

# EE441 Economics of Public Expenditure

## 6. Education

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## Outline of Topic 6

1. Justifying Government Intervention in Education
  - a. Is Education a *Public Good*?
  - b. Does Education Generate *Positive Externalities*?
  - c. Is the Education Market *Inequitable*?
2. What Can Government Intervention in Education Accomplish?
  - a. Does Government Intervention *Crowd Out* Private Education?
  - b. Does Government Spending *Improve* Educational Outcomes?
  - c. Public Spending and the *Quality* of Education
  - d. Does Education *Increase Earnings*?
3. New Directions for Public Education
  - a. Charter Schools
  - b. Vouchers
  - c. School Accountability

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Further Questions about Government Intervention in  
U.S. Education System and Elsewhere

If education produces *positive externalities*, then it should be *subsidized*.

However...

- Should public education be **free** and **compulsory** as it is in the U.S.?
- Should government **produce** public education?
- Does free public education necessarily lead to an increase in its consumption?

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## Real Annual Expenditure Per Pupil in Public Elementary and Secondary Schools

School Year	Expenditure Per Pupil (2010 dollars)
1980	\$5,016
1985	6,057
1990	7,102
1995	7,322
2000	8,068
2005	8,998
2010	9,100

Source: US Bureau of the Census [2012, p. 8]

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### Thailand Government Expenditure on Public Education (Baht/Person/Year)

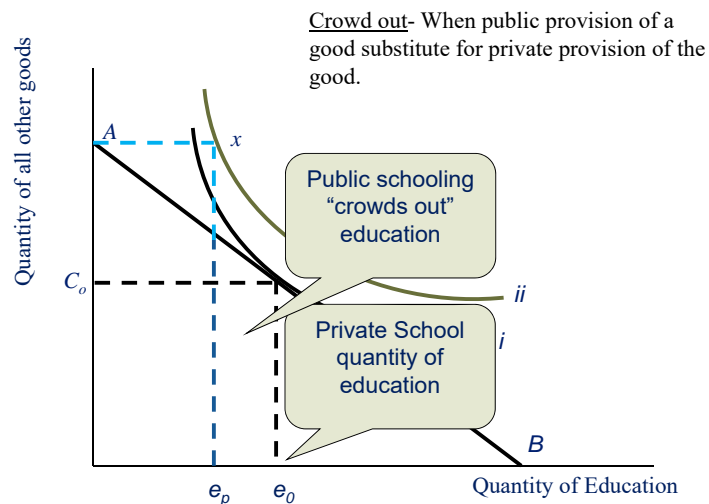
Year	Pre-school	Primary School	Secondary School	Total
2011	32,920	38,511	26,550	32,831
2012	47,894	43,712	29,085	38,276
2013	47,302	48,426	30,234	40,774

Source: Chaiyuth Punyasavatsut et al (2014)

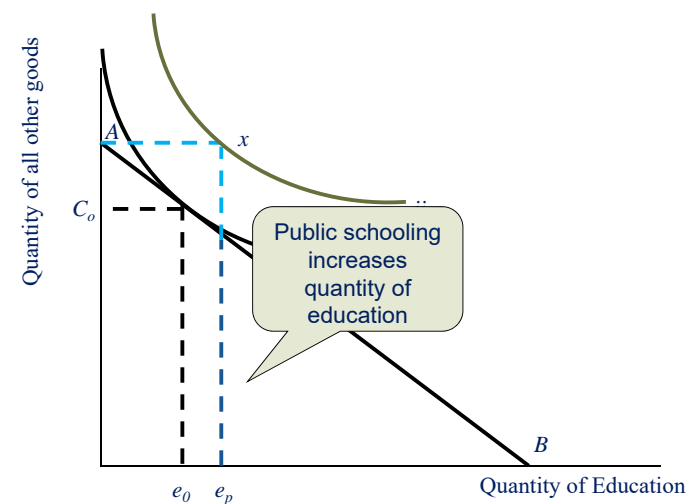
## Justifying Government Intervention in Education

- Is Education a Public Good?
  - Recall characteristics of public good
  - Education is a private good, improving students' welfare by enhancing their ability to learn a living and to deal with life.
- Does Education Generate Positive Externalities?
  - The Conventional Wisdom
    - Education help to make an informed and cohesive citizenry, which is especially important in democracy (Plutarch, G.Washington)
  - The Case Against the Conventional Wisdom
    - Acemoglu et al (2005) investigated on how the changes of education within a country change the index of democracy and found that increases in education does not make a country more democratic.
  - The Case of Higher Education
    - Human capital- The investment that individuals make in their education, training, and health care that raise their productive capacity.
    - Proponents of subsidies. Classicist vs car mechanic
    - Views on education debt vs tax payers' costs
- Is the Education Market *Inequitable*?
  - Commodity Egalitarianism (certain goods should be available to everyone)
  - When measures of ability are included in the statistics of college enrollment, tuition and family income diminish greatly in importance (Cameron and Heckan, 2001)

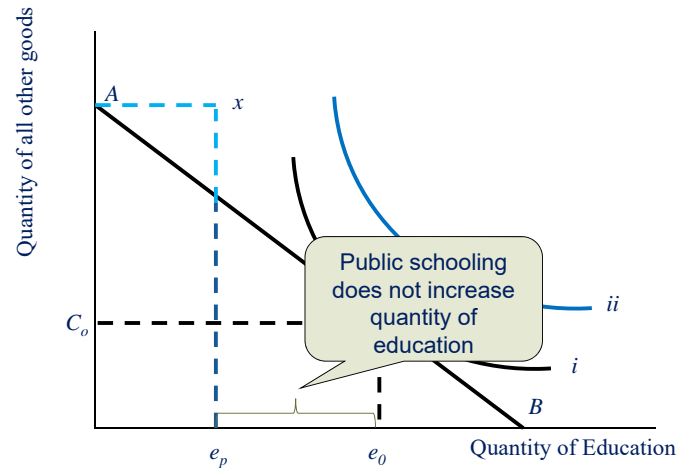
### Does Government Intervention Crowd Out Private Education?



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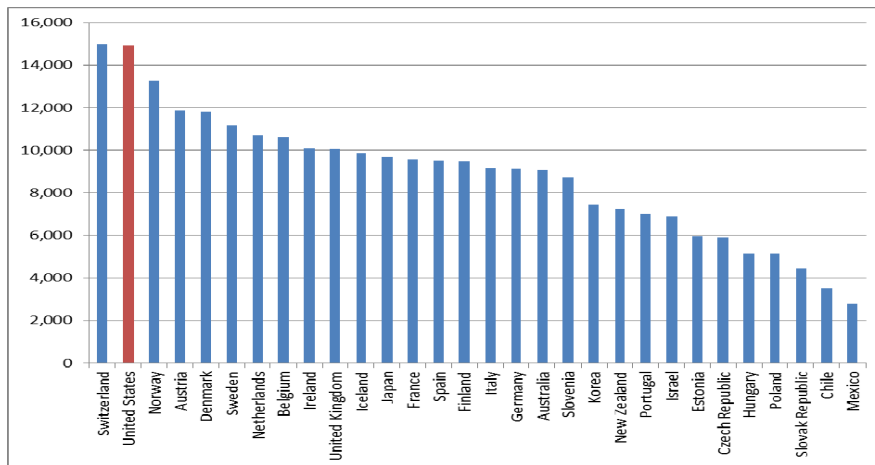
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## Does Government Spending Improve Educational Outcomes?

- Country comparison of educational spending (next slide)
  - U.S. spends more per pupil than almost all other developed nations
- Empirical Evidence: Does Spending on Education Improve Student Test Scores?

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## Real Annual Expenditures on Private and Public Schools per Student, All Levels of Education (2008)



SOURCE: Organization for Economic Cooperation and Development [2011a].

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## Public Spending and the *Quality* of Education

- Empirical Evidence: Does Reducing Class Size Improve Student Test Scores?
  - Difficulties
    - Measuring costs
    - Measuring benefits
  - Mixed findings

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## Does Spending on Education Increase Earnings?

- Elementary and secondary education outcomes
  - *Increases* on the margin have little impact on subsequent earnings
- Influence of age and economic status
  - E.g., Heckman (2008) shows that investments made in early childhood to disadvantaged children have highest returns
- Labor economists estimate that each year of schooling increases annual earnings 5-13%
  - However, a year with a quality teacher is worth more than a year with an inferior teacher

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## New Directions for Public Education Charter Schools

- Charter Schools - public schools operating under special state charters that permit experimentation and allow independence
- Empirical evidence
  - Diversity of choice
  - Student outcomes

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## New Directions for Public Education Vouchers

- Vouchers – financial grants to families that can be used to pay their children's tuition at (nearly) any school
- Argument in favor
  - Vouchers create competition in educational marketplace
- Arguments opposing
  - Parents might not be well-enough informed to make good choices
  - Moving children to private schools might reduce positive externalities of education
  - If good students escape bad schools, weaker students left behind may receive even worse educations
  - Inequitable
- Empirical evidence on the effect of vouchers

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## New Directions for Public Education School Accountability

- School accountability – monitoring student and school performance via standardized tests
- No Child Left Behind Act (2001)
- Empirical evidence on the effectiveness of school accountability
  - Detrimental effects arise from focusing too much on standardized tests

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## Topic 6 Summary

- The rationales for government involvement in education are that education generates positive externalities and it should be provided to all (commodity egalitarianism)
- Public education *does not* necessarily lead to more consumption of it
- Evidence on whether more spending on public education improves quality or earnings is mixed
- Strategies for improving education quality include charter schools, vouchers, and school accountability laws

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## Homework

- Question 4 on p. 146

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## Prepare for the Debate

- Education should be free at all levels.
  - Pros
  - Cons

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