

# REFLECTIONS ON SOME DEVELOPMENTS IN HIGHER EDUCATION IN INDIA<sup>1</sup>

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*Abstract:*

*A structure of social norms, the right kinds of laws, and the right kinds of governance structures are more crucial in economic development of a country than getting economic policies right. Cultural norms are not hard-wired, as many would like to believe. They change, along with changing incentives and changing atmospheres. Contrary to the understanding that persuasion of self-interest is best for the society and economy, trust plays a key role in societal development. Societies which can trust one another can cut many more deals, transactions, businesses because you can rely on the other side, and those societies begin to flourish. At the same time good laws play key role in fostering economic development. The relationship between abolition of child labour and increasing adult wages illustrates the point.*

This article is based on the observations I had made at the Commission for Higher Education, Government of India. There has always been a consensus that the State sector is needed in a big way for the university system and higher education system in India to take off. Nonetheless, what most of us miss is that we also need the private sector in a big way. I am personally in favor of both — the for-profit private sector and non-profit private sector — playing a role. When it comes to the for-profit private sector, there are some prominent examples in the United States: the University of Phoenix is one such. In a way it is like a company being run where someone is just making profits openly out of that. People will come and tell me that ‘Look, the for-profit universities are never terribly good because the student quality is not good.’ I have a different view: given that a majority of students in a country will not be good students, having a sector that absorbs this majority is a very, very useful social function. The

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best universities that we have seen around the world are a combination of State universities, and not-for-profit private universities. That is why I keep track of them because of my interest in higher education and what is happening on that front. Moreover, I feel that in India, the scope for not-for-profit but private institutes and universities is immense.

These are India's first years of finding its feet in this and what you see is not always heartening. However, there was one particular university that I was watching for a while and found special; this university is none other than the OP Jindal University. I knew very little about it. But when I got to see a couple of your journals from other disciplines, it was immediately evident that this is a serious private university in serious academic business. To me, this is extremely heartening.

One more indicator: I feel we are too conventional in terms of architecture, whereas architectural creativity is an essential part of creativity. When I first saw the pictures of your university, I thought it had a slightly bird-cagey kind of look from a distance. It immediately struck me. I felt that it had a French element in it because of the George Pompidou Centre in Paris it reminded me of, and I felt delighted that a university was being creative in terms of the space and architecture. All these things added up, and then I met your Vice Chancellor just a couple of months ago for the first time and I was completely convinced that your university is a very special venture and a lot of what can happen in India in the future really started up with this. Raj's energy, academic interest, and intellectual achievements are just phenomenal. I consider myself to be energetic and hard-working, but every time I interact with him, I feel like I should take some energy pills to step up my level of activity.

When it comes to the faculty, it is comprised of people I have known from many years ago — Shiv Viswanathan; Sudarshan from years ago; Asim Prakash with whom I have worked; Prakash Chandra, whom I have known for a long time; and Rajiv Malhotra, with whom I have become very close over the last two-and-half years in government — it was as if the school was being formed by raiding my friends rather than by raiding a university, as so many of my friends and acquaintances from many years ago are here together. So, once again, congratulations for this very important venture.

Regarding public policy, I should tell you that I was there on the founding occasion of the Lee Kwan Yew School in Singapore. I was at the commencement ceremony where I was invited as a Professor at Cornell. I feel that in emerging economies, especially in an emerging economy like India, it is a very big lacuna that we don't have a good public policy school

because the interface between regular academic disciplines where you do research and public policy is very weak in India. In the United States in particular (where I have lectured), I have offered full courses both at the Kennedy School and at the Woodrow Wilson School, and it was very evident that these places play an absolutely critical role for public policy in the United States. I am once again glad, not just for your university, but particularly for the School of Government and Public Policy that has been set up and is starting out over here.

The decline of India's institutes is regrettable. The Vice Chancellor mentioned the decline of Presidency College Chennai. The other Presidency College, in Kolkata, also experienced a very visible drop from its remarkable status. It is not just the Chennai Presidency or Calcutta Presidency, both of which are not trying to revive; India, which had a head-start in terms of higher education and the university system, has not done well in this sector in general.

I would like to reflect on the larger domain of economics, public policy, social development, and their interface. I want to tell you one important lesson that I took away from my nearly 3 years in government, and that is the importance of higher education. It is easy not to realize the importance of this. John Maynard Keynes, the guru of my field, economics, was a writer apart from being an economist. He wrote beautifully, and in the last chapter of his famous book *The General Theory* there are these couple of lines where Keynes says that in the end it is knowledge and ideas which drive a nation.

We speak today of vested interests. Keynes said that those are important, but in the long run, the power of ideas surpasses the power of vested interests. As a professor, I used to think of these comments by Keynes as lovely lines, but only to be expected from a professor because the professor has a vested interest in exactly that point of view. Having come into the government and having tried my hand at implementing new policies, I am now completely convinced that a much bigger stumbling block to getting good policies in place is an idea rather than vested interest.

Vested interests are there, but you can very often bulldoze over those vested interests. On the contrary, when ideas get set and become old fashioned and fundamentalist, it is very difficult to bring about changes. That is why higher education and creativity are important. If India is to have a great future, then undoubtedly fiscal policy is important, monetary policy is important, but no less important are higher education and irreverential creativity. You have to question everything that you are learning, you have

to cast doubts on every conventional view that is given to you. Those are the things that need to be nurtured.

In fact, if one looks back on history, on great civilizations that came up, economic success goes hand-in-hand with the space for ideas, and the space for universities or academies. I don't know the causal direction, but it does seem to me that unless this space for ideas and creativity is nurtured (creativity is really the crux of it), a country cannot do well even economically. Creativity is good in itself, and is an excellent pursuit. On top of this, even economic development is very closely linked with it.

If we study Greece, it is true that Alexander plundered the world and made this region extremely wealthy; but that is also the region of Socrates, the region of Plato, the region of Aristotle and a couple of hundred years earlier, the region of Pythagoras. All those people were at the forefront of creativity at that time, developing and nurturing ideas. A bit later in Alexandria, Cleopatra assembled big amounts of money, but Alexandria is also the city of Archimedes, the city of Euclid, the city of people who were generating ideas. Come to Italy, in the heydays of the 15th century and early 16th century, Florence was the city with the Medicis minting money and running flourishing businesses; but today, most people would not even know of the Medicis. Indeed, the dominant figure of that time would be Machiavelli, generating ideas on public policy and governance; he was the guru of that. Then there were Da Vinci and Michelangelo, both creating art and flourishing. If you think of Britain in its heyday, it was a global power, a globally powerful economy, but was also the seat of high learning. Oxford, Cambridge, a whole bunch of universities flourished and generated ideas. And now it is the United States. We typically think of the United States as a dominant global economic power, a military power. Those things are true, but the bigger achievement of the United States is the space it has created for higher education and research together with the centrality given to that. If you look at the dominance of the United States today in the space of research, it is bigger than its dominance in the space of economy or even defense. There are other countries which are coming close to the US in those areas, but to date in the space of just knowledge creation, the United States dominates.

India had its initial lead, and it is indeed a lead by emerging country standards. If you think of India in the 1950s, 60s, 70s, it was a remarkable place by emerging country standards: it was nurturing higher education, although it had a somewhat peculiar system. We did very poorly in terms of basic literacy – vast numbers of Indians did not get any education – which is shameful, but those who got education got very good education

through the 1960s to the 1980s. However, the country is beginning to slack off. We are more or less continuing with the same system with very few new ideas coming in, and you can see that in the space of higher education. China has come up in a very big way, Malaysia has come up in a big way, Latin American countries are investing in a big way. It is time for India to wake up. Once again, I am going back to the theme that I am glad that we've seen this effort going on here.

The non-economic determinants of a country's economic performance, such as human capital and higher education, are equally important if not more. An economy doing well depends very critically on the government. The government has to create good fiscal policies. I don't know whether we have formulated good fiscal policies or bad fiscal policies. I have been closely associated with the fiscal policies that came out of India over the last two-and-half years. We also need good monetary policies but in the end we need the right political institutions. We need laws which are well crafted – I will come to that soon – not just for legal justice and fairness but for economic development. Well-crafted laws and certain kinds of social norms need to be in place. When you put these non-economic variables together, you realize that in the end, it's more important to have a structure of social norms, the right kinds of laws, and the right kinds of governance structures than getting your economic policies right. Once you have those in place, the economic policies will work out, and an economy begins to move on its own. In India we haven't given enough importance to the surrounding fields, the surrounding space which makes for better economic progress. Not just in India actually, it is partly the fault of the economics profession that hasn't given enough importance to this.

Francis Fukuyama has written about trust and economic development. He says that a society in which there is a lot of trust among individuals tends to do better. Hardcore econometricians will not be pleased about Fukuyama's result because Fukuyama does not establish it with statistics. Instead he makes broad-brush cross-country comparisons and points to the fact that societies that have managed to develop a lot of trust among people have done well. Scandinavian countries rank very high in terms of interpersonal trust, as do East Asian countries. In India there is something interesting — we are very trustworthy within our networks: friends, communities, even a bit going by class— there is a lot of trust when it is a cluster in which everyone knows each other. You can depend on people, you can leave a bag of cash and say keep charge of it for the next one year and give it back to me then, you can do it among friends and within the network. However — there is no getting away from this — our anonymous trust is low. If you don't know the person, the trust level is low.

Fortunately, it is not politically incorrect to discuss this because of my own personal belief that there is absolutely nothing hard-wired in a society or in a nation. There are many of these cultural norms which change, along with changing incentives and changing atmospheres. I have with me these European documents describing Japan 100 years ago. If you black out the word Japan and any reference to Japan and then read it, you will think that this is a description of India. We all know the running jokes about Indians and unpunctuality. These documents describe Japanese unpunctuality as shockingly high. No one turns up on time, nothing seems to begin on time. But Japan would then change dramatically, and today, it is arguably a most punctual society. In fact, I believe Japan is overdoing it a little bit and tending towards hyper-punctuality. It needs to backtrack a little bit.

There are descriptions of Korea in the 1950s by British visitors and American visitors talking about how lazy the people are. They say that the Koreans don't work at all. Koreans today are named to be among the most hard-working people, which means that this norm has changed over a couple of decades. Since I mentioned punctuality, I'll also mention that I wrote an academic paper on punctuality norms with the Swedish game theorist Jorgen Weibull. We discovered that there was a lot written by sociologists and social psychologists, and basically what we were getting was a lot of cross-country information. We learnt that Latin American societies are very unpunctual, North American societies are very punctual. My co-author Jorgen Weibull comes from a very, very punctual society, Sweden, and I come from a, to put it a bit gently, less punctual society, India, but in this paper we argued that there is nothing inherent about this norm. These things begin to change once the incentives change in a society.

The first wakeup call I got regarding this was in the form of a personal incident which informed me how these things can change once the environment changes. In 1986, while visiting Princeton at the Woodrow Wilson School, I wanted to meet up with the grand old man of economics, the Nobel Laureate, Arthur Lewis. The economists in the audience may know about him, his work is fundamental in development economics. Arthur Lewis – and this is important – is a black economist; he is the only Black person who has won the Nobel Prize in economics. I set up an appointment because I had read his books as a student in Delhi University. I went very punctually, not wanting to keep Arthur Lewis waiting.

When I arrived, his wife was there because by then he was unwell. I walked into his room and Arthur Lewis started talking, and the first thing he said was, 'You know, I wonder what is it that makes you Indians so punctual.' I thought to myself, 'Arthur Lewis is getting old, maybe he is beginning to

mix up the Indians and the Japanese or something like that. His categories are getting confounded.’ Then I realized that what had happened was that Arthur Lewis’ Indians are the H1B professional Indians in the United States. A small group of Indians have migrated to the US through this category and they have changed their behavior. They have gone there and they have adapted. They have become punctual very quickly.

Meanwhile, Arthur Lewis was talking about his own group, saying that he wanted the blacks to be more punctual in the United States. What is it about India that makes Indians so punctual? Human behavior and behavior patterns change once the setting begins to change.

Another topic that we come into, which economists give very little importance to but is very critical is that of human qualities. In economics, thanks to our old texts, there is a lot of importance given to selfishness and drive and greed. These traits do indeed play a role in a society’s development. If everyone wants to be other-worldly and relinquishes all desires for material progress, then that society may have certain achievements in the happiness index and other such indicators but it is unlikely to make much economic progress. But very often because of these early lessons of economics, we forget that there are other human qualities which are very important — not just in themselves, but for an economy to do well. Because economics textbooks have drummed it into us that selfishness and greed play a role, most people like to be conformist and repeat this refrain.

My colleagues at Cornell, Bob Frank, Tom Gilovich, and a couple of others ran experiments in which people from different disciplines - law, physics, mathematics, economics - were made to play games in a laboratory where you can exhibit different levels of selfishness. Through these games, it was found that economists are the most selfish people, thus leading people to question whether selfish people get drawn into economics or whether economics makes them more selfish. My own hunch is that economics makes them more selfish, because in economics you are always told that human beings are always selfish. No one wants to be abnormal so you decide that if everyone is always selfish, then I’d better be a normal person and I’d better be a bit more selfish. Kenneth Arrow points out that altruism and respect for others are qualities absolutely fundamental for a market economy. I think that in India, these are values that we need to be reminded of. Yes, you do need to want more but you also need altruism, you need integrity and honesty. It is probably true that want is not something that needs to be inculcated in anyone, it is a part of being a human being. But you also need altruism and honesty.

On this, there have been experiments. Let me give you a particular laboratory experiment which has been run called a trust game. A trust game almost mimics a business venture. In a business venture, the relationship between an investor and an entrepreneur takes this form — an investor gives money to an entrepreneur, the entrepreneur multiplies that money, and gives back the investor a part of it. When doing big investments, of course you do them contractually. You write down a contract, the courts are there and will enforce it. But life is full of these kinds of ventures where you don't even invoke the courts. Unless there is trust among human beings, these investments would not even take place because if I give my money to someone else with the understanding that if and when that person makes money that person will give it back to me, unless I can trust that person I would not put in this money.

To test the power of trust, economists and game theorists have developed these games called the trust games. A trust game works as follows and is done in a laboratory. Let's suppose I am running a trust game between two persons A and B. I give a hundred rupees to student A, and I tell her she can keep the money in which case that is the end of the game. She has got hundred rupees and that is the end. Or she can invest this money, meaning she can give this money to B. As soon as she gives that hundred rupees to him, I, as the game organizer, treble it up. I give him another 200. If she gives 100 to him now he has 300 because I have given him 200 as the organizer. So, the act of her investing money in him makes the cake become three times as large, there is now 300 in his pocket. He is now asked to make a move. He can give back some part or nothing of this money to her. It is his choice. Whatever he does, that is the end of the game.

It is a two-move game. Don't count my moves as moves. If there is trust in a society, then he will realize that if she did not trust him with the money he would get nothing because only after she gives him the money does the money get trebled. So, if she had not trusted him with the money, he would not have got anything. Suppose she gives him 100, it becomes 300. At one level, he owes something to her, otherwise he would have gotten nothing. In a good society, he would give back a big chunk of that, maybe 150 back to her. So, it was worthwhile for her to give the 100 to him because she gets back 150. These games have been played in laboratories around the world.

In a society in which there is a lot of trust, you can see that the cake is going to become large because in a fully trusting society, the implicit understanding between the two of them is as follows: She gets the 100, gives the entire 100 over to him, that becomes 300, he gives back 150 or

140 to her. They both got roughly 150 each. In a society with no trust, what would happen? Take a completely selfish society, a society which is the way textbook economics tells you human beings are, you try and keep every penny for yourself with nothing for the other person.

I am taking you through standard game-theory reasoning to see what will happen in this game. This is the way you always analyze these situations in game theory. You always start with the second player. In game theory we analyze outcomes by doing backward reasoning. Do a little bit of backward reasoning with me. Suppose she gives some money to him, say 50, which will then become 150, or she gives 100, it will become 300. What will he do in the second period when he has been asked if he wants to give that sum, or not give that sum, it is up to him? If he is completely selfish and rational, what is the right thing for him to do in the second period? He keeps the whole thing in his pocket because there is no reason for goodwill with her any more.

Again, the game is over, he walks away. If she knows that he is completely rational and selfish, what will she do when I give her 100? How much will she give him? She gives nothing, because she knows that, being rational and selfish, he will keep that trebled amount. So she will give him nothing and the economy will be poor with only 100 in circulation. It won't have 300. But if this were a trustful society, they would have 300. A group that has somehow managed to inculcate trust among its members tends to do better because its members can cut deals of this kind.

This is what Fukuyama was saying without going into game theory; that societies which can trust one another can cut many more deals, transactions, businesses because you can rely on the other side, and those societies begin to flourish. I remember once in Berlin, I was going to a music concert with a friend. We were not allowed to carry our bags into the music program. Hanging our bags outside, loaded with stuff, I pretty much gave up any hope of seeing that bag again. and I sat through that music program with a slightly disturbed mind. But when I went back, it was of course right there. The whole costly process of someone monitoring the bags, giving you tickets, putting them in lockers — you can do away with that because there is trust. If you don't have that trust in society, you run into difficulties because then you have to devise schemes.

At times you can have clever economic schemes. Before I joined the government, the one article of mine that was cited more than any other newspaper article was a bit of a tip to economists on how not to lose your footwear when you visit an Indian temple. When you visit an Indian

temple, you'll find that there is no organized way of keeping your footwear (at least in the olden days). So, outside the temple door you leave your sandals or shoes, you go into the temple, pray or admire the statuary, and when you come out of the temple, there is a 50-50 chance your footwear would be gone. I had developed a scheme of my own using very standard game theory where everyone is rational. In a rational society, the footwear should be gone because it makes sense for others to take good shoes and run away. I had developed a scheme which I shared with my sisters and friends and here is how it works: when you go to an Indian temple, put one footwear in front of one door, hobble over to another door, put another one there and then go into the temple. You will typically come out and find both your shoes there because one shoe is of no value and thieves usually come very quickly, pick up pairs and run away. I wrote an article for the Hindustan Times on how not to lose your footwear when visiting Indian temples and that became very popular. But again, it is a cumbersome method. If there is a natural trust and there are certain rules in the society which everyone follows, it makes it easier. I am giving you a trivial example, but a lot of businesses and everyday transactions depend on this kind of trust and the society automatically begins to do better if it is present.

These kinds of games which were done in laboratories had very interesting results. In Israel, a very famous test was done and papers were published in the Quarterly Journal of Economics. It turns out that among Ashkenazi Jews, the level of trust is greater. Among Sephardic Jews the level of trust is less. So, when you make them play these games repeatedly in laboratories, Ashkenazi Jews trust one another more and they become rich very quickly, the Sephardic Jews don't become rich very rapidly because they are not able to trust one another.

It is very easy to do a politically incorrect analysis of this and say that these things are genetically hardwired. Some people are trustworthy, some people are punctual, I don't think so. I believe in the fundamental similarity of human beings, I have spent time in societies, even tribal groups in Mexico, from where you come away with a feeling that fundamentally human beings are very similar. It is through history, through experience, that you develop these different traits. If you have been cheated too many times, you learn not to trust others. So you need a little bit of social thought on how these things can be improved and you can do better.

Let us travel from social norms to an area of law because again, the drafting of legislation is important and not just for fairness. If you leave this entirely to lawyers, lawyers will think of fairness, justice etc. But between the law and economics, just like between social norms and economics, there is a

lot of interaction. The interface between law and economics is critical for a country's development. In India our laws are not drafted with enough of an economics input. In the United States, the field of law and economics is a flourishing field. My colleagues are regularly called into law courts to testify. I can give a slew of legislations in India which are so badly drafted that you cannot have economic deals — progress and permissions get thwarted because the law is very poorly drafted. So it's important to draft a law keeping in mind that a law contributes to the development of an economy.

Let me end with one example of the interface between law and economics where I have written and contributed to the academic debate in this field. This area is the intersection of child labour laws and economics. In putting an end to child labour, we very often think in terms of legal moves. We ban child labour.

I have mixed feelings on these legal moves. Mixed feelings do not mean woolly feelings, One has to be very clear about the empirical evidence and setting when crafting a law. I got drawn into that subject in a very interesting way. I moved to the United States in August 1994 and at that time, there was a bill that was being debated by the US Congress called the Harkins Bill to ban any product with a child labour input from coming into United States. This meant that the United States, as an importer of goods, would ban the import of these goods into the United States if it felt that these shoes, say, coming from India were tainted by child labour. I wrote an article for the New York Times attacking this law in the United States, saying that this looks like a very progressive law but it is not so. The reason why I broke into the New York Times so easily was because of a very interesting discovery (The New York Times is not easy to get into). This American bill against child labour tainted products had been in the public space for a long time. The bill that was being debated in Congress was a very clean bill — it talked about the welfare of the children in many developing countries, it did not name countries. But we know that countries like India, countries in sub-Saharan Africa had a lot of child labour. The sentiment behind this legislation was the view that these countries were being mean and selfish for more profit in allowing for child labour, and that these children needed support from United States. I felt that the legislation was not well-crafted and indeed there was an earlier bill which had referred to the worker interest in the United States. So, the bill was not as innocuous as it appeared, it was implicitly also about protectionism and cheap products coming in while highlighting the child labour aspect of it.

Child labour happens for two reasons. The first is entrepreneurial greed — children present very cheap labour and are employed because the

employer wants to make a profit. The second is that there truly is no other alternative for those children. In developed countries very often the view is that entrepreneurs are greedy and parents are lazy and slothful and they send their children to work. I contest this. I say that yes, entrepreneurs may be greedy and very likely that is a factor. However, when there is mass child labour, it is not as if parents are invariably being lazy and slothful. They are doing it because they have no other alternatives. They don't want to starve, they have to send their children out to work.

Once you understand that it is extreme poverty that drives people to send their children out to work, you will have to be careful when you legislate against child labour. If you don't do anything about poverty and just legislate against child labour, you may be pushing the children from labour into starvation and you have to be careful about that. But my argument drew support and as well as a lot of criticism. I think even today the warning bell is absolutely important. I do believe that India is in a situation where child labour should be banned. India is in a position to be able to take on the challenge, but there is one intricate argument involving law and economics here that I want to bring in and I will close with that.

I have published in law journals and economics journals on this particular topic. There is a situation where the ban on child labour is worthwhile. This involves a little bit of economic analysis intertwined with the law. Let's look at the axiom that parents sending their children to work are usually desperate. They are very poor, they have no alternative, they send their children to work. If adult wages were high then child labour would go down automatically. You would not need the law very much to banish child labour if adult wages began to rise. In the United States, there is a law against child labour but even if that was revoked today and it was said that parents could send their children to labour, there will be a miniscule increase in child labour, No one will even think of sending their children to labour just because it is not illegal. So it depends a lot on wages.

If you ban child labour in a society and impose the law properly so you have a new bill which says no children can work, then all these children will be withdrawn from the labour force. Can you tell me, by using a little bit of intuitive economic reasoning, what will happen to adult wages if all child labour gets withdrawn from the labour force? I know that in Ethiopia 42% of the children work as labour (I am giving you a slightly dated figure). In India, that figure used to be 12% or so. I am assuming by now it will be less. If you have a law so that child labour is withdrawn, what will happen to adult wages? Adult wages will go up because entrepreneurs will now be forced to compete to hire the adults. If the adult wages go up sufficiently,

at one level you will not need the anti-child labour law anymore because if the adult wages rise sufficiently it will not be in the parents' interest to send their children out to work. In such a case, the law plays a very interesting role. It deflects the economy from a low-adult wage equilibrium to a high-adult wage equilibrium. Once you get into a high adult wage equilibrium, the law ceases to matter because now the parents themselves don't want to send their children out to work. The law plays the role of deflecting the economy from one equilibrium to another.

A law can be used in many different ways to achieve a lot in an economy. This is one field which is very weak in India. I know that law is a very important discipline in OP Jindal University. Since you are in an interdisciplinary program, you will hopefully be able to study a certain amount of sociology, politics, law and economics. These are a couple of areas gone through hurriedly keeping in mind your attention and focus in the program. Trying to dig a little bit deeper into the world of knowledge to create better policy is a wonderful endeavour, and hopefully you all will keep that in mind.