Perspective Paper

The Challenge of the Lack of Education

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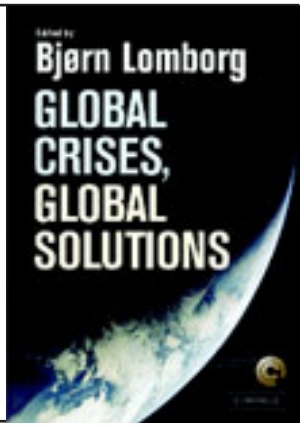

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Opponent Note on Lant Pritchett's Global Challenge Paper on the Lack of Education

There are three interrelated issues involved in the design of an efficient and equitable educational system for the world. First, the productivity of similar workers with different levels of schooling must be assessed, from which the productive benefits of schooling can be inferred, and in combination with the costs of producing this schooling, the private and social rates of returns to schooling can then be approximated. Second, public subsidies of educational services should not only raise the average welfare, but also reduce economic inequalities in personal economic opportunities, if possible. Third, schooling, given its quality, should be produced at the lowest possible private and public cost at every level.

Lant Pritchett's paper focuses primarily on the third issue and concludes that school system reforms are his top priority. He argues reforms should lower the cost of producing educational services and represent the most cost-effective means for expanding and improving the educational systems in low income countries, and thus respond to the challenge of a "lack of education" in the world. No empirical evidence is presented that documents precisely what the recommended system reforms in education could accomplish at a specified cost. Nor is evidence marshaled from randomized evaluation studies which might demonstrate the proposed reforms increase

the quantity and quality of education. If reforms involved no social cost, and they achieved an increase in the output of educational services, they would, of course, be attractive and presumably cost effective responses to the "lack of education." But it would be naive to not recognize the political and economic resources expended to implement reforms of the scope recommended, in which powerful groups who have vested interests in current arrangements and would stand to lose from the reforms. Evaluation methods could be devised to clarify the conditions under which such reforms are likely to produce gains in enrollments and school quality, and how large the restructuring costs can be expected to be to accomplish such reforms in more and less favorable circumstances. Since the proposed reforms are entirely hypothetical, it is understandable that Pritchett deals with the reforms in only the most general conceptual terms in the last few pages of his paper.

But the first two issues of the market for education and the distributional consequences of educational systems and subsidies also warrant analysis; the efficiency and equity of public educational policies should be analyzed together, and they are not confronted together or separately in Pritchett's paper. In early human capital studies conducted in the 1960s and 1970s, it was common to assume that private wage returns to education tended to decrease at higher levels of schooling (e.g. Becker, 1975:108-149). When public subsidies for education were added to the private costs to approximate social returns to schooling, social returns are lower than private returns, and probably social returns decline more rapidly than private returns at higher levels of schooling in a society. Although social externalities of education creating

benefits beyond the family have attracted theoretical interest, empirical measurement of these social externalities has proven difficult, suggesting these social externalities may be relatively small, even though some specific areas of education, research, and development are combined to deal with local problems in agriculture and public health, and are thought to be associated with societal returns which cannot be readily appropriated by the producer of the education.

International agencies gradually adopted the view in the 1980s that education should be seen as a social investment, and the public sector in low-income countries should coordinate this sector and establish its priorities, rather than leave the private sector to set them. The conclusion was reached that the social returns to education are highest for primary education, and the public sector should therefore concentrate its resources in low-income countries on the basic levels of education to maximize social returns. This assignment of priority to the objective of efficiency in coordinating the sector was reinforced by the presumption that public subsidies for primary and then basic secondary schooling would narrow the personal differences in education, and thus beneficially reduce inequality in earnings within a society.

But there are growing empirical indications that private returns to education are often higher at more advanced levels of schooling, although social returns may still be moderated because of the large public subsidies per student at the level of secondary and tertiary schooling in many low-income countries. But with the new emerging structure of wages by education, in which the ratio of wages of college graduates to

primary school graduates has increased, the goals of promoting an efficient (i.e. high social returns) and an equitable pattern of public educational investments may conflict, and tradeoffs between these general goals should be evaluated with care. Pritchett does not comment on the consequences for educational policy or priorities on social or private returns, or on the equitable personal distribution of public subsidies due to the educational system.

If the highest private returns to education are associated with post-secondary schooling, for which the benefits of public subsidies are often most unequally distributed across the population, further tensions arise between achieving efficiency and equity in determining public sector priorities for education. Correspondingly, the lowest private returns are today often empirically observed at the primary school level, and yet public investments at this level are nonetheless expected to reduce inequalities. These issues of how educational priorities will be set when efficiency and equity objectives conflict is an emerging issue for the Copenhagen Consensus panel to address before deciding what the most promising opportunities are to remedy the "lack of education" in the world.

What does Pritchett's consensus paper on "Lack of Education" argue? It is a broad and cogent review of a large literature on producing efficiently educational services, with a focus on policy opportunities in low-income countries that would increase the number of years of schooling completed by youth and improve the quality of that schooling. In brief, the paper

considers five strategies or policy opportunities: (1) expanding existing school operations, such as building more schools and hiring more teachers; (2) improving the quality of schools by traditional approaches, such as increasing teacher wages or reducing class size; (3) increasing the private demand for schooling, by either adding to household income or increasing the private returns to schooling; (4) increasing the private demand for schooling by reducing the private cost of schooling, either by cutting school fees or by increasing cash or in-kind transfers to parents whose children go to school; or (5) reforming the entire school system to increase accountability for using resources to accomplish clearly measured school objectives.

The paper argues that opportunity (1) and (2) are not generally cost effective for increasing the quantity or quality of schooling. Increasing household income in order to augment the private demand for schooling as in (3) is promoting a universal welfare goal, growth in income, to foster a small increase in expenditures on schooling, and policy measures which would predictably increase the private returns to schooling are not well understood, except returns appear to increase and enrollment rates to rise in conjunction with more rapid technological change, openness of the economy to international trade, and a lack of natural resource endowment to bolster exports (Schultz, 2003b).

In his review of the policy opportunities to reduce private costs of schooling (4), Pritchett adopts a more cautious stance. He concludes that the policy innovations in this area may prove productive, but our evaluations of these experiences are currently mixed, and do not provide a foundation to recommend specific policy measures. The two critical features of such a school

subsidy approach are, first, how much do parents respond to a subsidy by increasing their children's enrollment to school, and second, how efficient are programs in targeting parents who would not otherwise send their children to school? Unless the program can identify in a socially acceptable way those parents, who are on the "margin" of educating their children, and then concentrate the school subsidy on these segments of the population, the schooling subsidy becomes for many parents an ineffectual "rent" paid to those who would be sending their children to school without the subsidy. If the school subsidy is partially justified on other grounds than "lack of education," such as "alleviating poverty" in the target population, then the costs of the program must be divided between the multiple objectives, making the school subsidy a more cost-effective policy instrument to remedy the lack of education. However, experience with targeted school subsidy policies is limited, and only a few countries have evaluated these programs with the aid of randomized social designs, such as the Mexican PROGRESA Program which started in 1998 (Schultz, 2001). How should mechanisms be designed to reward only parents who are likely to enroll their child if and only if the parent is eligible for the targeted transfer? More evaluation studies could aid in the design of efficient and socially acceptable approaches may not be the same in all countries.

For many years societies have sought institutions to extend to the poor and unlucky a safety net to sustain a minimum level of consumption, but they should be designed in a manner which does not encourage beneficiaries from alter otherwise productive behavior. Knowledge has accumulated on many possible designs for these social welfare programs and how they affect welfare and work, but no miracle has emerged which does not dull the incentives for the beneficiaries to work. Household models of school enrollment have received only recent study,

and can be expected to improve their capacity to identify parents who, given their initial conditions, are not likely to send their children to school. Can programs strengthen the program's impact on enrollments by targeting these identified "types" of parents with transfer payments to enroll their children? How might such an incentive system "distort" parent effort to educate their children or influence their migration or other forms of household behaviors among persons potentially eligible for the school subsidy program? Will society view such a conditional transfer scheme as fair? This is a new challenge to redesign social policy to increase the level and reduce the variance in schooling in society, which may prove to be more cost effective than opportunities (1), (2) or (3) in so far as they increase the resources allocated to the children of the poor and poorly educated parents. Is the decision not to enroll children in school occurring because parents cannot borrow to invest in the schooling of their children, they fail to appreciate the returns to schooling, they are less effective in helping their children's progress through school, or are they simply less altruistic toward their children? Whatever the combination of mechanisms which explain the disparities in school enrollments, the targeted school subsidy holds promise as a new and distinctive policy tool for increasing enrollments in the low-income world, and I would expect it to achieve this objective at less cost than would traditional funding of opportunities (1) - (3).

If you set aside all the traditional means to expand education in poor countries because they are cost-ineffective (1)-(3), and conclude that targeted transfers are as yet unproven as a reliable policy instrument, then Pritchett is left grasping for the only remaining option of (5), systemic school reform. The paper states that school systems should be reformed to produce

their public services more efficiently by (a) establishing clear objectives, (b) publically financing producers who should have autonomy to manage how they operate, and (c) measuring their accomplishments in a manner which will be transparent to inform private consumers and public regulators, who both will need to evaluate outputs and inputs. Accountability for the educational system is attractive, of course, but where are the case studies which document that implementing a specific set of school system reforms in the many regions of the low-income world will have the promised cost-effective impact of expanding and improving the educational systems?

Many evaluation studies have concluded that policies listed under (1)-(3) have not performed satisfactorily, and the few available studies of (4) indicate costs may vary when subsidies are poorly targeted across households. But on the other hand, these targeted program subsidies are likely to achieve a more equitable distribution of schooling and economic resources than will the other policy options. I do not know where there are peer reviewed studies confirming that a generalized package of school reforms has achieved more, or less, than school subsidies for the poor. There are probably case studies showing that reforms can work, though I expect most will not rely on an experimental design, or sound matching methodology: they are also likely to measures of school outcomes differently, and focus on incomparable policy inputs. Only a few final pages of Pritchett's hefty paper are devoted to guidelines on how the school reforms should be structured, and only then is the reader referred to the forthcoming World Bank Development Report 2004.

What gains in schooling can be confidently attributed to (1) introducing more autonomy for local school administrators or teachers, or (2) decentralizing monitoring and decision making to parents at the community level, or (3) measuring transparently school outcomes (e.g. test scores or repetition rates), or (4) accounting for progress in achieving clearly stated educational objectives? Where are the testing grounds for the proposed components of the educational system reform? The set of goals for school system reforms is plausible. Yet the political economy of a low-income country would likely resist such changes and modify them to advance the objectives of other involved parties, including teachers, administrators, bureaucrats, and politicians who control public sector patronage or access to employment in schools. If there is little agreement on how to evaluate educational achievements or improve the performance of schools in high-income countries, one can be skeptical whether the systemic reforms outlined in this paper would effortlessly increase school quality and quantity in the different political economies of sub-Saharan Africa, the gender-imbalanced schools of rural South Asia, the poor or rich Middle Eastern countries, or many of the poorer countries of Central and South East Asia where democratic institutions are not yet well rooted.

I agree with Pritchett that reforms that improve the accountability of schools could be an important step in accelerating the expansion of education in many low-income countries. It is unclear to me, however, that systemic school reform as advocated in this paper will occur without broader political reforms, and I am not confident we understand how to introduce a self-sustaining reform of political systems for schools any more than we have a proven blueprint for building democracy in societies where it does not now exist. The school system reforms

outlined in Pritchett's paper provide no more than a conceptual framework to guide more concrete thinking about the institutional conditions that would help schools function more efficiently. Implementing these reforms would require creating and empowering groups who want the public service of schooling for their children and family members, and are willing to share them and pay for them. Some experiments with decentralization of schooling systems which encourage local area parents to monitor performance may work as reformers imagined. Yet, I would expect many decentralization reforms have not worked much better than the earlier more centralized regimes, because school resources are coopted by local elites who favor their own constituents rather then the educationally disadvantaged. If Pritchett is understandably cautious in recommending evaluation of policy experiments to demonstrate that targeted school subsidies are effective among the least educated and poorest parents, the same cautious approach should be applied to evaluation of systemic school reforms, until these reforms have been rigorously shown to achieve both the expected increases in the quantity and quality of schooling, and to distribute those educational benefits at a moderate cost across the poorer segments of society.

Pritchett hypothesizes that school systems perform inefficiently because the structure of incentive leads agents who are involved in operating schools to promote their own objectives. These claims that existing policies are endogenous and not perverse is eminently plausible, but does not provide much insight into how to enact the proposed reforms. What incentive structures which can be enacted would foster the reforms and how does one create the coalitions to sustain momentum once the reforms get under way? The policy maker can rarely dictate the

entire package of reforms outlined in the paper, and for this reason many second-best solutions are introduced with the hope that they will create pressures to consider more fundamental reforms. Charter schools may allow diversity and autonomy to express the heterogeneous preferences of parents within large, otherwise inflexible, metropolitan school systems, and may thereby foster experimentation with different teaching routines, specialization, and even using auxiliary teaching assistants or tutors, who can be recruited at low cost from local women. School vouchers permit private schools to compete for public school subsidies to provide lower cost schooling, and thereby pressure urban public schools to be more flexible and cost-effective in allocating their resources, as well as encouraging teachers and unions to reconsider restrictions on work routines and to introduce pay bonuses to reward teaching accomplishments. These types of second-best partial reforms are noted in passing at the outset of Pritchett's paper, but they may ultimately provide the needed institutional mechanisms to start systemic reforms on a small scale. Pritchett's paper should illustrate his global systemic reforms with specific case studies from which he might extract key features associated with their success or failure.

This brings me back to my initial criticism of Pritchett's paper. It ignores the mounting evidence of an inversion of private returns to schooling by school level, first observed in the United States in the 1980s, but increasingly documented in the other high-income countries, and now observed in a growing number of low-income countries. Specifically, when a Mincerian wage function is estimated from representative household survey data, in which the wage returns are allowed to vary by level of schooling, the percentage increases in wages associated with an additional year of secondary and tertiary schooling tends to be larger today than the percentage

increases in wages associated with a year of primary schooling. This suggests that many poor parents, who are marginally considering whether to keep their child in primary schooling, may face lower marginal returns than do rich parents, who are considering whether to keep their child in secondary school or to send them onto post-secondary school. In contrast with economic intuition that the marginal percentage wage returns to schooling would tend to decrease at more advanced levels of schooling, private returns to school appear today to often increase at more advanced levels of schooling, even in regions with very low levels of education, as in sub-Saharan Africa (Schultz, 2003a). This empirical regularity may be a short-run disequilibrium due to slow macroeconomic development or distortions in the labor market, but it poses a dilemma for educational policymakers today that should be addressed by the Consensus panel. If school reforms are successful, the increasing private returns to secondary and post-secondary schooling may induce increased enrollments by the middle class at these levels of schooling whereas the poor will have little incentive to enroll more of their children in the primary school system. Polarization in educational attainments within poor countries may occur rather than convergence, unless new educational policies are introduced.

Moreover, when public subsidies per student year for post-secondary schooling are often ten times larger than public subsidies per student year for primary schooling, as they are in many low-income countries, it may be argued that higher education could be more efficiently produced and more equitably distributed, if the children of relatively well-educated parents paid more of the public costs of their children's higher education, and these public tuition revenues could then be reallocated toward the expansion of targeted transfers to the poor and less educated parents to

encourage them to enroll their children in secondary school. In short, Pritchett's paper does not deal with the mounting evidence that private returns to primary schooling are declining. In Africa, for example, where barriers to international trade remain high, political stability is a serious problem, foreign direct investment is low, and resulting economic growth is slow, supplies of primary educated workers may satisfy current aggregate demands for these types of workers. The difficult question for the experts assessing the Consensus on the Global Challenge of the Lack of Education is whether world labor markets are already supplying enough primary educated workers to meet current economic demands in many large labor markets, from Nigeria, to Ghana, and even from India to China? Is the millennial goal of universal primary schooling no longer justified on the grounds of the economic scarcity of primary educated workers or their enhanced labor productivity, or is this millennial goal of universal primary schooling merely a rhetorical target, or should universal primary enrollment be justified because of its impact on economic and social inequality?

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