

TO PRIVATIZE OR NOT TO PRIVATIZE BASIC OR SCHOOL BASED EDUCATION IN SOUTH AFRICA, THAT IS THE QUESTION. ARGUMENTS FOR AND AGAINST. IS THERE A COMPELLING ARGUMENT FOR PRIVATIZATION OF BASIC OR SCHOOL BASED EDUCATION?

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NOTE

This is a two part series of articles that attempts to address pertinent issues as concerns the discourse of basic education or school education in South Africa. These are complex issues that need to be deliberated upon. This first article will deliberate upon partnerships – independent schools and the state. The second article will primarily deal with the issue of privatization of school education versus the public good. In this sense the paper will argue that school or basic education is the fundamental responsibility of the state or government, particularly in South Africa. That imported models of basic education cannot be implemented in South Africa for various reasons and salient amongst these reasons is the all embracing fact that South African transition to democracy is in its infancy and, therefore, to transform basic education is the prime responsibility of the government in terms of the democratic Constitution of the Republic of South Africa. In order to project a balanced view on these vexing and important issues as South Africa enters nearly twenty years into its democracy, it becomes necessary to expand upon these issues with a view of consolidating South African democracy. On the other hand basic education is cardinal to the economic growth and success of the country. It is against this background that the two articles are written.

The first article is drawn from an address that was given by the principal author, when he was the Director General of Education of the North West Province of South Africa. The address was elaborated upon at the historic Tiger Kloof Educational Institute in Taung, South Africa on the occasion of the Provincial Independent Schools Conference of South Africa. The second article is drawn from a forthcoming book to be published by authors, Salim Vally and Enver Motala, which was reviewed in as an edited version in the Mail and Guardian on the 27 October, 2013. Fundamentally they argue and rightfully so that “good quality state education is a basic right enshrined in the Constitution and, therefore, basic or school education cannot be entrusted to unaccountable and undemocratic corporate interests.

ABSTRACT

The authors have taken the liberty in this first part of the two part series on basic or school education to paraphrase the subject matter as follows:

1. Generating funds for schools: a look at some of the options, or
2. Issues in entrepreneurship and business education in South Africa, or

3. Will public and private partnerships give a new breath of life to Non – Governmental Organizations (NGO's), or more aptly put
4. A market – based approach to the education industry.

The above issues have been crystallized and projected upon on the basis of the literature available post 1994 in terms of South African democracy and movement away from the historic apartheid divide. The effort is by no means all encompassing nor can some of the issues raised be cast in stone for they have not been subjected to testable hypothesis. The effort also draws from the literature and there is thus an element of subjectivity. This was totally unavoidable.

Key Words: Entrepreneurship, Efficiency, Constitution, Privatization, Intervention, Education –Based Approach, Economic Rationale

INTRODUCTION

In the *Wealth of Nations* (1776), Adam Smith stated as follows: 'Were there no public institutions for education, no system, no science would be taught for which there was not some demand; or which the circumstances of the times did not render it either necessary, or convenient, or at least fashionable to learn.' (Adam Smith, the *Wealth of Nations*, 1776).

The constitutional debate and the negotiations for a democratic South Africa, as it pertained to education had taken place, but for all intents and purposes that debate and conversation must continue, in order to refine policy and for purposes of consolidating democratic reform. While this window is open, fresh new ideas and the hawks of capitalism abound within the education industry and this must be seriously considered.

The first part of this paper looks at education from an economic perspective and considers the advantages of a market – based approach to the provision of education. The attempt and delineation considers reducing the role of government. It reviews firstly the economic rationale for government intervention and then the economic rationale for market provision. The paper will also consider other aspects in terms of a broad overview as it pertains to the subject matter.

EDUCATION AND THE GOVERNMENT

Economists have traditionally argued for government intervention in the education industry on the grounds that market failure exists in the industry. Market failure means that market provision may not result in a socially desirable quantity or quality of education. The market may be inefficient in that, it may provide too little education. It may also not distribute educational opportunities equitably. In this part the paper therefore deals and looks at the inefficiency argument for government intervention and then enunciates the equity argument.

A commonly held reason for government intervention in the education industry is that education is a public good. If education is a public good, private entrepreneurs will not be able to make a profit by supplying education. Therefore, education will be under – provided and the allocation of resources to the education industry will be inefficient. From an economic perspective, however, this reasoning is incorrect. The economic definition of a public good is a good that, once provided, can be consumed by everyone. Since the public can be excluded from consuming education, education is not a public good. Exclusion is easily accomplished by closing the door to classrooms.

Only in a limited sense does education have a 'public good' nature to it. A lecture given for ten students can just as easily be given to eleven or twelve students. But even in the case of a lecture, the style of lecturing is affected by numbers. One must give a much more formal and much less interactive lecture for a large class than for a small one. For all other parts of the education industry, such as tutorials, consultation, projects, evaluations and examinations, education is simply not a public good.

Its provision to one student does not prevent the exclusion of another. The other student can be excluded by keeping him or her out of the tutorial room, by not evaluating his / her project or by not marking his / her examination paper.

A stronger efficiency based argument for government intervention in the education industry is that the sale and purchase of education services generates positive externalities. Externalities are the external or third party effects of a transaction between two individuals. For example, an external effect of the consumption of petrol in a car is air pollution. Pollution is a negative externality because it makes society worse off. Alternatively, education, in that it makes society better off, generates positive externalities.

Economic theory explains that goods with negative externalities will tend to be over – provided in a market economy, while goods with positive externalities will tend to be under – provided. A good with a negative externality is over – provided because neither the seller nor the buyer has to calculate the social cost of its production and consumption into its selling price. Thus the market price tends to be less than the total cost – that is, the internal cost plus the external social cost, and the quantity sold tends to be greater than that which is socially desirable.

A good with a positive externality is under – provided because neither buyer nor seller has an incentive to calculate the social benefit of its production and consumption into its selling price. Thus the market price tends to be greater than the total benefit, that is, the internal benefit plus the external social benefit, and the quantity sold tends to be less than that which is socially desirable. Thus, in that education generates positive externalities, it may be under – provided by the market.

The positive externality of education is the benefit to society of having a literate and numerate populace. The popular view is that educated people make better contributions to political processes and are more productive in their work. Thus education improves the overall welfare of society. The market fails to provide enough education and therefore the government should intervene. But why do externalities in the market transactions exist? The economic explanation is that they exist because the government has failed to specify clearly, or enforce property rights. For a market economy, in which commodities are voluntarily traded among individuals on a routine basis, to function properly, private property rights over commodities must be clearly defined and protected. If one cannot secure ownership over a commodity, then one cannot, in any real sense, sell it or buy it. These externalities actually exist because of government failure.

Sometimes the government fails to define and protect property rights because property rights over certain things are difficult to define and protect. For example, property rights over commonly accessed resources such as air and water have traditionally been difficult to set up. Innovations are emerging in environmental economics and environmental law, however, that assigns enforceable property rights to air and water and thus internalizes the environmental costs or negative externalities of their usage. In other cases, such as migratory birds and the ozone layer, workable private property rights are even more difficult to create.

Creating a private property right to internalize the positive externalities of education is equally difficult. It is doubtful that government could ever privatize the social benefits of education. Since it cannot, private sector school based education entrepreneurs cannot charge the broader society for the social benefits their services provide. Such entrepreneurs will tend to under – provide the level of educational services relative to total (private plus social) demand. Where the external cost or benefit of a market activity cannot be internalized through improved specifications and enforcement of property rights, the government fails to give entrepreneurs and consumers the property – right structure they need to account for the social impact of their actions. In such cases, alternative approaches may be necessary.

In the case of a negative externality resulting in a social cost, the government can tax the activity. For example, it can tax polluters of air and water. In the case of a positive externality resulting in a social benefit, the government can subsidize the activity, such as subsidizing education. In short, where the market tends to over – ride a commodity due to an external social cost, the government can tax its provision. Where the market tends to under – provide a commodity due to an external social benefit, the government can subsidize its provision.

The efficiency argument for government intervention in the education industry rests on the grounds that education exhibits positive externalities, society as a whole is better off with a literate and numerate citizenry, and that these social benefits cannot easily be internalized through clear specification and enforcement of private property rights. An appropriate form of intervention is to subsidize the provision of education.

The equity argument for government intervention, on the other hand, rests on the observation that private – sector entrepreneurs will tend to provide education only to those who are able to pay for it. Though a certain level of voluntary subsidization of low – income families are educated. Thus the government may need to intervene to subsidize the education of poor people.

The possibility that a market economy may fail to distribute income in a socially acceptable way, however, does not in itself mean that government can easily redistribute income. The negative effects on the incentive to work and on productivity from taxing some people may reduce the overall level of distributable income. The equally negative effects on work incentives and on productivity from subsidizing other people may also reduce this level of income. In short, attempts to redistribute income can also reduce the overall level of distributable income.

Furthermore, the method of redistribution is problematic. Direct cash subsidies to the poor minimize the cost of redistribution by cutting out much of the welfare bureaucracy. But cash subsidies do not ensure that the money is spent in the socially desired manner. Education is a particularly apt example. Direct cash transfers do not ensure that the recipients spend the money on their education or the education of their children. The equity argument reinforces the efficiency argument for government subsidization of the education industry.

EDUCATION AND THE MARKET

The case for government intervention in the education industry rests on the possibility of market failure. This failure may stem from efficiency concerns due to the existence of positive externalities, which in turn may have resulted from government failure to establish private property rights. The failure may also stem from equity concerns due to the affordability of education by low – income families. For the purposes of this paper, let us assume that both possibilities exist. Then government intervention in the form of direct subsidies to the education industry is merited. What does not follow, however, is that the existence of market failure requires the government to provide education. From an economic perspective, there is simply no rationale for government – owned and government – operated schools. If the market tends to under – provide education in general and provides it in an unaffordable manner to some, the government needs only to ensure that the market provides more and that the poor have access.

Government control of the education industry may actually lead to more inefficiency and inequity (As seen currently in democratic South African school based education across the nine provinces). If one looks at the use of facilities in government – run educational institutions in South Africa, the inefficiencies are striking. At the University of Witwatersrand (Johannesburg, South Africa), for example, the lecture halls are used for approximately 24 weeks in a year. During the weeks in use, however, they are empty for most evenings and weekends and even for many afternoons. The capacity

utilization rate is probably less than 40 percent. This situation could be replicated across the universities and colleges in South Africa.

The situation is similar in primary and secondary schools throughout the country. These also stand empty for many hours and days during the year. South Africa and South Africans do not need more schools. They need to use the existing facilities more efficiently. If the management of these facilities were market – based, they would be better utilized. An example of this is the high classroom utilization rate at the Witwatersrand Business School, which operates much more like a business. This would be the same at other Business Schools in South Africa.

If the provision of education were in the private sector one could expect education to take place in other under – utilized facilities. For example, there are excellent potential lecture halls in downtown Johannesburg and other South African cities and in suburban shopping malls that sit empty most mornings, including movie theatres. These venues even have popcorn machines outside. And there are also excellent lecture venues in corporate offices that sit empty most evenings, weekends and often during the day. Government control of education has led to excess capacity in infrastructure, while at the same time there is a serious shortage of qualified teachers and educational materials. Market control of education would reallocate resources to improve efficiency and reduce costs. In particular, one would expect a significant increase in money spent on teachers and materials.

Government control of education in South Africa has also resulted in inequitable provision. Quality education has been provided disproportionately to those with political power, which under apartheid meant to those classified as white. The politically determined access to education was a major method of maintaining those in power. In the post – apartheid era, there is little reason to believe that government – run schools will not continue to distribute provision inequitably to those in power (This is today under democracy the reality). Furthermore, of the private suppliers of education, the content of the curriculum will be consumer driven and determined, not politically determined. For example, a type of social inequity that existed in South Africa in the days of colonialism and of apartheid was a mandated emphasis on European history in general and on the history of a particular segment of the South African population, Afrikaans – speaking whites. Under competitive conditions, one would expect a variety of history curriculums focusing on the interests of the consumers.

Another example of the inequity of government – run schools in South Africa is the emphasis on languages (mandatory English, Afrikaans and other and African languages) and Bible studies at the expense of mathematics. Today there is a serious shortage of teachers to impart and teach the basic mathematics needed to study further in the sciences, engineering and commerce. Again, it would be expected that private – sector education entrepreneurs would provide less language and religion instruction and more mathematics education. The competitive forces of the market will drive schools to provide the education that people, not the politicians demand. The government in its recognition of the positive externalities of education can subsidize this provision by subsidizing the demand of consumers and allowing the consumers to choose their suppliers of education. In its recognition of the serious constraints on poor people, both adults and children, in order to purchase education in the market, the government could provide higher subsidies to low income families.

Toward a Market – Based Education Industry

The basic policy proposal is to allow education entrepreneurs to supply education in a free market and to allow government to subsidize the demand for education, especially for poor people to ensure that provision is both socially efficient and socially equitable. This proposal can be developed within the South African context into three policy recommendations:

- Abolish all subsidies to tertiary education.
- Privatize the supply of primary and secondary education.

- Subsidize the demand for primary and secondary education.

First, the externality case for subsidizing education is weak at best at the tertiary level. The private benefits of a quality education at this level are so strong that under – provision of socially useless education is probably occurring due to government subsidization of universities and other tertiary educational institutions.

In the United States and Canada, even such apparently useful fields as economics and business administration are coming under serious question. The private sector in North America is demanding fewer PhD's in economics and fewer MBA's. In any case, why should such lucrative fields receive government subsidies? Furthermore, other more esoteric fields, with virtually no consumer demand whatsoever, receive subsidies. Alternatively, those disciplines for which there is a high demand, such as accounting and engineering in South Africa, earn high salaries. Surely there is no need for the general taxpayer to subsidize such fields of study. Good students could easily debt – finance their education by using their expected future earnings as collateral. Or they could seek sponsorship by their employers.

Where the government sees a social need for a particular discipline, for example medicine, it could subsidize the medical student directly. It could attach the subsidy to a condition that the recipient provide the government with the service it requires, such as working in a rural health clinic for a few years after graduation. As the system works now in South Africa, a student is heavily subsidized by the taxpayer to become a doctor and can then open a practice where he chooses. If the country is lucky he may locate in the northern suburbs of Johannesburg. But it is not common for new doctors to open up their practices in places like London and Sydney. Is this efficient or equitable?

Yes, a number of departments, faculties and even tertiary institutions may go out of business. But this is not a serious problem as it may first appear. All unemployed staff and under-utilized facilities will likely shift into use where there is a demand for their resources. With the subsidies for primary and secondary education markets.

Second, the supply of primary and secondary education needs to be privatized to encourage more efficient use of resources and to encourage the suppliers to meet the demands of the consumers, not the politicians and bureaucrats. Existing government schools can be turned into small businesses with the shares allocated to local communities. To adjust for the locational distortions of apartheid, few schools in a few different communities could be privatized as a group with ownership transferred to the residents of the group of communities. For example, Sandton and Alexandra could be combined.

Perhaps even more importantly, entry into the education industry- at all levels- should be open. Churches, corporations, trade unions, environmental clubs, and so on could enter the industry. The only requirement of the government of the government should be that the schools provide a basic curriculum in literacy and numeracy.-in the language or languages of their choice. We would expect to see schools popping up everywhere and competing for students by offering high-quality, cost effective educational programs. And we see schools catering for the diverse groups in South Africa-ANC schools, Anglo-America schools, Jewish schools, art schools, technical schools, commerce schools, and so on.

Third, allowing for private provision of education improves efficiency and choice in curriculum, but does not eliminate the potential market failures of under-provision in particular to poor people. This shortcoming can be overcome by the government subsidization of consumers of primary and secondary education. The subsidies could be allocated in the form of education vouchers usable at the school of one's choice.

QA few procedural rules would be necessary. For children under a certain age, say 13, the vouchers would be administrated by their parents or legal guardians. Minimal standards in literacy and

numeracy education would be required to identify an intuition as a school. A limit to the number of years of subsidy, say 12, and the age at which once could still receive a subsidy, say 21, would also have to be set.

The administration of such a program of education vouchers could be accomplished by one small central department. The existing infrastructure and personnel of the education departments of greater South Africa could be freed to enter the education industry as suppliers. Thus the administrative costs of this approach would be significantly less than the current system.

Finally, the question of allocation of vouchers needs to be addressed. One method would be to give every eligible recipient –irrespective of income, background, et cetra- the same voucher. Whether the student came from a rural village or wealthy suburb, he would receive the same voucher, say R2000 per a year. This approach would be egalitarian in that it would treat everyone equally.

An egalitarian voucher system, however, may not be the most equitable or efficient approach. Since there is a greater need for subsidy among low- income families, these families should receive a larger voucher than wealthier families. The voucher amount could be inversely related to one's family income.

Given that income levels- especially with the high degree of informal activity in the South African economy – are somewhat difficult to determine, an income-determined voucher system may be hard to administer. Nonetheless, if such an approach could be implemented, it would be not equitable, but efficient. As the South African economy grew and family income rose, the size of the vouchers would decline. Eventually the voucher system would spontaneously phase itself out – with permanent savings to taxpayer – as private incomes adequately financed a social desirable level of education.

A market-based approach to education will improve efficiency in provision, choice curriculum and equity in access. It will allow for the education of the mass of South Africans in calm, depoliticised manner. We should move quickly to implement market-based reforms in the education industry.

I believe that this is a complex debate and is placed on the table as explained by Frank Vorkes in his work-A market based Approach to education industry- as captured in McGregor's book – Education Alternatives.

In conclusion let me turn to the following aspects. Currently therefore, partnerships become important from the view of change in development. Such partnerships should assist in making our young people more productive by means of acquisition of skills, in addition to traditional formal learning.

In so doing so we must all establish the values, which will influence current and future behaviour. A democratic society is concerned with the equality of opportunity. It is concerned with responsibility as well as rights. It is concerned with respect and human dignity. This has to be learnt, digested, and debated in our schools if our society is to grow into a democratic one.

The government in particular a Department of Education can provide facilities, opportunities and rewards. They can provide the leadership, the catalyst to encourage excellence. But the creation of an excellent school rests on the people within it. Departments of Education have handicapped schools in their progress towards excellence by constraining a schools independence and / all by failing to service the adequately. Excellence within any school will be the product of the partnership of a department of education and the school itself (parents, educators, learners). The partnership between “public education” and “independent education” is key and it is this perspective that has to be addressed within education discourse in South Africa. Good partnerships grow from partners who are willing and who respect the contributions all involved can make. It is not a matter of strength or of credit. We need to focus on our goals.

CONCLUSION

The first part of the two part series of articles attempted to place the issue of education being a public good squarely on the table. This was not undertaken in great length. More importantly, the paper attempted to draw a balance between the economic parameters and variables used in terms of economic efficiency arguments to analyze the case of private schooling of basic education in South Africa. This would allow in the second article to cogently argue that basic or school education must not be privatized because it is a public good that must be the responsibility of the state and government of South Africa. This aspect must be understood from the perspective that South Africa is in a period of transition and therefore state intervention in basic education is the responsibility of government and, therefore, government must intervene in remedying the mismanagement of basic education by the former apartheid and its surrogate erstwhile governments. There is therefore, no moral basis to privatize basic education and the authors holistically argue that education is a public good and cannot therefore be privatized in South Africa.

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BIBLIOGRAPHY

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