

New Education Policy: Choice and Competition

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Agenda for Change

1. Proceed from liberalization of the economy to liberalization of education; abolish license-permit raj in education.
2. Increase choice of and competition among schools by removing barriers to entry.
3. Make schools student- and not teacher-centered; bring consumer sovereignty to education.
4. Link school revenues with school performance.
5. Implement “open school.” Pay anyone who educates a child up to the third standard and the child passes a standardized examination.

1. State and education: Dialectics of interest, incentives, and information

It is now widely accepted that government is inefficient in producing economic goods and services. We therefore have abolished the license-permit raj in the economy. The economic liberalization has increased competition and consumer choice. Instead of government determining what and how much of goods and services should be produced, under market principles of choice and competition, we now allow businesses and consumers to make those decisions. In the economy, government sovereignty has been abolished and consumer sovereignty has been established.

Many however feel that in the area of education, government must play a dominant role. Education is very different from economic goods and services. Market principles of choice and competition and of consumer sovereignty cannot be applied to education. Education is a “public good,” a “social good,” a part of “social infrastructure.” Education is so important to our economy and society, the argument goes, that it cannot be left to the choices of poor, illiterate peasants and the vagaries of the market. Government must take the primary responsibility for education; it must expand its role and involvement to improve basic literacy and to produce trained labor force that can compete in the global economy. But is education that different from other economic services to make it antithetical or immune to market principles?

Point: The government must play a dominant role in education, since education is different from other goods and services. Counterpoint: If the government is inefficient in producing other goods and services, how can it become efficient in producing educational services? India’s poor performance in education is the result of government monopoly and excessive interventions.

In answering that question let’s first begin with the proposition that we all agree with—Compared to the market, government is inefficient in producing economic goods and services. Why is government seen as being inferior in the economic arena? The answer exists in various forms. One is what I call the “Dialectics of Three Is.” Interest, Incentives, and Information. The (self) interest of government employees, like everyone else’s, is to take care of themselves. Individuals do not suddenly become altruistic (other-regarding) just because they work in a government factory as opposed to a private

one. The conflict between the public interest and the interest of government needs no further proof than a reminder of the recent pay raises for government employees. Incentives for increasing efficiency are also weak. Government employees have little incentive to minimize costs, to find and correct mistakes, to innovate, and to acquire necessary information about resource availability and consumer demand. Collapse of the Soviet Union, where everything was managed by the government, showed that the stories of nail weighing a kilogram and ice cream with only vanilla flavor were no exaggeration. Soviet employees were just concerned with fulfilling their prescribed quota of producing certain kilograms of nail and ice cream. They did not worry about who and how their products will be used or whether the products are in line with consumer preferences. Nothing in their life depended on worrying about those issues. Information on which government decisions are based is as reliable as statistics of literacy rate or balance of payments. In addition to poor quality, information is generally manipulated for political and public-relation purposes. Economic data and forecasts during the annual budget are always rosier than the reality. **The “Dialectics of Three Is” is what explains the general agreement on the proposition of government inefficiency in comparison to the market.**

It is not that the people who work in the government are inferior to those in the private sector. It is the institutional structure— incentives and information— within which their (self) interest plays out. That institutional structure determines whether the pursuit of their interest would generally lead to increased social welfare. Unfortunately, there is no invisible hand to guide government employees. In the competitive private sector, the pursuit of self-interest by businesses— maximization of profits— compels them to obey the desires and preferences of customers.

If government is inefficient in producing food—cultivating land—then how could it become efficient in producing education—cultivating the mind? Tilling land is certainly a far simpler task than training the young. The reasons that make government incompetent in the economic arena also make it inept in the area of education. India’s poor performance in education is the result of government monopoly and excessive interventions. After fifty years of managing our education system, the government can show only fifty percent literacy rate. Even that number, many analysts believe, is overly exaggerated. The dropout rate in elementary and secondary schools has been rising, so is the failure rate in colleges, and the quality of education at all levels has been falling. If government monopoly and controls play havoc in the production of economic goods and services, they could not be expected to offer opposite results in the production of education.

Education and other economic goods and services are alike; they all perform poorly when left to government management. The economy is being liberated from government control and is increasingly operating under market principles of competition and consumer sovereignty. It is time to do the same with education. **Education is too important to be left solely in the hands of government. It should be opened up to encourage experimentation and competition—to engage the marvel of private initiative, imagination, and effort.**

As in the economy where government provides financial support (subsidies) to the needy, the government may choose to subsidize education. But subsidizing or financing education is not the same as producing education. I however think that if the

quality of education were high and if it were tailored to the needs of individual parents and children, even the poor would pay for it. As recent studies have shown, **today with the government-quality education, households with less than Rs. 3000 in annual per capita income spend 10 to 36 percent of their income on their children's elementary education (NCAER 1994).** Even if the government was to undertake financing of education, effectiveness of that expenditure depends heavily on where and how the money is spent. A detailed study of two states—Kerala and West Bengal—illustrates the significance of the distribution of government expenditure on education. Where and how the government spends money is critical in determining the degree of competition and therefore the efficiency of the education system.

2. A Tale of Two States

Kerala and West Bengal are chosen for the analysis in order to ease any doubt about state government's ideological commitment to the improvement of people's education. Both states for long have had popularly elected Marxist governments. The conclusions of the comparative analysis are however generally valid.

Table 1 highlights some of the crucial differences in the educational structure and the nature of government spending on education in the two states. Table 2 shows the effect of those differences on the performance of the education system in terms of literacy rate and the proportion of children never enrolled in school. (All data are from the NSSO 1991, 1993 and NCAER 1994; see also Tilak 1996. The data are for the year 1986-87 or 1991-92.) Kerala is one of the few states in the country where elementary education is not made compulsory by law. Both governments spend about equal fraction of the total budget on education (about 25 percent). In West Bengal, 84 percent of rural children do not pay any fee for primary education but that number is only 48 percent in Kerala. Sixty percent of rural primary school children get free textbooks and supplies in West Bengal, only two percent in Kerala. Households with less than Rs. 3000 in annual per capita income spend 25 percent of the income on elementary education in West Bengal but in Kerala it is 36 percent. **The poor in Kerala spend the highest fraction of their income on their children's basic education compared to the poor in any other state in the country.**

Table 1: State's Commitment to Education

Characteristics	West Bengal	Kerala
Elementary Education Compulsory	Yes	No
Fee-Free Primary Education	84%	48%
Free Textbooks and Stationary	60%	2%
Proportion of Income Spent on Primary Education by Households in the Lowest	25%	36%

Income Quintile		
Proportion of State Universities' Budget Given by the Government	91%	54%
Share of Education in the State Budget	26%	25%

Given these facts—more children get free education and supplies in West Bengal and the poor are asked to spend more of their own money in Kerala—one would expect that West Bengal would have a much higher literacy rate than Kerala. The facts speak otherwise (Table 2). Kerala has 91 percent literacy rate while West Bengal only 57 percent. Moreover, in West Bengal 46 percent of children (age 6-14) have never enrolled in school, only two percent in Kerala suffer from that fate. What explains this vast difference in performance?

Table 2: State's Performance in Education

Characteristics	West Bengal	Kerala
Literacy Rate	57%	91%
Children (age 6-14) Never Enrolled	46%	2%

Kerala undoubtedly has had a head-start: There have been strong education movements in the state since the pre-independence days and the government has consistently spent a much larger proportion of its budget on education since independence. It then seems unfair to compare the two states in terms of their educational performance. It is legitimate to argue that cross-section comparisons at a single point in time do not control for variations over time. Kerala's current spending on education is almost the same as West Bengal, but since Kerala had a head-start, current literacy rates and the reach of education are likely to be different.

But leaving that comparison aside, **it is instructive to examine the distribution of their education spending. Kerala and West Bengal have chosen to spend their education money rather differently.** Though the data are for one year (1986-87 or 1991-92), it would be difficult to maintain that the pattern of education expenditure in that year is radically different from that in other years. There would be variations from year to year in any given category of expenditure, the basic pattern could reasonably be expected to have altered little.

Table 3: Distribution of State's Education Spending

Characteristics	West Bengal	Kerala
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Free Primary Education in Government Schools	84%	48%
Free Primary Education in Private Schools	15%	48%
Grant of Scholarship	0.5%	10%
Transport Subsidy	2.3%	5.4%
Proportion of Private (aided) Primary Schools	11%	60%

It is surprising that in a thoroughly Marxist state like Kerala, 60 percent of the rural primary schools are private, as compared to only 11 percent in West Bengal. The proportion of private primary schools in Kerala is the highest in the country; the second highest is Maghalaya at 21 percent, and the national average is only five percent. The government of Kerala also pays expenses of almost half of the students enrolled in private primary schools. The number for West Bengal is 15 percent which is the third highest in the country (Tamil Nadu is at 20 percent); the national average is again about five percent.

Kerala has the highest proportion of private primary schools and it also subsidizes the highest proportion of students in private schools. Both of these facts give the citizens of Kerala wider effective choice in sending their children to primary schools. Many of these private schools are run by various religious groups in the state and they are generally more likely to be successful in exerting pressure on parents to send their children to school. Since religious education, formal or informal, is part of schoolwork, parents are also more likely to have their children go to school. Religious education at that age is one of the most effective ways to teach values, to impart ability to discern right from wrong, and to foster good behavior. The private primary schools provide what many parents desire. The choices available to parents must increase attendance as well as retention rate in the state.

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Moreover, Kerala uses its public funds to encourage competition among schools. Surveys indicate that transportation costs are the biggest expense incurred by households in educating children. Most parents therefore chose to send their children to the nearest school. The resulting “geographical clustering” of schools and their customers lessens competition among schools. Each school has a captured customer base. By subsidizing transportation costs, Kerala helps parents send their children to the school they consider the best, irrespective of the distance. This in turn increases competition among schools. Provision of direct scholarships to students in Kerala also leads to the same result. With the scholarship money, students can go to any school of their choice. **Among all the states in the country, the highest proportion of children in Kerala receives transportation subsidy and direct scholarships (Table 3).**

The focus on how the two governments spend their education rupees indicates that Kerala by offering more choices to parents and increasing competition among schools actually practices market principles. Given the ideological bent, one must assume that this is an unintended consequence of the nature of educational spending in Kerala. Nonetheless, Kerala's citizens have received far better educational service than those of almost any other state in the union have. **The Kerala model of education—of choice and competition—is unique in the country and so is Kerala's educational performance. It is not just *how much* a state spends on education but *how* it spends that determines efficiency and effectiveness of the education system.**

The efficiency and effectiveness of the education system is determined not just by how much a state spends, but by how the money is spent.

It is said that education and other public services are better in Kerala because its people are more aware of their rights, more politically conscious, and more effectively organized. But at least in the area of education, Keralians have a lot more choice and competition; the higher quality of education is achieved by use of market principles than by any ideology.

A couple of more observations on the statistics given earlier. **State universities in West Bengal receive 91 percent of their budget from the government (Table 1). In Kerala it is only 54 percent; the remaining amount is generated by fees, donations, endowments, and other sources.** Again Kerala requires its universities to raise almost half of their budget from the customers and communities they serve. This fosters accountability and more attention to the needs of those who help finance state universities. It is no surprise that Kerala performs better also in higher education than many other states in the union.

It may be pertinent to note that in general the higher the funding from the government, the lower the spending on academic programmes at universities. Central universities receive more than 90 percent of their funds from the central government and spend about 33 percent on academic programs and support and 41 percent on administration. The state universities on average get a little more than 50 percent of their money from state governments and spend 55 percent on academics and only 18 percent on administration. The state universities that are more dependent on non-government funds pay more attention to their students and less to their bureaucracy.

In Kerala, the government has been spending more on education but so do the people of Kerala. The poor in the state spend about 36 percent of their annual per capita income on elementary education—the highest proportion in the country (Table 1). Contrary to the conventional wisdom, government spending is not a substitute for private spending. Both seem to grow together; they are complementary. It would do no good to design schemes for free or totally free education. Parents' financial commitment to their children's education is a crucial component of quality education. Moreover, as the empirical evidence suggests, schools and universities that depend on non-government funds manage their finances more responsibly and are more attentive and responsive to the needs of their customers.

With the use of the Kerala model of education, I will outline three criteria that any good education policy or reform proposal must meet.

3. Criteria for Good Education Policy

A good education policy must foster choice of and competition among schools, make schools student-centered and not teacher-centered, and increase accountability of schools by linking their revenues with performance.

Increase Choice and Competition

It is more readily accepted that increased choice and competition are good for higher education. The central government had introduced a bill which would have allowed establishment of private universities. Private colleges already exist in professional fields such as medicine and engineering. But there is no full-fledged private

A good education policy must satisfy three criteria: It must increase choice and competition, schools must be student- and not teacher-centered, and revenues must be linked with performance.

university in the country. The bill would have helped increase choice in higher education. It would also have lessened the financial burden on central and state governments of subsidizing higher education. As students who could afford to pay the tuition go to private universities, less subsidy would be necessary, or more resources would be available to now smaller number of students in government universities. Choice and competition is the most effective means to improve the quality and financial viability of higher education.

Choice and competition to improve the quality and financial viability of primary and secondary education is actually more urgent. Though that proposition is not as readily accepted. It is argued that market principles may be good in higher education but they are inoperative, irrelevant, or even harmful in basic education. People are so poor and often lack understanding of the significance of literacy that if government did not take the full financial responsibility and did not make elementary education compulsory, our literacy rates would never improve. Many maintain that in achieving basic education in a poor country like ours, government must run and fund schools.

In reality, the poor, especially the rural poor, have been spending a substantial portion of their income on their children's basic education, and their lack of interest in education, as revealed in various surveys, is actually reflective of the poor quality of education in our public schools than their poor understanding of education's importance. The NCAER (1994) and NSSO (1991, 1993) studies suggests that in a given year people spend anywhere from Rs. 100 to more than Rs. 4000 per child on primary education. **For the year 1986-87, the total household expenditure on primary education was Rs. 7388.5 million. And primary education is supposed to be free in the country!** This private spending on primary education is not just by the rich and the middle class in urban areas. Out of the Rs. 7388.5 million, Rs. 4202.5 million were spent by rural areas, more than half of the total private expenditure. In that year, the total government expenditure on primary education was Rs. 17,000 million. So the private expenditure is by no means an insignificant amount; it was more than 40 percent of what the government spent on primary education.

The NSSO study also points out that households in our villages on average spend about Rs. 1004 on fees, Rs. 42 for books and supplies, and Rs. 107 for private coaching to provide primary education to their children. A detailed analysis of the NCAER and

NSSO studies leads J.B.G. Tilak (1996, p. 363) to following conclusions: “Households spend large sums of money on acquiring primary education; a sizable number of students do not receive primary education free, in contrast to the claims made by the government; a large number of students pay tuition fee, examination fee and other fees even in government primary schools in India.” The poor have already been spending on education. They will be better off by having a more variety of schools to choose from where they exercise their spending to get the kind of education they want.

Surveys suggest that 40 percent of children who do not enroll in school are due to economic factors, one percent because of domestic chores, and 25 percent because they are not interested in education. These results are used to conclude that economic necessity compels parents to use children to earn a living instead of sending them to school and that people do not really understand the importance of education. The poor and the illiterate then cannot be relied upon to educate their children. Government must intervene to safeguard the interests of children as well as of the society.

When the same surveys inquire about the actual activities of non-enrolled children, they find that less than 10 percent are economically active. Economic necessities are less of a reason for non-enrollment than the first impression may suggest (40 percent). Field researchers widely believe that the supply and not the demand factors make people less interested in education. The quality of infrastructure (buildings, furniture, and supplies), teaching, and the concern for learning is so poor as to make the whole idea of education worthless, a waste of time. Whenever these drawbacks have been rectified, generally due to the initiative of some individual teacher, or principal, or bureaucrat, enrollments improve dramatically. (In the Total Literacy Programme, a few districts performed exceptionally well because of particular individuals.) **People do not lack understanding of education’s importance; they simply cannot be fooled into spending their time and money for a mediocre education.**

The reflexively deployed argument that poverty and illiteracy of our people necessitates government to run and fund education has little basis in facts. Despite the government’s claim of providing free primary education, the poor have been spending a significant part of their income to acquire it. Their spending on education is prima facie evidence of their desire for education. As the Kerala experience demonstrates, the poor are willing to spend more—up to 36 percent of income—if they are offered a better quality education, the kind of education that they desire.

Once direct and indirect entry barriers are removed, government schools, non-profit schools run by community, religious, fraternal, and other voluntary organizations, and for-profit schools can coexist.

Basic literacy is crucial for globalizing economy and growing democracy. Relying solely on the government to educate such a vast and diverse population of India is not only foolish but also gravely disastrous. To serve our diverse student population, we need diverse types of schools. In general there is more choice in urban areas but that needs to be extended to rural areas where the majority of school age population resides. Once direct and indirect entry barriers are removed, government schools, non-profit schools run by community, religious, fraternal, and other voluntary organizations, and

for-profit schools can coexist. Flowering of such varied institutional arrangements has been thwarted by the license-permit raj that exists in the field of education.

To establish a new school requires a license from education authorities. In theory a school can operate without a license as an “unrecognized” school, but the students of that school will not be able to appear for any of the board examinations. This discourages most serious and genuine interests. **The license-permit raj must end in education as it did in the economy. It has the same effect in education as it had on the economy.** The government limits competition and arrogates the power to decide what type of schools can serve educational needs of the people. It creates artificial scarcity of schools and allows existing schools to exploit their customers. To curb such exploitation, the government puts further restrictions on the amount of fees that can be charged for tuition, laboratory, and transportation, and on the amount and purpose for which donations can be asked from parents. The restrictions are impossible to enforce because the artificially created scarcity compels parents to pay up; they have no other choice. **This morass of controls is what the “potato chip theory of regulation” predicts. One restriction creates situation that demands further restrictions which in turn require more restrictions. Once a bag of potato chips is opened, it’s hard to stop at one or a few chips.**

In addition to the licensing requirement, regulations governing the use of land are a major hurdle, especially in urban areas. Often government is the sole legal owner and it must allocate land for school use. Difficulties or costs of getting such allotments do not require description. There is also the problem of finance. Nationalized banks offer preferential interest rates to industrial houses because they work in the areas which are recognized as “industry” by the government. No such consideration is given to entrepreneurs in the vital field of education. I am reluctant to advocate grant of cheaper loans for education because it would open up another bag of potato chips. The government would then specify the type, size, and location of schools that can qualify for subsidy; credit controls would replace explicit licensing. **All that the government needs to do is to abolish the license-permit raj in education and free the entrepreneurs from non-profit and for-profit sectors to serve the cause of education.**

Even if government chooses to finance elementary education, it should be done in a way so as to foster more competition. Financing can take the form of scholarships or education vouchers. These means of financing would allow the government to help only those who need it and let those who can pay for their children’s education to do so. The increased choice and competition can only improve the quality of our basic education as well as its financial viability. Choice and competition are crucial in elementary education as in higher education and in other economic goods and services.

Make Schools Student- and not Teacher-Centered

The education system of today is designed for the convenience of teachers and not students. Teachers are going to be at the school from 8 to 2 or 10 to 5, so students must get educated at the designated place and time. What if one has to help on the farm during 8 to 2 or attend to younger siblings? That is seen as a clear indication that the person is not really serious about education. Why should all schools run on the same schedule? Why can’t the convenience of students be the factor in determining school timings?

But school schedules are fixed all over the world; India by no means is unique. They certainly are. That is because almost everywhere education is government's business. **All government businesses work for the benefit of those who are employed there and not for the welfare and convenience of customers.** Consider the telephone or electricity service provided by the government in India. Not only we have to beg and bribe to get connection, and we get extremely unreliable and poor quality of service, but we have to also spend half a working day just to pay for the services we purchase. The *sarkari babus* cannot be even bothered to take our money promptly and courteously. They don't care for the money; nothing in their life depends on it. They actually are doing us a favor by taking our money. They certainly act that way.

On the other hand, private businesses go out of their way to earn our money. They provide a good value for our money; not because they are nice people but they know that we can always take our business somewhere else. They are polite, solicitous, and always trying to find easier ways for us to pay for the purchase of their goods and services. They invent credit cards, debit cards, and smart cards.

If there is still a doubt about the difference in the quality of service provided by private and government businesses, just consider the private and government banks. The government banks deal with their customers between 11 and 2. Private banks remain open from 8 to 3 so that one can do banking before going to office, they are also open on Saturdays, and they maintain ATMs so that customers can conduct transactions even when they are closed. They also send monthly statements of the account, an idea which government banks have not yet heard of. The "Dialectics of Three Is" explains the difference in the quality of service. It is not that the people who work for the government are any lesser beings than those who work in the private sector. It is the institutional structure which does not properly adjust the self-interest of government employees with the general public interest.

Incentives do matter. **Businesses that face competition are more responsive to customers' needs.** Government businesses hardly ever face competition and therefore their self-interest and incentives do not generally align with the needs of customers. It is then hard to expect government teachers to work at the convenience of students. A dramatic change in the institutional structure of our education system is required. Competition must be introduced into our education system. Some teachers and schools would then find it in their interest to accommodate students who cannot attend classes at the designated time and place. The education system must be made student-centered; consumer sovereignty must be established in the market for education.

The student-centered education system will bring back many of the 25 percent of "not interested" students. As pointed out earlier, 40 percent claim to not enroll because of economic compulsion, but only 10 percent are actually economically active. The student-centered system would also bring back many of the 30 percent of the children "missing" on economic grounds. And even those who need to work would be accommodated by schools facing a higher degree of competition.

Link School Revenues with School Performance

Currently government grants to schools are automatic—based simply on the number of students and physical infrastructure of the past with an eye on the growth in the head count and the need for maintenance and expansion of facilities. A school's

budget does not depend on its performance. **Linking government grants with performance would help realign self-interest and incentives of the school with the needs of its customers. The school's task is to educate; it should receive its revenues depending on whether the school has met its responsibility.**

There are multitudes of ways to measure performance of schools and the issue needs a deeper analysis. But a simple way to gauge performance is to consider the number of students who pass the standardized board examinations. A school's revenues could be linked with that number. Success in passing board examinations is probably not the best way to judge the quality of education; we should think of better and yet easier ways to assess the quality. The basic objective nonetheless is to make schools *earn* their revenues by fulfilling their responsibilities.

The proposed three simple criteria should be used to evaluate any proposal for the reform of our education system. Increasing choice and competition, making schools student-centered, and linking schools' revenues with performance would improve the quantity and quality of education. Fundamentally all the three criteria are interlinked; they all work towards creating an institutional environment where suppliers of education service are responsive to actual demanders of that service.

I would like to propose a simple scheme that would help improve literacy in India. Abolition of the license-permit raj in education would immensely expand the reach of education; there may be no need for the scheme. Nonetheless, the scheme is an effective way to meet the urgency of our appalling literacy rate. It also meets the three criteria outlined earlier.

4. A Proposal to Improve Literacy: Open Schools

State, or preferably local, governments should offer any one who educates a child up to the third standard a specified sum of money if the child passes a standardized examination. That basically is the scheme.

Governments on average spend, say, Rs. 3000 per child per year during primary school years. (This includes recurring as well as fixed costs.) When the child passes the standardized examination administered after the third standard, the person who taught the child gets Rs. 9000 (Rs. 3000 times 3). The person is free to teach as many children as (s)he chooses. If the person taught, say, ten children, then the income at the end of the third year will be Rs. 90,000. The yearly income will be Rs. 30,000, a perfect way to do well while doing good.

I restrict the scheme to the third standard primarily because up to that level the focus is on the basics, the three Rs—reading, writing, and arithmetic. Any educated and motivated person could teach up to the third standard without much additional preparation. One does not necessarily need laboratories or libraries to provide meaningful education up to the third standard. So limiting the scheme to the third standard allows all unemployed but educated persons to earn a living by providing tremendously useful service to children. (The scheme can also be applied to adults with some necessary precautions to prevent fraud.) Moreover, a person educated up to the third standard would be genuinely literate. That person would be able to

meaningfully participate in the democratic process as a citizen, in the economic process as a producer and a consumer, and in the social process as an individual.

The proposed scheme meets the three criteria I described earlier. It increases choice and competition in the primary education. Any one could become the “open school” and educate children. Choices for parents would be unlimited and competition really stiff. It would help make education up to the third standard truly student-centered. The open schools are very likely to run at a place and time convenient to students. Individual teachers not only have interest and incentives but also ability to accommodate different learning styles and schedules of students. The scheme links revenues of open schools (teachers) directly to their performance. All the three criteria are then met.

The open schools will unleash millions of educated unemployed in India to attack the debilitating problem of illiteracy while providing them a meaningful and accountable employment. It is a practical way to implement a little flippant proposal of the former Prime Minister I.K. Gujral: Each one teach five. Under the open school scheme, each one will likely teach twenty-five.

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