



Pathfinder Economic Alert

Education: Is it a Public Good? A Challenge to Orthodoxy.

Sri Lanka has been well known for its impressive record in social development for several decades. The introduction of free education from independence has been a major part of this narrative. This has enabled Sri Lanka to attain very high enrollment rates in primary and secondary education. Female participation rates in formal education have been particularly impressive. However, the quality of learning outcomes has been a serious problem which has preoccupied successive governments since the 1971 insurrection. Despite this, the record of remedial action has been very mixed at best. Improving the quality of education has hitherto been an intractable challenge. Sri Lanka's performance, when benchmarked against the successful countries of East and South East Asia, is disappointing. The present government is attaching the highest priority to reforming the education system to strengthen the employability of students in a modernizing economy. Efforts are being made to improve Maths, Science and English education; as well as training and skills development. The tertiary sector is being opened up to private universities, including foreign universities. Particular emphasis is being placed on Engineering and IT. It is timely, therefore, to examine some of the fundamental premises determining educational outcomes in order to ensure that the current initiatives achieve their objectives.

An Economist's Perspective.

Considering education a public rather than a private good is a major contributory factor for poor learning outcomes in many developing countries, including Sri Lanka. This is an important insight posited in a blog by Dr. Shanta Devarajan, the World Bank's Chief Economist for the Middle East and North Africa (he was also previously Chief Economist for South Asia and subsequently Africa.)

Poor Outcomes.

Having led the World Bank's economic work in three of the major regions of the developing world, Dr. Devarajan concludes that 'education in developing countries is facing problems at all levels.' At the primary and secondary levels quality is poor, despite gains in enrollment. Teacher absenteeism and a lack of teaching time are major problems. At tertiary level, universities are chronically underfunded and employability of graduates continues to be a challenge. These issues have considerable resonance in Sri Lanka as well. The problems are likely to be compounded as the need for fiscal consolidation in a context of poor revenue performance and a commitment to maintain public investment at current levels exerts pressure on the government's education budget. Sri Lanka's education spend is already very low when benchmarked internationally, particularly against the successful countries of East and South East Asia.

Education: Public or Private Good?

Dr. Devarajan argues that learning outcomes are fundamentally undermined as many developing countries, including Sri Lanka, treat education as a ‘public good’ and provide it free of charge by the public sector. This is justified on the grounds that there are externalities associated with education whereby society as a whole benefits from having a literate and numerate population. The author points out that the empirical evidence of such externalities related to education is rather thin.

Instead, the evidence suggests that the externalities are dwarfed by the private benefits from education. Most of the benefits accrue to the individual in terms of him/her being able to secure higher lifetime earnings by virtue of being educated.

Even if the externalities are significant, that is very different from education being a public good. A public good is something that is “non-rival” (what I consume cannot be consumed by others) and “non-excludable” (I cannot prevent others from getting access to the good). The classic examples of public goods are national defense or street lighting. By contrast, education is a private good with externalities—most of the benefit accrues to the individual only (and is excludable), while there are benefits that accrue to society at large.

In this sense, education is more like food and clothing (essential ‘private goods’) rather than street lighting and defense (‘public goods’).

Dysfunctional Accountability Framework: A Recipe for Poor Outcomes.

In Dr. Devarajan’s view, by delivering education as if it were a public good, and ignoring the ‘private good element’ of education, governments have contributed to the problems. At the heart of the difficulties is the dysfunctional accountability framework that flows out of treating education as a ‘public good’. When teachers are paid out of the public purse, they become accountable to the government rather than to the students or their parents. However, if education has a private good component, a provider should be more accountable to the customers. It is this misalignment in accountability that plays a major role in fostering poor quality teaching and administration in education.

Treating Education as a ‘Public Good’: Is It Pro-Poor?

The argument for treating education as a ‘public good’ is often expressed in terms of assisting the poor. However, in practice, it is the poor who are suffering most from the lack of quality from public provision and financing of education. The rich ensure that their children get the best possible education, reinforcing the argument that education is a ‘private good’. Even relatively poor parents support the argument that education is a ‘private good’ by sending their children to private schools, often bypassing the free public school nearby. In urban areas of Africa and Asia about half the children are now in private schools. Another manifestation of there being pervasive private demand for quality education is the widespread recourse to private tuition. This is a very common phenomenon in Sri Lanka as well.

Dr. Devarajan brings out another diagnostic dimension when it comes to tertiary education. This is rooted in the costs of educating a university student amounting to about 200 times what it costs at primary level. When governments provide free university education, it creates a huge rent (the difference between private benefits and private costs). The author points out that the rich are much better placed to capture these benefits by sending their children to private schools which are much better at preparing their students for university entrance exams. In Africa, 47% of university entrants originate from families in the top decile of the

income distribution. (In Sri Lanka many of the rich send their children to foreign universities).

In Sri Lanka, the disparities are less stark when one considers the whole cohort of university entrants. However, they become more evident when disaggregated by discipline. A disproportionate number of students from better backgrounds are able to enter disciplines preparing them for the more lucrative occupations: medicine, law and engineering. A more equal distribution is seen in the arts subjects which generate far 'less employable' graduates. Many of them are then absorbed into largely unproductive public sector employment. As a result, the current outcomes lead to a double jeopardy to the country. Scarce resources are sub-optimally deployed first to provide tertiary education that creates 'unemployable graduates' and then to employing them in low-productivity public service jobs.

What Can be Done?

Dr. Devarajan advocates two approaches:

- The first is the 'polite approach' which entails "continuing to pretend that education is a 'public good' and to try to improve service delivery by strengthening accountability in the public sector. Efforts such as establishing independent School Boards; getting teachers to take date-stamped photographs with students in return for a bonus or hiring teachers on performance – based contracts are steps in this direction.' Support from Teacher Unions would be very important to carry forward such reforms as they have a strong vested interest in maintaining the status quo. This would require a combination of careful/sensitive negotiations and mobilization of public opinion in favour of reforms to improve the quality of education through dissemination of information. 'Campaigns about the importance of good quality education could also make politicians more accountable to citizens. Some of these approaches have been shown to work in randomized controlled trials, but scaling up has been a challenge. In other cases, even the controlled trials have failed to produce results or even backfired."
- The second is the 'less polite approach' which acknowledges that "education is a 'private good' and education markets should be regulated. Like other markets, education markets have lots of distortions, including information asymmetries (parents don't know the quality of the school). By allowing private schools to develop by themselves, these distortions have been allowed to persist. Yet these markets can be regulated. Private schools could be required to register and information about their quality can be made more transparent. Private tuition can be monitored and formalized. Private and public universities can be regulated.' Priority should, of course, be attached to creating the conditions to avoid regulatory capture. This is particularly important in the highly politicized environment of countries like Sri Lanka.

The Pathfinder Foundation, taking in to consideration Sri Lankan realities, wishes to propose a fresh approach to regulation of the country's nascent private sector education institutions, involving little or no government intervention. The private education institutions should be encouraged to establish a self-regulatory mechanism comprising well a respected educationist, independent economist, sociologist and specialist from groups such as engineers, businessmen..etc. This particular mechanism may also include members from the

government ministries/institutions concerned with the education. In the sense, this mechanism will go beyond 'self-regulation' embracing resource persons from the public sector as well. By adopting this somewhat out of the box approach we could prevent any high handed regulators or the state apparatus from intervening in the emerging private education market in Sri Lanka.

Dr. Devarajan concludes that not acknowledging education is a private good is to have the worst of both worlds. 'Public education is failing and so people are turning to private markets. But these markets are unregulated. And the losers, as usual, are the poor.' The quality of Sri Lanka's human resources will arguably be the most critical determinant of the future prospects of the country, as the current development strategy places high priority on modern services. Furthermore, as an ageing country there is a higher premium attached to deploying our human resources as productively as possible. All this makes it extremely important that every effort is made to improve the quality of our education at each and every level. Dr. Devarajan has mounted a fundamental challenge to prevailing orthodoxy. It is important that the issues he has raised are addressed in Sri Lanka's policy making processes in the education sector, in a pragmatic and non-ideological manner which focuses on getting the best possible outcomes in terms of quality and equity. This is a discussion that should embrace all stakeholders, policy makers, independent education professionals, trade unions and parents associations.

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