Education in the Age of Market Reforms

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Over the last two and a half decades, the education sector has got a lot of attention. Educational attainments have been linked with every single socio-economic indicator used for measuring quality of life. The issues of development and growth engaging with the questions of productivity, income distribution and employment all consider skills acquired through education as an input variable in the production process. In the Indian context, the declining social sector expenditure in the post-reforms period, the failing state of the health of primary education and the increased privatisation of higher education have seen fierce debates among economists regarding the provisioning of social sector goods.

*Education and Economics: Disciplinary Evolution and Policy Discourse* by Saumen Chattopadhyay discusses how economics viewed the role of education from the time it was conceptualised by neoclassical economics. The book takes the neoclassical approach forward and critically analyses whether the market for education can be considered as any other conventional market for tradable commodities. The author also contextualises the discussion to the Indian education scenario with special focus on the economics of education policies.

Before the neoclassical models put forth education only as a form of investment in human capital, classical political economists such as Adam Smith in his 1776 work *An Inquiry Into the Nature and Causes of Wealth of Nations*, had already referred to expenditure on education as a form of investment expenditure. Much before Smith and other classical political economists, in 1516, Thomas More’s *Utopia* described an ideal society as one where there is common ownership of land, universal education and religious tolerance. The importance of education and who should provide the services of education has been a recurring topic of discussion.

Systematic economic analysis of education may be traced back to neoclassical economists such as Gary Becker in the 1960s who coined the term “human capital”. The human capital approach to education directly focused on the role of education in the process of economic growth. Over a period of time however the discourse on education has changed. The new growth theories of economists such as Paul Romer, the social choice theory and capability approach proposed by Amartya Sen as well as the theories on market failure in provisioning of a public good have paved the way for a new discourse on the economics of education.

**Human Capital Approach**

Chattopadhyay’s discourse begins from the human capital approach to education which he discusses elaborately in Chapter 2. In this approach the expenditure on education is seen as investment in individuals inspired by the methodological individualism philosophy of neoclassical economics. The knowledge and skills acquired through education and training are said to augment the productivity of labour resulting in economic growth. The general view of this approach is that investment in education should be guided by the same principles of investments as in industrial production. This is so because provision of education falls within the economic framework of cost and benefit analysis, wherein the individuals and institutions benefit out of a good while the cost is borne by society. Therefore valuation of education through measuring rate of returns is feasible.

The credit of putting education at the centre of policymaking also goes to Becker whose work on human capital and its relationship to economic growth inspired various empirical researches in this area. His Nobel Prize winning work *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*, 1964 considered why education should be viewed as a measure of human capital. Treating education as a form of investment in humans transforms it into human capital by increasing the individual’s cognitive capacity. This in turn adds to the individual’s ability to perform. The earnings and skill set of the productive individuals get further increased, which eventually contributes to economic growth of a country. Therefore investment of education in humans can be taken as a measure of human capital. In the 1960s and 1970s various growth economists tried to capture this view of education as human capital into growth models. One of the first ones to do so was the neoclassical growth model forwarded by Robert Merton Solow.

The Solow growth model taking the form of constant returns to scale (crs) production function posited that if technology available to all nations is considered given, there will be a tendency on the part of all countries to converge into a steady state growth. This model proposed the idea that per capita incomes will grow over a period of time based on the effectiveness of labour that should also grow over time. However, the Solow model did not exactly specify effectiveness of labour, as the factors contributing to it, such as technological progress, were considered exogenous to the model. In other words, while labour and capital directly contributed to production, other factors such as technology were considered only as a residual. The neoclassical growth model proposed by Solow broke down when international experience showed that different countries grew at different rates of growth thus defeating the convergence thesis of the Solow model.

**Education in New Growth Theory**

In response to exogenous growth theories, however, there emerged a series of endogenous growth theories in the 1980s that instead of emphasising “human capital” focused on “knowledge” and...
“knowledge creation”. The endogenous growth theories also broadened the concept of capital to include along with human capital, social capital, intellectual capital, public infrastructure and physical capital. Having made technological progress endogenous to the model, new growth models could explain why different nations grew at different rates. The new growth models did not consider labour a homogeneous entity but as something whose productivity varies with creation of skills and knowledge. Therefore, the concept of simple labour was replaced with the much broader “human capital”.

Moving on from the new growth theories, Chapter 4 discusses the technical relationship between input and output within the realm of the education sector which is called the production function within educational institutions. An educational institution is very similar to any other manufacturing unit. Hence there exists an input-output relation in the provision of education. This chapter has a critical analysis of the attempts to propose educational production functions and challenges in identifying the variables under the jurisdiction of education as inputs and outputs.

In the first four chapters of his book, Chattopadhyay very succinctly constructs the mainstream economics view of why and how education should be provided through the market. However, the new growth models of the 1990s also brought in the concept of knowledge and knowledge creation which by Paul Romer’s addition is largely public in nature. The new growth models also paved the way for alternative approaches to education which have now become integral to the economics of education.

Alternatives

Chapter 5 logically follows with a critical examination of the human capital approach and provides alternatives. It begins with the theory of education as a screening or signalling device. This approach uses education as screening device as it enables the employers to draw a distinction between high and low productive workers and overcome information asymmetry in selection of required workers. Another approach is the social choice approach which analyses the rationale behind societal investment in education. Unlike human capital approach, the social choice approach concedes that investment in the education sector deserves to be treated as different from general form of investment given the heterogeneity in nature of investments. It nevertheless still considers education as just another form of investment. This is followed by a discussion on Sen’s capability approach that views education as expanding opportunities for individuals which subsequently contributes to their capability set.

The capability approach based on the concept of “functionings” and “development as freedom” provides a new perspective for examining the role of education in development. It argues that education does not merely raise productivity of individuals but also has a broader impact on enhancing freedom of choice for valuable life. The last approach highlights the Marxian perspective. The Marxian approach says that while schooling or education performs the function of production of labour, it completely ignores the social reproduction function.

Public or Private Good?

In Chapter 6, the author directs the discussion to the issue of provisioning of education. He first brings out the major differences of opinion on the classification of education as an economic good. Neoclassical economics brings education into the domain of market competition by completely downplaying the importance of positive externalities. Therefore, the neoclassical notion is that education or expenditure decision on education is essentially an optimisation problem faced by an individual with little or no role played by the state. However new growth economists such as Romer have put “knowledge” in the public sphere meaning that it is non-rivalrous and non-excludable. This in turn has generated fierce debates in the context of different socio-economic environments that if knowledge can be put in the public sphere then why education from where knowledge emanates should be classified as a private good. Thus categorisation of a good as a public good has been revisited by incorporating additional features of publicness in decision-making, publicness in consumption and publicness in the distribution of benefits. In the Indian context, the classification of education, particularly basic education, as a public good calls for the direct involvement of the government in its provisioning through its Right to Education Act.

However with regard to higher education, though consumption of the good itself is not excludable, the requirement of eligibility for admission excludes individuals who are not eligible. Therefore though not a rival, higher education has the excludability characteristic akin to a private good. Thus in the economic categorisation of goods, it is appropriate to consider higher education as a quasi-public good. One of the objectives of striving for a classification of education as a good is to assess what should be the role of the state in provisioning of such a good.

Education and Market Failure

Based on the discussions in the previous chapters on disciplinary evolution of economics of education, Chapter 7 engages the reader in understanding the market for education, particularly higher education, and how they fail when left to the free market for provisioning. The author argues that reforms processes have been trying to instal a market like mechanism for education following the rules of mainstream economics (neoclassical economics). Going against the strain of neoclassical economics, the book convincingly argues that the market for education is quite different from the conventional markets. One of the defining features of a market for education is that it violates the assumptions of a perfectly competitive market model based on the idea of homogeneity of goods and services that are traded. For example, information asymmetry is one of the main reasons for market failures in a higher education market. This view argues that if education can be viewed as a package of services and not just as any other commodity, wherein individuals need to spend sufficient amount of time while being aware that the payoffs are uncertain, those demanding the service (parents and students) will have a tough time choosing between the alternatives.
available (say institutions). The problem gets compounded in the case of private institutions that are not transparent in their selection procedures or in not providing sufficient information about what they can deliver. This is also an ideal situation for the state to intervene in terms of regulation of private institutions.

Some of the other causes for education market to fail to meet the demand and supply forces are when there is a case of adverse selection or moral hazard, the issue of how to categorise knowledge creation which is more public than education itself and so on. The author also argues that market provisioning of primary education is as difficult as that of higher education. For example, in less educated societies parents find it extremely risky to invest in the primary education of their children since they are not able to assess their future rates of return. This also creates a situation for the state to step in.

Indian Scenario

The last two chapters of the book examine the rationale behind a series of policies being formulated and implemented with regard to higher education. The chapter begins with a discussion on some important issues in formulation of policymaking in the national and international context. Given the quasi-public good nature of higher education, it is considered to be the responsibility of the government. However, the neo-liberal economic set-up has reduced the state’s role in provision and regulation. This coupled with increasing burden of fiscal deficit being faced by most of the countries call for private participation in the provision of higher education. On the other hand, the profit private education provider has a serious negative effect in making quality education equally accessible in the market. Under such circumstances how appropriate policies are to be formulated and implemented are discussed.

In the Indian context, school education remains the weakest brick in the pillar with unequal access, poor infrastructure, high teacher-pupil ratio, teacher absenteeism and high dropout rate. Poverty and worsening income inequalities accompanied by large-scale policy failures on account of corruption have made higher education inherently inefficient and incapable of delivering quality education. The role of the government has reduced substantially while the space for private providers is created by opening the door to both national and foreign private investors to meet the demand for quality education in the global market.

This book is very useful at a time when there is a dearth of books in the discipline of economics challenging the neoclassical framework. It is elaborate in the sense that it provides a comprehensive view of how economic analysis of education has evolved as a discourse. This is all the more important in the Indian educational set-up as it is difficult to find literature that critiques the mainstream economic view in the Indian context. However given the importance of the subject, a more detailed analysis of the Indian education market could have provided broader insights.

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