

Lecture 9. The Role of Government in Education

1. Rationales for government intervention

(1). Inequality

Inequality of ability (cannot be intervened)

Inequality of opportunities (can be intervened)

(2). Market failures

a. Positive externalities of education

- promoting democracy
- crime reduction
- economic growth

b. Asymmetric information

- individuals lack of information of future demand for type of skills.
- banks lack of information on individual ability for assessing the return of their education loans.

(3). Supply side considerations

Government may offer education more efficiently than the

private sector due to the following reasons:

- government may provide services that is efficient to bundle together with education (unemployment-reducing education)
- the longer term horizon of government may allow it to be a credible provider of education
- economies of scale or standardization in gathering information and organizing provision
- private providers may have “too much” influence over pupils, and government can arbitrate.
- Government may enforce an intergenerationally equitable contract of education provision against an increasing relative resource burden.
- The government support for education acts as a form of compulsory saving, which (myopic) individuals would not commit to.

(4). The political economy of public education

a. Education as indoctrination

The use of public education to instill certain views/values in the

society.

b. The self-interest of educators

Public education provides transfer payment to educators.

c. The self-interest of politician

d. public provision as means of creating wealth transfers to the middle class: Director's Law

2. How does the government invest in education?

(1) Public subsidy in education

Government can provide means-tested subsidies or loans to students, or buy places from private schools and offer them to students.

(2) Public provision of education

Government can establish a public education system and directly provide education.

(3) Regulations

Government can set up a series of quality indicators or standards

for the private education sector to regulate its quality and provide information for parents and students to make choices.

3. The Choice of Education Policy

(1) Two main policies:

- Subsidy-in-kind policy: the state provides free education or subsidies to schools and universities.
- Subsidy-in-cash policy: instead of providing free education, the government can issue education vouchers which can be used (only) to pay for education at schools (public or private).

(2) The relative efficiency of the two education policies

The “Peltzman effect”: See Figure 3.8 on page 61 and Table 3.5 on page 62 of Polachek & Siebert.

- Public subsidy in education may lead to smaller total expenditure on education
- Most of the public subsidy goes to the middle income families

Subsidising education

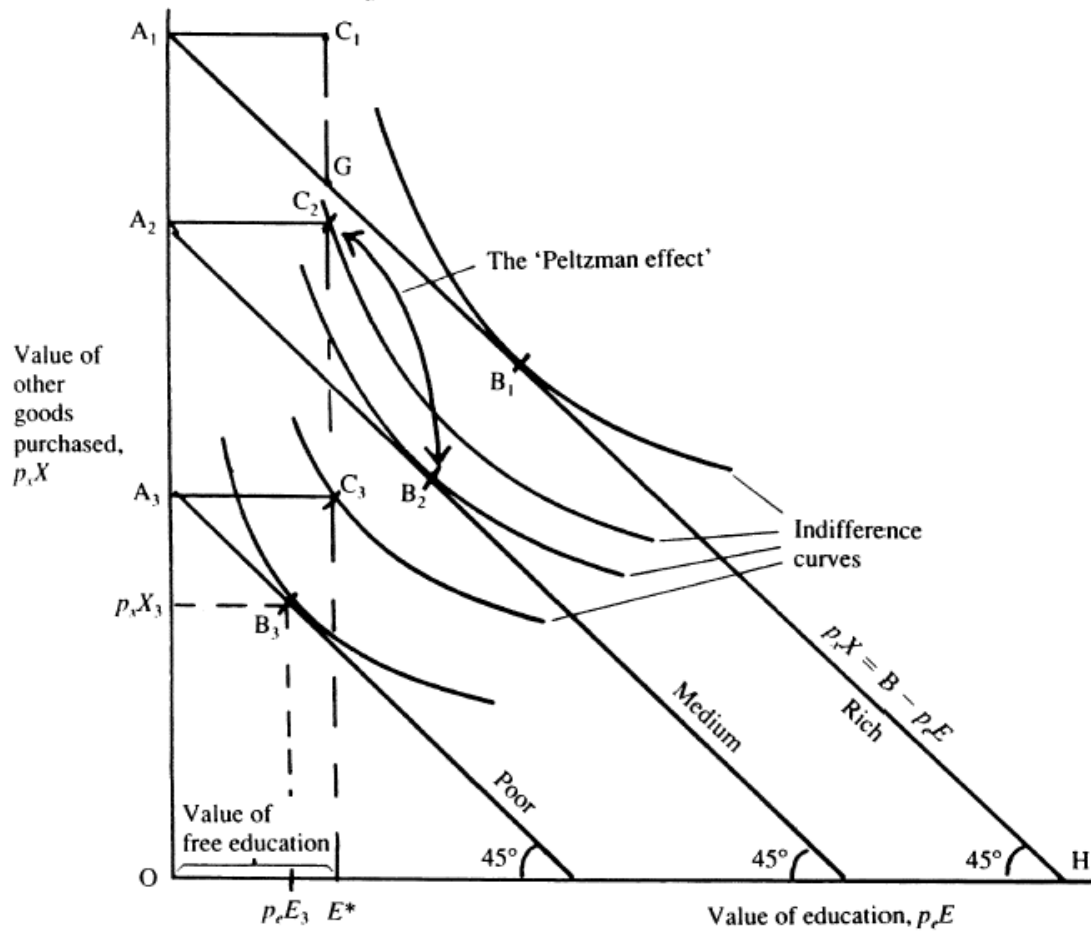


Figure 3.8 The Peltzman effect

Table 3.5. Example of the distributional consequences of free state education

Number of families	Income class	Before intervention		After intervention		
		Education per family	Total exp. on education	Value of free ed. per family	Total exp. on education	
					Public	Private
2	\$100	\$10	\$20	\$12.5	\$25	0
6	200	20	120	12.5	75	0
2	300	30	60	—	—	60
			200		160	

Source: West, 1975, 195.