
REVIEW ARTICLE

Some Economic Perspectives on School Reform

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Edwin G. West, Education and the State: A Study in Political Economy (third edition), Liberty Press, Indianapolis, 1994

Eric A. Hanushek, Making Schools Work: Improving Performance and Controlling Costs, Brookings Institution, Washington, 1994

A RECENT book and a new edition of an old classic provide interesting perspectives on the perennial issue of school reform. How can we fix up education, an industry dominated by public provision, where producer interests rule and parents' wishes are routinely ignored?

Both books are written by economists and give short shrift to the idea that education should be exempt from economic analysis. West contends that an activity that claims so much public expenditure can hardly expect to get away with no economic scrutiny at all. Moreover, assertions that education is 'important' or 'special' or a 'right' do not help in making public policy choices, such as what type of education to subsidise and by how much. In fact, choices must be made between spending on education and spending on other important, special and essential services, such as health and justice. Hanushek comments 'Some have argued that schools are too important to be subject to economic rigour. We argue that, on the contrary, they are too important not to be' (p.xvii).

Yet neither author argues that the economic ends of education are all-important. West advocates a market system where parental preferences determine the role of schools. Hanushek focuses on the academic role of schooling, but emphasises the economic costs of a schooling system that does not equip students with academic skills. Both books are written for general readers, and economic concepts are explained in a clear and understandable manner. West focuses on the English education system, Hanushek on the American. Both offer valuable insights on the similar problems in Australia and New Zealand.

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Arguments for State Intervention in Education

Education and the State was first published in 1965. In its third edition, the main body of it is unchanged. But then the substance and style of the arguments and dogmas of the education lobby have not changed either.

West closely scrutinises the rationale for public education and finds it wanting. Not only is public provision unnecessary for achieving goals such as protecting children, reducing crime, making democracy work, increasing equality of opportunity, inculcating common values and promoting economic growth; it has actually made things worse.

Protecting children. This argument for state education assumes that the uneducated may not be competent judges of education: not only are young children unable to judge for themselves, but they may need protection from ignorant parents. But children can be protected by measures targeted at problem families; a vast and comprehensive system of state schooling is not needed unless most parents are negligent or ignorant. But, if so, political pressure for universal schooling would be unlikely:

For it envisages an electorate which virtually condemns most parents for being ignorant or negligent about their children when that same electorate consists to a large extent of the parents and relatives themselves. . . why, if such ignorance and negligence is so serious, should we presume that it will not equally express itself at the ballot box and with equally 'unfortunate' results when the parents and relatives choose their representatives. (p.9)

West warns against 'acceptance of institutions from mere habit or imitation rather than from any conscious and rational purpose' (p.xxiv). His clever analogies repeatedly show how we accept state education largely because we are used to it. For example, although the state requires drivers to pass a driving test, it has not so far prescribed how persons should acquire the knowledge and skill; nor does it take over driving schools and supply driving instruction 'free' out of general taxation.

In fact, there have been proposals for driver training to be offered in public colleges in the Australian Capital Territory (ACT). Why should the community pay for teenagers to receive driving lessons? More important, are schools the most suitable institutions for providing driving instruction? Or are commercial providers, who must satisfy customers? If the service is to be provided in school time, rather than outside school hours as at present, what part of the curriculum is to be dropped to allow for it? If tax-financed schools are permitted to drive the for-profit sector out of business, how long will it be before there is pressure to abolish external driving tests? If schools are to certify who is able to drive, will the roads be safer?

Neighbourhood effects. Another argument for state involvement in education is that education generates positive externalities or 'neighbourhood effects'. West

examines the argument that education reduces crime. Crime has increased as state education has been growing. West examines the statistical evidence. For example, 'the last year of compulsory education was also the heaviest year for juvenile delinquency and . . . the tendency to crime during school years was reversed when a boy went to work' (pp.40-1). This remained true when the school-leaving age was raised. In fact, there is no evidence that state schooling reduces crime. West contends that state intervention has reduced the role of religious organisations in education, so weakening moral and religious instruction: this should be measured as a social cost of state schooling.

Making democracy work. Is education needed to encourage political literacy? West argues that political literacy is 'more satisfactorily provided by a variety of sources than by a single system of state schools' (p.55), such as journals and newspapers. As with other externalities, only limited active government policy is needed if a 'substantial number of people would not acquire a necessary minimum of education themselves without the help of government agencies' (p.46).

Economic growth. There is nothing new in recent extravagant claims that education is the 'secret ingredient' of perpetual growth. West observes that 'Many of those with personal stakes in education, once outraged by the suggestion that it could be treated like an industry, are now more likely to be outraged if people "can't see" that it is the "most important" industry we have' (p.109).

West makes a few simple points that should caution us against jumping from new theories relating growth and human capital investment to policy recommendations such as more public expenditure on education. There are many sources of economically useful knowledge other than public schooling (such as on-the-job training and learning by experience), and not all public schooling has the same economic significance. Indeed, the only steady growth resulting from the burst of education spending in the 1970s was in jobs for educators.

Equality of opportunity. West illuminates the meaning of this goal, carefully sets out its limitations as a philosophical ideal and shows how it conflicts with other values, like liberty, family life and efficiency. He draws an analogy with a race and likens the objective to ensuring that 'each competitor starts level at the starting line' (p.61). The objective of equality of opportunity creates immediate problems, even if it is assumed that all children have the same potential ability:

How do we begin to measure the numerous and typical environmental handicaps which are supposed to hinder some children in the race? For instance, on what basis do we sort out those children who have not had the extra educational stimulus incidental to richer middle class homes? More difficult still, how do we detect those homes, whatever their social class, which give better educational environments than others? The quantity of empirical evidence needed to decide these matters will surely be enormous.

Even then no two persons are likely to make the same judgment on it.
(p.62)

And where do we draw the line? Do we equalise the opportunities of poor children in other countries? If not, why is the concept constrained within geographical boundaries? At what age does the race start? There is a danger that equality of opportunity will be confused with equality of result. If there is inequality of potential ability, then there is bound to be inequality of result, so that 'If we insist that there shall be equality of result it follows that we penalise ability' (p.69).

In practice, state education has meant requiring a child be sent to the local public school, which is financed out of taxes that must be paid even by those not using the public school. 'This reduces, and for poorer families abolishes, all practical choice' (p.17). Zoning makes where you live the crucial factor in determining the type of education your child will receive. Moreover, it is difficult for the poor to move to good neighbourhoods, particularly if they live in subsidised public housing. The result has been to decrease equality of opportunity. In addition, diplomatic and negotiation skills become more important when dealing with government bureaucracies, but are unequally distributed among parents. In this sense, inequality of opportunity for some children probably now stems from having parents who are politically weak (p.72).

West emphasises the need to take account of the taxes required to finance public schooling. If 'free' state education given to the average family is paid for out of taxes levied on the same average family, then the current system reduces their choices, and puts them at a disadvantage relative to rich families who use the private sector. The state can contract out of education and reduce taxes in a way that leaves all income groups better off. Further, a frequently ignored cost of the current system is the efficiency costs of the taxes needed to fund government education expenditure. In Australia, these costs have been estimated to be as high as A\$0.65 for each extra dollar raised (Findlay & Jones, 1982).

The Origins of Public Education

In his account of the establishment of public education, West destroys a few myths that have wide currency. For example, Rupert Murdoch, ironically in a defence of free markets, attributed the success of the launch of the *Daily Mail* in 1896 to 'a previously unsuspected mass audience, newly literate because of the educational reforms of the 1870s and 1880s' (Murdoch, 1994:3). Public education was not the cause of literacy amongst the working class or high levels of participation in schooling. Nor did the introduction of public schooling increase the amount of schooling undertaken.

The level of literacy and amount of schooling received by children in England grew rapidly throughout the 19th century and were at high levels. For example, by 1840, two-thirds to three-quarters of male adult workers were literate (slightly less for females), despite the taxes that were levied on paper in the early 19th century to discourage reading, which was linked to political unrest. By the 1860s, 90 per cent

of the working class was literate. Literacy was taught in Sunday schools and literary societies. The purchase of schooling by the labouring classes was also widespread and growing.

West outlines the rise of an extensive framework of private schools for the masses. The statistical evidence collected at the time reveals a large private schooling sector which had grown vigorously since the early 1800s. After 1833 the government gave matching grants to some schools, mainly those set up by religious groups and private charities, in return for regulation and inspection. Many schools were financed solely by fee-paying parents, and some were maintained by endowments. Most parents purchased education for their children and the fees they paid were the largest source of school income.

From 1857 to 1861 the Newcastle Commission conducted a comprehensive survey of schooling, using statistical techniques. It found that almost every child received at least primary school education, on average 5.7 years of it. 'The Commission concluded that there were no serious gaps in the provision of schools and apparently no call for state nationalised schools' (p.179). Yet in 1870 the Board School system was started, and the nationalisation of the school system began. The Central Education Department had supplied information that 25-50 per cent of the English school population was without schooling. Public provision was promoted as being necessary to 'fill the gaps'. The presentation of misleading statistics to promote vested interests is nothing new. West argues that the Department's figures were based on incorrect assumptions about average school duration and school-age population. The figures assumed that the relevant 'population of school age' comprised children between five and 13 years of age and that the number of children actually in school was three-quarters or less of this number. But the assumption that each child received eight years of schooling exaggerated the actual average duration by at least 25 per cent. The evidence was consistent with all children receiving some schooling.

The introduction of Board schools in effect replaced inspection and subsidisation with public provision and nationalisation. The Board schools crowded out (and took over) existing private schools. The subsidised Board schools could call on rate aid (which fell partly on parents using rival schools) and charged fees that undercut the private schools. According to West, public schooling was financed by regressive consumption taxes. It is fair to say that public schooling for working-class families was financed by taxes imposed on those families.

West concludes that state subsidy rather than state provision is the preferable way to increase the amount and quality of schooling undertaken by the poor. He maintains that the driving force behind the introduction of public schools was a self-interested bureaucracy. The abolition of fees completed the supplanting of the market process with the political process, ensuring the primacy of public education.

The voice of the organised professional teacher and educationist would predominate, and that of the parent would be critically weakened. For the parent, having been accustomed to a powerful method of voting in the

market would be relegated to the much less articulate method of voting through the political process at periodic elections. (p.219)

What started as 'filling the gaps' has become 'full government education paternalism for all' (p.222), promoting equality for it is much easier to demonstrate inequalities than inadequacies.

Recent Developments

The developments in public education since the second edition of West's book appeared in 1970 demonstrate the author's prescience. Events in the 1970s illustrated how parents have lost control of public education. Major changes were introduced even though most parents opposed them. Strange new philosophies, couched in incomprehensible jargon, dominated education theory. The curriculum was politicised and softened. Illiteracy grew.

West gives an interesting perspective on the Thatcher reforms, which carry a warning for Australia. In the 1980s British schools became more autonomous and accountable. Parents can now opt out of the local education system by reorganising their schools under individual trusts run by parent governors. The trusts are financed by central government, and funds cannot be supplemented by charging parents fees. Central government prescribes teaching methods, curriculum and examinations. West observes that parents are 'better consumers than managers' (p.238) and their choices as consumers are limited. The Thatcher reforms did not introduce a market arrangement. Parents are restricted to a choice between public systems and there are no price signals to show which options are most highly valued relative to costs. West views the reforms as a victory of a strong and ambitious central bureaucracy over local bureaucracies.

West considers appropriate state intervention in education, systematically weighing all the costs and benefits of different approaches, considering the competence of parents to choose and the relevance of external benefits. He carefully argues that universal compulsion and subsidisation may be inappropriate. Should the government be involved in information provision and performance measurement? West documents how information was distorted to further the interests of educational bureaucracies from the very beginning of public education. Would assessment agencies or franchising develop under a market system? Should there be competition and experimentation in assessment too?

West considers the issues raised by home schooling. He details the Baker case, which shows how the current system has limited freedom of choice. The local authorities had declared a particular village school as suitable for Mrs Baker's children, because it was the nearest public school to their home. Mrs Baker expressed her desire to educate her children at home, which resulted in an expensive struggle lasting ten years. She was fined twice and sentenced to two months' imprisonment, before an appeal court found that she was giving her children an education that was suitable for them. Her son was examined in court. One barrister tested his educa-

tion by asking him the dates of King George III. One wonders how the products of today's education system would have fared.

The magistrate, during their formal examination, asked what was in a camel's hump; when the boy gave the answer 'fat' they rejected it, saying it was 'water'. The boy asked them to look it up. The magistrates had to admit he was right. Despite all this, this court still found that Mrs Baker was not satisfactorily educating her son. (p.229).

An Agenda of Reform

West's book stops short of suggesting an explicit reform agenda. But Eric Hanushek's *Making Schools Work* contains the recommendations of the Panel on the Economics of Educational Reform, which brought together a dozen economists who have been studying various aspects of the US education system for over 25 years. Hanushek argues that the economic analysis of education reform deserves more attention. Although economic issues, such as disappointing economic growth, stagnating living standards and increasing income inequality, often motivate school reform, economic ideas are absent from the plans for reforms. He 'seeks to infuse a sense of economic reality into the discussion of school reform' (p.v) — something much needed in Australia and New Zealand.

In the US, as in Australia, 'most discussions of educational costs focus on the funding (or, more commonly, lack of funding) for specific new programs'. But 'Perhaps reformers should really be asking not where new money for schools is to come from, but whether schools spend existing funds wisely' (p.39). Hanushek proposes that reform should be based on current spending levels to develop a disciplined approach to decision making. Spending more without reform would lead to a more expensive system, but not a better performing one.

Hanushek proposes three broad economic principles of reform: 'efficient use of resources, implementation of appropriate performance incentives, and continuous learning from experience' (p.51). Although the goal of efficiency is often twisted into something unpleasant, it merely means that

educators should measure both the costs and benefits of various approaches to education — and choose the approach that maximises the excess of benefits over costs in their particular circumstances. Today by contrast, the benefits of new plans are often assumed rather than systematically measured, and little effort is made to compare the potential net benefits of programs competing for limited resources. (p.xvi)

Efficiency does not mean simply cutting costs. Nor are the relevant benefits of education confined to narrow measures of test scores.

Reform proposals often pay little attention to incentives. But the need for schools to introduce well-crafted performance incentives is more important than increased resources. In contrast, 'the current system concentrates much more on

taking away individual initiative and incentives and replacing those with central direction' (p.53). There are few rewards for good teaching, and few sanctions against poor teaching.

Hanushek maintains that there is no one cure for the ills of today's schools. Instead, mechanisms are needed to improve continually, to experiment, and to adopt good programs and weed out bad ones. But in the current system, 'There is no systematic approach to learning from existing or proposed programs' (p.56). Certainly drastic changes have been introduced in Australia with no attempt at evaluation.

Hanushek recognises that measuring the impact of a teacher, or even a school, is difficult, because these factors are hard to disentangle from other influences on student performance. He suggests the use of random experiments. But they are not suitable in education: it would be hard to ascertain whether the effects of the school program are being confounded by responses to the program, such as the substitution of other educational inputs like parents' time. The outputs of programs may take years to become apparent. Furthermore, any 'random' experiment faces selection problems as parents can opt out by sending their children to a private school or by moving to another area.

The Role of Parental Preferences

But, in any case, are we really as ignorant about what makes a good school as Hanushek implies? Although large-scale random experiments would be a boon to academic researchers, are they really necessary? A cynic would suggest that the calls for increased research funding from a panel of academic economists were entirely predictable. If opinion polls are to be believed, there is no mystery about what parents want: effective discipline, high academic standards, high-quality staff, emphasis on social values, and, for some, a religious orientation. One advantage of a market-based system is that it would meet these parental desires. It is also flexible and can initiate small-scale experiments that are quickly copied if successful.

But Hanushek is not very interested in parents' preferences. He mentions school choice, but as only one possible reform, to be evaluated against alternatives by the political process. Hanushek questions whether parents make good decisions; he doubts whether school-choice programs should be extended to private schools because they may 'be less responsive to the needs of disadvantaged students or may reinforce existing social structures' and 'could confer gains on well off families' (pp.106-7). The effect of other recommendations on 'existing social structures' is not considered. Hanushek asserts that parents will make school choices on the basis of 'race and social status'. But if public education is being regulated so as to suppress such parental preferences, a private education system can be regulated in the same way.

Yet Hanushek does draw our attention to the fact that choice reforms are carried out by the political process, and the result is not always apt. School-based management has often been used as an end in itself. Often, no clear goals are established, and the reforms are seldom linked to student performance or any incen-

tive structure, or evaluated in any way. The reforms seldom involve autonomy in personnel matters, perhaps the most crucial for educational success. 'The result may be worse than centralised decision making' (p.101). But although Hanushek recognises the need for local autonomy, he recommends that the federal government should take a primary role in supporting broad program evaluation and developing performance information, mainly through controlling testing and its role in funding research. He implicitly accepts that government funding will continue, so that governments will demand a major voice in determining reform.

Hanushek accepts uncritically a role for government in achieving objectives such as promoting equality of opportunity and reducing crime. Although he establishes that our current system is performing poorly and that reform efforts have not worked well, he assumes that a public system will remain in place. 'Public provision of schooling is not incompatible with proper incentive structures, even though' public schools have not done much yet with performance incentives' (p.157). After all, they've only had 100 years. Hanushek attributes this lack of progress to public decision-makers' avoidance of risk and to parents' reluctance 'to put their children in experimental educational programs' (p.157), although he documents the appeal of a choice experiment in Minnesota. He even recommends that the government should be acting to strengthen incentives for parents to involve themselves in their children's education. But present arrangements do not give parents much incentive to become involved; indeed, they are often denied crucial choices. Those who do exercise choice and leave for the private sector are then said to be creating social division.

The Role of Political Pressures

The main weakness of Hanushek's book is that it ignores the political pressures that have led to current arrangements. Public education is run through the political process and Hanushek does not explain why the political system will adopt his recommendations. True, Hanushek proposes a very different public education system, with much local autonomy, but he also argues for more centralised funding and evaluation. A system whereby decentralisation is promoted by a centralised government does not seem particularly plausible. He blames reform failure on a refusal to follow economic principles, as if the problem were solely a matter of ignorance of economics that could be solved by instruction from economists rather than as due to the operation of the political process. Hanushek does recognise that, under present arrangements, schools have no incentive to adopt labour-saving technology such as computers. Why then does he expect proposals to link pay to student performance to be adopted?

Hanushek establishes that the vast increase in spending on education has not been associated with improved academic performance, as measured by standardised test scores. He assumes that 'large amounts of resources are being used inefficiently and could be freed for more effective use' (p.71). But another possibility is that the resources are used to pursue other ends, such as benefiting special interest groups. One clear group of gainers from extra spending has been teachers. If stu-

dent-teacher ratios fall by one-third, this may reduce class sizes by one-third, reduce teaching loads by one-third, increase leave entitlements or allow administrative loads to be reduced. In practice, the fall in student-teacher ratios has been used to achieve a combination of these possibilities: it has reduced workloads, and only partly been translated into smaller class sizes. But even smaller class sizes make the teacher's life easier, since such classes are more easily controlled, marking loads are reduced, and teachers can devote less time to administrative matters and more to other ends. But what incentive does a teacher have to devote the extra time to improving the quality of education? Under current arrangements, not much.

A more fundamental question is whether public education can deliver evaluation and more effective performance incentives. Hanushek states that 'Effective incentives require clear definitions of good performance. These definitions in turn require agreement on the goals and objectives of the schools' (p.xxi). But he skips over how this can be achieved through the political process, except to say 'we cannot offer an easy solution to the political difficulties of defining a good education' (p.xxi). Hanushek further states that 'the ability to distinguish good results is crucial to any working system of incentives. Flexibility in the means of education must be balanced by crystalline clarity regarding the desired ends' (p.88). But public education is run from above, even though some school outputs can be measured properly only by those involved at the school level. If education is ultimately judged by the political process, the judgment will be made on incomplete information.

Conclusions

Hanushek attacks the way public schooling is run. West attacks its very foundations. These two books highlight the need to specify carefully the objectives of education reform. The relevant question is whether education is better run in the light of parents' choices in a market setting or of government decisions in the political process. Which is the better system for resolving the differences of opinion about the purposes of education and the weighting to be given to various objectives? Which system is better at determining resource flows, setting objectives, monitoring performance and testing for success? It is important to consider all the options rather than make implicit judgments about political feasibility.

The decision to try to reform public education rather than move to a market-based system is crucial. Keeping education in state hands means that educational outcomes are judged through the political process rather than through the test of the market, so giving special interests an advantage. Attempts to reform public education may all too easily be hijacked by an ambitious central bureaucracy. The critical question is whether successful and lasting reforms are possible in a public system.

References

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