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A quarter century of getting it right in education: worldwide successes and continuing challenges

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In an article in this volume Steven Klees claims that certain economic policies have been a failure in general and specifically in education. He has it backwards. His characterisation of the economics profession has not been true since the 1960s. Nobel Prizes to Simon, Akerlof, Spence and Stiglitz illustrate a flowering of ideas in fields of behaviourial and institutional economics, all of which Klees ignores. Additional errors are made in the treatment of user fees and other sources of private education financing, private and public schools, output-based management and tax policy. The fact is that a high quantity of reform and experimentation account for much of the progress in the economics profession and in education over the last quarter century. This note will explain how economic policies, properly defined, have been a significant advance in the field. It will then explain why, when applied to education, they have precipitated such a long series of successes. To be sure, there are significant education gaps and problems yet to be solved. And it is also true that there is no single solution, an illustration being the success of educational policies in Alberta based on new standards and appropriate sanctions for not meeting them and the educational successes of Ontario modelled on consensus without sanctions (Lykins and Heyneman forthcoming). The fact that we have experienced so much progress, however, is a sign that through experimentation we are on the right track.

The economics profession

The thought-provoking article by Klees consists of a review of economic theory and practice as it has been applied to international education policy over the last 40 years. Klees classifies economic thinking into the liberal and conservative camps which reasonably described the general division of the discipline in the 1960s. More recently, the Washington Consensus set the tone for the implementation of market-based initiatives in many areas of national and international public policy, and 'neoliberal'-dominated economic policy development during the Reagan and Bush II administrations. This approach to policy focused on efficiency and the rationalisation of policy innovations based on evaluations of social benefits and costs. And many of these market-based initiatives did work. In environmental policy, cap and trade policies have significantly lowered the costs of environmental regulation and had a significant positive impact on air quality in western Europe and other regions of the world.

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Klees correctly points out that taken to an extreme and without adequate understanding of how markets work in different institutional and cultural settings, market-based policies may not work and may even be harmful. Inattention to distributional implications of open markets and choice can have social consequences that may offset the social benefits of efficiency-based policies. To implement policies that streamline delivery of services and are accepted by consumers and producers alike, we must understand the limitations of our theoretical and implementation models. Models that fit one cultural setting may be totally inoperable in another. International agencies such as the World Bank cannot promote a blanket market-based policy approach in education or other any field without first evaluating whether the institutional and cultural boundaries are consistent with these policies. International agencies, all of them, should have their mandates, practices, and polices reviewed and, when necessary, changed to fit these conditions. The beauty of the field of comparative education is that it explicitly recognises the need for cultural insight in policy development and implementation.

Klees stirs debate on the principal assumptions of our field, or any field, and the proper role of research scholars is to do this. However, his classification of economic thinking into opposing camps of Chicago neoliberals and others does not do justice to the broad and fascinating innovations in economic theory and application in education and other fields that we have experienced over the last 20 years. The most exciting work in economics today explicitly incorporates insights from behavioural scientists in other disciplines – psychology, sociology, political science, and neuroscience, for example. Public choice theory in the mould of Nobel Prize winner James Buchanan and Gordon Tullock[1] correctly demonstrated that government bureaucracy could increase the cost of regulation to such an extent that the benefits of regulation would be overwhelmed by the cost. Their work and the work of many others in the field of public choice economics made us sceptical of regulatory policies in general and led to the search for more effective and less costly market solutions to social problems. Public choice theory, however, also contributed to the resurgence of the vibrant area of political economy which has tried to explain how government and economic institutions interact and constrain policy and to identify the conditions under which regulation can and should be implemented. This field of political economy is a bridge between the old Chicago approach and the sceptical anti-market approach of Steven Klees. Eric Hanushek is a very good example of an education economist who has made important contributions to political economy.[2]

Two of the fastest-growing areas of economic thinking today are behavioural economics and institutional economics.[3,4] In a recent book written for a general audience, *Nudge* (Thaler and Sunstein 2008), authors Richard Thaler (professor of economics, University of Chicago, Graduate School of Business) and Cass Sunstein (professor of jurisprudence, University of Chicago, School of Law) describe two different classifications of players in any market: *Econs* and *Humans*. *Econs* have perfect information, and transactions costs are trivial; *Econs* correctly calculate the short-run and long-run costs and benefits of all possible choices they can make, and they incorporate the external effects that their behaviour may have on others. *Humans* do not know everything, and for them the acquisition of information takes time and money; information is often asymmetric and may be wrong. External effects are commonly ignored by *Humans*, and *Humans* often place little weight on the long-run benefits of their choices. Even if *Humans* have all the information they need to make the right decisions, they routinely make mistakes, procrastinate, or forget. They can be confused by too many choices or details, and inertia is often their course of action. Market-based policies may not work among *Humans* as elegant economic theories suggest that they will because *Humans* behave like humans. We all agree that there are very few *Econs* out there;

even economists are not *Econs.* The pure market solution is, therefore, not likely to work as planned. However, to adopt the Klees approach – to reject *market-based* policies in the field of education – is too extreme. The approach taken by the vast majority of economists today is to accept that market solutions can work but not without conditions; as Thaler and Sunstein explain, consumers and producers may need a nudge here and there to get them to do what is in their interest. Competition in education can lead to improved education quality and performance (Hoxby 2003), but we need to understand why so few parents take advantage of choice for their children, and to fine tune choice policies to local conditions so that they can work (Hastings, van Weelden, and Weinstein 2007). It is our role as education policy analysts to help determine what these nudges (or large shoves) should be.

Application of economic principles to education

User fees and cost recovery

When citing evidence to make a case, it is especially effective to begin not where it is necessary but where it is convenient. Klees does this well. He tries to make the case that neoclassical economics was responsible for school fees and cost-recovery mechanisms and cites Malawi as a case in point. What he does not say, or know, is that school fees and cost-recovery mechanisms are traditional in English-speaking Africa and stem not from the hegemonic evils of development assistance agencies but from Protestant and Catholic churches and Muslim mosques (and parent committees) which were responsible for education from the beginning of the twentieth century. At independence the Malawian government built on precedent. The government agreed to pay teacher salaries in a ‘recognised’ primary school. A school could be recognised if it passed inspection for safety and had room for seven classes (seven years being the length of elementary education). Consequently all costs of primary school construction beginning in 1900 and continuing to today have been the result of private contributions from the village community. The state has been uninvolved. With the Thobani paper (1983) the World Bank laid out an economic rationale, criticised by Klees, for private contibutions to education. The funny thing is that neither Klees nor the Bank were doing anything other than arguing over what the public had considered normal operating procedure for the last century.

In his criticism of cost recovery Klees makes a second mistake. He assumes that when the government distributes education goods and services the result is more equitable. In theory this is reasonable, but it is untrue in fact. In the period following independence, governments in eastern Africa established state monopolies over educational equipment. These monopolies were said to be necessary so that all children, no matter how poor, could receive an equal amount. The fact is that governments used this new monopoly as a way to steal from (or to be more generous, illegally tax) families with school children. Money was collected in fees, but the value of school supplies which was returned was a small fraction of the value collected. Even more pernicious was the inequity of distribution. In Uganda, for instance, when school supplies were purchased by churches and mosques, schools with children from wealthy families did tend to have a higher supply. But after the distribution was taken over by the socialist state, the inequity in distribution did not decrease, it increased. Children from more poor families had less access to school supplies than they did when distribution was in the hands of private non-governmental organisations (Heyneman 1975; 1977a,b). So in essence, the suggestion by donors that governments establish mechanisms of cost recovery in which the resources are collected by and stay at the school is a sign of progress. It is also a sign that the rhetoric of the 1960s about the necessity of the state can now be judged with an eye to fairness to the poor. Instead of academic rhetoric dictating justice, justice will be determined on the basis of the evidence. In the case of education in East Africa fairness is the traditional way to finance education, through families, community organisations and their houses of worship. In this case progress constitutes a return to the situation *ex ante*.

Privatisation, vouchers and the American conspiracy

Klees would have one believe that American (and some British) neoliberals have ganged up on the world and have inundated it with policies of privatisation and vouchers. The problem is that private delivery of public schooling is traditionally European; private higher education is now available in every part of the world (except western Europe); and per-capita student funding (equivalent to a voucher) is becoming the norm (Heyneman forthcoming a). To be sure there have been many exaggerated claims about the equity and efficiency potential of per-student financing. But no country that has tried it, including Chile and New Zealand, has dismantled the system once it has been established. The reason has little to do with the economic claims on one side or the other and more to do with the fact that families, rich and poor alike, appreciate having more choice rather than less choice. This is not a neoliberal rationale so much as it is simply common experience.

The multilateral development agencies

Klees is at his most ignorant when discussing the World Bank. First he attributes evil motives to what is simple legal necessity. The Bank has conditionalities because its owners (all member countries) demand them. Conditionalities are made by individuals who are sometimes wrong, hence some conditionalities backfire. Has there ever been a public institution that never made a mistake? But most ignorant is his treatment of the Bank as if it were monocultural and intellectually monolithic. The debates over higher and primary education provide a good illustration. The simplistic formula to transfer public resources from higher to primary education was a mistake and internally a subject of intense debate (Heyneman 1995). The following quotation is an illustration of how heated that internal debate became over the use of economic rates of return:

> The paper draws on the same rate of return evidence to guide policy and future investment priorities, and that leads to catastrophe. The evidence is faulty; drawn from a few traditional borrowers; only provides a backward explanation of trends and only refers to the most simple of educational categories – primary, secondary, and higher. Because the paper relies exclusively on rates of return, it excludes other possible justifications for allocations of public finance: national interest, market failure, and equity. Though over one half of World Bank lending is devoted to post secondary education the paper is silent on the role of higher education. It is also silent on graduate education, adult education, pre-school education, and educational research, education technology, and education for the handicapped. All professional education is ignored, including medical education, engineering education, law education, public administration, and the social sciences. Every single country makes public investments in these areas and it would be irresponsible to treat them in cavalier fashion. One division chief characterized the problem by saying that this paper takes us racing into the future with our face pressed firmly against the rear view mirror. (Heyneman 2003)

In sum, it is fair to suggest that large and multidimensional organisations such as the World Bank make mistakes. But it is unfair, perhaps irresponsible, to characterise them simplistically as if they were internally without debate and as if there was no concern within them for the public interest.

Which are better: public or private schools?

The issue that Klees describes as being about public versus private has been mislabelled. It is really about the differences between schools that are over-regulated, (often) unionized, unselective, unautonomous versus schools that are more selective, autonomous, and often free from central regulatory constraints. Once I attended a meeting with the superintendent of California public schools. An argument commenced with a proponent of private-school efficiency. The superintendent declared: 'take the handcuffs off me and a public school can beat a private school any time'. In essence the only relevant discussion is whether a school can meet its social cohesion obligations, the purpose of public education (Heyneman 2005a), and still be efficient. Schools that are freer to choose their own management options, whether public or private, win every time. Hence the debate over public and private is a false one.

Output-based programmes

It seems odd that the neoliberals are blamed for what are essentially managerial innovations. Klees includes merit pay, standardised testing, performance budgeting, and output aid in the same category. To be sure, there are effective systems based on precedent rather than performance. There are high-performing teachers, and in some nations, whole cadres of teachers, who are well paid but not differentially paid. And there are abuses of test and performance results. But in all systems managerial innovation is normal, and it would be self defeating to ignore an education system that is failing and not want to innovate to seek improvement. What we are experiencing is a positive consensus about the nature of large (often urban) public school systems in democracies where political leaders are held accountable to public demand. It is altogether reasonable for those political leaders to expect innovation. As an alternative to managerial innovation, Klees proposes higher taxes and more expenditures. There is nothing wrong with this. But what if there are no additional resources? What then?

Higher taxation: the solution to lack of resources

Surprisingly, Klees claims that all countries, even poor countries like Malawi, have an abundance of resources that can finance education (and presumably other social programmes) by increasing taxes. He claims that economic resources are not limited. He does not describe in detail where the resources would be found (tax the rich? Abolish the military?). He also suggests that in some way the World Bank (in a conspiracy?) invented the limitations on taxable resources so as to give more substance to its call for managerial reform. Again, Malawi is used as an illustration. He may not be aware, but income taxes are almost useless in low-income countries and in many middle-income countries. The institutional infrastructure is too weak. Tax income is derived from logistically more feasible sources – excise, import, export and property taxes. He may not be aware that, in tribal communities, property taxes are self-defeating since tribes do not constitute fiduciaries. That leaves excise, import and export taxes. One would not want to tax exports, particularly on agriculture, since this is the livelihood for the majority of the population. Aside from obvious luxury goods (fancy European cars and scotch), one sign of a healthy economy is that imported goods and services can be purchased easily and at a low price. High import taxes in Malawi on nails imported from South Africa would increase the cost of local construction and depress growth. In sum, the suggestion that Malawi can find sufficient tax resources to provide everyone with education is simply unfathomable.

Signs of success

It is important to remind ourselves of the manpower planning rationales of the 1950s and 1960s and how they constrained and distorted education development (Heyneman 1972). We diversified our sources of evidence to include costs, benefits and economic returns, and this has been of revolutionary value (Heyneman 1980, 1984). It has helped justify new investments in primary and secondary education. It allowed us to concentrate on inputs such as textbooks, which have been of incontestable effect (Heyneman, Farrell, and Sepulveda-Stuardo 1978; Heyneman 1980; Heyneman, Jamison and Montenegro 1984). It overturned many traditional prejudices. Standardised examinations were once thought to handicap the poor; now they are often treated as an asset to the poor (Heyneman 1979, 1987; Heyneman and Currie 1979; Heyneman and Fremer forthcoming). Educational goods such as printing presses and textbooks were once thought to be best when the production process was monopolised by the state. Now it is normal for the state to take advantage of private-sector competition, which increases quality and reduces price (Heyneman 1990, 2006). In the 1970s and 1980s many argued that schools exacerbated social-class differences and worked against the interests of the poor.Those arguments are now over, and it is generally recognised that when motivated to learn, the poor can perform as well in school as the children of the rich (Heyneman 1979, 2005a; Heyneman and Loxley 1983; Baker, Goesling, and LeTendre 2003; Gameron and Long 2006). It was once axiomatic that education goods and services should not be traded internationally, that this commercialisation worked against the interest of developing countries. Now that attitude is changing. It is more widely recognised that the poor have a right to education, including education which is available on the open market (Heyneman 1997, 2001, 2007). It was once thought that education was fragile, subject to the whims of political and economic tides; now we understand that education is surprisingly tenacious, and able to withstand the collapse of many other public institutions (Heyneman 1983). Ten years ago, international education statistics were in deep crisis (Heyneman 1999a; Heyneman and Lykins 2008). Today international education statistics have never been healthier. All of these are signs of progress.

Challenges

In terms of foreign aid, education has failed to live up either to its claims or to its potential. The level of foreign aid devoted to education has been stagnant (Heyneman 2006, forthcoming b). Significant even crippling differences in education quality characterise education systems in low- and high-income countries (Heyneman 2004a) and it is unclear if there is sufficient consensus for high-income countries to tax themselves for basic education needs for non-citizens (Heyneman 2004b, 2005b). Higher education systems in many parts of the world are experiencing the costs of education corruption, depressing individual returns to higher education investments and lowering the credibility of national systems (Heyneman, Anderson, and Nuraliyeva 2008). High-income countries continue to experience wide gaps in educational achievement. Urban school systems fail to intrigue youth in part because the economic rationale for trying hard in school has been ineffective as motivator (Heyneman 1999b). Can high-income countries shift their education rationale to that of social cohesion? If they can, the future may well be bright.

Notes

1. See, for example, the classic book *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, first published in 1962.

2. Hanushek edited a book in 1995 with Jeffrey Banks, *Modern Political Economy: Old Topics, New Directions* (Banks and Hanushek 1995) in which they and 10 other authors evaluate the government–market interactions in many different markets.
3. The 1978 Nobel Prize in economics was awarded to a psychologist, Herbert Simon. He was described in a press release as an 'economist – in the widest sense of the word …' He did not believe that the typical modern entrepreneur or CEO operated as a rational, self-interested profit-maximizer. Informational assymetries within firms and the demands of diverse constituencies (including family) may lead to less-than-perfect solutions to managerial problems; 'satisficing' may better describe managerial decisions than profit-maximizing. While many economists were disappointed that an academic economist was not awarded this prize in 1978, Simon's work has been very influential in recent years. The Nobel Prize in 2001 went to three economists – George Akerlof, Michael Spence, and Joseph Stiglitz – whose insights into informational and institutional constraints on markets have led to a better understanding of how markets work and how policies can be shaped in different institutional settings to achieve more efficient and equitable solutions to social problems.
4. Barack Obama's primary economic advisor is Austen Goolsbee, a professor of economics in the University of Chicago Graduate School of Business. He was described by Alan Blinder, former vice chairman of the Federal Reserve Bank and university professor, as 'mainstream with a dash of creativity. … These are people who think new thoughts – within the mainstream, new without a capital N' (Dorning 2007). Goolsbee is a tax policy expert with market-based solutions well grounded with insights from experimental and behavioural economics.

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