a deemed university, the formal degree that is granted through these colleges is actually given by one of the existing state universities. The result is that there is virtually no pedagogical innovation or excellence associated with private institutions because they are all determined by roughly the same curricular guidelines and rubrics as public institutions. Rarely—except perhaps in the case of management institutions—are these institutions driven by a sense of creating a market niche. Indeed, contrary to expectations due to the great middle class demand for education, it has not been a pressure group behind the deregulation of the education sector as a whole. The result is that Indian higher education is in a regulatory environment in which the private sector will not be deregulated, foreign direct investment (FDI) will not be permitted (even “closed” China permits more FDI in education), the state sector is strapped for resources because of the government’s fiscal constraints, and public education cannot mobilize higher funds because of ideological commitments. It is something of a mystery (other than due to problems of collective action) why the middle class has not been more active in breaking this deadlock in line with its interests.

There is an inherent tension in the ideology of the Indian state toward higher education. On the one hand, education was going to be a means toward creating social mobility and equality of opportunity. But to create the conditions under which the education system can effectively serve these purposes requires a vast mobilization and commitment of resources. Since the

state has been patently unable to do that, it interpreted equality of opportunity in almost a formalistic, even formulaic manner, where any difference or distinction was regarded as inimical to these goals. The state used the education system to *express* these commitments by insisting that there be no differentiation of fees, or even substantial differentiation of curriculum across 250-odd universities. Indeed, the crisis of standards that afflicts Indian universities is in part sustained by an ideological commitment to the myth that education should not be made into an arena of difference. This aspiration is in principle flawed because higher education is, among other things, about creating distinction and excellence. It is true that the mandate of the state ought to be to enhance the median level of skills among citizens, but it is hard to imagine a robust system of higher education that does not perform the function of distinguishing the skills and qualities of its students. The suspicion of excellence in Indian higher education was a result of this commitment, and was in part instrumental for destroying its signaling functions. Normally, the middle class is supposed to have a great commitment to a system where degrees provide signaling functions. The emphasis on leveling rather than distinction is perhaps another indication of the weakness of middle class hold on education.

The third vicious circle follows from the previous two and might be called the *circle of statism*. One of the subtexts of the above argument is that higher education policy is being driven less by a clear ideological vision or class interest than by the state's own interest (or perhaps its own ideological whims). Indeed, the surprising constancy in education policy and expenditures over time reinforces the argument that this arena is not susceptible to an overtly demand-driven calculus. Much of what goes in the name of education policy is a product of the one overriding commitment of the education bureaucracy—namely state control in as many ways as possible. State control can take various forms, including direct regulatory control, where the setting up of an institution requires a whole set of clearances or is required to conform to a set of norms set by state bodies. Arguably, the one sector where *dirigisme* has increased rather than decreased is higher education. We are not just referring to ideological battles over the curriculum in history, but to the many ways in which state bodies have sought to increase administrative control over institutions of higher education through a web of regulations. In a way, the ideological commitments mentioned above neatly dovetail into the ideology of state control (competition equals distinction, which is antithetical to leveling; deregulation would allow monetary considerations some place in the system and that would be intolerable). The incentives for increasing state control come from two directions. Over the course of the 1970s and 1980s, politicians acquired a great vested interest in the affairs of universities, seeing them as possible sites for not just political

recruitment, but expanding patronage. The direct interference of the state has implied that in most states, universities have become appendages of government offices.

To more precisely illustrate what we are referring to, we turn to two examples. In 1999, the GOI issued a circular requiring all appointments at the level of joint secretary and above to be cleared by the ACC (Appointments Committee of the Cabinet). The government then argued that since the rank and pay scale of professors was equivalent to those of the joint secretary, India's most prestigious medical college, AIIMS, did not have the power to appoint professors. Added to the anomaly of bureaucrats and politicians deciding who was good enough to be a professor at AIIMS was the reality that there were huge delays inherent in the procedure—the ACC was just one of the many tasks a cabinet charged with running the government of a billion people has to do, and appointments of AIIMS professors was just one of hundreds of appointments it controlled. The policy was changed only after the AIIMS director managed to personally persuade the Prime Minister. Indeed, it became clear that the 1999 circular was in fact illegal because the institute was created under AIIMS Act 1956, which provided that only the director would have to be appointed with the ACC's clearance while all other appointments would be made by the Institute Body, which is, in effect, the board of governors of AIIMS. Exercising its new-found autonomy, AIIMS appointed over 50 professors on March 11, the very day it received the authorization from the government. But that autonomy was short-lived. After the new UPA government came in, battles between the director of AIIMS and the Health Minister amplified caste-based cleavages with protests, legal actions, and bitter recriminations weakening this once august institution. Finally, in late 2007, the Indian parliament passed a bill whose sole objective was to remove the director of AIIMS. The bill was struck down by the Supreme Court a few months later. The latter's intervention was yet another example of the degree to which Indian courts have become involved in higher education (see Box 1).

West Bengal, the state most associated with an intellectual ethos, has also witnessed a flight of talent that is unprecedented (other than perhaps from Bihar). It is a testament to the degree of political control of higher education by the ruling party in that state, and reflects what is happening elsewhere. Banerjee et al. (2002: 4206), put the onus on the:

... trend in the last two decades towards excessive egalitarianism and politicisation in education. To begin with, the process of hiring of teachers is hopelessly politicised. After that, unconditional job security, use of criteria unrelated to merit such as political connections and seniority in promotions and transfers imply that

teachers have no accountability. The government owns or funds most institutions of higher education and so it can get away with whatever it wants—just look at the sorry states that Presidency College and Calcutta University find themselves in today, in contrast to their past glory.

In both examples, talented individuals have taken the path that is relatively easy for them, which is to move. Over the long run, an adverse selection effect has meant that the universities themselves have played a large role in the abdication of university autonomy and professionalism. The reasons for this are complex, but they arise in part from incentives that are internal to the functioning of the university itself. The enemy of the academy has not been an evil state, but the opportunism and supine attitude of boards of trustees and university administrators. But this is an outcome of the state-sponsored selection system.

BOX 1. The Legal Conundrum

In the realm of higher education, the judiciary in India has done as much to confuse as to clarify the existing regulatory framework. Although there has been a distinct shift in the Supreme Court's stance in the past decade, from an undisguised suspicion of the private sector to a grudging acceptance of the emerging reality, its primary response does not always center on what will enable the education system to respond to demands. Rather, it has uneasily and often confusingly attempted to reconcile disparate principles, be it the dichotomy between education being a charitable or commercial enterprise, or the inherent tension between institutional autonomy and equitable access in higher education.

The issues tackled by the Supreme Court can be broadly classified into three overlapping categories—access, finance, and the rights of minority-run institutions. The lack of the Court's own clarity on these issues is exemplified by the following sample of judgments from the last two decades.

Access to Higher Education

1993, *Unni Krishnan v. Andhra Pradesh*: In a landmark judgement, the Court ruled that all colleges offering professional courses would have to reserve 50 percent of the seats for candidates selected through an entrance examination conducted by the government.

2002, *TMA Pai Foundation v. State of Karnataka*: In somewhat of a reversal, the Court decided that the *Unni Krishnan* judgment violated the right of private, unaided institutions to set their own criteria of admission and was therefore unconstitutional.

2003, *Islamic Academy of Education v. State of Karnataka*: The *TMA Pai* judgment had several anomalies, necessitating a clarification in this case. In terms of access, the judgment clarified that private-unaided institutions could reserve a certain percentage of seats for admission by management and the rest would have to be filled through "counselling" by state agencies.

2005, *P.A. Inamdar & Ors. v. State of Maharashtra & Ors*: The Court ruled that private colleges, or those that do not receive government aid, are not required to meet reservation quotas, and further maintained that these schools have full autonomy in their admission of students. This is arguably the strongest property rights-based judgment given by any Court in India to date.

(Box 1 continued)

(Box 1 continued)

Financing Educational Institutions

1993, *Unni Krishnan v. Andhra Pradesh*: Seeking to regulate the activities of capitation fees colleges, which charged students high fees to recover costs, the Court ruled that at least 50 percent of seats in these colleges would be reserved for students who qualified on the basis of merit, and the college would be entitled to charge only the level of fees prescribed for government institutions for these students.

2002, *TMA Pai Foundation v. State of Karnataka*: While formally upholding "the principle that there should not be capitation fee or profiteering is correct," the Court argued that "reasonable surplus to meet the cost of expansion and augmentation of facilities, does not however, amount to profiteering." It reasoned that the restrictions on fees and admission imposed in the Unnikrishnan case prevented the accumulation of "reasonable" surplus.

2003, *Islamic Academy of Education v. State of Karnataka*: In its clarification of the *TMA Pai* judgement, the Court agreed that "private institutes should be free to fix their own fee structures so as to generate the funds required to run their institutions and benefit the students, as well as to generate a surplus for the betterment and growth of their institutions."

2005, *P.A. Inamdar & Ors. v. State of Maharashtra & Ors*: Along with autonomy in the admission of students, private colleges were also given independence in the setting of fees, with the caveat that such tuition could be regulated to prevent "unreasonable profits." Curiously, the Court suggested that the schools set aside 15 percent of seats for non-resident Indians (NRIs), to be charged higher fees to subsidize poorer students.

Rights of Minority Institutions

1992, *St. Stephen's v. University of Delhi*: The Court ruled that minority-run institutions, even those receiving government aid, are entitled to reserve up to 50 percent of their annual intake for students from their own communities.

2002, *TMA Pai Foundation v. State of Karnataka*: By ruling that private-unaided institutions were free to set their admission criteria and fee structures, the Court extended the freedom accorded to minority rights to all religious denominations under the broad banner of freedom of occupation. However, it contradicted the *St. Stephen's* judgement by not according the same rights to minority-aided institutions.

2003: *Islamic Academy of Education v. State of Karnataka*: Although this verdict was meant to be a clarification of the *TMA Pai* verdict, it ruled that minority institutions have a special right bestowed upon them by the Constitution, which non-minority institutions do not possess. In effect, this reversed the equivalence between minority and non-minority unaided institutions posited in the *Pai* judgement.

The Politics of Higher Education

While there has been a steady progression in the Court's judgements on finance and fee structures to cover costs, the Court has not been as forthcoming on the issue of access, primarily because the debates have mostly centered on reservation, a politically charged issue. The *Inamdar* ruling prompted a storm of protest from lower caste groups. A weak UPA government rushed to amend the Constitution, allowing Parliament to enact legislation mandating reservations in private higher educational institutions. This amendment allowed for the subsequent passage of the Central Educational Institutions (Reservation in Admission) Act, 2006 providing for 49.5 percent of seats

(Box 1 continued)

(Box 1 continued)

in higher educational institutions to be reserved for SCs, STs, and OBC, in aggregate. The fact that the Act was passed unanimously by the Lok Sabha—and in record time—was indicative of just how much reservations has become the third rail of Indian politics.

On the issue of minority rights, another contentious topic, the Court has suffered from a genuine inability to reconcile the inherent tension between Article 29(2) of the Constitution, which enjoins that the state shall not discriminate on the basis of religion, and so on, and Article 30(1), which protects the rights of minority institutions. Does a state-aided institution run afoul of the non-discrimination provisions of the Constitution, if it is allowed to give members of certain communities preferences in admission? Ultimately the Court has often opted for something like a *modus vivendi*. Aided minority institutions should be allowed to retain their minority character. But to prevent these institutions from falling afoul of the non-discrimination provisions, they should admit a sprinkling of non-minority students. Although the statement of principle in *Inamdar* toward greater autonomy is more emphatic, its practical implications are, however, still unclear.

Conclusion

Despite impressive reforms elsewhere, Indian higher education sector remains the most tightly controlled and least reformed sector. Deep ideological and vested interests have made reform in India's higher education sector all but impossible. Indeed, for the next generation of reforms in India, this is the central puzzle. The rapid rise in skill premiums in India in the last few years has exposed an important paradox about India's labor markets. Despite its enormous size, the pool of skilled labor is relatively shallow—the result of a deep crisis in higher education despite the success of a few professional schools. The veneer of the few institutions of excellence masks the reality that the median higher education institutions in India have become incapable of producing students with skills and knowledge. The process neither serves a screening or signaling function for the vast bulk of students, nor prepares students to be productive and responsible citizens. Consequently, students are forced to spend more years (and, increasingly, larger resources) to acquire some sort of post-graduate professional qualification, as they desperately seek ways to signal their qualities to potential employers. It would not be an exaggeration to say that India's current system of higher education is centralized, politicized, and militates against the production of general intellectual virtues. The fact that the system nonetheless produces a noticeable number of high-quality students is due to the sheer number of students and the Darwinian struggle at the high school level to gain admission into the few good institutions.

The most acute weakness plaguing India's higher education system is a crisis of governance, both of the system and of the individual institutions.

We have argued that precisely because there are few clear analytical criteria to the central question of what is “good” higher education, a regulatory system that emphasizes diversity, flexibility, and experimentation is in the long run most likely to succeed. Such a system will also need a different conception of accountability than the one currently prevailing in the Indian system, which can be characterized as a vertical command and control system, with state authorities empowered to enforce accountability from the top. Instead India needs to move to a regulatory system, which has more horizontal accountability that empowers students to take better informed decisions.

The crisis of governance in Indian higher education is most visibly manifest in the acute shortage of qualified faculty. The generation that was inspired by a broad commitment to the public good has retired or will do so soon. There is little likelihood of sufficient replenishment, given entrenched mediocrity in institutions with lifetime appointments, few competitive pressures and abysmal governance. The result has been the academic equivalent of Gresham’s law—the bad drives out the good. The prevailing political ideological climate in which elite institutions are seen as anti-democratic, finds its natural response in political control to influence admissions policies, internal organization, and the structure of courses and funding. As quality deteriorates, students are increasingly less willing to pay the very resources without which quality cannot be improved. In India’s case, the answer has been the growth of private sector higher education institutions and increasingly the consumption of education abroad. However, as our analysis suggests, private sector investment has been confined to professional streams, bypassing the majority of students. Furthermore, private institutions are also plagued by severe governance weaknesses, raising doubts as to their ability to address the huge latent demand for quality higher education in the country.

This crisis of governance is not going to be amenable to merely technical solutions. The purpose of this paper has been to argue that higher education is so deeply implicated in politics, so deeply inflected by large ideological objectives that have little to do with pedagogy that it would be the height of optimism indeed to think that there is a technocratic solution to this crisis. But we hope that when the appropriate opportunity arises there will be serious and more rigorous reflection on all the aspects of education that need to be regulated: entry, access, quality, accreditation, and institution formation. Fundamentally, Indian policy makers have to recognize two things. First, the competition for talent is now genuinely global. If the design of institutions is not commensurate with this reality; if the freedoms,

incentives, and quality benchmarks on offer do not allow you to compete on a global scale, building quality institutions will remain a chimera. There is, in principle, no reason why India could not become a global education hub, if it got its regulatory system in order. Second, a vibrant system requires enlisting the energies of a whole range of actors. It also requires responding to a diversity of challenges and unexpected opportunities. Only a system that draws on the competitive energies of the market on the one hand, a flexible and supple state system on the other, and a genuinely committed non-profit sector as a third leg will it be able to meet India's challenges. The scale of demand in India is such that it needs to draw resources and energies from all sources rather than engage in a politics that benefits incumbents, constrains supply, and rewards mediocrity with regard to quality.

Comments and Discussion

Pawan Agarwal: Considering that there is little ongoing research on Indian higher education despite a significant interest in it both at home and abroad, this paper is a very welcome sign. The paper examines contemporary realities of Indian higher education in a comprehensive manner. Lack of credible data is a serious limitation in a work of this kind. Regardless, careful analysis of the political economy and the identification of specific distortions suggest the authors' deep insight of Indian higher education. Based on a detailed recent review of the Indian higher education, I reached broadly the same conclusions (Agarwal, 2006). Thus, I agree with the authors on their analysis and recommendations, but to suggest that long-term consequences of recent developments amount to mortgaging the country's future seems overly harsh. There have been several redeeming features of the recent demand-driven growth in private educational institutions. My following comments point out the positive fallout from the private sector growth and supplement the authors' recommendations on regulation and financing with some additional observations.

Indian higher education has evolved over the centuries and is rooted in the country's history and culture. From the first universities and colleges for modern higher education in the mid-19th century, the focus has been on Humanities and Arts. This continues even today¹ as far as public higher education is concerned. As a result, half of the country's graduates have degrees in Arts and Humanities and almost four-fifths of graduates have no employable skills. It is therefore not surprising that India like many other countries of the world is in a situation where acute problems of graduate unemployment and skill shortages co-exist.

However, over the past two decades in response to societal pressure and market forces, India has seen an explosive growth of private higher education. Most of this private growth is in professional areas. Even the public institutions started mostly self-financing programs with a professional focus. This has ensured a better matching of skills of graduates with their own preferences and the demands of the labor market. Thus, private growth has

1. This is unlike the United States, for instance, where despite a strong focus on liberal arts education, growth of higher education over the centuries had an underlying occupational status.

helped to correct the country's historical and undesirable bias toward liberal arts education. At the same time, the growth has shifted the cost of higher education from government to students and parents.

There have been obvious concerns about equity, quality, and exploitation with this private growth. Most people conclude that only the professional education is useful. Hence, the tuitions and fees are high for professional education whether delivered in public or private institutions. Therefore, useful forms of higher education are now out of the reach of the poor. Except for preventing the fees to rise in general higher education (for which there few willing takers), very little is being done to put in place an adequately funded scholarship and loan scheme for the poor. Such an intervention is urgently required to promote inclusion in higher education and to address equity issues.

To ensure quality, accreditation agencies have been put in place, and admissions and fees are tightly regulated. Yet, these changes have not had the desired effect due to a hiatus between what is said and what actually gets done. Lacking transparency and fair play (or perception of the same), private institutions do not have an incentive to do the right things. Some private institutions indulge in gross malpractices that contribute to a poor overall image of private higher education.

Standards in public institutions continue to deteriorate. While funding is an issue, the lack of competition, flawed personnel policies, and dysfunctional governance structures create little hope that public institutions will improve. Personnel policies and the governance system both need to be fixed. Public institutions that are starved of resources definitely require more funding. Many countries of the world now use fund allocation mechanisms to create a competitive environment and to leverage change. Experience has shown that clear financial incentives enable public institutions to better deliver on goals set as per national policy objectives. Thus, besides an increase in the level of funding, mechanisms to ensure public funds are used to direct change become important.

Contrary to the common belief that the national government and its premier funding body—the University Grants Commission (UGC)—contribute a major share of public funding for higher education, in reality they have a very limited role. Most of the public funds, particularly for running higher education institutions, come from the state governments and most state governments are faced with severe financial stress. Thus, pragmatism requires understanding the fact that while the government could at best set up and support a few more top quality institutions and support public research, sustained support for higher education, and its growth and improvement

would come through private finance. The issues of equity that this raises can be addressed through properly designed income contingent loans and scholarships for the very poor.

Overall, the role of the private sector in inducting dynamism and fostering competition in higher education needs to be recognized. The right incentives are required for it to ensure that quality is maintained. Regulations need to be rooted in the current realities and applied in a fair and transparent manner. While accepting the fact that the private sector would result in skewed growth, public institutions should continue to play an important role and need to be supported as such. There is a need to increase funding levels and use innovative financing mechanisms to create incentives for public institutions to do the right things and change with time. The government should direct and accelerate the change in the Indian higher education through a process that allows both public and private institutions to grow and flourish.

Dilip Mookherjee: The state of crisis in Indian higher education today is all too palpable. Yet it occupies relatively little space in contemporary social science research. Devesh Kapur and Pratap Mehta are to be congratulated for bringing this issue to the forefront and initiating a provocative discussion on the causes of the current malaise, its likely implications, and the challenges that lie ahead for policy makers. The paper is broad-ranging, well-informed, and combines detailed knowledge of the ground realities with a broad perspective on the political origins of the problem. I found myself agreeing with most of their assertions and viewpoints. At various points of their paper I felt they were putting their finger on key governance problems afflicting not just Indian higher education but also the entire social service sector.

The paper should be viewed as initiating a discussion, a prelude to a more systematic and detailed research agenda on the political economy of Indian higher education. As they mention at the outset, the purpose of their paper is not to make detailed policy recommendations but rather flag the kinds of issues that ought to be addressed. I shall complement their discussion with my own perspective as an economist on the kinds of issues that we ought to have more detailed empirical knowledge of, before policy recommendations can be discussed.

Let me start by recapitulating some of the main points of the paper. I will then turn to a discussion of questions that could form a research agenda on the economics of Indian higher education. I will conclude by discussing some of the related policy questions.

Dimensions of the Current Crisis

The conventional wisdom regarding Indian education policy is that primary and secondary education are the real crisis areas, rather than higher education. Without denying the crucial importance of elementary education, Kapur and Mehta argue that higher education is also in a state of acute crisis. I agree that quality standards in higher education are falling sharply at the same time that enrollments are rising sharply, and that much of this is due to political, institutional, and regulatory problems rather than economic factors.

This is a matter of crucial importance for growth and equity. The higher growth trajectory of the Indian economy in recent years owes considerably to its ability to participate in a global knowledge economy, building on its investments in higher education initiated in the Nehruvian era. The sustainability of this growth process hinges on its ability to impart high quality education in its colleges and universities. Declining standards in higher education today will not have an immediate impact on the growth rate this year or the next. But it will surely affect growth prospects a few years down the road. The Chinese growth strategy so far has relied on its comparative advantage in low-end manufactured goods, based in turn on an almost infinitely elastic supply of relatively unskilled labor. But they are now preparing to move up the quality ladder, embarking on an ambitious strategy of skill upgradation of the Chinese population with large-scale investments in higher education and research. Ireland and Israel are examples of other countries positioning themselves to compete increasingly in knowledge-based industries. It is not difficult to imagine the locus of the global knowledge industries shifting to countries outside India a few years from now, as its higher education system continues on its current downward spiral, while its competitors forge ahead.

Apart from rising aspirations and increasing affordability of higher education to the middle class, the increasing pattern of enrollments observed in India reflect a growing awareness that higher education is the pathway for the next generation to participate in the fast growing segment of the economy. Kapur and Mehta note that in terms of inequality of education attainment, India is a remarkable outlier across developing and middle income countries, comparable to the outlier status of Brazil in income inequality. As the importance of the knowledge-based sectors in the economy grows, perpetuation of current educational inequalities will imply that income inequality in India will also grow to extreme proportions. The increasing trend toward privatization of higher education is likely to aggravate this even further. Quality education is becoming increasingly expensive and competitive, increasing gaps between the rich and poor in terms of access and

educational achievement. It is hard to think of many other sectors which are as important both to long-term growth prospects as well as prospect for upward social mobility among the poor.

I should add to this the observation that Kapur and Mehta make regarding the scope of privatization of higher education being limited to a few professional sectors such as engineering, business, and medicine. The bulk of higher education in Arts and Sciences are virtually untouched. Apart from the importance of this sector to the promotion of scientific research, it also produces qualified teachers for primary and secondary schools. Declining standards in higher education will imply declining quality of teachers in elementary schools. In the long run, investments in the two sectors could well be complementary.

There is not much I have to add to their diagnosis of the underlying political and institutional causes: the state is ideologically strapped and lacks a coherent policy. Institutions of higher learning are subject to increased rent-seeking, capture, and manipulation by politicians. Merit-based considerations in promotion and appointment are vanishing; educational policy is hopelessly over-centralized, with little scope for flexibility, experimentation, or accountability. There is a steadily growing and poorly regulated privatization, by default rather than design. It allows capacity to expand in a limited set of areas. Growth in demand limit the competitive discipline that privatization could bring about. The current regulatory framework does little to preserve standards and control fraud or abuse.

There may also be perverse effects whereby privatization undermines quality and accountability in public institutions. It encourages students from more affluent backgrounds to shift out of the latter as their standards decline. Peer effects and concern with declining reputations can then induce others to leave as well, leaving the public institutions with less vocal, affluent, and motivated students. It can cause a shift out of a historical equilibrium where public institutions delivered quality education, and students from all backgrounds and intellects attended such institutions. In the new equilibrium that is emerging, students of varying qualities and from different family backgrounds are being sorted across public and private institutions, thereby increasing inequality of access, and possibly lowering quality standards in the public institutions.

The Research Questions

The preceding broad brushstroke observations need to be translated into a systematic set of research questions and subjected to rigorous analytical and

empirical scrutiny. The assertion that investments in higher education are going to be critical to growth prospects of the economy in the intermediate to long term translates into a hypothesis concerning the magnitude of the social rate of return to education. That they will affect inequality in educational attainment or social mobility is a statement of the distributive impact of changes in educational quality in the public sector. Is it really true that the rate of return to quality education at the macro or micro level is high and growing? How has this been affected by the economic liberalization of the past decade, the rising importance of the knowledge-based sectors, and patterns of global competitiveness? Has the quality of higher education been declining? How has it been affected by privatization? These are all questions of vital importance, yet there is very little by way of solid empirical evidence.

One can question some of the hypotheses suggested by Kapur and Mehta. Is it really true that the signaling role of higher education is virtually non-existent? If that were the case, why are enrollments continuing to rise so sharply? Presumably the cost of quality education is rising, as students have to increasingly resort to private tuition or institutions to prepare them for increasingly competitive entrance examinations. The opportunity cost of attending these institutions is also rising, in the form of foregone wages and opportunities to gain work experience. The private value of education to the student must then also be rising.

Perhaps it is the case that one now signals by the kind of educational institution one gains entrance into. This may be consistent with very little learning occurring *within* those institutions. Or maybe increasing enrollment reflects growing entry of students from poorer backgrounds into higher education, causing congestion and declining quality within public institutions, motivating the more affluent to exit into private institutions (including those located abroad). This may (but need not) cause quality to decline in the public institutions: there may be a benefit from declining levels of congestion. This is the hypothesis of transition from one equilibrium to another alluded to above. Nevertheless it is unlikely that quality will have declined to the point that there is no signaling value at all; otherwise, one would not expect demand to continue to grow at the rate that is being currently observed. Perhaps the signaling value has declined compared to what it used to be a few decades earlier, but it must be still sizeable. Yet we remain puzzled by where this value comes from, given the abysmal quality of most universities.

To address these kinds of questions one needs to formulate and estimate econometric models of educational choice, with data on costs and returns

to education. We need good statistical databases that will tell us about the kinds of choices students from varying family backgrounds and intellects are making, the options they have available, the costs they are incurring, their academic success rates, and the kinds of job market experience following graduation. Data on students and their experiences need to be combined with information about the resources and teacher quality of educational institutions. Traditional estimates of rates of return to education have typically ignored the problem of educational quality, focusing instead on crude measures of the quantity of education (such as the number of years of education). We all know that where one gets a degree from, and in what subject, makes an enormous difference to subsequent job market success. The central issue in the Indian context concerns educational quality, including the problem of how to measure it and compare quality across different kinds of educational institutions.

The other classic problem in estimating the social returns to education is separating out the signaling value of education from its productivity-enhancing effects, and in measuring spillover effects on peer learning and agglomeration. Other important and challenging issues concern modeling choices made by students from varying backgrounds between public and private educational institutions, decisions which depend both on the range of institutions available, their relative cost, and perceived quality. There is an emerging literature on the complex effects of school choice and competition between public and private schools in the context of the US, Bolivia, and Chile (for example, Epple and Romano, 1998; Urquiola, 2005; Urquiola and Verhoogen, 2007) that could form a starting point for such a modeling effort. Such models could also be used to formulate and test hypotheses concerning effects of entry of private universities, and alternative policies concerning tuition fees charged.

Finally, the school choices are likely to be strongly affected by opportunities to borrow funds for educational purposes. The large outflow of Indian students to universities abroad is likely to have been fueled partly by easy availability of foreign exchange in the post-liberalization era. It is also possible that the growth of consumer credit over the past decade has not just driven a boom in purchases of housing and consumer appliances but is also one of the factors underlying increased enrollments within Indian universities. Educational policies and financial market reforms are thus closely interwoven.

The kinds of databases required to pursue such a research agenda are not currently available. Longitudinal surveys of educational institutions, students,

and their experiences in education and labor markets will need to be conducted. Until then, our understanding of the problems of higher education and related policy discussions has to be based on speculative judgments.

Policy Issues

The current malaise of higher education in India seems to be hopelessly complex. At the heart of it is the kind of governance problem that Kapur and Mehta describe and explain so well, resulting from a combination of political imperatives and institutional constraints.

Reforming the public system seems the most difficult. Fiscal constraints prevent large increases in rates of spending by the state. Even more forbidding are the political and institutional constraints: politicians will have to cede rents and patronage sources, merit-based criteria, and the pursuit of excellence will have to become the missions of educational institutions; mediocre teachers will have to give way to those less interested in institutional politics and more interested in teaching and research. It is always hard to turn around an institution in a state of steep quality decline, and particularly so when there is no compulsive pressure to do so at any level.

Perhaps a better hope lies in a more fully-baked version of capitalism, based on improving regulation of the private, philanthropic, and non-profit sectors. The authors have described many problems in the current regulatory setup, driven partly by the fact that there has been little effort so far to consciously evolve a coherent strategy for educational regulation in the post-liberalization age. They also emphasize the need to think of educational policy in an era of private education and a global knowledge-based economy. The widespread mushrooming of coaching schools, private tuitions at one end, and growing opportunities to study abroad mean that the education sector is effectively being privatized on a large scale. It is high time policy makers begin to think of ways of adapting to such an environment, by evolving a coherent approach to entry, accreditation and quality certification, and providing the public with information about educational quality of existing institutions. Educational scholarships, loans, and vocational and remedial training programs need to be developed to expand educational access among those from poorer and historically disadvantaged backgrounds. Demands arising in the labor market as well as from primary and secondary schools need to be coordinated with policies for regulating entry of private institutions in different educational areas. Policies for funding of infrastructure in public universities and reforms in pay, recruitment, and promotion of university teachers are urgently required as ways of improving quality and accountability. Research linkages of universities with industry need to

be actively encouraged. There is a large range of policy options available to turn around the state of higher education in India. Whether and how this is done will have a decisive impact on India's ability to sustain its current growth path, and ensure that the benefits from this diffuse through a large section of its population.

General Discussion

Chairperson Isher Ahluwalia began the general discussion with a few comments on the current political economy of Indian higher education. First, she pointed out that the government is currently committed to a substantial expansion of spending on higher education. However, the Ministry of Education is delaying the expansion of existing institutes until the Supreme Court decides on the issue of an expanded quota for the Other Backward Castes (OBC) reservations. Ahluwalia argued that this is a prime example of the central control of the system, leading to a homogenized, standardized framework for higher education rather than a framework wherein the different states retain the ability to cater to the needs they perceive in their particular regions. Second, Ahluwalia drew attention to the major decline in the quality of research and pure sciences within the Indian higher education system. This is particularly troubling, she argued, given the importance of these areas for innovation and other long-term benefits for the country.

Abhijit Banerjee remarked that it is necessary to determine what the natural benchmark should be for the quality of academic institutions in order to have a meaningful discussion on this subject. Given the resource constraints, the academic sector should not necessarily be able to compete with the IT sector in terms of attracting skilled faculty and students. The conceptual problem of what the right benchmark should be is quite difficult, especially with the large number of jobs being created in fields such as private bio-technology, which offer much more money than jobs in pure research and sciences.

Anne Krueger offered a US perspective on two points. First, she pointed out that economists working on higher education in the US have focused on measuring rates of return from education for different classes of people over time. Research on the rates of return in India would be important in sorting out many of the questions that have been raised. Second, Krueger argued that the reason the US does pretty well at the higher education level and much more poorly at primary and secondary education is the greater level of competition among the universities. In contrast to a virtual state

monopoly at the primary and secondary levels, the increased competition in higher education has led to a greater degree of diversification. There is a huge demand in the US for information about higher education. This has taken the form of an increased number of accreditation committees, all of which are private. The role of the public sector is in things like the National Science Foundation, which has allowed competition among both private and public universities for grants and funds for scholarships.

Focusing on the juxtaposition of market barriers and government barriers, Jeff Hammer argued that there are wide variations in the ease with which different policy measures can be implemented. In his view, the biggest problem missing from the authors' discussion was credit market failure. He agreed with Krueger that making loans more affordable across public and private institutions would be a very important step in encouraging competition. On the other hand, Hammer disagreed on the importance of research on rates of return to education. In his view, since they are private rates of return, they have little to do with public policy, which should be guided by a broader public rate of return.

Anjini Kochar also commented that the appropriate distinction was not between public versus private institutions but on whether there was effective competition. In addition, she argued that the politics of support for the financing of higher education were changing. Wealthy families may have opted out of the system in the past and sent their children abroad for an education. However, in the current environment, business leaders had a greater interest in the quality of higher education and the workforce within India. They were more supportive of devoting additional resources.

Rakesh Mohan wanted to get a better understanding of the huge increase in higher education enrollments in the southern states. Was it demand-induced, resulting from the increased job growth for graduates with those skills, or was it a supply-side phenomenon prompted by the expansion of the system of reservations, which began much earlier than in these states? The current response of the government to national pressures for increased OBC reservations, for example, is to increase total enrollment. Second, he pointed out that low rates of return to higher education in India relative to other countries could suggest either an excess supply of graduates or that the system is such a mess that it does not produce graduates with equivalent skills.

Speaking on the subject of funding for higher education, T. N. Srinivasan identified an additional issue in evaluating private and public funding. Funding that comes from sources with specific agendas can distort not only

the priorities of research for an institution but also promotion and recruitment. This can be the case with government funding as well as industry-sponsored research. Therefore, the nature of the funding sources can be an important determinant of the quality of the research being carried out by these institutions.

Rajnish Mehra argued that since tax revenue is now growing enormously, funding is no longer the primary constraint. However, he noted that there is enormous diversity in the public institutions in India with regard to the governance of teachers and the distribution of funding. Increased flexibility in the allocation of funds may matter more than an increase in the total. Institutions often had greater flexibility in spending funds from outside sources.

Arvind Panagariya returned to the issue of competition. Although there has been *de facto* privatization through the entry of private colleges, the same is not true for private universities. The creation of private universities still requires either the Central Government or the state government to pass authorizing legislation. He argued that the system is far too constraining and obviously restricts competition. Additionally, he pointed out that each private college has to affiliate itself to some public university, and if that public university happens to have a terrible reputation, then the terrible reputation spills over to the college. It cannot build its own reputation.

Panagariya maintained that the system in India is much different than that of the US. The greatest difference is in the degree of central control. In the US, there is huge competition for faculty, in terms of both salaries and other benefits. In that sense, the Indian system does not have any competition. Even the salaries in the private colleges are essentially determined by the UGC, which enforces elaborate criteria and guidelines that severely restrict most forms of competition. Finally, Panagariya noted two areas where the system seemed to be working well: engineering colleges and business education. Where competition has been allowed, quality has improved, and that also explains why India still has done well in some specific skill areas.

The other participants emphasized a history of repeated funding increases for education without the complementary institutional reforms required to improve performance. In the political space, each of these episodes has been squandered, resulting in an intensification of an old institutional structure. A contrasting perspective is provided by noting that if higher education was viewed as an industry—with new entrants, increased market share of the new entrants, and active involvement in shaping outcomes—the pessimism that dominated the session seems surprising.

In his response, Mehta agreed about the importance of establishing benchmarks for measuring quality. Regarding competition, he agreed that it is competition in a formal sense but with many other binding constraints. In particular, Mehta identified three conditions that a private entrepreneur would require to establish a private university in India. First, that there be enough available land, which typically is scarce due to urban regulations. Second, that there be no other restriction on students other than what centrally mandated affirmative action legislation requires. Third, that there be minimal or no state government representation in running the institution. According to Mehta, few if any states could meet all three of these conditions.

Devesh Kapur continued with three main points. First, he agreed that there is a dearth of research on the optimal tradeoff between educational quantity and quality. In his view, this is why the public policy debates in this area are so difficult. Second, Kapur expanded on the problems imposed on the higher education system by the regulatory framework in India. This is not just a problem created by the state but also by professional organizations, which place restrictions on the activities and pursuits of its members. Also, he argued that there is no reason why the salaries of Indian Institute of Management (IIM) and Indian Institute of Technology (IIT) professors should be capped and linked to those who teach Hindi. This drives these professors to devote more time to consulting and less to research. As a final point, Kapur asserted that the single biggest constraint in research in India is the lack of graduate students, particularly in the sciences.

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