

Industrial & Labor Relations Review

Volume 59, Issue 2

2006

Article 84

The Political Economy of Education: Implications for Growth and Inequality

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The Political Economy of Education: Implications for Growth and Inequality. By Mark Gradstein, Moshe Justman, and Volker Meier. Cambridge, Mass.: MIT Press, 2005. 169 pp. ISBN 0-262-07256-4, \$32.00 (cloth).

Serious research on the economics of education is now entering its fifth decade following the publication of the Coleman Report (*Equality of Educational Opportunity*, U.S. Department of Health, Education and Welfare, 1966) and the maturation of human capital theory in the 1960s. While surveys of important empirical questions in education abound—for example, in *Does Money Matter?* (Brookings, 1996), Eric Hanushek analyzed the research on how school resources affect student achievement and adult success, and in the November 2001 *Scientific American*, Dominic Brewer, Ronald Ehrenberg, Adam Gamoran, and J. Douglas Willms reviewed the class size controversy—not until now have we seen a comprehensive presentation of the fundamental theoretical questions regarding the political economy of education.

Breaking that new ground is *The Political Economy of Education*. In concise, well-written chapters that discuss a range of economic models, Mark Gradstein, Moshe Justman, and Volker Meier demonstrate how different methods of financing and administering elementary and secondary education affect both the intra-generational and inter-generational distributions of income. The authors spend less time analyzing the implications for economic growth and efficiency. The basis of their analysis is a straightforward household utility maximization problem, solved in the context of different educational regimes, in which representative households, subject to a simple budget constraint, choose how to balance their spending between (a) current consumption and (b) investments in their children's education that would provide for their children's future income. The models are then extended to accommodate heterogeneity in student ability, family income, and family preferences for religious education.

In most cases, the authors are clear about what assumptions are being made and provide support for them when appropriate. For example, in many models they posit logarithmic household preferences and cite empirical evidence that the income and substitution elasticities of demand for education are roughly of equal and opposite signs—eschewing the pre-

sentation of models with more generalizable functional forms. As another example, the models assume that school quality is perfectly correlated with spending—and the authors admit that while in a cross-section large differences in spending are thought to reflect large differences in school quality, researchers differ greatly on the effectiveness of marginal expenditures within any particular school. The authors are also clear about the limitations of their approach in two regards. First, their theoretical modeling does not consider other popular alternative views of education, such as signaling. Second, and more serious, their models focus solely on the demand side of education markets, taking private and public school capacity and quality, as well as the supply of qualified teachers and administrators, as exogenous and able to freely adjust to changes in demand induced by different educational regimes.

The book serves as a toolbox that graduate students, policy-makers, and educational administrators might use both for help in understanding the complexities in the theoretical education literature and as a basis for pursuing an independent line of research to address various policy questions. Though the models themselves will be most accessible to readers familiar with neoclassical human capital theory, production theory, and optimization theory (that is, it is a graduate-level treatment), the text is so well written and the models so clearly built that for all practical purposes this book will be a valuable resource for anyone interested in education, even those who do not possess these analytical tools.

It is not the intention of the authors, however, to answer specific policy questions. They admit that their models are not complete enough for that purpose. Readers should therefore fight the urge to use the models presented in this book to promote one view or another. This caveat is implicit throughout the volume, in that nearly all of the results presented depend crucially on the specification of the form of a household's utility function as well as the values of the parameters of that function. A particularly striking example is a study of the voting behavior of families under a mixed regime of public and private schooling (Chapter 7). The authors demonstrate that when the elasticity of substitution between parental consumption and expenditures on the children's education exceeds one, a standard median voter equilibrium results, with the interests of the poor (who favor higher central taxes and more public schooling) opposing those of the rich. However, when

this elasticity is less than one, an “ends against the middle” equilibrium results, with the poorest and richest families forming a coalition against the middle class to fight for lower central taxes and less public spending on schooling.

The authors’ consistently tight focus may make some readers pine for a deeper discussion of several issues. Foremost among the empirical questions is whether the macro-economic organization of education is more or less important than the specific micro-characteristics in promoting various outcomes. For example, which is more effective in improving student learning and promoting opportunity: measures to increase competition between public schools, or measures to shrink class sizes? Do private schools do a better job than public schools (a particularly intriguing question given the authors’ observation that sectarian private schools spend considerably less per student than public schools)? Would tuition subsidies in private schools be able to keep pace with vastly expanded enrollments under a universal voucher program? How do peer effects and ability tracking affect educational outcomes, and how does the organization of the education system in turn affect these?

Furthermore, the book largely abstracts from some important factors that are inexorably linked to its dynamic political/economic theme. Readers will find themselves wanting to learn more about how education is affected by changing demographics (not all families have children, geographic mobility is increasing, cities, suburbs and exurbs have evolved, populations have aged, and so on), by pressures on governments to provide other services, and by interest groups’ influence on legislative outcomes. Also, since the intent of the book is to explain implications for mobility and income inequality, something must be said about non-human capital factors that affect these trends. The authors mention some of these factors, notably skill-biased technical change, but they do not discuss the empirically observed divergence between the distribution of incomes and the distribution of abilities (tournaments), the pace of globalization, and other factors that will affect the distribution of income independent of the education a particular person receives. However, answers to many of the questions that Gradstein, Justman, and Meier themselves do not address may be found in some of the works they include in their systematic review (strung across the relevant chapters) of the literature on the political economy of education.

Though brief, this book is by no means a perfunctory treatment of the theoretical foundations of education. Mastering the models presented is essential for the development of sophisticated theoretical modeling that is needed to more fully understand the issues at the fore of current policy debates in education: school autonomy, the equitable distribution of spending, choice for parents and competition between schools, changing educational hierarchies, the relationship between religion and the state, and the need for accountability and standards. Development economists and policy-makers should also be extremely interested in this book. The authors demonstrate how their models are useful for understanding endogenous growth theory and are important for answering important questions—among them, for example, what is the relationship between the development of public schooling and industrialization? Are different schooling regimes appropriate during different stages of development? What are the political and economic implications of the dramatically different institutional and political realities in less developed countries?

The gap that this book helps fill for the research community still exists in the classroom: there currently does not exist a textbook on the economics of education at any level. Most of the material in *The Political Economy of Education* could easily be adapted for use in such a volume.

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Human Resources, Management, and Personnel

Gurus, Hired Guns, and Warm Bodies: Itinerant Experts in a Knowledge Economy. By Stephen Barley and Gideon Kunda. Princeton: Princeton University Press, 2004. 342 pp. ISBN 0-691-11943-0, \$29.95 (cloth).

Over the past three decades the nature of work in many American organizations has drastically changed. Alongside a general organizational restructuring, the traditional employment relationship is being redefined and is taking on a variety of new shapes and forms. In this masterful and insightful book, Stephen Barley and Gideon Kunda study the intricate and often