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**STRATEGIC OPPORTUNITIES FOR QUALITY IN
HIGHER EDUCATION IN INDIA**

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This paper's main concern is with the quality of education. It offers two games that highlight the proactive role the government could play for quality in higher education. It is a role that is different from what the government seems to be doing now. In the first game, the government plays against a University. If the government were stern, the University would credibly commit to delivering quality education. At equilibrium, the government trusts the University, and the latter reciprocates the trust by offering quality education. In the second game, two universities (it could be many more) are trapped in a Prisoner's Dilemma (PD) game in which cooperation means offering quality education. The outcome of the PD game is bad for the Universities, they want an external agency (possibly the government) to enforce cooperation. With enforcement, both Universities provide quality education. The commitment of the government to enforce suitable laws, however, is doubtful in the modern world of give and take; the government is better off finding the Universities in violation but not enforcing the law. With the Universities anticipating that the government would not enforce the law, the Universities are unlikely to cooperate. What can be done? Probably some day the electorate will demand quality education with great vigor. The government may then dissociate itself from the temptation of give and take, and install a Standing Education Commission, with powers matching those of the Election Commission of India. It will then be the task of this Commission to implement laws that induce quality education. The paper thus provides a theoretical justification for the National Knowledge Commission's recommendation for the installation of "Independent Regulatory Authority for Higher Education (IRAHE)."

Key Words: Higher Education, Quality, Credible Commitment, Delegation, Game Theory

INTRODUCTION

According to Gunnar Myrdal, the author of *Asian Drama* and a Nobel Laureate in Economics, the purpose of education policy is to direct educational efforts towards national development (Myrdal, 1972, p. 314). The policy should help "modernize attitudes as well as ... impart knowledge and skills (p.313)," and do so speedily. The idea is that knowledge may rationalize attitudes which may in turn "facilitate the acquisition of literacy, knowledge and skills (pp. 313-4)." Educational reforms however have proven difficult because firmly rooted attitudes and institutions are

difficult to dislodge, and insufficiently trained teachers can hardly carry out the necessary reforms and may even find it against their self-interest to do so (pp. 313-4).

For India, education would probably be the difference between demographic dividend and demographic disaster. Consider the magnitude of the problem as per the Economic Survey 2011-12 of the Government of India¹: (a) the working age population between 15 and 59 years is likely to increase by about 63.5 million during 2011-16, the size of the United Kingdom; (b) India's Human Development Index (HDI), a composite measure of health, education and income, stands at 0.547 in 2011 making India worse than 133 other countries; (c) against the world average of 7.4 years of mean years of schooling for 2011, India's 4.4 years is worse than even Pakistan (4.9 years) and Bangladesh (4.8 years); (d) India spends only about 3% of its GDP on education; the USA, despite its strong foundation in the realm of education, spent 5.4% in 2009. The numbers are worse for women and rural residents. From the point of view of the people of India, the future, if not totally bleak, may seem exceedingly difficult.

India has to perform at an extraordinary speed in the field of education by way of quality, employability, affordability, and numbers. The government has to have a complete plan comprising educational goals and strategies suited to the various contexts, enforceable laws (among them the recently passed the Right to Education Act) and implementable policies to attain the goals, necessary cross-subsidies, and the resources. Indeed, the resources would in turn determine the goals, strategies and laws for good educational outcomes. For instance, the government has called upon the private sector to participate in the education effort while the government regulates the education sector.

The problem is that private sector firms often suffer from myopia placing short-term profits ahead of long-term profits, even tarnishing their reputation. For a few detailed narratives of large-scale myopic and unethical private sector actions see Cho (2007), Berner and Grow (2008), and Rowley (2007). These are stories of the actions of the U.S. banks during the 2007-08 financial crisis. The private banks embraced bad organizational practices for the sake of immediate profits even though many senior officials would be disgraced for such acts, and lose their jobs with some of them ending up in prisons. The ethical standards of the private sector in India are perhaps

no better than those in the USA, although quite a few educational institutions in India uphold exemplary standards. The malaise of myopic focus is not limited to the private sector. It extends to the government-run educational institutions as well and is reflected in stagnant syllabi, poor incentive structure, teacher absenteeism, learning by rote, slow speed of change, absence of infrastructure, lack of teacher training, and corruption and mutual mistrust. Consequently, the education sector in India is struggling with not only a rising population that quadrupled since 1931, but also inefficiencies in the public and private sectors.

The struggle for educational reforms has to deal with three tasks simultaneously. First is the task of aggregating people's knowledge to address their common problems. The underlying Hayekian idea is that great many people carry in their heads, often based on personal experiences, the information relevant to defining the problems of the education sector and the ways to solve these problems. Second is the task of managing opposing factions operating in the education sector for the sake of the common good. Arguably no faction or school of thought should be permitted to acquire monopoly power in the conduct of nation's education system, programmes or institutions. In fact, the opposing factions ought to remain vibrant so that each is a check on the other. Third, the success of Singapore and China with higher education has created great demand for establishing "world-class" institutions in India on an expedited basis.ⁱⁱ According to the National Knowledge Commission (2006), "the higher education system needs a massive expansion of opportunities, to around 1500 universities nationwide, that would enable India to attain a gross enrolment ratio of at least 15 per cent by 2015." The National Knowledge Commission further recommends "creation of 50 National Universities that can provide education of the highest standard. ... with at least 10 such universities in the next 3 years."

From the point of view of governance of the system of education, we can view the first task as arising from uncertainty but no major conflict of interest, the second task as arising from both uncertainty and conflict of interest, and the third as arising from the need for speedy action, perhaps in pursuit of avoiding a demographic disaster. After due analysis, this paper arrives at a recommendation of an independent standing education commission that addresses the three tasks.

The next section briefly presents a few major innovations in the governance of education. It is followed by the description of a game between a government and a university. The game illustrates the power and relevance of credible commitment in the education sector. The important thing about this game is that the payoff rankings of both the government and the University seem intuitive, and thus the results carry an extra air of conviction. The following section offers a game with two Universities (it could be any number) and concludes that the Universities would want enactment and implementation of strong laws. It is the government, perhaps driven by its political and electoral consideration, which is falling behind in the implementation of strong laws. To insulate the politicians from constituency pressures and political give and take as well as to guard against the deleterious consequence of moral hazard in the domain of private sector, the paper recommends that an independent Education Commission that would operate on the principles of neutrality, efficiency and transparency. Conclusions follow.

Some Historical Experiments in the Governance of Education

India is among the pioneers to have had the intellectual apparatus to run the Mauryan and Gupta Empires. Sustainance of these Empires required dealing with a rapidly changing world, timely military action, suitable communications systems, a bureaucracy to deal with taxes and moral hazard, and management of competing factions among them Kshatriyas and Brahmins, as well as the armed soldiers and unarmed farmers (Thapar, especially Ch. 5, 2012). In one life span – that of Chankya or Chandragupta - India was transformed from a collection of warring kingdoms to an Empire. Arguably, many of the same skills were instrumental in the installation of Nalanda University. For Nalanda as well as for other Indian Universities of the era, the Guptas allocated the necessary resources despite competing demands, installed a system of governance that enabled a large number of scholarly exchanges, and dealt with moral hazard associated with a large system (Nalanda had the capacity for about 10,000 students and 2000 teachers; see Sen 2011). The ancient society supported Nalanda, and Nalanda responded with vigor. An encore seems possible today provided there is a way to install the necessary institutions and processes, with the necessary support staff.

After Nalanda, several notable Universities in Europe carried out some great experiments in governance. Andrew Boggs (2010) traces major shifts in University governance to Bologna (where students ran the University) and Paris (where the teachers, called masters, ran the University). At Bologna, “teachers served the institution at the students’ pleasure, inverting the student-teacher relationship found at Paris (p. 3).” At Oxford (1167) and Cambridge (1209), they followed the Paris governance model, with the masters as the rulers. The University of Edinburgh (1660s-1800s) introduced the University “Court” to govern the university, and was staffed by the local leaders marking “the start of an ascendancy of secular governance of universities (p.4).”

Civic Universities (1800s-1900s) – Sheffield, Manchester, Birmingham – broadened the access to tertiary education, introduced new disciplines, and spurred economic growth. As a governance model, Civic Universities adopted bicameralism: a Board comprising local leaders (responsible for raising and disbursing funds) and a Senate of academic staff (responsible for the curriculum, and academic planning). “Scotland’s Universities Act (1858) helped codify the principles of bicameralism in university governance (p. 5).” It became the norm for the governance of the Universities in the USA.

The remarkable part of the changes in Bologna in Italy, Paris in France, Edinburgh in England, and Civic Universities in Scotland is that the changes are procedural. They sought students to manage their teachers (Bologna), teachers to become the Masters (Paris), installation of University Courts staffed by outsiders opening the University to societal influences (Edinburgh), and installation of bicameralism that empowered the knowledgeable players (Scotland and later much of the United States). These are not the type of changes that require setting of goals and allocation of budgets that India often emphasizes when setting up its Commissions.

The changes in the various universities of Medieval Europe (1100s – 1500s) are in the nature of Constitutional changes and are only indirectly related to the goals, budgets, strategies, and so forth. The underlying idea perhaps was that such governance would constrain self-interest, bring universities face to face with reality, enhance innovation, and fuel the industrial revolution. Over time governance reforms have moved away from the monopoly of a single faction or opinion (be it that of faculty or business

leaders), and towards reliance on multiple factions. Bicameral governance is an example of it. Arguably, empowerment of multiple opinions enables finding a middle path with a lower risk of going astray. This lesson of history, drawn from centuries of experience and observed in great universities of our times, is to be taken as a constraint as new governance systems are being explored to push India on to the fast lane.

Among the risky paths are permitting the dominance of the government and dominance of the private sector. The former is risky because it permits one Minister to proclaim change without due consultation and reflection (a particular Minister may be very thoughtful, but that does not take away the risk). The latter is risky because the private sector is subject to moral hazard and cannot be trusted to voluntarily forgo profit for the sake of the larger society. Barring a few notable successes, the performance of the private sector in India has been spotty. It is thus necessary to explore new ways of governance suited to the Indian needs and practices. The new governance structure needs to introduce such institutions, rules and incentives that educational establishments, whether in the public or the private sector, act in the societal interest. To this end, I examine two games of relevance to education policy in the next two sections.

Government and University: Less can be More

Consider the following game between the government and a University.

Government-University game

		University	
		S: Short-term focus	L: Long-term focus
<u>Government</u>	M: Greater Monitoring of the Univ.	<u>3</u> , 2	<u>2</u> , 1
	F: Greater Freedom to the Univ.	<u>1</u> , 4	<u>4</u> , 3

Figure 1. The relative payoffs are intuitive as explained in the text. The University would play its dominant strategy S. The unique equilibrium of the game is at (M, S) but it is not Pareto optimal.

In the simultaneous-move game in Figure 1, there are two players: Government and University. Government has two strategies: M (Greater Monitoring of the University) and F (Greater Freedom to the University), and the University has two strategies: S (Short-term focus) and L (Long-term focus). Here are some illustrations of short-term focus and its consequences for the society: some institutions “award certificates and diplomas after only a few weeks of teaching/training. This has resulted in deplorably low standards in most professional streams. The larger damage caused is to the credibility of the higher education system itself where every certificate or diploma, except for those given by a handful of institutions, are viewed with suspicion (Sibal, 2012).”

Government payoffs are underlined. Thus, if the government plays M and the University plays S, the government would get 3 and the University 2. We assume both players are rational and the structure of the game is common knowledge.

The payoffs are intuitive. The government ranks (F, L) the best, with a payoff of 4, as the government gives greater freedom to the University and saves on monitoring costs. The government knows that at (F, L) the University, with its long-term focus, would take the right approach for the greater good by drawing upon its comparative advantage in the creation and transmission of knowledge. Moreover, at (F, L) the University does not incur high cost of regulatory compliance. The government ranks (F, S) the worst, with a payoff of 1, as the University exploits greater freedom for its short-term (narrow) interests. At (F, S) the University obtains its best payoff of 4 in this one-shot game. For the government, (M, S) is ranked next to the best, with a payoff of 3, as the government is assumed to restrain the short-term focus of the University with greater monitoring. At (M, S) the University gets 2. Finally, at (M, L) the Government gets 2 and the University gets its worst payoff: given University’s focus on the long-term, Government monitoring is wasteful for the Government and the University. Note that if the government ranks (M, S) at 2 and (M, L) at 3, the conclusion of this paper would not change.

To assess how the game in Figure 1 might be played, observe that the University has dominant strategy S: if the government plays M, the University is better off playing S (S yields 2 whereas L yields 1), and if the Government plays F, the University is better off playing S (S yields 4, and L yields 3). Thus, no matter what the Government plays, the University is better off playing S. So the Government would play M (greater monitoring) to get 3 instead of F that would yield 1. The strategy pair (M, S) emerges as the unique equilibrium of the game yielding a payoff of (3, 2). Unfortunately, (M, S) is not a good outcome. The Government and the University could both do better at (F, L). The players know that they *should* play (F, L) but acting in self-interest they *would* play (M, S).ⁱⁱⁱ

According to Sibal (2012), “It is well-known that in the extant framework, the legal requirement that all certification be awarded by either universities or recognized examining bodies is being flouted with impunity by many private institutions, owing to the overstretched supervisory capacity of the Government.” Taking the statement of the then Human Resource Development Minister of India to be correct, it seems in the context of the game in Figure 1 that the Government, with overstretched supervisors, is forced to play F (greater freedom to the University). With the government playing F, the University would play S (short-term focus) by flouting government rules with impunity and get its highest payoff of 4. The game in Figure 1 predicts the equilibrium outcome consistent with the Minister’s observations.

With the Government forced to play F and the University playing S, the government gets its worst outcome. So the government has to act. Sibal (2012) states: “Legislation to prohibit and punish malpractices and adoption of unfair practices in higher education and in the university system is being considered by the Parliament. The legislation should deter fly-by-night operators in higher education from indulging in illegal profiteering and exploitation.” The Government seems to be trying to impose penalties perhaps with the help of the judiciary. But the judiciary may have to depend on the government to present the necessary information and make the case of the people of India against the University in question. Failure, of the executive branch to prosecute the case either in a court of law or by administrative action would prompt the University to play S. Regulations or laws are unenforceable if noncompliance is unobserved. To punish, the government must hire supervisors with the capability to infer from the available evidence that the University chose S and not

L. If the government cannot do so, then punishment cannot be carried out. Although I consider some alternatives later in this paper, I do not think there is a serious alternative to Government finding the resources to prosecute the necessary cases. So, assume that the Government can hire additional supervisors so that M is a strategy that the Government can employ. The question is what should the University do?

We will make a leap of faith and suppose the University decides to punish itself by reducing its payoff by 2 whenever it plays S (short-term focus)! All other payoffs remain unchanged. Why would the University suffer a self-inflicted loss if it plays S when S is actually its dominant strategy? Two assumptions will be made before answering the question. First, the University makes a *credible commitment* to suffer a loss of 2 whenever it plays S. How it makes the credible commitment is left open because it depends on the context. Suffice it to say the commitment so made will be honored. Second, the University ensures that the Government knows of its credible commitment. Then the new game would be as in Figure 2.

Credible commitment by the University to rule out short-term focus

		University	
		S: Short term focus	L: Long term focus
<u>Government</u>	M: Greater Monitoring of the Univ.	<u>3</u> , 2-2=0	<u>2</u> , 1
	F: Greater Freedom to the Univ.	<u>1</u> , 4-2=2	<u>4</u> , 3

Figure 2. The University makes a credible commitment to losing 2 whenever it plays S. Its new dominant strategy is L. So the government plays F and the unique equilibrium of the game is at (F, L) which is Pareto optimal.

Strictly speaking, the new game has two periods. In the first period the University makes the commitment and communicates it to the Government, and in the second period, the revised simultaneous game is played.

The University ranks the outcomes of the revised game as follows: (F, L) is the best yielding 3, (F, S) is second best with 2, (M, L) is third best with 1, and (M, S) is the worst with 0. The government ranking of the alternatives remains unchanged. How might the revised game be played? Note that University's new dominant strategy is to play L (long-term focus), and with the University playing L, the Government would play F (Government gets 3 at F and only 1 at M). The equilibrium of the revised game would be (F, L) at which the government gets its best payoff of 4, and the University gets its payoff of 3. The new equilibrium is also Pareto optimal in the sense that no player can be made better off without making the other worse off. Thus, what *should* happen *would* happen.

The interesting part of the story is that by reducing its own payoffs unilaterally, the University has made itself better off: it reaches equilibrium (F, L) which, in the original ranking, is better than the equilibrium at (M, S). The government also reaches its best outcome simply by giving the freedom to the University. The University, with its unilateral action of credible commitment, asserts to the government that it has made it impossible for itself to play S. The government sees the assertion to be true (the University having "burned the bridge" that enabled it to play S) and lets the University have the freedom based on the credible commitment. The government and the university save themselves from various investigations and enforcement action. It is also the case that the University would find it more acceptable to constrain itself under (F, L) than be forced to do what the government says under (M, S). This then is the answer to the question posed earlier: the university suffers the self-inflicted loss if it plays S so as to make itself better off!

Note that at equilibrium (F, L), the government does not need to use the supervisors it hired, but if it does not hire then knowing that the Government is reduced to playing F (greater freedom), the University would play S (short-term focus) to get 4, instead of the 3 it gets at (F, L). It follows that the government needs the threat of playing M (greater monitoring). Without it, the Government will be ineffective in getting the desired outcome: the University will not make a credible commitment to reduce its payoff by 2 for playing S; indeed it will play S. With it, the University would have an incentive to make a credible commitment to reduce its payoff and should it succeed in so doing, the Government will not use its supervisors it painstakingly hired!

Commitment requires an irreversible action diminishing one's own choice such that non-fulfillment either worsens one's own payoff or is not permitted by a third party that has an interest in the fulfillment of the commitment and the power to enforce it (Schelling, 1980, pp. 127-8). The commitment is a *strategic* move, a move that induces the other player to choose in one's favour. It constrains the other player's choice by affecting his expectations (Schelling, 1980, p. 122)." In the game in Figure 2, University's strategic move to change its payoffs from playing S led to the Government's expectation that the University would play L.

Here is a beautiful example of credible commitment – secret ballot – observed by Economics Nobel-laureate Thomas Schelling (1980). In the practice of democracy, elections are a must. But politicians and their goondas try to intimidate voters. Each voter also has an incentive to sell his vote if the vote is unlikely to change the outcome. To run a democratic system, there has to be the conviction that the system of voting would work.

Schelling (1980, p. 148) states: "What is a secret ballot but a device to rob the voter of his power to sell his vote? It is not alone the secrecy, but the *mandatory* secrecy, that robs him of his power. ... And what he is robbed of is not just an asset that he might sell; he is tripped of his power to be intimidated. He is made impotent to meet the demands of blackmail. There may be no limit to violence that he can be threatened ... But when the voter is powerless to prove that he complied with the threat, both he and those who would threaten him know that any punishment would be unrelated to the way he actually voted. And the threat, being useless, goes idle."

Like democracies have found secret ballot as a way to make credible commitment for the conduct of fair elections, if the University can find a way to make a credible commitment to not play S (which would mean less opportunity for the University), then the government would play F and the University would obtain more at equilibrium (F, L) relative to the equilibrium (M, S) corresponding to no credible commitment. It is in this sense that the title of this section states that less can be more!

One way to credibly commit to quality, to give an example, is to hire competent faculty in sufficient numbers. A University that hires first-rate faculty on a permanent

basis at competitive wages is unlikely to cut corners and play the game with a short-term focus. The government is likely to choose F (more freedom to the University) with both players being better off after saving on the monitoring cost.

Two Universities: The Stronger Laws are Better

So far the game was between a university and the government. In reality, multiple universities compete with each other. Usually competitors care about a level playing field and complain about unfair advantage enjoyed by their adversaries. They complain that they are forced to play S because the competitors are doing so, and would be ready to play L if others did too. For example, Blundell-Wignall et al (OECD, 2008) assert that “Switzerland’s, Germany’s and UK’s investment banks took up similar actions [moving further and further lower into low quality mortgages] often to keep market share.” Similarly, “good” students complain that a relative grading system forces them to cheat even though they hate to cheat. Such students say that they want a strict enforcement of academic integrity to restore a healthy culture and build student character. But if the institution does not act decisively, they will continue to cheat to keep a level playing field.

In the case of competing Universities, there is a rush for good and paying students and universities, with focus on the short run, go to great lengths to attract such students. The game in Figure 3 captures the situation in the context of two universities. The payoffs are intuitive enough: it is a Prisoner’s dilemma game where playing S is the dominant strategy for both players.

Two Universities in a Prisoner’s Dilemma Game

		University 2	
		S: Short-term focus	L: Long-term focus
University 1	S: Short-term focus	<u>2</u> , 2	<u>4</u> , 1
	L: Long-term focus	<u>1</u> , 4	<u>3</u> , 3

Figure 3. The unique dominant strategy equilibrium is (S, S) but it is not Pareto optimal.

There is a chance that the problem in Figure 3, with both universities being focused on the short-term, is overcome if the game is played infinitely often. But when the number of Universities or colleges runs into hundreds or thousands, then repeated game may not be enough to yield cooperation (long-term focus) (Olson, 1971). In such situations, there may arise institutional arrangements that overcome the problem or there may arise none. If we look at the traffic problem in India, it is a giant Prisoner's Dilemma game with each person trying to go ahead of the other. Unfortunately, no acceptable arrangement has yet emerged to solve the traffic dilemma.

In the case of the Universities, consider a system that can detect a University playing S and invariably imposes a penalty of 2 whenever S is played. The penalty is a game changer. The new game is represented in Figure 4.

With penalty, both Universities are better off at (L, L)

		University 2	
		S: Short-term focus	L: Long-term focus
University 1	S: Short-term focus	<u>2-2=0</u> , 2-2=0	<u>4-2=2</u> , 1
	L: Long-term focus	<u>1</u> , 4-2=2	<u>3</u> , 3

Figure 4. The unique dominant strategy equilibrium of the game is (L, L) which is Pareto optimal.

Now each University has a dominant strategy to play L, and (L, L) is the dominant strategy equilibrium, which is Pareto optimal. Given the penalty both Universities behave themselves: the penalty induces cooperation such that the Universities are better off! They are both better off because they play (L, L) and get 3 each (Figure 4) whereas in the absence of penalty they play (S, S) and get 2 each (Figure 3). The question is who will impose the penalty? It could well be the Association of Private Universities. It could be the Government (not modeled in the game in Figure 4). It could also be that the Private Universities approach the Government to impose the penalty because their Association, while knowledgeable as to who is cheating, is not

in a position to impose the penalty. It could also be that the past students or Parents association approach the Government to impose the penalty on the basis that they have the information but are not in a position to impose the penalty. Finally, it could be the whistleblowers needing government protection and action to punish the renegade colleges or universities.

The problem however is that the Government tends to be beholden to organized interests and under pressure from the Universities may decide not to punish anyone. For instance, if each University has played S, each stands to gain 0 if the other University has also played S. Both Universities may seek to bribe the government so long as the bribe is less than the penalty amount of 2. It follows that a Government, with interest in bribe, would like to enact the law but not enforce it so as to get the bribe. It is also possible that the Government passes no law because the Universities are creating employment and enrolling students that help the politicians to claim the credit for a better economy and win elections. The interesting point to note however is that both Universities are better off if the government enacts the law and enforces the penalty against those who resort to playing S.

The following conclusion seems evident. Universities with the ability to compete and having the means to play L would want the government to enact and enforce strict laws. For instance, able competitors prefer strict liability standards to negligence standard because their weak counterparts cannot survive strict liability standards. Strict liability standards make companies more competitive. Would you buy a mountain-climbing rope from India or a country with strict liability standard assuming that the price of the latter is 50 times more? My students express willingness to pay the higher price or not go for mountain climbing at all! Clearly, the Indian companies are worse off under lax standards. The good companies should be willing to push for such liability standards so as to make more profit.

It follows that once the strict laws are enforced, the universities able to survive under the law would not cheat at equilibrium and no customer would have to worry about being cheated. So if the good Universities want strict laws why don't they have them? As discussed earlier, it could be because the Government does not want such laws or is still gearing up by recruiting manpower to enforce the laws.

The structure of government more likely to work in a democracy

While the government needs to credibly enact and enforce strict laws, it may be tempted not to enforce the laws for short-term gains of its own. Credible commitment to swift and effective enforcement of the laws is thus critical. The question arises what organizational structure of the Government would be better suited for the enforcement of strict laws?

A preferred method these days is deregulation or decentralization. It is believed that decentralization would succeed in aggregating local information for the common good and imparting speed in decision-making. Unfortunately it often does not work that way. While it is true that decentralization promotes aggregation of local information and speedy response in a rapidly changing environment, decentralization can be harmful if there are no checks and balances at the local level (e.g., the power in some Panchayats under Panchayatraj probably gets concentrated in a few hands because the opposition to the ruling elite is weak.)

Wydick (2008, Ch 9) observes: “Bardhan notes however that decentralization may have both positive and negative effects. Decentralization of the bureaucratic machine can foster better accountability between government and the citizenry, since local governments may have better information about local issues and are also more directly accountable to local voters (Bardhan, 2005, p. 114). However, decentralized governments and their agents may also be susceptible to capture (in the form of bribes or favoritism) by local elites (Drèze and Sen, 1989, and Bardhan and Mookherjee, 2006).”

The private sector despite competition may fail on the quality frontier due to moral hazard. In particular, foreign universities doing business in India may fail to replicate their successes at home. And just as the private sector can fail, so can the government.

With politicians being dominated by short-term political and electoral considerations, they should not have a say in the day-to-day operations required to enforce the laws. An independent Commission, along the lines of the Election Commission but with many more members, would seem to be a suitable structure. Presumably, good people would be chosen and they will be entrusted to enforce strong laws with the help of the industry. Such independent Commissions, free of political interference,

have worked well for India and other democracies. Zakaria (2003, p.242) observes: “Governments will have to make hard choices, resist the temptation to pander, and enact policies for the long run. The only way this can be achieved in a modern democracy is by insulating some decision-makers from the intense pressures of interest groups, lobbies, and political campaigns. ... In most advanced democracies, the government’s most powerful economic lever is now exercised by an unelected body. And it works.”

Zakaria (2003, p.242) continues: “In developing countries the need for delegation is even greater because the stakes are often higher. ... They must focus on the long-term with regard to urban development, education, and health care, or their societies will slowly descend into stagnation or even anarchy. Far-sighted policies pay huge dividends; short-term patronage politics have immense costs.”

The preceding analysis leads me to conclude that there is great merit to the National Knowledge Commission’s (NKC) recommendation asking the Government to install an “Independent Regulatory Authority for Higher Education (IRAHE).” The NKC states:

“The IRAHE must be at an arm's-length from the government and independent of all stakeholders including the concerned Ministries of the Government, along the lines specified in our attached Note.

- The IRAHE would have to be established by an Act of Parliament, and would be responsible for setting the criteria and deciding on entry.
- It would be the only agency that would be authorized to accord degree granting power to higher education institutions.
- It would be responsible for monitoring standards and settling disputes.
- It would apply exactly the same norms to public and private institutions, just as it would apply the same norms to domestic and international institutions.
- It would be the authority for licensing accreditation agencies.
- The role of the UGC would be re-defined to focus on the disbursement of grants to, and of, public institutions in higher education. The entry regulatory functions of the AICTE, the MCI and the BCI would be performed by the

IRAHE, so that their role would be limited to that of professional associations.”

Based on this paper, it is my understanding that the industry groups will support such a move provided that the IRAHE gives the industry a couple of years to gear up to the high standards the Regulatory Authority is likely to implement.

Conclusion

Perhaps the role of the government is to institute “easy” to implement *rules and incentives* such that actions of *knowledgeable* actors in *self-interest* are in the *collective interest*. Sometimes government can adopt decentralized solutions such as property rights, liability rules, tradeable permits to pollute, Vickery auctions or school vouchers. These are cases of mechanism design that specify the institutions, procedures, and the rules of the game with a desired outcome in mind. The mechanism, to be worthwhile, has to be such that when the players with private information play the game, they end up at or close to the desired outcomes. For instance, at the equilibrium price of the tradeable permits, those with the knowledge that their cost of clean up is less than the market price of the permit undertake the clean up and thus minimize the cost of pollution control for the society.

The ideas about mechanism design, tradeable permits and school vouchers are less than 50 years old. They have led to greater faith in market reforms especially pro-competitive deregulation. But when the idea was unduly extended to a world fraught with moral hazard, it resulted in the infamous financial crisis of 2007-8. Osborne (2007) in his “Reinvent Government,” is concerned with pro-competitive reforms of the public sector (e.g., the university system) ostensibly to give customers (e.g., students) more choice and superior quality perhaps at a lower cost. According to Osborne (2007, p.12), “In developing nations, leaders must decentralize control with great care. First they need to concentrate on establishing some basics: the rule of law, an independent judiciary, hiring based on merit, and financial controls, audits, and transparency. These are the most important steps they can take. Then, as they begin to loosen the old systems of control, they should construct new systems in their place—management information systems, systems that impose consequences, auditing systems, and systems that will prosecute corruption. When they cannot use market

competition to create consequences, perhaps their best option is to grant flexibilities only as organizations prove they can handle them.”

With respect to education, it would be fatal to entrust the sector to the private industry in part because moral hazard is a serious issue and is likely to be misused. Osborn’s comments, cited above, would apply. It also does not seem wise to keep the education in the government sector under direct control of the politicians. That leaves one serious alternative: Placing education under a Standing Education Commission (or IRAHE as NKC named it) dealing with both policy formulation and policy implementation. It will be a Commission that will formulate policy on a continuing basis, analyze real-time data for mid-course correction, and prosecute cases against unscrupulous providers of education. It will build a strong foundation for education such that no enterprise will dare to do mischief and no ordinary citizen will have to worry about such mischief.

The Standing Education Commission is to be constructed along the lines of the Election Commission of India but with many members drawn from various disciplines and walks of life. The structure of the Election Commission or the Competition Commission of India along the lines of similar commissions in the USA (e.g., the Federal Reserve Bank, and the Federal Communications Commission) impart the independence necessary to arrive at reasoned expert decisions on complex technical matters based on the latest data. Even the politicians may like independent commissions if the commissions follow a fair and transparent process. Politicians want to escape the political and electoral consequences of the blame that they did not do the bidding of their supporters. In the case of independent commissions, the politicians can easily escape such blame by pointing out that there is nothing within their powers to do given the constitutional commitment the government has made by delegating the authority to the commission. The interest groups are also likely to be happy as explained in the paper. The interest groups, or at least the more competent players, would rather have a level-playing field and higher standards so that weaker players are weeded out.

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ⁱ All numbers in this paragraph are obtained from the Economic Survey 2011-12 issued by the Ministry of Finance, Government of India, pp. 301-3, available at <http://indiabudget.nic.in/index.asp>.

ⁱⁱ The Times Higher Education Top 5 for 2012-13 from Asia includes University of Tokyo (#27 in world ranking), National University of Singapore (#29), University of Hong Kong (#35), Peking University (#46), and Pohang University of Science and Technology, Republic of Korea (#50). Among the top 400 universities, there are four institutions from Africa (all of them from South Africa), three from South America (two from Brazil and one from Columbia), and three IIT's from India. <http://www.timeshighereducation.co.uk/world-university-rankings/2012-13/world-ranking/range/001-200>

ⁱⁱⁱ Note that if the game in Figure 1 were converted to a sequential-move game with the government moving first and the University moving second, the equilibrium path of play would still be (M, S).

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<i>Title:</i> <p style="text-align: center;">STRATEGIC OPPORTUNITIES FOR QUALITY IN HIGHER EDUCATION IN INDIAⁱⁱⁱ</p>					
<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; text-align: center; border: none;"><i>Author(s):</i></td> <td style="border: none;"><i>Institution(s)</i></td> </tr> <tr> <td style="text-align: center; border: none;">Krishna K Ladha</td> <td style="border: none;"> Professor of Economics Indian Institute of Management Kozhikode IIMK Campus PO Kozhikode, Kerala 673 570. Phone: 91-495- 2809107 email: kkladha@iimk.ac.in </td> </tr> </table>		<i>Author(s):</i>	<i>Institution(s)</i>	Krishna K Ladha	Professor of Economics Indian Institute of Management Kozhikode IIMK Campus PO Kozhikode, Kerala 673 570. Phone: 91-495- 2809107 email: kkladha@iimk.ac.in
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<i>Abstract:</i> <p>This paper's main concern is with the quality of education. It offers two games that highlight the proactive role the government could play for quality in higher education. It is a role that is different from what the government seems to be doing now. In the first game, the government plays against a University. If the government were stern, the University would credibly commit to delivering quality education. At equilibrium, the government trusts the University, and the latter reciprocates the trust by offering quality education. In the second game, two universities (it could be many more) are trapped in a Prisoner's Dilemma (PD) game in which cooperation means offering quality education. The outcome of the PD game is bad for the Universities, they want an external agency (possibly the government) to enforce cooperation. With enforcement, both Universities provide quality education. The commitment of the government to enforce suitable laws, however, is doubtful in the modern world of give and take; the government is better off finding the Universities in violation but not enforcing the law. With the Universities anticipating that the government would not enforce the law, the Universities are unlikely to cooperate. What can be done? Probably some day the electorate will demand quality education with great vigor. The government may then dissociate itself from the temptation of give and take, and install a Standing Education Commission, with powers matching those of the Election Commission of India. It will then be the task of this Commission to implement laws that induce quality education. The paper thus provides a theoretical justification for the National Knowledge Commission's recommendation for the installation of "Independent Regulatory Authority for Higher Education (IRAHE)."</p>					
<i>Key Words/Phrases:</i> Higher Education, Quality, Credible Commitment, Delegation, Game Theory					

ⁱⁱⁱ I thank Shubhasis Dey of IIM Kozhikode for helpful comments