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Journal of Public Economics 84 (2002) 113–150

JOURNAL OF  
PUBLIC  
ECONOMICS

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## Education, distributive justice, and adverse selection

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Received 3 March 2000; received in revised form 15 May 2001; accepted 24 May 2001

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### Abstract

We consider a model of education planning in an economy in which agents differ in their costs of acquiring education. The agents' cost parameter, called 'talent', is not observed. The principal is endowed with a fixed sum of money, with which two types of transfer can be made: in cash and in kind. The principal can finance transfers in kind, called 'help', by means of schooling expenditures, which reduce the agent's education cost. The principal seeks to maximize a social welfare function which is a CES index of utility levels. We study the optimal allocation of individual education effort, schooling expenditures (help), and cash, under self-selection and budget constraints. Assuming first that the set of types is finite, and that help and effort are sufficiently substitutable, we find that individual education investment levels are an increasing function, and help is a decreasing function of talent. Utility levels cannot be equalized because of self-selection constraints. More aversion for inequality unequivocally leads to more inequality of educational achievements, and to more assistance through redistribution. This remains true in the limit, under strictly egalitarian preferences of the principal. The same qualitative properties hold in the general case of a continuum of types. Bunching at the lower end of the talent scale is a feature of the solution for sufficiently high degrees of inequality aversion. © 2002 Elsevier Science B.V. All rights reserved.

*Keywords:* Education planning; Inequality; Schooling expenditures; Adverse selection

*JEL classification:* H41; D82

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## 1. Introduction

The role of education in the realization of economic justice is more than ever a hotly debated topic. Access to education is seen as the crucial element in the process of equalizing opportunities, and education itself — the quality of teachers, the efficiency of schools — is at the center of the politician's concerns, in many countries. The debate in the US is on inequalities of school funding, on affirmative action as a means of promoting minorities, and on the merits of competition in fostering quality, while experiences are being conducted with voucher systems. In the UK, school performance and the teacher's incentives lie at the heart of the debate, but the underlying hopes are in fact that public education could play a more powerful role in the reduction of social inequalities.<sup>1</sup> The debate is very similar, although phrased differently, in the highly centralized French *Education Nationale*, with the development of classroom violence, strikes and quasi-riots in the poor urban areas, demanding a form of affirmative action in favor of problem schools. Spontaneous conceptions of Justice and Democracy, in their relation with Education, often clash with vested interests, and make every attempt at reforming the rights of access to, and the tuition fees of, higher education in public universities a very acute political question. This problem is again capable of triggering massive demonstrations, and of leading the career of the (usually front-row) politician in charge of the Ministry of Education to a premature end.<sup>2</sup>

To sum up, it seems that higher demands are placed on education by citizens in most social groups, and as a consequence, that both the forms of public intervention, and the organization of public teaching institutions need more than superficial changes in many countries. The desirable direction of change however, is far from gathering unanimous consent. The past decades have witnessed an impressive development of secondary and higher education in all industrialized countries, but the speed and the form of the growth process exhibits striking differences from one country to another. For instance, the rate of enrolment of 17-year-olds in secondary education has been consistently and markedly lower in the UK than in the US during the entire 20th century (see Reid, 1991). In Sweden — probably one of the most egalitarian societies — the expansion of schooling has been largely based on vocational training, which is then responsible for the bulk of the increase in the rates of access to secondary education of children from lower socioeconomic backgrounds (see Erikson and Jonsson, 1996). But in spite of qualitative similarities in the general tendency towards expansion of the education sector, the changes in inequality, as measured by the impact of social origin and

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<sup>1</sup>See The Economist (1999a,b).

<sup>2</sup>It was the case in the winter of 1986–1987, in France, when the Minister for Research and Higher Education, Alain Devaquet, was forced to resign and his plans for university reform subsequently abandoned. Important student demonstrations were also triggered, in major German cities, in November 1997, by insufficient capacities in universities and plans to increase the admission fees.

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