

Education and Crisis

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Abstract. *The actual economic crisis reveals the problems within the public educational system. The malfunctions of this sector are augmented by the special significance of education for society and economic system. The modern theories of human capital emphasize the state's important role in financing education. On this basis, education seems to be the best solution in solving society and economy's different problems. That's why I consider that economic crisis is also the crisis of education. This paper aims to emphasize this argument underlying also the need for structural reform within the public educational systems.*

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Economic crisis reveals the actual problems of the social state in all its fields of action, including education. The real or intentionally overrated significance of education in society and economy emphasize the challenges within the public educational systems. The limited financial resources due to the economic crisis represent a serious budgetary constraint for the public education. This may seem like a situation motivated by the current economic meltdown, but contradictions may result after addressing the implications of education on society and economy.

Education is provided mainly by the public sector. The arguments stress the importance of functional social relations within some generally accepted frames which are validated by the political system. One can argue, both empirically and logically, the fact that the social results of the public education are limited or simply inexistent. But another bad result of public financed education deserves also to be noticed. Education may affect the economic performances, as can be noticed over the last decades, as long as a certain type of education, especially economic education, can stimulate the broad acceptance of economic measures which generate or extend economic crisis. This is a particular reason why the public education systems need to be reformed. The reform, in this case, is not a question of political will based on only quantitative and qualitative limits of public education.

For a better understanding and reasoning of those stated above, a distinct approach of these issues may prove useful.

1. Education, society and democracy. Outcomes of public financed education

The most important rationale for public education is based on the fact that education generates benefits for those who invests in, but also influences the life of those who interact with. This is the reason why economists have made education a major subject for the analysis based on the theory of positive externalities. According to this theory, when an individual receive educational services, the entire society will benefit not solely the individual.

The externalities' theory didn't mean, not even by far, a useful instrument in order to allow a better understanding and identification of those individual actions which create outcomes for the entire society. As almost every human action on the free market implies positive or negative outcomes for a third part, the government ought to manage the market failure either by subsidizing or taxation and regulation. Therefore, some economists as Barnett and Yandle (2005) argue that "externalities revolution" represents for

microeconomics the same that Keynesism means for macroeconomics. This theory opened the gate for government involvement in almost every corner of human life based on the reason of common good or common bad.

By placing the externalities argument into an “institutional void”, the economists have omitted the development of economic science concerning the free market and competition theory. Even further, they dismissed the importance of formal and informal institutions and property rights. As long as free markets would always fail, the efforts of identifying the proper market means to provide goods and services became useless taking into account externalities. The immediate solution offered was government intervention as an instrument to internalize the externalities.

This theory according to which individual education generates positive effects that enhance society’s wealth is very controversial. First of all, because the concept of positive externality associated with education is an abstract one. Private education can provide individuals with benefits that may prove useful to a third part. Therefore, private schools must be also subsidized.

Another limit of this theory is revealed by the fact that many other goods can provide similar effects for society. It’s merely impossible for the government bureaucrats to establish the hierarchy of the subsidized good or the level of subsidies. How can one consider education more important than food, newspapers or capital investment? They also generate outcomes for their owners and for society as well. What can be more degrading for a human being than begging daily for food to his neighbors? If food is subsidized, people can now turn to productive activities. Also, in order to avoid such disturbing situations, the government should subsidize food for all children in order to prevent malnutrition.

Identifying the external effects is a very difficult task because nobody can do that, except for the person involved. So, it’s hard to explain why public education must be provided based only on the opinion of a third party concerning the effects of such decisions.

In the category of arguments based on positive externalities’ theory is included the external benefit represented by the dissemination of sound moral values to the population. The poor people, argue those who support public education, are not able to choose rationally because they are not educated to fully appreciate the quality of goods. The common belief according to which the poor parents doesn’t have the proper cognitive or cultural ability to understand the significance of such a noble act as education encouraged economists to recommend the solution of compulsory public education.

Concerning the lack of education as an argument for individuals' inability to judge and make choices for their own, the government's bureaucrats manifest a duplicitous attitude. On the one hand, they emphasize the inability of the poor to decide in the matters concerning education but, on the other hand, they are eager to ask them to involve themselves in the democratic process of elections. This attitude raise a dilemma: If uneducated individuals can't judge for themselves and are incompetent concerning their education, then how can they decide who would be best to represent them?

The public education was meant to raise the citizens' ability to act as informed voters, able to participate in the democratic process. But this was exactly the road to indoctrination. The advantage of public compulsory education system, argue those who support it, is the efficient functioning of democracy because the voters share common social values and are better informed. Such an outcome can be reached only by instruction. Education can contribute to democracy in two ways: 1) developing a "culture of democracy"; 2) political development due to higher prosperity.

Recent studies seem to emphasize the relationship between education and democracy. Barro (1999) argues the role of education as a necessary condition for democracy to function properly. Milligan et al. (2003) identify a strong connection between level of education and participation in the election process in the US. Glaeser et al. (2006) went further arguing that the different levels of education reflect not only in the quality of democracy affecting also the political institutions.

Other authors as Acemoglu et al. (2005) argue that a relation of causality does not exist between education and democracy. If such a relation would exist, then a higher level of education should enhance the efficiency of the democratic system. But, according to the authors mentioned above, this is not happening. Besides, according to Milligan et al. (2003) the relationship between education and democracy is valid for the US but not for the UK.

Public education, argue its supporters, allow a better selection of the electoral alternatives because an educated individual becomes more interested about the evolution of the society and political matters and has the ability to understand them. Thus, he achieves all the abilities that a good citizen needs.

Data provided by the World Bank (World Development Report 2007, www.worldbank.org) show a negative relationship between the level of education and the evolution of social involvement. To put it in other words, individuals become more socially involved and more responsible as a consequence of having a family and getting a job at early ages.

It can be true that an educated person can achieve better information which can be used in the election process but education is not an indisputable condition for it. On the contrary, a certain type of education can create a misleading perception about democracy. An educated person may have a big opportunity cost concerning the gathering of all the information about the election process.

Moreover, the democratic system reflects more frequently a fractured relationship between principals and agents concerning the allocation of public resources. A particular kind of education can allow a better understanding of this evolution. Thus individuals may perceive easily the fact that collective decisions are less dependent directly of the voters will. Their role is very often limited at the simple selection of representatives, political agents who are presumed to act according to the voters' interests. This is the moment of fracture. In fact, political representatives make decisions concerning resource allocations according with their own political or elective interests.

Public choice theory emphasizes that principles of methodological individualism are valid even concerning the political matters. Politicians and bureaucrats have material and professional goals as any other people. They are sensitive to their interests despite the fact that they have become leaders of political organizations. In other words, bureaucrats can be as opportunistic as any economic agent. The principal-agent problem that arises in the political agency matters highlight the risk that the actions of political agents to be made against principals' (voters) interests. If the institutions of democracy can't prevent this fracture, then its proliferated effects can turn voters away from the democratic process (Marinescu, 2004, pp.119-121).

Voters realize the fact that democratic elective process diminishes the individual vote's significance in matters like changing political decisions. The rational ignorance phenomenon rises and its effect is that the voters are less interested by the elective process. The voter will ignore the elective process as a consequence of the perception that his vote doesn't matter or a certain goal can be achieved despite his negative vote. Fallaciously, the solution to rational ignorance problem consists in subsidizing education. It is presumed that subsidies will decrease the opportunity cost of information and, thus, individuals will be stimulated to involve themselves in the political process (Miller, 2005, p. 9). Educating voters seem to be the widespread solution to rational ignorance problem. The fallacy of this approach consists in the fact that educated individuals can become easily rational ignorant as they perceive the problems raised by the democratic process. Nevertheless, education's role deserves to be considered from another perspective: education can encourage individuals to legitimate fallacious beliefs concerning the way that economy works.

The opposite alternative to democracy is not tyranny but the market relations based on competition which constraint the arbitrary involved by the allocation of public resources through public budgets. A certain kind of economic education or the lack of economic education can induce misconceptions concerning the role and the significance of market relations. The lack of economic education can contradict the hypothesis according to which the ordinary people comprehend the economic connotations of the political actions. Under these circumstances, voters are not ignorant concerning the relation with their representatives. They have embraced misconceptions about the market significance (Caplan, 2007, p. 19). Whereas economists generally criticize markets for their inexorable and unavoidable failure, democratically accepted government intervention policies are set and implemented in the economy. From this moment on, democracy's institutions fail to limit the bureaucrats' opportunism and become an accomplice due to economic education.

This can be a plausible explanation for the rising government spending over the last decades in most of the world. The argument of wealth redistribution and market failures found supporters among educated people.

In conclusion, the functioning of educational systems based on the arguments stated above reveal the crisis of education. This consists in not achieving most of its social goals. At the same time, the extension of public education in the democratic societies is similar with the broad acceptance of political programs based on rising government spending. These were validated by the democratic process of election and can explain the rise of economic crisis and also the difficulties of recovery.

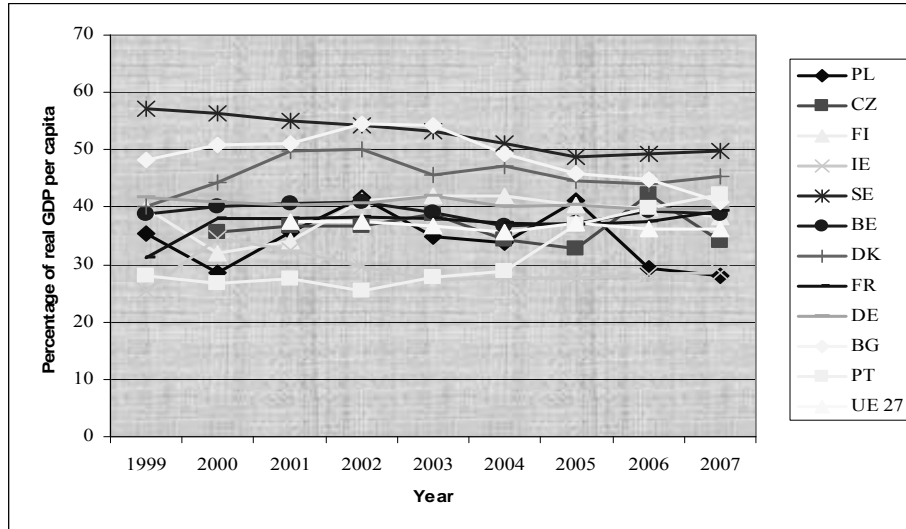
2. Education and economy. Investing in education may not be the way to economic recovery

The most optimistic conclusions of human capital investment's models rely on higher education's capacity of enhancing individuals' outcomes. Empirical evidence concerning the benefits of investing in higher education encouraged governments to implement strategies whose main goal is to raise the number of higher education graduates. Politicians and economists argue that investment in education is the unfailing solution for economic development. Despite the fact that education's role for economic performance is not very clear, still is very difficult to withstand the exaggerated optimism. Indeed, the population in developed countries is, in average, better educated than in the poor countries, at least concerning the years spent in school. But, at the same time, it would be wrong to believe that the economic performances of these countries are an exclusive consequence of this advantage they poses.

The source of this optimistic approach resides in simplified correlations between educational inputs and outputs. Lisbon Strategy is a very good example. Between 2000 and 2007 the rise of tertiary students' number was 2.5% per year. At the same time, the rise of tertiary graduates was 4.3% annually (Commission, 2009). The number of years spent in school raised along with the financial resources. Such an extension in the number of students and graduates wouldn't have been possible without growing public spending. Thus, Commission recommended the raise of public spending for tertiary education up to 2% of GDP (including private financing).

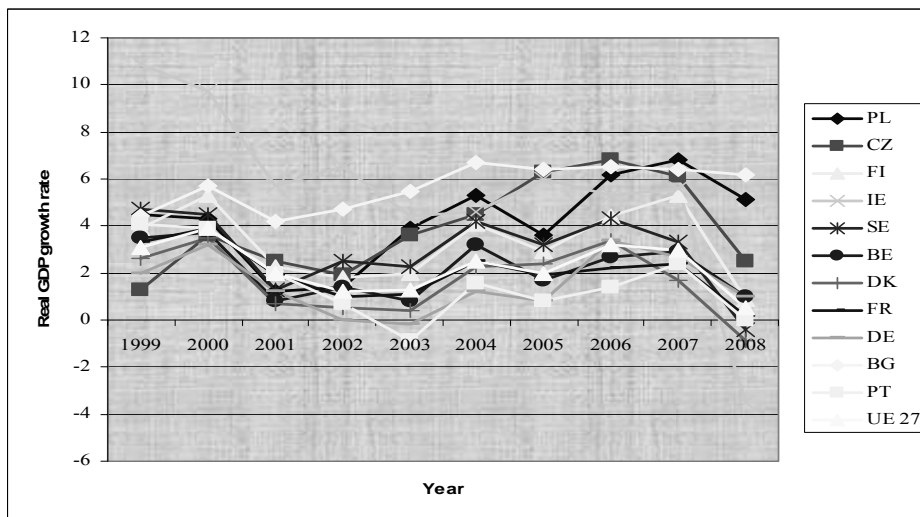
Although, EU countries extended public spending for higher education (OECD, 2007, p. 222) along with the number of students and graduates, economic performances didn't compensate the efforts. An analysis of the public and private spending per student as a percentage of GDP doesn't reveal a strong relation between educational inputs and economic growth. On the contrary it seems that the allocation of educational resources is influenced by the economic performances. As an example, one can consider the case of Denmark and Sweden, two of the most performing countries according to the Lisbon criteria.

Both states spend considerable amounts of public money for financing education in general and also for higher education. Nevertheless, Denmark's real GDP's growth was small despite massive spending for higher education during 1999-2002. In Ireland, spending per student decreased but the real GDP growth rate was bigger. Sweden adapted its spending for higher education to economic performances. Thus, the financial resources for higher education decreased (as GDP/capita percentage) during 2000-2005. This evolution is consistent with the real GDP growth rate as it can be seen in the charts below.



Source: Eurostat, Education and training, 2010, www.epp.eurostat.ec.europa.eu.

Figure 1. Annual public and private spending per student (%GDP/capita) for some EU countries, 1999-2007



Source: Eurostat, Economy and Finance, 2010, www.epp.eurostat.ec.europa.eu.

Figure 2. Real GDP growth rate for some EU countries, 1999-2008

Bigger educational inputs means a growing number of years spent in school and the effect that may occur is over-accumulation of human capital in the form of over-education. This is a consequence of the fact that over-educated workers have superior abilities comparing to those needed on the labour market. This could be the case of a qualitative over-accumulation. On the other hand, a better education may generate a quantitative over-accumulation, which resides in the growing number of diplomas or certificates obtained after graduating various forms of specialized higher education. In both cases, the education capital stock exceeds the labour market's requirements.

Qualitative over-accumulation can arise because of erroneous anticipations concerning the level of education and its compatibility with the labour market requirements. This kind of miscalculation is similar to the entrepreneurial error which generates over-accumulation of physical capital, misallocation that leads to a decrease in market price. As long as human capital theory considers the abilities obtained as a consequence of education similar to physical capital, the previous assertion is valid. The errors of anticipation generate losses for every educated individual. Nevertheless, it is possible to individuals to adapt their abilities to the new requirements. This can be a consequence of previous level of education or innate abilities. On a free labour market this scenario is not plausible as long as wage level is adjusted in a dynamic process according to marginal productivity. Thus, possible miscalculations can be adjusted and individuals can retrieve investments in their education.

Second type of accumulation can be more problematic because it is the effect of large scale incentives that some political strategies bring with, such as Lisbon Strategy. In this case, over-accumulation is the consequence of individuals' behavior to use diplomas and other certificates attesting different formal capacities to penetrate more easily labour market. Many times the reality shows they do not fulfil the specific job requirements or, even worse, they possess inadequately skills. This kind of situations can be seen especially in those areas demanding explicitly formal abilities. In that sense, the legislative effort to delimitate minimum wage depending on graduation categories is a good example.

3. Education and reform

Taking into account the ideas from above becomes evident that public educational systems require deeply reforms. The institutional changes that must be implemented have an ultimate end: dynamic compatibility of the education

system with labor market, according to its signals and needs. On the role of institutions in education process there are many theoretical approaches, but they tend to converge on the general idea that institutional incentives and constraints are strongly influencing the use of human capital. Thus, North (1990, p. 72) emphasizes the existence of a double connection between informal institutions and the stock of knowledge in a society. Education is influencing peoples' perception of the world as well as their way of thinking. Thus their actions and social interactions could be interpreted on the education ground. Similarly, the ways they see the world defines and influence the knowledge accumulation. For example, North sees the social and educational dominance of church in medieval Western countries as a factor favoring research and knowledge in some particular areas. This is why, in many countries, ideologies are rather intolerant regarding the development of theoretical knowledge.

Analyzing human behavior from the institutional perspective can also explain the tendency to use educational skills toward profitable activities such as piracy and not to social productive ones. Therefore, if opportunities offered by the existent institutional frame make piracy a profitable activity, then we could expect to a growing demand for specific skills in order to benefit. As North (1990, p. 73) indicates „the incentives of institutional frame play a decisive role in forming those profitable abilities and knowledge”.

Prichett (2004) has reached to a same conclusion. He suggests that, in many emerging countries, the institutional deficiencies are the source of shifting human behavior and cognitive abilities from socially productive activities to unproductive ones. Easterly (2002) emphasizes education plays a secondary role in development comparing to incentives that emerge from institutional structure in these countries. Hanushek and Wössmann (2007, pp. 41-43) show a positive correlation between the openness of economy and quality of education, on the one side, and economic growth, on the other one. They argue the quality of education is far more important for economic development in those countries where institutional structure favoring productive entrepreneurial activities. Accordingly, productive institutions and quality educational systems could develop a symbiotic relation, leading into an end to economic development.

Therefore, as an economy performance depends on the quality of institutions that govern goods and labor markets, on free trade and foreign investment, so the education couldn't efficiently work in the absence of a proper institutional structure. For example, if the educational organisations are rewarded or penalitied according to their performance, then can be expected an increase in education quality. But to make things happen, we must bring more competition in this field, transforming the actual monopolistic education into a

competitive market for educational services. In the absence of educational choice and parents' power, there will be no quality improvements.

From this perspective, directions of reform should cover three important areas: introduction of more competition between educational organizations, decentralization of educational system and bringing more responsibility in this market. From my point of view, the first one is fundamental, the other two could be seen as potential consequences of competition among different actors in education market.

In conclusion, in order to have a better contribution to avoid economic downturns or at least to smooth the economic recovery process, education has to be deeply reformed. The actual paradigm must be replaced by a competitive market which responds more properly to economy dynamics, avoiding in this way difficulties emerged from the lack of financial resources.

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