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# PRIVATIZATION AND GLOBALIZATION OF HIGHER EDUCATION IN INDIA IN THE ERA OF ECONOMIC REFORMS

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**ABSTRACT**

*This paper presents the changing scenario of Higher education sector in the era of economic reforms viz. Privatization and Globalization. The paper is divided into four sections. Section "A" presents a brief discussion about the structural changes and move towards privatization and globalization. Section "B" is deals with the theoretical aspects and economic rationale towards privatization. The section also defends why privatization of higher education is theoretically a flaw. This notion contends the merit good nature of higher education. Section "C" presents the policy shifts towards privatization and globalization in higher education. The section also gives trends in this regard. In the Section "D", challenges and conclusion is drawn.*

**KEYWORDS**
Higher education, privatization, globalization, economic reforms.

**JEL CODES**
I23, I25.

## INTRODUCTION

The phenomenon of globalization, which transformed world trade, communications and economic relations in the latter part of the 20th Century, is having a profound impact on education, in general, and higher education, in particular. In respect to higher education, this means deregulating the sector and widespread privatization and advent of foreign investment in Education. With the onset of Neo-liberal regime, the Higher Education Sector in India is witnessing drastic changes. The share of government in the provision of Higher Education is shrinking and consequently a move towards privatization and Globalization of higher education is emerging. Policy measures aimed at reforming education financing was made aiming diversification of the sources of funding by developing alternative arrangements to meet the costs of providing the education. Consequent to the adoption of structural adjustment programmes, the reforms suggested by international funding agencies (World bank, 1994) particularly for developing countries included cost- recovery mechanisms including cost sharing with students, redefining the role of the government by evolving a policy framework to make the sector more market friendly and public institutions more autonomous, encouraging greater differentiation of institutions of higher education including development of private institutions and priority investments towards quality improvement. After signing of General Agreement on Trade in Services (GATS) in 1995 and the formation of WTO, a drive towards opening of education had started. Consequently, Foreign Direct Investment (FDI) in education, including higher education, is allowed in India under the automatic route, without any sect oral cap, since February, 2000.

## PRIVATIZATION OF HIGHER EDUCATION

Tilak (1991) presents different versions of privatization of higher education. The first is the extreme version of privatization which implies total privatization of higher education under which universities are managed and funded by the private sector. Over here, education is treated like any other private good the supply of which is guided under the objective of profit and sales maximization. Strong degree of privatization means recovery of full costs of public higher education from users. The third one he terms as Pseudo- privatization, which includes privately managed but government aided educational institutions.

Tilak (2005) argued that an important development of the 1990s refers to sustained efforts towards privatization of higher education in India. There have been significant efforts towards financial privatization of higher education, which assigns only the motive of profits maximization. Private institutions of higher education all tends to become 'entrepreneurial universities. He also remarked that the emerging private higher education systems are found to be creating serious problems in terms of access, quality and equity in higher education. [1]

## RATIONALE FOR PRIVATIZATION OF HIGHER EDUCATION

The economic rationale for the privatization of higher education is put on the grounds of efficiency, equity and pragmatism. The social rates of return are found to be consistently lower than private's rate of return to education, and hence it is recommended that public subsidies could be reduced, and individuals could be asked to pay for their education. It is argued that the nature of public subsidies in higher education would be regressive and thereby increasing inequalities by transferring resources from poor to the rich[2].

The notion for the privatization of higher education also comes from the point that public sector cannot fund higher education when sectors of mass education are starved of even bare needs. The funding on higher education from public domain is low and in an era when demand is expected to increase, there is a need to explore the alternative source of financing higher education. In the changing circumstances of fiscal constraints owing to adoption of economic reforms, there is a move to keep only the elementary education under the public sector's domain and progressive increase the role of private sector's involvement in meeting the funding needs of secondary education and beyond. The higher education sector, in particular, was proposed to be treated as quasi-public good and by this measure, the burden of financing higher education was to be shifted gradually to the private sector and the private individuals of the household sector. It is believed that government funded expansion is neither feasible nor desirable. This argument is based on two assumptions. One, resource constraint, both the centre and a majority of states, are supposed to comply with FRBM Act. This is bolstered by the faith in the assumption that government funded Higher Educational institutions are inherently inefficient and are incapable of delivering quality education. Two, the private sector driven by profit is argued to be efficient internally in a competitive market. So, infusion of the market principle to foster competition in education is a major element of policymaking. The market confers sovereignty to buyers (students) and sellers (providers). The focus is on completion to achieve efficiency and eventually quality by toning up the internal functioning of Higher Education Institutions to gain mileage from competition. It is due to the very nature of education as a commodity that an optimal investment has been ever realized. Education is both a consumption and commodity. The commodity produces both direct and indirect benefits and it is difficult to estimate the social benefits form education. Tilak (2005) aptly terms higher education as a quasi-public good and in such goods, individuals will be willing to pay for them as the goods provides private returns.

[1] Tilak (2005) contends a case for public provision of higher education. He argues, it was 1980s and 1990s that brought a complete swing of pendulum in which social democratic values and welfare state concerns were replaced by the free market philosophy that stresses individual economic values and gains.
[2] This argument is widely propagated by Psacharopoulos (1994,1997) and world bank (1994)

## CASE FOR GOVERNMENT ROLE IN HIGHER EDUCATION

The externality associated with higher education includes improvement in health, reduction in population growth, reduction in poverty, reduction in crime, rapid adoption of new technologies, strengthening of democracy, ensuring of civil liberties etc and even dynamic externalities.[3]

Education is a merit good and the consumption of which needs to be promoted.[4]

The need for education subsidy in a country is also due to the fact that financing of education via private channels due to presence of Imperfect capital markets inhibits students from borrowing against the uncertain future returns of higher education. Even more importantly, the lenders would be reluctant to accept risk backed only by uncertain future incomes of the reluctant debtors and hence there is the need for state subsidies.[5]

Khadaria, B. (1989) has addressed the 'subsidies question' in higher education. He has discussed three issues; first, economic rationales of subsidies in higher education; second, an alternative to the 'user change proposal' i.e. the subsidy- taxation proposal; and last, an examination of 'user charge proposal, in the higher education. He has explained the economic rationales for which a modern democratic welfare state would choose to subsidize in higher education. First is that higher education generates externalities and second is that the capital market for educational investment is both incomplete and imperfect.

## NEO-LIBERAL POLICIES AND DRIVE TOWARDS PRIVATIZATION

With the onset of reform era, important policy changes have been introduced in the field of higher education. The economic rationale being the sector as a non-merit good and a quasi- public good. The first direct impact of neo-liberal policies in higher education came with the coming of Swaminathan Committee on Higher Education. The Swaminathan Committee (AICTE, 1994) appointed by Ministry of Human resource and Development looked into the possibilities of resource mobilization in technical education essentially through cost- recovery from students. Some of the important recommendations of the committee are:

- Creation of corpus funds in institutions
- Establishment of an Educational Development bank of India with an initial capital of Rs. 3000 crores.
- Reducing the share of salaries in recurring expenditure from the existing level of 80 percent to 60 percent
- Enhancing fees to recover at least 20 percent of the recurring expenditure

On the same account, the Punnayya Committee (UGC, 1993) looked into the funding of Central Universities and made the following recommendations:

- Maintenance grants to be based on unit costs and to be stabilized at a certain acceptable level
- Government's funding to be limited to dearness allowance and maintenance grant.
- Universities to mobilize funds, at least 15 percent of total recurring expenditure at the end of first five years and 25 percent at the end of 10 years.
- Creation of corpus funds to meet the infrastructure development.
- Increasing the student fees keeping in view the rate of inflation.
- Subsidies on many items to be reduced.

The reform measures suggested in the reports of both the committees had two distinct aspects, viz. improving efficiency in the functioning of institutions of higher education to reduce waste and saving resources and mobilizing resources from other than the government. In 1997, Ministry of Finance in a paper defined Higher Education as a non- merit good for which the government subsidies has to be cut from 90 to 25 percent in three years and further to 25 percent in another two years. However, due to stiff criticism by left parties, it was rejected. The move towards privatization was given a new shape when the finance ministry in December 2004 submitted a report titled 'Central Government Subsidies in India' under which higher education was listed as Merit -2 in terms of desirability of subsidization. The advocacy for privatization of Higher education was taken a step further with Amabani- Birla Report on "*A Policy framework for Reforms in Education*" submitted to prime minister's council on Trade and Industry in 2000. Considering education as a profitable market, the Report recommended an immediate privatization of several segments of higher education and full cost recovery from segments. Also, any form of political activism in universities was refuted by the report so that higher education be depoliticized and removed from the purview of any kind of trade union influences. In the same year, UGC came with model Act for Universities. The University Grants Commission while accepting many considerations of the Ambani- Birla Report presented a concept paper titled "Towards Formulation of Model Act for Universities of the 21st century in India" advocated commercial culture and corporate culture for the governance of universities. With the recommendation by National Knowledge Commission Report for the establishment of 50 national universities functioning as "exemplars for the rest of the nation" and the notion public partnership in higher education was initiated. The report promoted commercial investment either directly by private entrepreneurs or indirectly through public – private partnership.[6]

## EMERGENCE OF FOREIGN INSTITUTIONS IN HIGHER EDUCATION

According to Healy[7], higher education is a new market with enormous opportunities of profit. With the establishment franchising (and later joint and sole ventures off shore) production cost is lowered as both capital investment and labour cost in off- shore facilities are lower than home. This also helps in increasing the size of their markets, by making their products accessible to a wider population who can't afford to study at home campus. Healy points Higher education as a 'superior good' in the sense that the income elasticity of demand for higher education is above unity. This means in developing countries, as the per capita GDP raises, the demand for higher education raises proportionately faster. Though 100 per cent foreign direct investment through automatic route is permitted in the education sector since 2000; the present legal structure in India does not allow granting of degrees by foreign educational institutions here. So there is no offshore campus of any foreign university in India is established till now. There are, however, many foreign universities and education service providers operating in India through twinning programmes. The proposed Foreign Educational Institutional Bill[8] would facilitate globally-renowned institutes to participate in India's higher education sector. The Bill seeks to regulate the entry and operation of foreign educational institutions seeking to impart higher education. HRD minister Kapil Sibal advocates the Bill by arguing "I don't see why there is opposition to foreign investment in education. Given that the gross enrolment ratio in higher education in India is 12.4 percent compared to an international average of 23 %- it shoots up to 55 % in developed nations- what we need right now is a focus on expanding supply to meet growing demand. The only way to address that in a sustainable fashion is government investment- supplemented by public- private partnerships- perhaps- aimed at providing affordable education underwritten by the national exchequer." The proponents of Foreign Educational Institutional Bill argue that it would solve the problem of access, enable Indian students to access quality higher education in the country itself at relatively much lower cost, not allow the outflow of our foreign exchange reserves, create competition with the local institutions enabling them to become internationally competitive, and create new institutions and infrastructure and generate employment. The other argument favoring FDI in higher education is that it will solve the problem of access and enable Indian students to access quality higher education in the country itself at relatively much lower cost, not allow the outflow of our foreign exchange reserves, create competition with the local institutions enabling them to become internationally competitive, and create new institutions and infrastructure and generate employment.

The counter argument in this regard is based on the grounds that education imparted by the foreign institutions may not be able to foster national development. Local needs and local problems will not be addressed. The curriculum, standard, faculty and requirements will all the determined by the sponsoring institutions

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[3] Schultz, Theodre W (1972) in his writing 'Optimal Investment in College Instruction: Equity and Efficiency" contends the notion of positive externalities associated with education that covers a wide range of areas. He contends the public good characteristics of education.

[4] The characteristic of merit good associated with education was explained by Musgrave in his book on theory of public finance (1959)

[5] This argument is taken from Arrow, Kenneth J (1993): 'Excellence and equity in Higher Education'.

[6] Thomas Joseph in his article Commission versus Commission in Higher Education, 2007 states that National Knowledge Commission stressed on a largely unregulated framework for encouraging private players and foreign collaboration in higher education on maximization of cost recovery from students.

[7] Arguments in this section is supported by Healey (2008)

8 Foreign Educational Institutions (Regulation of Entry and Operations) Bill was tabled in Lok Sabha on May, 2010 despite opposition from left parties. The bill if passed will provide legal status to foreign education provided and will formally open up the education sector.

and may not serve the needs of the recipient country. In India access to Higher education is limited to 12 per cent of the relevant age group. The invasion of foreign universities in India will perpetuate the problem of equity and access to higher education and nullify the gains hitherto achieved. There is further danger of hike in the cost of education with the coming of foreign universities. Secondly, Globalization is increasingly centering on consumerism, where learning is moving away from being about analysis, discussion and examination towards a product to be bought and sold. It is highly marketed, advertised and packed. Similarly, with globalization of education, localization is slowly being wiped. This has serious consequences in the progress of cultures, growth of indigenous research, languages and learning styles.[9]

## TRENDS AND FIGURES SUPPORTING PRIVATIZATION OF HIGHER EDUCATION

The number of universities has grown more than six times between 1970-71 and 2011-12[10]. In 1970-71, there were 103 universities in India which has reached to 659 by 2011-12. Much of the increase happened in the era of economic reforms as untill 1990-91 only 80 new universities were established. The number of colleges has increased from 7,346 in 1990-91 and reached 33,023 in 2011-12. The Gross Enrolment Ration in Higher Education was 6.0% in 1989-90 which has increased to 12.3 percent in 2006-17 and reached 17.9% in 2011-12. The clear trend of neo-liberal policies is seen when we look at distributional structure in Higher education. Out of 659 universities functioning in 2012, 191 were Private Universities thereby 28.9 percent of Indian Universities were in the private hands. The level of privatization is much higher in college education. Out of 33,023 functioning colleges in 2012, 19,930 colleges were run by private players. In terms of percentage, it accounts for 60 percentages of overall colleges in India. The share of Private sector is much higher in terms of Diploma- granting institutions were out of 12,748 institutions, 9,541 were operated by private players and remaining by state governments. The participation of Central Government is zero in this avenue of education. The total enrolment in 2012 was 18.5 million in universities and colleges and 3.3 million students were enrolled in Diploma – granting institutions.

The share of government expenditure in education and particularly higher education is a matter of great concern. The table given below depicts the appalling condition of government expenditure in higher education:

**TABLE 1**

| Year | On Education as a percentage of GDP | On Higher Education as a percentage of GDP |
|---|---|---|
| 2006-07 | 3.64 | 1.14 |
| 2007-08 | 3.4 | 1.09 |
| 2008-09 | 3.77 | 1.23 |
| 2009-10 | 3.85 | 1.25 |

(Source: CSO)

At the inception of planning, India was spending barely 17 crores on higher education. Though, in absolute terms the share has increased over the decades, it failed to cope with the growing population, rising prices and greater demand for higher education. In 2006-07, the expenditure on higher education was 1.14 percent of GDP while that on education as a whole, it was 3.64 percent. In 2007-08 both the share of education in overall GDP and share of expenditure on higher education as a percentage of GDP declined. In the above selected years of the later half of first decade, the expenditure on education was low. Throughout the planning era, the share of expenditure for higher education has remained very low and remained stagnant around 1 percent of GDP. This clearly depicts lack of government will and a tendency towards neo-liberalism.

## CHALLENGES AND TASK AHEAD

The higher education in India is currently opened to global competitiveness in terms of many factors. Some of these important factors are in terms of access, equity, relevance, quality, privatization and internationalization of higher education in the face of a resource crunch. The growth trends in higher education seem to have favor with those courses of study that have high economic payoffs. The participation of private sector has resulted in the truncated growth of higher education. The privatization has also brought the era of dual price structure. Private unaided but government recognized institutions are charging exorbitant tuition fees amounting to almost full cost pricing or more whereas fees in government supported colleges remained low. The end result is the emergence of an imperfect market for provision of higher education. The growth of these institutions was typically characterized by the charging of high 'capitation fees'. Only certain types of course that are in demand is encouraged and secondly, they are adversely affecting equity considerations as the admissions were based on 'the ability to pay' approach. Tilak (2005) argues the prime objective of higher education being human resource development can't use the concept of 'profit' in the theory of educational finances as it hampers the three major goals viz. equity, efficiency and diversity. The present Gross Enrolment Ratio of 14.9 percent is much lower in comparison to International Standards and is far behind than developing countries like China, Brazil, Malaysia and Philippines. As of march 2010, only 32.3 % (159) of the total number of Indian Universities had been accredited by the National Assessment and Accreditation Council. Many of private colleges in India are therefore running without affiliation or recognition.

The need of the day is to increase public funding of higher education. A market driven ethos of higher education will hamper the growth of welfare state, and education like any other private commodity will be demanded by those who have ability to pay.

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[10] The trends have been generated with the help of data taken from Higher Education in India: Twelfth Five Year Plan (2012-2017) and beyond presented by FICCI Educational Summit 2012.

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