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# The Political Economy of Education

## Human capital, social capital, and public schooling

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### Abstract

Public education contributes to growth not only by building human capital but also by instilling common norms that increase social cohesion. This is modeled in the context of a political economy framework in which social cohesion reduces wasteful rent seeking, and thus strengthens incentives for investment in human capital. The political decisions that determine whether different social groups retain separate schooling systems, or adopt an integrated system, weigh these material advantages against the psychic cost to parents of alienating their children from traditional values. This aspect of public education helps explain why, commonly, education is publicly administered as well as publicly financed. © 2000 Elsevier Science B.V. All rights reserved.

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### 1. Introduction

Although education does not have the technical attributes of a public good – it is both appropriable and divisible – public education, especially at the primary and high school levels (K–12), enjoys wide political support in almost all countries. Several recent efforts seek to explain this in terms of the instrumental

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role of education in building human capital, now widely recognized as an essential production factor of national output.<sup>1</sup> Studies in this vein highlight the potential benefits of government intervention as a means of internalizing the external benefits of education, relaxing credit constraints, and redistributing income.<sup>2</sup> Yet these are essentially arguments for public *financing* of education, rather than for public *provision*. The benefits they attribute to public education can be realized through less intrusive means than public administration, e.g., through the use of subsidies or vouchers. This suggests that there may be other advantages to public provision of education, largely neglected in this literature, which might better serve to explain its broad support. These advantages, we argue in this paper, do not derive from the instrumental role of education in building *human* capital, through the transmission of knowledge and skills, but from its normative role in building *social* capital. Public schooling instills common cultural norms and ethical values that lower economic transaction costs and reduce social tensions between different population groups. This normative aspect of education requires the direct controls of a publicly administered schooling system (Lott, 1990; Kremer and Sarychev, 1998).

The economic benefits of normative education work in a variety of ways. Instilling civic virtues from an early age through public schooling reduces future enforcement costs.<sup>3</sup> Relatedly, uniform public schooling in a common culture generates network externalities by reducing transaction costs and thus facilitating economic activity – differences in language, custom or religion can give rise to misunderstandings that undermine the efficiency of production and exchange. (We examine this aspect in Gradstein and Justman (2000).) Yet a third benefit of social cohesion derives from the potential for redistributive conflict among distinct ethnic, cultural or religious groups. Uniform public schooling is a means by which the parent generation can effectively reduce the likelihood of such conflict in the following generation. Collectively, parents can contribute to the economic welfare of their children by helping them assimilate within a broader cultural framework. But this is not without cost: the specific social capital of the parents is sacrificed, and the traditional values in which they were raised are diluted, weakening the link between parent and child.<sup>4</sup>

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<sup>1</sup> This applies both to the proponents of endogenous growth theory, from Romer (1986) and Lucas (1988) on, and to those who question its necessity, e.g., Mankiw et al. (1992).

<sup>2</sup> Papers in this vein which focus on the political economy of education include Glomm and Ravikumar (1992), Boldrin (1993), Saint-Paul and Verdier (1993), Benabou (1996), Gradstein and Justman (1997), and Fernandez and Rogerson (1999).

<sup>3</sup> Cf. Grossman and Kim (1997), who argue that an increase in a person's human capital makes predation less attractive. Therefore, well-endowed people can increase their own consumption by diverting some of their income to educating the less endowed.

<sup>4</sup> Of course, heterogeneity also has its advantages: a diversity of perspectives can be mutually enriching. Nevertheless, there is evidence that in some contexts the overall effect is detrimental, possibly even destructive. Recent events in former Yugoslavia are a tragic case in point.

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