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The Redistributive Political Economy of Education

1.1 TWO PUZZLES, TWO INSIGHTS

In 1951, the Indian government, buoyed by the fresh hopes of newly won independence, declared its intent that India should universally educate its population. It announced a program of massive government spending that would culminate in a sustained 6 percent of national income being devoted to public education spending. This ambition, codified in India’s first Five Year Plan, was reiterated several times over the ensuing decades: by the Kothari Commission in 1966, and in the National Policy on Education in 1986 (Ghosh, 2000). Yet, even by 1995 India was spending barely half of this amount and remained home to one-third of the world’s illiterates. The heady goals of the early independence movement were patently unmet in the field of human development. By the early 1990s, the debate around education in India was imbued with depression and recriminations. Why was India, a country famed for its unique level of democratic success in the developing world, unable to provide for the human development of its population?

This puzzle looks all the more confusing when we consider India’s near-neighbor across the Andaman Sea: Malaysia. Governed under a semi-autocratic regime by leaders from the United Malays National Organisation (UMNO) party since 1969, Malaysia’s executive is little constrained by the legislature, civil liberties are restricted, and opposition parties have been unable to secure government. While Malaysia is hardly a tyranny, it is significantly less open to political opposition and popular debate than is India. Given the UMNO’s unbroken rule and the lack of channels for popular discontent, one might expect that the Malaysian masses would remain as uneducated as their Indian counterparts. Yet Malaysia’s spending on education, as a proportion of national income, has consistently doubled Indian spending, reaching nearly 8 percent of gross domestic product (GDP) by 2001, a figure that places Malaysia among the ranks of Denmark, Sweden, and Norway. Why then was autocratic Malaysia a more effective educator than democratic India?

When we turn to the developed world, the politics of education spending appear no less puzzling. At the other end of the educational spectrum from

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extending education to the illiterate masses lie the contemporary politics of funding higher education. Here we also see paradoxical behavior. We often think of left-wing parties as the advocates of increased public spending on transfers and social services. Right-wing parties, conversely, are associated with policies that reduce transfers and introduce private fees into services. Yet when we examine higher education policy in advanced industrial states, we see precisely the reverse scenario. In the United Kingdom, it was the left-wing New Labour Party that introduced tuition fees into higher education against the vociferous opposition of the right-wing Conservatives. Conversely, in Sweden, where the Social Democratic Party has been the long-time advocate of expanding social services and welfare spending, it was the center-right coalition led by the Moderate Party that removed quotas on university enrollment and began a massive injection of public funds into the Swedish higher education system. Why do the politics of higher education look so dissimilar to our traditional understanding of partisanship social policy in advanced industrial states?

These two puzzles – the failure of democracies such as India to expand access to education to the masses, and the reversal of typical partisan patterns of government spending in the realm of higher education in the UK and Sweden – highlight the inadequacy of standard political economy theories in explaining education policy. Education is held by international development agencies, growth economists, and politicians of every stripe to be the catalyst of modern economic growth. Yet from the most basic task of providing primary education to the illiterate up to the modern university, the pinnacle of the education system, we see a range of surprising and often pessimism-inducing outcomes, as countries fail to meet their professed educational ambitions or channel money in apparently unsuitable and ineffective ways. If education really is the policy equivalent of a “free lunch,” why do so many states fail to educate more than 50 percent of their population? And if, as common consensus would have it, higher education is the key to the West’s sustained success in an era of globalization, why do political parties disagree so vehemently over what funding reforms are most appropriate?

This book presents a unified theory of education policy that can explain these puzzles. The theory is built around two key insights. The first is that education is essentially redistributive. This assertion alone does not distinguish this work from the standard analysis of public spending conducted by political economists. However, the redistributive politics of education is rather more nuanced than that of most other fiscal transfers. On the one hand, universal education is the sharpest edge of progressive redistribution. Not only does it transfer resources from the rich to pay for the education of the poor, but it also potentially undermines the position of the rich – and their children – in the distribution of income. That is, education promotes meritocracy over heredity. Furthermore, an increased supply of education to the masses weakens the returns that the skilled elite accrue from their education. Consequently, it appears to be in the best interests of the elite to block education spending where

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they can, as in, for example, autocracies. Symmetrically, we should expect to see increased education spending associated with political institutions and organizations that represent the interests of the poor – for example, democracies and left-wing parties.

So, at first glance, education might appear to be a particularly distasteful public good from the perspective of the rich. However, the progressivity of education depends entirely on *who* actually receives that education. Where the provision of education can be limited to a subgroup of the population, redistribution might actually flip from being progressive to regressive. For example, the wealthy are typically disproportionately represented in higher education. As such, public spending on universities is often fiscally regressive, amounting to a redistribution of resources from the school-educated poor and middle class to the college-educated rich. More generally, where public education is extended to the rich and middle class but excludes the poor, there is an opening for the rich, who might prefer to finance their children's education privately, to ally with the uneducated poor in an anti-education "ends against the middle" alliance. Thus, education spending is a powerful tool that political actors manipulate for their own redistributive ends and it can produce a broad array of sometimes rather unlikely political coalitions. Education is, at heart, a political decision.

The second insight is that one cannot examine education policy without connecting it to broader trends in the labor market, chief of which is a state's relative integration with the global economy. India's failure to educate its citizens was not the result of the caste system or hidden flaws in its democracy. Instead, the chief obstacle to Indian education has been India's sheltering from the global economy. This conclusion may appear surprising, given the apparently harsh impact of globalization on welfare spending in developing states (Rudra, 2003; Wibbels, 2006). However, once we analyze the impact of trade policy on the supply of and demand for education, this outcome seems rather less unlikely. Globalization allows citizens to "export their skills," meaning that the domestic supply of education can increase without undermining the return to education. Similarly, the demand for educated labor also conditions the parameters of education policy. As states absorb new technologies that are highly complementary with skilled labor – for example, the computer and new media – the potential returns to education rise. To the degree that globalization facilitates this kind of technology transfer, it increases the state's incentive to invest in education. Thus, public education policy is heavily affected by the nature of the global market for educated labor.

This book develops its theory of education spending by tracing three stories, which roughly track the historical expansion of the government's role in education. It begins by considering the original expansion of education to the masses. While this is the earliest involvement of the government in education policy in most states, its historical occurrence has varied widely across countries. Universal primary education was achieved in the mid-nineteenth century in the United States of America but still remains unmet in many states in Africa and

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Asia. Nonetheless, the second half of the twentieth century marked a period of mass expansion in public spending on education, as most states began or completed the process of universal primary, and often secondary, education. Public spending on education as a percentage of national income increased from a global average of 2.5 percent in 1960 to 4.6 percent in 1999. Clearly, this epochal change in the state's role in education deserves explanation.

But perhaps more dramatically, it is not only average education spending that has increased but also the variation within and across countries in that spending. Between 1960 and 1995, not only did the global mean of education double but so also did its standard deviation. Clearly some states were being left behind as others surged ahead – producing divergence, “big time,” in education spending (Pritchett, 1995). Furthermore the trend in education spending is not always upward. Many countries have experienced a striking volatility in their education spending. Chile, for example, spent 2.5 percent of GDP on public education in 1960 under the Conservative government of Jorge Alessandri, 4.5 percent under the socialist government of Salvador Allende in the early 1970s, 2.5 percent under the right-wing dictatorship of Augusto Pinochet that followed, and 4.3 percent in 2000 under the center-left government of Ricardo Lagos. Countries as varied as Portugal, the Philippines, and Zimbabwe have seen fluctuations of a similar magnitude over the past four decades. What explains both the global secular increase in education spending and this kind of within-country volatility? This book's first story traces the impact of political institutions such as democracy and monarchy on education spending – demonstrating the redistributive political nature of education policy – and the effect of integration with the global economy – demonstrating the impact on education policy of changes in the labor market.

The second story moves along the historical path of education policy to the political battles that are fought over education today in the advanced industrial states. While debates over education in Western Europe and North America have often centered around the merits of denominational schooling, I show that the key determinant of education spending in the postwar era has been partisan control of government. However, this is partisanship very much constrained. On the one hand, political parties make campaign promises about education spending to the electorate. To this extent, they face bottom-up pressure to commit to these promises. On the other hand, these parties are also constrained by the nature of electoral institutions, which dictate what coalitions are required to enact policies. Furthermore, electoral institutions shape the manner in which both parties and voters trade off their preferences over education against more general redistribution. Thus, redistributive politics are continually at play in the financing of public education, both academic and vocational, but their extent is greatly limited by politicians' interactions with voters and political institutions.

The third story takes us to the zenith of modern education policy: higher education. Fifty years ago, the politics of higher education was extremely limited in scope. Fewer than 5 percent of citizens in even the most advanced

industrial states attended university. Today, however, in many European, North American, and East Asian countries, university enrollments are tipping over the 50 percent mark. Since most university systems were publicly funded in 1950, how have governments adapted to this enrollment challenge? Do they continue to absorb the increasing numbers of students by cranking up public financing of higher education? Or do they ask students to pay for some of the necessary increase in funding themselves? Or do they prevent the expansion from occurring in the first place by limiting entry to the university system? This story brings us to the difficult question of why countries decide to change educational institutions and why they choose different strategies of reform. As before, I offer a redistributive explanation. Political parties choose to structure higher education systems following their constituencies' particular preferences, but they are constrained by the nature of the preexisting system. Thus the politics of higher education are quite distinct in mass systems as opposed to those that remain elitist.

1.2 THE ARGUMENT OF THIS BOOK

In constructing my argument in this book, I develop three theoretical claims: (a) that education is a tool of *targeted redistribution*, (b) that seemingly domestic education policy cannot be viewed apart from the *global labor market for education*, and (c) that *political and educational institutions* strongly condition education policy. In this section, I address these claims in turn before situating my argument, in the following section, within the broader context of theories about education in the social sciences.

**Targeted Redistribution**

The first claim is that education is a tool of targeted redistribution. In particular, I argue that the redistributive effects of education depend entirely on *who receives* that education and *who pays* for it. Where education is universal, public education will be fiscally progressive. If only the wealthy receive some form of public education (for example, higher education), then public education spending will be fiscally regressive. Finally, if education is provided to a majority, but not all, of the population, there may be the possibility of a rich-poor alliance, at the expense of the middle class, to reduce education spending, if the rich can purchase substitute education in the private market. Thus the multidirectional nature of public education means that a broad array of coalitions are possible: The poor and middle class might advocate for universal education, the rich and middle class might advocate for increased spending on secondary education from which the poor are excluded, or the poor and rich might advocate for reduced overall education spending.

Given the complex coalitions and patterns of redistribution that might emerge, how can we effectively theorize about likely outcomes? To untie this Gordian knot, we need to examine the different impacts of various forms of

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education spending on the distribution of income. The simple act of providing, for example, universal primary education has several crosscutting redistributive impacts: It takes money from the rich to pay for the education of the poor; it increases the country's relative factor endowment of skilled labor; it increases the chance that the shape of the future distribution of income will be decided by merit rather than birthright; and it creates positive externalities for other individuals by increasing the efficiency of transactions in the economy. Examining other, more limited, forms of education spending such as university funding adds the further complication that education is targeted to some groups rather than others. To clarify the mechanisms at work, I discuss in turn the several redistributive forces tied to public education: fiscal effects, scarcity effects, lottery effects, externalities, and targeting.

*Fiscal effects* are determined by the cost per student educated, the number of students educated, and the progressivity of the tax rate. If taxation is progressive and education is provided in a uniform amount to all citizens, the tax system will redistribute resources among those who receive education from the wealthiest to the poorest. Accordingly, when states democratize and the poorer masses gain control of political decision making, we expect taxation to rise and public education spending to increase. A similar logic applies with the election of left-wing governments that favor higher taxation and hence more funding for public goods such as education. However, this simple assertion must be qualified: if the provision of education is limited but taxation is universal, those who fail to receive education but pay for it are clear losers. In many societies, the poor have to pay taxes that are used to educate solely the elite and middle class, setting up a potential "ends against the middle" coalition against education. Furthermore, even when education provision is universal, tax systems themselves vary in their progressivity – at the limit, a universal education system funded by a lump-sum tax may be hardly redistributive at all.

*Scarcity effects* refer to the relative scarcity of educated and non-educated labor in the workforce. As with other factors of production such as land and capital, the supply of education in the economy will determine its rate of return. Accordingly, if an educated elite can limit the further expansion of education, they will reap scarcity rents from their skills. However, as education expands to the middle class and the poor, these rents will be dissipated substantially. Thus, the elite have a vested interest in "protecting" the rents accruing to their education and, thus, in keeping education spending minimal. As with the pattern of fiscal redistribution, we would expect democratization to reflect the interest of the masses in expanding education, not the interest of the rich in protecting their rents. However, scarcity effects are not constant across states. The structure of the labor market, whether it is integrated with the global product market and the relative skill bias of technology, will condition the impact of scarcity effects.

*Lottery effects* are the third manner in which public education hurts the rich. If natural ability is uniformly distributed throughout society and education provides a way of "matching" ability to income, we should expect education to



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help the able poor and harm the less able rich. Education, then, acts as a “lottery” mechanism in relation to parental income, encouraging meritocracy rather than heredity and making the intergenerational transfer of wealth more random. As lottery effects become more important, education becomes yet more threatening to the rich and encouraging to the poor, so much so that the rich might actually prefer to “buy off” the poor with simple transfers of cash rather than allow even minimal education spending. This provides the implication, tested throughout the book, that regimes or parties that favor the rich will try to shift the balance of government spending away from education and toward other government consumption that proves less of a meritocratic risk.

So far, education appears to be a curse on the rich. Yet this anti-elitist effect is not the full story. Like many other public goods, education produces positive *externalities*. Since these externalities are not privately capturable, education might be undersupplied on aggregate in a purely private market, justifying government intervention. However, unlike most other public goods, education is not a collectively used good like a park or clean air. Instead, education must be provided to new individuals in order to increase the provision of the public good. Thus, the elite face an intriguing trade-off: They want to benefit from the externalities of an educated workforce, but in order to reap these returns, they have to suffer the negative fiscal, scarcity, and lottery effects of having *other* educated people. Externalities thus provide an *economic* justification for providing public education but they do not necessarily provide a *political* justification if the other negative redistributive forces dominate. Unlike most public goods, the simple logic of the collective action problem cannot explain outcomes in education policy.

If externalities alone do not encourage the elite to provide public education, there may be another mechanism through which we see the elite advocate increased spending. If the elite can *target education* toward only themselves, they may become more enthusiastic proponents of public education, albeit of a very limited kind. This creates the possibility not only of progressive redistribution but regressive redistribution. Higher education, for example, is typically biased in its enrollment toward the children of the wealthy. Thus, high-income groups may favor increased education funding if it can be targeted toward higher education and away from universal goods such as primary education. The possibility of targeting is not limited to groups with high income: In countries where the political ethnic elite does not coincide with the economic elite, we may see targeting of education toward the politically powerful ethnicity, as in Malaysia. Generally, though, political and economic hierarchies are closely aligned and thus autocracies are associated with a greater ratio of targeted spending (higher education) to universal spending (primary education).

**The Labor Market and Education**

The second key claim of this book is that education policy cannot be divorced from the labor market. The preceding analysis of targeted redistribution did

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not directly address the demand for education in the economy, nor the determinants of the returns to education. While the redistributive urge alone may in some cases be sufficient to explain education provision, in most cases this political motivation cannot be divorced from the economic forces that govern the use of education as a factor in production. Thus we must move from an analysis of the political market to the labor market.

Two key elements of the labor market are emphasized throughout this book: the effects of the *supply* of education and the *demand* for education on policy outcomes. In the first case, I extend the preceding analysis of scarcity effects by examining the response of skilled wages to the supply of education under different conditions. Under some circumstances, scarcity effects are highly pronounced. In these cases, an expansion of educated workers dramatically reduces the return to education because the change in the supply of education is enough to alter dramatically the relative scarcity of skills in the product market *at large*. In other cases, changes in the supply of education have little effect on the return to education. As an example, Cambridge, Massachusetts, produces enormous numbers of workers with graduate qualifications without, however, noticeably reducing the return to that education received by each worker. Why is this possible? Why don't the educated workers of Cambridge, Massachusetts, bid down each other's wages? The reason that the returns to education are sustained is because these workers do not only sell the fruit of their educated labor to one another and the remaining, presumably "unskilled," citizens of Cambridge. Rather, they sell their factor endowments to millions of other Americans and indeed citizens in other countries, who purchase goods that embody the skilled labor of these graduates.

Extending this analogy, when a country expands education, provided that this country sells its goods into the global market, any change in its domestic supply of educated labor will not affect the domestic returns to education. Put differently, most countries are too small to have changes in their factor endowments alter global factor endowments and prices. If, however, the country is autarkic and consumes all its own production, then necessarily a national shift in education will change the availability of skilled labor in the relevant (national) labor market and thus reduce the returns to education. Thus, in globalizing states, there is a less negative effect on the skill premium when education expands. Consequently, we should expect the already educated, typically the economic elite, to be less adamantly opposed to education in such states.

The structure of the labor market is also greatly affected by the shape of labor demand. Shocks to labor demand often result from technological change. The discovery of new production techniques or technologies can have a substantial impact on the relative demand for skilled and unskilled labor. Claudia Goldin and Lawrence Katz (1998) refer to this as the relative "skill-bias" of technology. Thus, all else equal, when a skill-biased technology, such as computing, emerges, we should expect producer demand to shift toward inputs of skilled rather than unskilled labor, causing a rise in the skill premium. As with skill supply, there is a further impact related to global product and labor markets. When



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countries open up to international markets, they face competition from foreign firms with more advanced technology. Furthermore, as Daron Acemoglu (2003) argues, the kinds of technology that are being transferred have become more skill-biased over the past half-century; for example, computers require moderate skills to operate. This provides a strong demand-side impetus to public education spending. Thus, through its effects on both labor supply and demand, globalization fundamentally alters the political dynamics surrounding education spending.

### Education and Institutions

The third key claim of this book is that political and educational institutions constrain targeted redistribution and shape the effect of labor market structure on education policy. That is, institutions provide the framework in which the key causal forces of redistributive preferences and labor market dynamics operate. I have argued that the structure of the labor market can change the incentives of actors to acquire education, thereby altering the set of *economic constraints or opportunities* within which the redistributive politics of education take place. Examining political and educational institutions, we see instead a set of *political constraints and opportunities*. Throughout this book, we shall see that policy makers, be they constitutional monarchs or cabinet leaders, are constrained by the nature of the political institutions that govern their ability to acquire, execute, and maintain power. While actors may have intense preferences over education, the course of true preferences never did run smooth. The redistributive goals of actors and their consequent preferred education policies are subject to what is institutionally possible. The structure of institutions addresses three questions: Who gets to participate in decisions over education policy? What possible coalitions between groups can emerge? And are groups out of power able to constrain or block reforms?

The first question addresses regime type. Autocracies typically translate into rule by and for the elite in society. We have established that because of the fiscal, scarcity, and lottery effects of public education the elite will attempt to limit education spending to themselves. However, they can succeed in this goal only where they control political decision making, that is, where they are the “selectorate” (Bueno de Mesquita et al., 2003). Under such autocratic conditions, we would expect generally low levels of overall education spending and a focus on tertiary education for the elite rather than universal primary education. Following democratization, if the elite relinquish power to the masses – who benefit from the fiscal and lottery effects of education – public education will both transfer funds from the wealthy to the poor and increase potential intergenerational income mobility. As participation expands, so too will universal education provision.

The rise of democracy provides an answer to the question of which groups have their preferences represented, but it raises the further question of what kinds of coalitions will form between newly represented groups. In a one-dimensional

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world where politics aligns on a rich-poor redistributive axis, the middle class will dominate politically as they become the “median voter” of democracy. In that case, we expect education provision to expand up to the middle class, who benefit from both the fiscal transfer of resources from the rich and the lottery effect of increasing meritocracy in the distribution of income. However, the destiny of the poor remains less clear. If externalities to education are sufficiently high, or if the poor have sufficient representation, we might expect education to become universal. Thus, a democratic pro-education alliance between the middle class and the poor is likely.

But it is possible that the middle class will fail to provide for the poor, leaving them both uneducated and anti-education. As Michael Ross (2005) has noted, democracy does not always provide the kinds of public goods that the poor want – it is the middle class who typically pull the political strings in democracy. Thus, if we move beyond a simple one-dimensional model of politics to a multidimensional coalitional model, where groups must trade off education versus simple cash transfers, we might find the poor willing to ally with the rich in an anti-education, “ends against the middle” alliance. This outcome is apparent in situations as diverse as Latin American populism, coalitional patterns under proportional representation, and the introduction of university tuition fees in the contemporary Organization for Economic Cooperation and Development (OECD).

The final political question is whether groups out of government can block reform. Political actors may favor various forms of targeted redistribution, but their ability to achieve these goals is dependent on overriding opposing actors. Parliamentary and electoral institutions can curtail governing parties. Electoral systems such as majoritarianism work against coalition forming and split the middle class, leading to more sharply defined education outcomes. Conversely, in proportional electoral systems, the necessity of coalition building moderates swings in education spending and creates new trade-offs between “pure” redistribution and education. Finally, subnational entities might have veto power or control over spending outcomes – for example, subnational states have significant control over university financing in both Germany and the United States.

One more institutional factor is noteworthy: the institutional structure of the education system itself, which can affect the translation of redistributive preferences into educational outcomes. Previous decisions about education policy shape future ones; for example, the growth of education in South Korea followed a sequential path from primary to tertiary education. Moreover, education institutions themselves produce a particular labor market structure. The existence of streamed secondary schooling, where students must choose either academic or vocational schools, impacts both partisan preferences over vocational enrollment and, more generally, enrollment into universities. In the context of universities, mass higher education enrollment has quite different repercussions for the college premium and hence political redistributive preferences than does a restricted higher education system. In the former case, it will be representatives of the masses who prefer to fund higher education, whereas in the latter case it