

Routledge Studies in Development Economics

- 1 Economic Development in the Middle East
Rodney Wilson
- 2 Monetary and Financial Policies in Developing Countries
Growth and Stabilization
Akbar Hossain and Anis Chowdhury
- 3 New Directions in Development Economics
Growth, Environmental Concerns and Government in the 1990s
Edited by Mats Lundahl and Benno J. Ndulu
- 4 Financial Liberalization and Investment
Kanuja L. Gupta and Robert Lensink
- 5 Liberalization in the Developing World
Institutional and Economic Changes in Latin America, Africa and Asia
Edited by Alex E. Fernández Jilberto and André Mommen
- 6 Financial Development and Economic Growth
Theory and Experiences from Developing Countries
Edited by Niels Hermes and Robert Lensink
- 7 The South African Economy
Macroeconomic Prospects for the Medium Term
Finn Tarp and Peter Brizen
- 8 Public Sector Pay and Adjustment
Lessons from Five Countries
Edited by Christopher Colclough
- 9 Europe and Economic Reform in Africa
Structural Adjustment and Economic Diplomacy
Obed O. Mailafia
- 10 Post-Apartheid Southern Africa
Economic Challenges and Policies for the Future
Edited by Lennart Petersson
- 11 Financial Integration and Development
Liberalization and Reform in Sub-Saharan Africa
- 12 Regionalization and Globalization in the Modern World Economy
Perspectives on the Third World and Transitional Economies
Edited by Alex F. Fernández Jilberto and André Mommen
- 13 The African Economy
Policy, Institutions and the Future
Steve Kayizzi-Mugerwa
- 14 Recovery from Armed Conflict in Developing Countries
Edited by Geoff Harris
- 15 Small Enterprises and Economic Development
The Dynamics of Micro and Small Enterprises
Curt Liedholm and Donald C. Mead
- 16 The World Bank
New Agendas in a Changing World
Mitchell Miller-Adams
- 17 Development Policy in the 21st Century
Beyond the Post-Washington Consensus
Edited by Ben Fine, Costas Lapavistas and Jonathan Pincus
- 18 State-Owned Enterprises in the Middle East and North Africa
Privatization, Performance and Reform
Edited by Merib Calasun
- 19 Finance and Trade in Developing Countries
Edited by Robinson Medhora
- 20 Contemporary Issues in Development Economics
Edited by B.N. Ghosh
- 21 Mexico Beyond NAFTA
Edited by Martín Puchet Anyul and Lionello F. Puzos

Development Policy in the Twenty-first Century

Beyond the post-Washington consensus

Edited by
**Ben Fine, Costas Lapavistas
and Jonathan Pincus**



Contents

First published 2001
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN
Simultaneously published in the USA and Canada
by Routledge
270 Madison Ave, New York NY 10016
Routledge is an imprint of the Taylor & Francis Group
Transferred to Digital Printing 2006

© 2001 selection and editorial matter Ben Fine, Costas Lapavistas and Jonathan Pincus; individual chapters © 2001 the contributors
Typeset in Garamond by Taylor & Francis Books Ltd
All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library
Library of Congress Cataloguing in Publication Data
Development policy in the 21st century: beyond the post-Washington consensus / edited by Ben Fine, Costas Lapavistas, Jonathan Pincus.
p.cm - (Routledge studies in development economics)
Includes bibliographical references and index.
1. Developing countries--Economics policy. 2. Economic forecasting--Developing countries. 3. Development economics--Developing countries. I. Title. II. Fine, Ben. III. Lapavistas, Costas, 1961- IV. Pincus, Jonathan. V. Series.

ISBN 0-415-22822-0 (hbk)
ISBN 0-415-30618-3 (pbk)

List of illustrations
Notes on contributors
Preface

viii
ix
x

1 Neither the Washington nor the post-Washington consensus:

An introduction

BEN FINE

Intellectual foundations 4

The broader analytical context 6

The broader policy context 10

Whether the post-Washington consensus? 15

Postscript 16

2 Financial system design and the post-Washington consensus 28

SEDAT AYBAR AND COSTAS LAPAVISTAS

Introduction 28

Analysis of bank-based and market-based financial systems 30

Political economy of financial system design: a result of and stimulus to capitalist accumulation 35

Evolution of the Japanese financial system 39

Evolution of the Turkish financial system 42

Conclusion 46

3 Privatisation and the post-Washington consensus: Between the lab and the real world?

KATE BAYLISS AND CHRISTOPHER CRAMER

Introduction 52

Evolution of the World Bank position and the Washington consensus on privatisation 53

What is the post-Washington consensus view of privatisation? 54

52

1

What is wrong with privatisation? 57 Conclusion 72	
4 From Washington to post-Washington: Does it matter for industrial policy? SONALI DERANIYAGALA Introduction 80 The Washington consensus on industrialisation 80 The post-Washington consensus on industrial policy 88 Conclusion 95	80
5 Consensus in Washington, upheaval in East Asia DIC LO East Asia in the development policy debate 99 The consensus in Washington and the notional market economy 100 The upheaval in East Asia as history-specific process 106 Conclusions 110	99
6 The new political economy of corruption MUSHTAQ H. KHAN Definitions, types and the evidence of corruption 113 New approaches to corruption 117 Class and group structure and the implications for corruption 119 Conclusion 132	112
7 The social capital of the World Bank BEN FINE Introduction 136 Growth and poverty 138 Surfers beware the undercurrents 143 Concluding remarks 147	136
8 Education and the post-Washington consensus BEN FINE AND PAULINE ROSE Introduction 155 Education as a black box 156 Bringing education back in and the post-Washington consensus 162 Bringing gender back in 169 Education as a system of provision 172 Conclusion 176	155
9 The post-Washington consensus and lending operations in agriculture: New rhetoric and old operational realities JONATHAN PINCUS Introduction 182 Operational imperatives 184 The World Bank's approach to agricultural development 190 The case of Indonesia 200 Conclusions 211	182
Index	219

- Raiser, M. (1997) 'Informal institutions, social capital and economic transition: Reflections on a neglected dimension', European Bank for Reconstruction and Development, Working Paper, no. 25.
- Rose, R. (1998) 'Getting things done in an anti-modern society: Social capital networks in Russia', World Bank, Social Capital Initiative, Working Paper, no. 6.
- Roy, W. (1984) 'Class conflict and social change in historical perspective', *Annual Review of Sociology* 10: 483–506.
- Sender, J. (1998) 'Analysis of sub-Saharan Africa's economic performance; limitations of the current consensus', Professorial Inaugural Lecture, SOAS, mimeo.
- Serageldin, I. (1997) 'Preface', to Narayan (1997).
- Stiglitz, J. (1998) 'Towards a new paradigm for development: Strategies, policies and processes', Prebisch Lecture, UNCTAD, Geneva.
- Temple, J. (1998) 'Initial conditions, social capital, and growth in Africa', *Journal of African Economics* 7(3): 309–67.
- Wilkinson, R. (1996) *Unhealthy Societies: The Afflictions of Inequality*, London: Routledge.
- Woolcock, M. (1998) 'Social capital and economic development: Toward a theoretical synthesis and policy framework', *Theory and Society* 27(2): 151–208.
- World Bank (1998) 'The initiative on defining, monitoring and measuring social capital: Text of proposals approved for funding', World Bank, Social Capital Initiative, Working Paper, no. 2.

8 Education and the post-Washington consensus¹

Ben Fine and Pauline Rose

Introduction

As the post-Washington consensus has sought to displace the Washington consensus by emphasising the significance of market imperfections, one longstanding area of World Bank thinking and funding has shone out like a beacon in contradicting exclusive reliance upon market forces – education. This is hardly surprising given the widely accepted notion that education forms an exception in the weight of market externalities and imperfections that would lead to its under-provision. In addition, in both developed and developing countries, education has increasingly been seen as a panacea for solving problems of economic and social advance. Emphasis on human capital and endogenous growth has marked many of the explanations over the past decade for differing economic performance. Not surprisingly, the watershed literature bridging the transition from Washington to post-Washington consensus has even witnessed a strengthening commitment to education.

That the World Bank has adopted a view reflecting the beneficence of education is evident from its review of 1995, *Priorities and Strategies for Education*. It argues that increases in the educational level of the labour force can promote economic growth, not least in the long-run through technological change, which occurs faster when workers are more highly educated. Education is anticipated to increase individual productivity by the acquisition of skills and attitudes, and to enhance the accumulation of knowledge more generally. Furthermore, 'the creation of human capital is the creation and distribution of new wealth' (World Bank 1995, p. 27), which contributes to the reduction of both absolute and relative poverty, although time lags are likely. Through the acquisition of skills, attitudes and knowledge, education increases the productivity of the labour of the poor and their access to jobs in both the formal and informal sectors, as long as there is no discrimination. Moreover, education of women in particular is believed to result in lower fertility and maternal mortality, and improved child health.

We begin in the second section with a critical assessment of human capital theory, which has dominated World Bank thinking on education from before the emergence of the Washington consensus, and which is

equally uncritically accepted by its putative successor. We suggest that human capital theory offers no insights on education as such from an analytical point of view, simply construing it as a chosen stream of (potential) costs and benefits. It leaves education, let alone the education system, as an unopened 'black box'. However, by leaving education out of its analytical framework, it allows any number of factors affecting educational provision to be arbitrarily brought back in to promote and qualify theoretical, empirical and policy work. Unfortunately, irrespective and independent of the World Bank's stance, the notion of human capital theory has itself been increasingly and widely accepted uncritically. Accordingly, its weaknesses need to be exposed in posing alternatives to a consensus that goes far beyond (post-) Washington.

The next section reviews the World Bank approach to education in the light of what can only be deemed its obsessive attachment to human capital theory. As observed, this devotion has not changed with the adoption of the post-Washington consensus with its generalised appeal to market imperfections, since the new consensus incorporates a continuity with the old's specific rationale for support to education in light of its underprovision by imperfect or absent markets. As will be seen, the virtues of education have, if anything, been perceived to be even stronger through the prism of the post-Washington consensus, especially as represented by Joseph Stiglitz. Accordingly, the post-Washington consensus has failed to make a distinctive analytical mark on the issues surrounding education and development. The broader scope of market imperfections embraced by the post-Washington consensus has the effect of intensifying the already irresolvable contradictions within the human capital approach. The more that market imperfections are acknowledged, the more transparent becomes the need to understand education systemically both in itself and in its relationship to development. This is illustrated by reference to Stiglitz's informal pronouncements on the virtues of education and, in the fourth section, by consideration of the World Bank's commitment to female education.

Our own approach to education is outlined in the fifth section. The post-Washington consensus, whatever its analytical weaknesses, locates educational provision within a framework of multiple market imperfections with consequential spillover effects from one market (and non-market) to another — from schooling to fertility, employment and so on. This undermines the case for a human capital approach and argues for it to be replaced by systemic analysis. The latter must eschew a general approach and allow due regard to the social and historical context of educational provision within particular countries. We, therefore, suggest that education should be understood as a 'system of provision', which is located within economic and social relations more generally.

Education as a black box

The burden of this section is to demonstrate that human capital theory is

fundamentally flawed, even though confidence in it has strengthened with the dullness of critique that has accompanied the passage of time and use. The almost universal acceptance of human capital theory is due in part to the increasing conservatism of the economics profession as radical alternatives to the mainstream have weakened, to the uncritical spread and use of the notion of human capital in other social science disciplines, to the weakness with which the critique of human capital theory has been pursued, and, not least, the influence of the World Bank itself in promoting reliance upon it. Further, as will be emphasised in this and following sections, the literature on human capital, whether emanating from the World Bank or not, has paradoxically prospered by exploiting its own weaknesses. In a nutshell, from an analytical point of view, human capital theory takes a starting point that essentially sets education aside. Consequently, however unsatisfactorily, education can be brought back in again in pursuit of analytical refinement or in the greater complexity of empirical or case studies.

Human capital theory is the consequence of the ready acceptance of education as a special application of orthodox economic analysis, where human capital is merely the accumulated capacity to be more productive. The advantage of the human capital approach is in its being able to tread well-worn analytical paths for theoretical, empirical and policy purposes. It is complemented by the immediate derivation of analytical results. At the micro-level, the notion of human capital allows wage differentials to be addressed; from wage differentials, rates of return to investment in human capital can be calculated; at the macro-level, the contribution of human capital to growth can be assessed; and policy implications can be drawn in terms of private or public investment in the various tiers of education according to their anticipated rewards. Human capital theory, then, sits firmly within neo-classical economics, drawing upon its various analytical parables.

At its core, the theory is simply an assessment of a stream of costs and benefits, whether borne or accruing to individuals or to the economy as a whole. It follows that it essentially begins without any understanding of the educational process. On the one hand, the 'black box' of how education is provided remains firmly shut other than in the labelling of financial costs and benefits.² On the other hand, the theory has no historical or social specificity. The rise of human capital theory within the World Bank, for example, grew out of the more specific application of cost-benefit analysis to calculation of rates of return (Jones 1992). As such, it has nothing to do with education. Exactly the same methodology could be applied to any factor with an economic effect. Indeed, for Becker (1996), human capital is just one component of 'personal capital', a notion that is deployed exactly for any more general purpose.³ As Baumol and Becker (1996, p. 4) put it:⁴

The educational production can be described as a listing of the set of variables that are assumed to be the prime determinants of the amount of human capital the student acquires as the result of schooling.

Human capital theory has not always been uncontroversial.⁵ Indeed, much of the criticism that it has received can be understood as a critique, explicit or otherwise, of the failure to address the specific nature of education and its emphasis on calculus of costs and benefits. Blaug (1987), for example, refers to a second generation of revisionist scholars in the field who were sceptical in the 1970s, although they quickly gave way to a third generation with no apparent inherited doubts about what they are doing and who overwhelmingly prevail today. Becker (1993, p. xix), the second Nobel Prize winner in economics for contributions to human capital theory in 1992, following Schultz in 1979, proudly observes that human capital has entered the discourse of presidential campaigning — ‘a dozen years ago, this terminology would have been inconceivable’. Becker’s main concern over the acceptability of the approach centres on the aversion to the notion of education as comparable to an accumulated physical asset with productive potential.

In this respect, in converting, in the 1970s, from a ‘True Believer’ in human capital theory, and a leading practitioner himself, Blaug (1987) emphasises the influence of Bowles and Gintis (1976). They are perceived to have revealed that the social relations governing schooling have very little to do with a technical relation between inputs and outputs. Rather, Bowles and Gintis understand schools by analogy with mini-factories in which the social relations, of dominance, hierarchy, respect for authority, punctuality, etc., are replicated. This is in order to socialise future workers into accepting the positions that they are expected to occupy. Irrespective of the extent to which Blaug has correctly interpreted Bowles and Gintis, and whether, as he suggests, they merely rediscover Durkheim, he does correctly conclude (1987, p. 132):

The moment we argue that the chief contribution of education to economic growth is to complement the socialisation function of families ... we necessarily jettison the concepts of any precise quantitative relationship between the growth of the economy and the growth of the education system ... (and question) whether the entire exercise is not perhaps misconceived in its very foundations.

However, understood in these terms, the educational process has still not been significantly opened up by the radical alternative offered by Bowles and Gintis. Rather, a particular (empty) neo-classical theory of education as production of human capital has been replaced by an alternative (more substantive) theory of production, which has itself then equally been projected on to education (understood as a factory for social relations in which we learn to accept and are allocated to our previously given economic positions).

Not surprisingly, the insights offered by Bowles and Gintis and other critics of human capital theory have rarely been taken up by the mainstream.

Rather than addressing directly the specific economic and social relations surrounding schooling, attention has been focused upon refining the production function for human capital: what are its inputs, what are its outputs and what is the relationship between them. Such preoccupations are relatively rare for normal production functions. Data on inputs and outputs are taken from economic statistics, and production functions estimated with technological progress or other factors traditionally allowed to account for any differences in productivity over time or place. The problem for the estimation of human capital production functions has been that the simplest expectations have been confounded since higher output has not always been associated with higher input. Schools with more resources, with lower pupil-teacher ratios, etc. do not necessarily perform better on measures of educational performance.⁶

Paradoxically, it is this simplest of empirical refutations of the approach that has led it to be both refined and to take account, however satisfactorily, of the specific content of schooling itself. This is because, in practice, human capital theory does recognise some of its deficiencies, albeit obliquely, in moving forward from its cost-benefit starting point. Especially in the context of education, analysis is based on a triple structure comprising pre-schooling, schooling and post-schooling, with corresponding attention, respectively, to the inputs to the production of human capital, the production of human capital and human capital as an input itself. It is convenient to begin with the second of these, although we will soon move into consideration of the others. Observe first, that unlike the commercial enterprise, most schools do not have inputs and outputs that can be measured exclusively and simply in terms of costs and revenue. Consequently, once this is recognised and non-priced inputs and outputs are incorporated as they must be, then, the floodgates are opened for any number of factors to count as inputs and outputs. Essentially, any factor that affects educational performance can be understood as an input, whether it be familial background, innate ability, school ethos and environment, gender, race, etc.⁷ Similarly, any outcome can be understood as an output, from what you know to whom you know. For theoretical and empirical purposes, it becomes essential to explain the simultaneous interaction between all of the variables.

Thus, in investigating education or schooling as a production function, the black box is being opened up in a most peculiar fashion, which both exploits the weaknesses of the approach and consolidates them, not least because of its individualistic and economic starting points. Put another way, as more factors are introduced to refine estimates of education production functions, the credibility of the whole exercise is forced to walk an analytical tightrope. This is because, while added variables might add some token realism and educational specificity, the absence of, and need for, systemic analysis of education becomes increasingly apparent for two separate but closely related reasons. First, the more factors that are included into the analysis — ranging from socio-economic characteristics of individuals

through school, locational and other higher-level variables – the more education is seen to be part and parcel of society and social functioning as a whole, and not appropriately reducible to a function specifying educational outputs as a consequence of educational inputs. Second, it is also apparent that the various educational inputs that are used to explain educational outputs are far from independent of one another. Each of the variables in the inputs and outputs is connected to the others. They are mutually determining.

The latter point is illustrated in a limited way by the literature that seeks to correct sample selection bias in estimating human capital production functions. Possibly those who stay in school longer have more innate ability or parents who have provided them with a more favourable environment, even by moving children to live closer to schools that are considered to be better for whatever reason. This would bias estimates of the production function if not taken into account by estimation procedures. This is a creeping, piecemeal recognition of the social and systemic nature of educational provision. On a grander scale, it has now become commonplace to attach educational performance to a range of other socio-economic factors, such as health, fertility, nutrition and household income.⁸ It is apparent that the education production function has become an implicit proxy for the workings of a major part of the social fabric, hardly to be captured by a set of inputs and outputs measured as costs and benefits.

So far, the discussion has focused primarily upon the education production function for human capital and, consequently, on pre-schooling conditions as these make up educational factor inputs. Now consider the use of human capital as an input into production or the economy more generally. Leaving aside all the previously discussed problems in getting to this point, how does human capital affect economic outcomes? Consider the role in wage determination. It is standard to include human capital as an independent variable in a wage rate regression, in which all other variables have also been included that might affect labour market outcomes. Otherwise, there will be bias in the estimates. However, once again, the implication is that a full understanding of how the labour market functions and grinds out outcomes is essential in order to isolate the effects of human capital, and to be able to calculate rates of return to human capital.⁹ In principle, it is necessary to incorporate a whole range of variables such as race, gender, location, sector, occupation, level of trade unionism, capital intensity and degree of monopoly. These variables also mutually condition one another so that a sophisticated understanding of the economy will be necessary in order to assess the effect of human capital on wage determination. In practice, we are more likely to find that the labour market is treated as if working perfectly competitively, with little or no interaction between labour market variables. Much the same is true of growth accounting, which includes the effects of human capital. Whether in the old growth theory, in which human capital is just one more factor to add to those contributing to output, or for the new endogenous growth theory in which, in one way or another, human capital is

perceived as a source of productivity increase, the outcome is much the same and paradoxical. Far simpler models are used to understand the relationship between education and growth (or education and other variables such as wages or fertility), than would be used to understand these in the absence of education. It is as if growth theory or whatever can be simplified when adding the effect of education. In particular, estimates of the impact of human capital, both on wages and growth generally, presume the economy is at full employment and perfectly competitive. Otherwise, estimates will be conflating its effects with those of excess capacity and price distortions.

Similar considerations apply to another aspect of the use of human capital theory.¹⁰ In general, the individual returns to human capital are calculated by attempting to compare wage rates, with and without it, while correcting for other factors. However, this takes no account of unemployment. On the one hand, for the individual, this might be expected to understate the returns since the chances of getting a job and of getting better pay are enhanced with more human capital.¹¹ However, the same cannot be true for the economic system as a whole, particularly if stretched to the limit. If everybody got a Ph.D. in nuclear physics, returns and employment prospects from doing so would drop very quickly. More generally, at the extreme, more human capital might not generate higher incomes, and only generate a competitive race in credentials necessary to obtain the available jobs. The worth of extrapolating from the existing calculation of human capital returns is highly questionable for two reasons, as is illustrated by critical reference to the study of South Africa by Schultz (1998). He observes very high rates of returns to black males for higher education in 1993. However, as is well known by anyone familiar with the South African transition, this reflects a number of factors, not least the wish of all employers to enhance their public image. Such factors will not extend into the indefinite future, let alone to indefinite numbers of black males. By the same token, partly reflecting a problem of data but also a failure to contextualise the relationship between education and the economy, Schultz's use of data from Africa for 1970 to 1985, as the basis for calculating rates of return to human capital, renders his results somewhat limited for projecting returns for the next millennium.

In short, the more human capital theory becomes more realistic and specific to education, the more it undermines its own analytical starting point – that education can be understood in terms of the incidence, usually individual, of costs and benefits. The more social factors are introduced to explain how education is produced to create human capital or to examine its effects in terms of returns, the more education is revealed to be linked to social relations, processes and structures. However, instead of the latter being taken as an alternative analytical starting point, human capital has, paradoxically, been allowed to exploit its weaknesses to develop a vibrant research programme in which education itself and social factors are brought back in to refine the human capital calculations that they invalidate. Just

throw in a few more variables and more sophisticated modelling to get the required results, but do not question the broader socio-economic determinants and role of education itself.

Bringing education back in and the post-Washington consensus

Thus, the development of human capital theory from its ideal origins does open the black box of education but in entirely unsatisfactory, and yet, unlimited, ways. The latter fall into three overlapping types for which we briefly offer leading and representative illustrations. One approach to bringing education back in is abstract and offers general speculation about what matters. Laroche *et al.* (1997), for example, point to eight aspects that distinguish human capital from other goods or activities: it comprises innate and acquired abilities; it is non-tradable; it is not always purposefully chosen, as with the young; it accrues through both formal and informal means; it has qualitative and quantitative aspects; it can be general and specific; it is not always fully used; and it is subject to externalities.¹² These distinguishing features raise problems, and research and policy agendas, for human capital around property rights, decision-making, how it is accumulated and how it depreciates, quite apart from measurement problems for national statistics.

An alternative way of bringing education back in, rather than theorising about casual descriptive characteristics, is by refining the simpler versions of the perfectly competitive model that lies at the core of human capital theory. As Mincer (1997) argues, in a typical example, this can lead to consideration of intertemporal optimising over a lifetime as far as investment in human capital is concerned; a technique that is becoming standard.¹³ On the other hand, Griliches (1997), for example, is more concerned with whether wages reflect marginal products or not in view of screening or other types of labour market imperfections (considerations that led Blaug to become a sceptic), with these needing to be integrated with the influence of other factors such as innate ability and family background. He concludes that all corresponding decisions need to be modelled simultaneously, an impossible ambition if all socio-economic factors that interact with education are taken into account.

The third mode of reinstating education to the analysis is to create theory directly around one or other empirically observed aspect, which is hypothesised as affecting educational outcomes. This will be illustrated in detail in the next section by reference to gender, following a brief account of the World Bank's educational research and funding, which has thrown up a mixed bag of factors for bringing education back in where, for human capital theory, it would otherwise be absent. This is because it is crucial to recognise that human capital theory has not only served as an analytical fudge (taking education out and bringing it back in) for the World Bank as for so many others, but it has also provided an unlimited rationale for

funding education in practice by deploying education to accrue high returns, to alleviate poverty, to reduce fertility, to favour women and so on. The World Bank not only wants to make (or deny) loans, it seeks to justify them. Human capital has shown itself to be a flexible friend in this respect.¹⁴

The World Bank is important in setting educational priorities and policy-making, given its position as a self-declared leader in the education sector in terms of its intellectual and financial role – which governments and donors follow (either by force or by choice).¹⁵ Despite substantial policy shifts, even reversals, as discussed below, the World Bank's approach to education has remained heavily dependent for its justification upon the application of human capital theory. As observed by Jones (1997a, p. 117), the World Bank's intellectual position towards education has remained unchanged over time:

What has changed is the bank's perception of its own role, the most dramatic changes being corrections of earlier arbitrariness rather than any shift in fundamentals ... the bank's rationale has barely changed in 35 years, a celebration of the elegance of human capital theory.

The latest World Bank Education Sector Strategy indicates a continued uncritical adherence to the importance of human capital-theory (World Bank 1999b, p. 6):

The rise of human capital theory since the 1960s, and its widespread acceptance now after thorough debate, has provided conceptual underpinnings and statistical evidence. Estimates by Nobel-laureate economists have shown that education is one of the best investments, outstripping the returns from many investments in physical capital.

Indeed, this economic approach to education has been endowed with the aura of an article of faith, as is apparent from debate in the *International Journal of Educational Development*, vol. 16, no. 3, over the World Bank's 1995 *Priorities and Strategies for Education*. In his special-issue editorial, Watson (1996, p. 213) suggests that:

By stressing economic indicators and labour market outcomes, the diversity, complexity and richness of the education process is largely ignored ... overgeneralising a mass of different and country specific evidence, the Bank presents its case as if it has the answers to the world's educational problems: as the authors in this issue are at pains to point out this is quite patently not the case.

However, the variety of criticisms offered by Lauglo (1996), Bennell (1996) and Samoff (1996) are treated with nothing short of contempt by the

World Bank's leading representatives, even if writing in individual capacities, as if their critics need to learn elementary lessons and be a little more worldly and practical. For Burnett and Patrinos (1996) and Psacharopoulos (1996), human capital theory is undisputed, Burnett and Patrinos (1996, p. 273):

Lauglo's claim that rates of return are controversial we believe, could be due to a confusion between rates of return and human capital theory. The latter is no longer considered controversial.

However, the relationship between theory, policy and practice is unclear; to an extent, it is scarcely penetrable. Human capital has been the only constant of late, a loyal servant over the past two decades. Shifts in policy and financing are evident, gradually moving from an emphasis on vocational education and training and general secondary education in the 1960s towards primary education from the 1970s. The initial antipathy towards primary education was based on the notion, or 'bizarre rationale' according to Jones (1992), that it would make unlimited demands as far as finance was concerned, and self-provision should be relied upon because of the high demand for it. The shift towards primary education can be charted in part in terms of the move from manpower planning to cost-benefit analysis in the early 1980s, although the demise of manpower planning was already evident before this (Jones 1992). From the late 1980s until mid-1990, primary education was a central component of the Bank's poverty-reduction strategy, following severe criticisms of the negative effects of World Bank conditionalities in structural-adjustment loans on the social sectors (see, for example, Cornia *et al.* 1987), thereby allowing an image to be presented of being more attuned to welfare, poverty alleviation, gender issues and popular and community participation. As Ilon (1996, p. 414) observes:¹⁶

A careful examination of World Bank educational policies reveals a discernible movement from human capital focused education lending towards educational policies which emphasise stabilisation. Such stabilisation policies are often promoted under the labels of 'poverty alleviation', 'community empowerment' or 'democracy'.

She does, however, suggest that the new focus has been integrated into the more traditional human capital dialogues. This is evident in recent Bank literature (Burnett and Patrinos 1996, p. 276):

Since we accept human capital theory and the outcomes approach, then our focus naturally becomes poverty reduction Or in other words, empowering the poor by improving their productivity ... is the World Bank's goal in education.

More recently, there are indications of a renewed emphasis on technical and higher education. This is evident, for example, in the 1998/99 World Development Report on *Knowledge for Education*, which proposes that basic education 'should not monopolize a nation's attention as it becomes a player in global markets' (World Bank 1999b, p. 42). Rather, it is proposed that higher levels of education deserve increased attention because of the need to adapt to and apply new information-based technologies.¹⁷

The Bank's positions have been supported by a wide range of research, which has expanded considerably since the first policy statement in the 1970s. According to the authors of the 1995 *Review*, for example, their acceptance of the human capital perspective relies upon the latest research in top economics journals (Burnett and Patrinos 1996, p. 273). Significantly, the authors focus their attention on the economics, without mentioning education journals in which critiques of Bank policy statements can frequently be found.¹⁸ Moreover, a closer examination of the research on which the statements are based indicates that most of this is undertaken or inspired by World Bank authors or consultants with little reference to critics (Lauglo 1996).¹⁹ Criticisms of previous policy statements are also not alluded to, nor are the lessons learnt. Each document, therefore, stands in isolation.

For the time being, though, human capital theory continues to be seen as the motivation for investing in education, with rates of return analysis still deemed to be playing a central role in determining priorities in education, as highlighted in the 1995 *Review*. Despite criticisms of the approach, the most recent World Bank (1999b) *Education Sector Strategy* continues to rely on evidence on rates of return to justify investment in education, albeit with reference in the vernacular in vogue to issues such as globalisation and democratisation. In fact, the role of rates of return in shaping World Bank educational priorities has increased rather than decreased. Bennell (1996, p. 235) notes that the 1980 policy paper refers to rate of returns to education only once, whereas the 1995 *Review* refers to it over thirty times, 'in order to substantiate, support and qualify a number of key statements about different types of educational investments and the appropriate roles of the public and private sectors'. It could be argued that rates of return analysis is used for internal-advocacy purposes within the Bank, which staff do not necessarily believe themselves. This view is not supported by public pronouncements of Bank staff who believe that human capital theory is no longer considered controversial and are defensive about its reliance on rates of return to education as a diagnostic tool (Burnett and Patrinos 1996, p. 273). This would tend to support Jones's (1997a, p. 368) view that there has not been a real shift in the Bank's position. This is because, despite attempts to broaden the scope of benefits of education to poverty reduction, the tension between bankers and pedagogues remains unresolved.

The emphasis on rates of return to education is not surprising given that the Bank is regulated by the rules of a bank that has to find economic

justification for its loans (Burnett and Patrinos 1996, p. 274). However, as Jones (1992, p. 227) points out, the limitations of its contribution need to be understood in this light:

Research needs to be driven by operational requirements and must reflect organisational values, aspirations and objectives. What becomes an issue is when researchers working in such contexts deny the institutional parameters that shape and dictate their work, and claim their research to be objective, untrammelled by institutional requirements.

Human capital fits the bill. Furthermore, the narrow focus on economic aspects risks neglecting important features of education. As Lauglo (1996, p. 223) notes:

The moral and social impact of education is not faced in the *Review* – neither the problems which schools might generate, nor the potential they may have for remedying the social dislocations of modernization and restoring social cohesion.

The processes of teaching and learning, which transform inputs into outputs, remain outside the scope of the Bank's approach to education, leaving the Black Box firmly shut.

Educational financing is one area in which the World Bank has played an important role in influencing policy. Unusually, relative to other programmes under the Washington consensus, the Bank has persistently perceived a role for the state in both the provision and financing of education. Based on arguments of externalities, imperfect capital and labour markets, principal/agent problems and uncertainty of the expected future benefits, there has traditionally been acceptance by the World Bank for the role of the state in providing and financing educational services. Furthermore, since the early 1980s, imperfect information has been used as an explanation for divergence between individual and social returns, where individuals may not be aware of the private let alone the potential social benefits of the service, or be able to finance it. Thus, state involvement in education provision and financing has been seen as a second-best solution.

The extent to which governments should subsidise the education sector has, however, been debated. Mixed signals were sent out by the Bank during the 1980s due to conflict between its economic agenda and the priorities set within the education department. On the one hand, education was seen as a priority for development. On the other hand, conditions of structural-adjustment loans emphasised cuts in government public expenditure and increased reliance on the market. While conditions were not directly imposed on cutting public expenditure in social sectors, in practice these often suffered (Stewart 1994). Simultaneous with concern about public-sector spending, economists affiliated to the World Bank developed an

economic model illustrating that, where there is excess demand for education, charging user fees at all levels of education would be advantageous from both an efficiency and equity perspective (Psacharopoulos *et al.* 1986). While the economic framework remains unchallenged by the World Bank, it no longer advocates charging user fees at the primary level in the 1990s. This shift does not appear to be based on an admission of the lessons learnt from the application of increasing user fees in the 1980s (Tilak 1997, p. 72):

It is interesting to note that, while the earlier international declarations and conventions sought to assure free and compulsory education for all, the term 'free' began to be used more sparingly in the 1980s. Organizations like the World Bank favoured, in the earlier years, the introduction of fees in primary education, simultaneously opposed and supported the same later, and subsequently distanced itself from the practice.

Indeed, World Bank documents advocating fees, which were heavily cited in the 1980s, are no longer referred to in Bank papers in the 1990s. The emphasis has, subsequently, switched from individual payments to community participation (World Bank 1995). The theoretical underpinnings of this development are, however, unclear. What has been clear is that human capital theory can be deployed to support either or neither position in policy and in practice.

What intellectual contribution has been made to the economics of education in the post-Washington consensus era? By way of representative response, it will be shown that the emphasis that has been given to its developmental role during the Washington consensus has been perpetuated and reinforced by Stiglitz. Education continues to be seen as central to the development process. It is a recurring feature in his speeches, in which its role is extended to be not only an instrument required to achieve development but it is also seen as a 'broader objective'. In terms of an instrument of development (Stiglitz 1998a, p. 10) notes that:

Trying to get government better focused on the fundamentals – economic policies, basic education, health, roads, law and order, environmental protection – is a vital step ... the choice is not whether the state should or should not be involved. Instead it is often a matter of how it gets involved. More importantly, we should not see the state and markets as substitutes ... I would like to argue that the government should see itself as a complement to markets, undertaking those actions that make markets fulfil their functions better.

The justification for a focus on education, and the need for government intervention in it, continues to be based on the notion of human capital and its relationship with growth, as evident from the example of East Asian economies (Stiglitz 1998a, p. 11):

The role of human capital in economic growth has long been appreciated The East Asian economies, for instance, emphasized the role of government in providing universal education, which was a necessary part of their transformation from agrarian to rapidly industrializing economies Left to itself, the market will tend to underprovide human capital. It is very difficult to borrow against the prospects of future earnings when the human capital itself is not collateralizable The government plays an important role in providing public education and using other methods to make education more affordable. ...

Although Stiglitz recognises trade-offs between some of the goals of development, education is seen as an area where there are complementarities with other goals. He proposes that promoting human capital can advance economic development, equality, participation and democracy. East Asia is again drawn upon, this time as an example of universal education creating a more egalitarian society, facilitating the political stability that is considered to be a precondition for successful long-term development (Stiglitz 1998a).

Stiglitz's broadened set of objectives includes democratic development that places emphasis on ownership and participation (Stiglitz 1998b). This recent emphasis on participation within the World Bank is considered to have implications for education. According to Stiglitz (1997, p. 6), development strategies from the 1960s to the 1980s saw development as a technical problem requiring technical solutions; they did not reach deep down into society, nor did they believe that a participatory approach was necessary. Participation is seen as a means of improving educational outcomes, and education can improve participation. On the one hand, 'in some cases - particularly as in education and health, where individual involvement is an essential part of the production process - participation can improve other outcomes (for instance, the amount of learning that occurs)' (Stiglitz 1997, p. 5). On the other hand, 'for participation to be fully meaningful, it should be based on knowledge; hence the crucial role of education'. (Stiglitz 1997, p. 22).

Education is, therefore, given top priority by Stiglitz (1997, p. 31) in promoting development:

Among the most important [priority] is *education*, because without education a country cannot develop, cannot attract and build modern industries, cannot adopt new growing technologies as rapidly in the rural sector. But most fundamentally, if development represents the transformation of society, education is what enables people to learn, to accept and help engender this transformation. Education is the core of development.

The views of Stiglitz expressed above highlight what he considers to be new in his approach to education - namely, its importance as both an

instrument as well as an objective of development; the complementarity between states and markets in education provision; and the importance of participation in both educational provision and outcomes. Stiglitz accepts that a focus on health and education, and away from measures of GDP, is far from revolutionary. However, he considers the difference in his outlook is that he has tried 'to argue that the whole is greater than the sum of the parts, and that successful development must focus on the whole - the transformation of society' (Stiglitz (1998b, p. 42). It is also evident that the basis for his support for education remains firmly within the human capital paradigm, for which notions such as 'development' and 'transformation' can only serve as rhetoric.

None the less, these contributions of Stiglitz are hardly controversial, remaining uninformed by the depth of literature on development, and education's role within it. These observations are confirmed by reference to what is often his own preferred terrain of illustration as well as of debate more generally - the East Asian NICs. The post-Washington consensus allows both for (limited) industrial policy in view of one set of market imperfections and for publicly supported education in view of another set. What is rare is an account of their interaction, other than through ubiquitous production functions. This is a deficiency both in terms of assessing how the educational and industrial systems are compatible with one another and mutually reinforcing, and, possibly even more importantly, why both sets of interventions are the consequence of the same economic, social, political and cultural conditions. It is surely no accident that the human capital and market imperfections approaches are compartmentalised from one another and mutually incapable of addressing issues of development and transformation.

Bringing gender back in

Economic arguments used by the World Bank to justify a focus on female education provide a good illustration of the problems associated with the human capital perspective. It neglects the broader historical, social and political context in which gender relations are constructed and, yet, tacks on associated variables in a piecemeal fashion in order to obtain rates of return and efficiency. Emphasis on economic-efficiency arguments in favour of investment in female education is highlighted, for example, in a paper by Lawrence Summers (1994, p. 20), a former chief economist at the World Bank:

In making an economic argument for investing in female education, I have tried to steer clear of the moral and cultural aspects unavoidably involved in any gender-related question. Partially this reflects my comparative advantage as an economist, but it also reflects a conviction that helping women be better mothers to their children is desirable whatever one's view of the proper role of women in society.

Stiglitz (1996, p. 167–8) relies on these arguments put forward by his predecessor. In particular, he considers the importance of female education to be one of the lessons from East Asia:

The emphasis on female education led to reduced fertility, thus mitigating the adverse effects of population pressure felt in so many developing countries, and it directly increased the supply of educated labor. Most studies suggest that a worker's wage performance is more directly related to non-school factors, such as home background, than to education in school. Education of women can be thought of as a round-about but high-return way of enhancing labor force productivity.

Here, female education is not considered important for enhancing women's own position in the labour force, but for influencing the productivity of their offspring. In a subsequent paper, Stiglitz (1998b, p. 24) does consider the increased labour force opportunities for educated women. However, he focuses on the effect that their increased wages will have on the family. He, therefore, perceives that women will maintain their role in the household while playing an increased role in the workforce, without considering the implications of this on their workload. As Stromquist (1998, p. 36) points out:

When the defense for attention to women is based on the principle of efficiency, such an argument downplays the fact that women are productive but exploited under current conditions. The call for 'utilizing women's resources in development' often translates into giving them double and triple working duties.

Expectations of the benefits of female education not only assume that women are not otherwise productive, but also do not challenge the traditional gender division of labour within the household and society. Women who are not in a position to afford childcare and who are expected to play an increased role in the productive sphere could only do so by increasing their own work burden, or by keeping girls out of school to substitute for them in the home.

As in the education sector more generally, the justification for incorporating gender into Bank policy and project work on education continues to be heavily based on rates of returns to education, as evident from the GenderNet website of the World Bank:

Studies have shown that the economic rate of return of investing in girls' education is at least as high, and usually higher than the return on investing in boys education. When the social returns on girls' education (improved health and education levels of children, lower population growth rates etc.) are considered the case for girls' education is even stronger. (<http://www.worldbank.org/gender/how/lending.htm>)

The recent evidence on rates of return to female education is not, however, as clear cut as suggested.²⁰ Furthermore, problems of measuring rates of return mentioned previously also apply to gender comparisons. For example, there will probably be selectivity bias since calculations of rates of return are based on the observed wages of women who are working in the labour market. These women often account for a very small proportion of the female population, and those who have access to employment opportunities are likely to exhibit particular characteristics that cannot be generalised. There is, therefore, a problem that educated females included in the sample are not selected randomly. In addition, the calculations assume perfectly competitive labour markets whereas in practice there are many forms of imperfections including, in many countries, gender discrimination in employment opportunities.²¹ As employment opportunities expand for women, those currently in the labour market, and the wages and conditions that they experience, are not liable to be representative of outcomes for substantially increased female labour market participation. Moreover, the process is not even incremental with substantial structural change ultimately involved in socio-economic conditions, as is evident from the experience of developed countries (Fine 1992).

Further justification is given to investment in female education by virtue of the anticipated additional social benefits, in terms of reduced fertility, improved child health and so on. However, the externalities associated with girls' education are difficult to value in monetary terms and, therefore, estimation of returns is problematic. In addition, they are not uncontested, as much of the literature might imply. Schultz (1995, p. 48) himself points out, for example, that it is difficult to determine causality in the relationships between market labour force commitment, decline in fertility and the educational attainment of women. More importantly, the arguments for female education do not address whether and how women's control over resources and decision making within the household is improved as a result of increased education. Schooling can, in fact, reinforce the subordinate position of women and may not be sufficient to ensure empowerment. For example, despite massive increases in women's formal schooling, in many countries men continue to dominate in economic and political life (Swainson 1998 and Longwe 1998). Studies, particularly in South Asia, have questioned the validity of the posited direct relationship between female education and fertility decline (Jejeebhoy 1995, Jeffrey and Basu 1996 and Kumar and Vlassoff 1997, for example). The relationship between female education and fertility decline is found to be highly variable and context-specific, with reference to both the level of development as well as the nature of gender relations in the society. The results of these studies suggest that autonomy is crucial to women's control over their fertility, and that the relation between education and autonomy is mediated by the cultural relations of patriarchy (Heward 1997). Weaknesses detected in the relationship should not be used to suggest that priority to female education is

misguided, as suggested by Knodel and Jones (1996). Rather, it highlights the need to ensure that the quality and type of schooling received by boys and girls requires attention. Where schooling, either intentionally or unintentionally, ignores the economic and social relations within and around education, the desired outcomes are not likely to be attained.

It is undeniable that World Bank efforts have been successful in raising the profile of gender disparities in education and have provided justification for investment targeted towards girls. However, their reliance on economic arguments is inadequate and misleading. As Baden and Goetz (1997, p. 10) note:

Tenuous evidence on the relationships between female education and fertility decline, or female education and productivity, can easily be challenged, weakening the justification for addressing gender issues, with a danger that resources will be withdrawn.

Such a fear is not without foundation.²² Rates of return to human capital are an extremely fragile basis on which to justify investment in female education, quite apart from providing little or no guidance on how to succeed in achieving parity in educational provision and more generally.

Thus, an improved understanding is required to ensure that female education continues to receive attention regardless of fads in interpretation and calculation of economic returns to education. As Stromquist (1994) notes, studies that do not attempt to construct a theoretical understanding of how women's inferior condition emerges and is maintained in society recommend actions as if there were no societal constraints on their attainment. Without a fuller analysis, it is not certain that the desired goals (for example, lower fertility and increased labour productivity) would be attained. Even if they were, the incidence of gender inequality could continue to be reproduced, as is so sharply evident in the developed world. To be effective, analysis of constraints and formulation of interventions has to be situated within the economic, political and social environment that shapes the nature of gender relations in education and society more broadly.

Education as a system of provision²³

The purpose of this section is to provide an insight into the perspective from which we have critically assessed the World Bank approach to education in general, and female education in particular. In brief, we posit the need to understand educational provision in terms of highly country-specific socioeconomic systems rather than as a more or less efficiently co-ordinated stream of costs and benefits attached to education and training. In other words, we need to construct an appropriate understanding of national education systems. This might be thought to be uncontroversial, especially to those not wedded to mainstream economics and economic reductionism.

However, recent developments across the social sciences, with the exception of economics, have been marked by 'structural adjustment' to two sequentially ordered forms of analytical shock therapy, postmodernism and globalisation. Consequently, in the broader education literature to be found outside the orbit of the World Bank, as Green (1997, p. 3) parodies:

The whole logic of both postmodernism and globalization theory is the national education system *per se* is now defunct, at once irrelevant, anachronistic and impossible. Governments no longer have the power to determine their national systems. They increasingly cede control to regional and international organizations on the one hand ... and to consumers on the other Governments can no longer use education to promote social cohesion and to transmit national cultures and should not attempt to do so As the national state becomes a marginal force in the new world order so education becomes an individualized consumer good delivered in a global market and accessed through satellite and cable links. National education ceases to exist.

Here, however, a remarkable paradox reveals itself. While it has proved oblivious to the intellectual fashions that have shaken the world of the other social sciences, economics can legitimately claim, in the case of education, to have been far ahead of the field in embracing the thrust suggested by postmodernism and globalisation. It is generalised, homogenising and explicitly individualistic in its approach. Even if antediluvian in its technique, human capital theory has inadvertently and unconsciously led the field in positing that national education systems have ceased to exist or, indeed, in denying that they have ever existed. All we have ever experienced are individual decisions to invest in and deploy human capital, albeit in circumstances (of market imperfections) not chosen by ourselves.

Such an approach embodies, in a less than subtle way, a further feature remarked by Green (1997, p. 4) in the putative demise in national education systems. While the history and understanding of the emergence of public education is strongly associated with goals of social integration and cohesion, and the formation of nation-states (which might be thought to be important in the context of development), these concerns have been displaced by the notion of education as more or less exclusively concerned with national competitiveness – although individuals, of course, may be otherwise motivated by, and manipulated to, other goals such as lower fertility and even education for its own sake. Once again, it is blindingly obvious that human capital got there first and is now way out in front, not least in the new theories of endogenous growth, where human capital is especially prominent in explaining why growth and productivity rates differ.²⁴

The absent analytical prince in this theatrical account attached to human capital theory is how education is understood as a system. Across the

literature, the notion is more used than elaborated. Most common is a descriptive account in terms of hierarchical configurations of qualifications and institutions. More circumspect is the remarkably thin set of literature that seeks to locate the educational system in its broader socio-economic context. This, however, tends to be done through a historical and comparative method.²⁵ How and why did national education systems emerge, and how and why did they evolve differently. Such studies are an important antidote to economism and reductionism, especially in demonstrating that non-economics factors have always been paramount. Green (1990), for example, considers factors such as democratisation, progress and reform, urbanisation, proletarianisation, shifting structures of family life, crime, vagrancy, immigration, social unrest and control, institutional traditions, state policy and class alliances, militarisation, and nationalism.

The weakness of these accounts complements their strengths. In avoiding an approach to education as an imperfect market, the economic also tends to be neglected, an unfortunate feature in view of the appropriation of the economics of education by the human capitalists. An exception is to be found in the work of Ashton and Green (1996) that, significantly, is less concerned with education as schooling and more with skill formation and use, necessarily imparting consideration of employment and productivity.²⁶ They address the relationship between the economy and education and training, focusing on factors such as an evolving system of profitable accumulation, diversity across the economic system, the relative autonomy of the education and training system, the significance of the nation-state, and the contradictory tensions across all aspects of the economy and the education and training system.

They also address the conditions necessary for the successful attainment of a high skill strategy. These include elite state and employer commitment to skill formation and innovative use of productive system; heavy reliance on the educational system for language, science, maths and IT provision; regulation and accountability of training at the workplace; workers' commitment to the education and training system; and integration of training on and off the job. Further, such conditions can (fail to) arise through a variety of country-specific institutional forms – how industrial relations interact with technology choice, for example – and hence education and training systems. In the case of gender and education, how these specifically interact with the broader socio-economic system is of crucial importance and is hardly reducible to a more or less refined human capital approach.

Without the space to go into details, we would press the implications of such an approach further, and perceive education, as well as training and skills, as attached to a system or provision²⁷ with the following elements. First, education is, indeed, provided through a series of economic and other activities from the building of schools, to the setting of curricula, and to the functioning of labour markets for teachers. Second, educational provision is situated not only sequentially in terms of pre-school, school and post-school

environments, it is also potentially interactive with the full panoply of economic, social, political and cultural relations. Third, both the intrinsic educational process and its extrinsic context and impact are heavily embroiled in social structures, relations and processes, and their associated conflicts, which are themselves attached to underlying economic and political interests. Finally, as a result, the formation and evolution of education systems is historically contingent. While there are systematic factors in place, their interaction cannot be predetermined. In other words, national educational systems need to be allowed to define themselves and be understood as such in the light of underlying economic and political interests. They should not be forced within a framework or typology of pre-determined systems, let alone a system-less human capital theory.

By comparison, human capital theory simply sets these issues aside other than as the outcome of aggregated individual choice based on unchanging preferences across generations. Interestingly, the post-Washington consensus is, in principle, capable of accepting and analysing the presence of socio-economic systems. It does so, for example, in case of differing financial systems, as outlined elsewhere in this volume. Analytically, however, this depends upon reducing such systems to the historically evolved non-market, collective, institutional and customary responses to market and informational imperfections. The reductionism attached to such flimsy principles is incapable of doing justice to the rich complexity of educational systems and, not surprisingly, to our knowledge, no attempt has been made to understand education as a system in these terms (even though the need for state intervention is acknowledged on this basis). In effect, the failure of the post-Washington consensus to understand education systemically is a sharp reflection of an approach to education in terms of market failures. So pervasive are the market imperfections and their mutual spillovers in such an account that the education system as such and its socio-economic determinants increasingly appear as the necessary analytical starting points, rather than some generalised notion of market failure.

It has, thus, become so unusual, especially for economists, to address education in systemic terms that it is worthwhile justifying the approach by appeal to a particularly prominent issue even for the orthodoxy. Recent literature has emphasised the relationship between education, particularly schooling, and fertility decline, with the relationship usually crudely modelled and estimated. But stand back a moment. Are we to understand (reduced) fertility decisions as the aggregated outcome of individual choices? Consider the experience of the now developed economies – without taking them as a model of modernisation for the developing countries to emulate, even if this were possible. Little more than a century ago, they went through what is known as the demographic transition, which has attracted an enormous literature and numerous debates. These have focused on the sequencing, variety and interaction of factors such as industrialisation, urbanisation, proletarianisation, welfarism and labourism, consumerism,

household formation and culture, stratification by class, quite apart from educational provision in the round and with respect to contraception.²⁸ The vast majority of this literature, from considerably different methodologies and vantage points, is systemic and historical in content, and necessarily so given the extraordinary transition in economic, social, political and cultural life that it attempts to confront. It is hardly surprising that this literature should run in parallel with human capital theory, which, for both Washington and post-Washington consensus, is incapable of adequately incorporating the issues involved.

Conclusion

The general theme of our chapter is that the human capital approach to education, to which the World Bank is and has long been obsessively attached, is characterised by a paradox in which education is first taken out of the analysis and then brought back in. The latter, however, has the effect of undermining the paradigm itself, since the more issues are reincorporated the more the need is potentially raised for account of socio-economic processes, structures and relations, and how they fit together to reproduce or transform society and initiate and promote development. The only other possibility is to remain firmly committed to some form of rational-choice analysis, enriched by the information-theoretic results associated with the post-Washington consensus.

While this might provide a soft analytical landing for the most fanatical of mainstream neo-classical economists, it is not liable to be an option for the less extreme within economics and social theory more generally. However, it is also worth emphasising a further result and point of departure from the human capital approach to education in theory and to World Bank policies in practice. This is to recognise that any educational system, as the outcome of historically and socially evolved socio-economic practices, is inevitably specific to the particular country within which it is located. Accordingly, this must be reflected in our research and policy, and not in the form of remorseless calculation of rates of return to education and corresponding allocation of finance where these are high enough (and subject to manipulation to make them so). Further, education as panacea for development and for the World Bank's image as humane and female- and child-friendly must not be allowed to dull the senses to the continuing poverty of their analytical and policy perspectives.

Notes

- 1 Thanks to many for comments on an earlier version. Use has been made of an unpublished mimeo, Agbodza and Fine (1996). This chapter was completed whilst Fine was in receipt of a Research Fellowship from the UK Economic and Social Research Council (ESRC) under award number R000271046 to study 'The New Revolution in Economics and Its Impact upon Social Sciences'.

- 2 See also Blaug (1987) and Samoff (1996) for their discussions of schooling as a black box.
- 3 For a critique, see Fine (1998b).
- 4 In extending the notion of human to social capital, Coleman (1988, p. S100) is particularly clear about what is going on:

Probably the most important and original development in the economics of education in the past 30 years has been the idea that the concept of physical capital ... can be extended to include human capital as well. Just as physical capital is created by changes in materials to form tools that facilitate production, human capital is created by changes in persons that bring about skills and capabilities that make them able to act in new ways.

- 5 Note that a dual distortion is involved – in how capital is understood in the first instance as physical, prior to its being applied to education.
- 6 We leave aside the devastating theoretical and empirical implications of the Cambridge critique for human capital theory; however, see contribution on social capital in this volume.
- 7 For a review of the literature, see Card and Krueger (1996). See also Hanushek (1995) and Kremer (1995).
- 8 Of course, this creates resonances with one branch of social-capital theory, especially that associated with Coleman, in which educational outcomes are a consequence of familial background etc.
- 9 See, for example, the African Development Report (1998, p. 122), in which each of these factors are shown to be connected to each of the others, with household income also perceived as mutually conditioning accelerated economic growth.
- 10 For a full account, see Fine (1998a, Chapter 3) and, in the context of the dual problem of measuring labour market discrimination against women, while netting out differences in human capital, see Fine (1992). See also Preston (1997) for a careful review of the explanatory power of human capital theory for Australia.
- 11 For a discussion of many of the issues, see Bennell (1996).
- 12 See also Chiswick (1997, p. 5) on the questionable assumptions that those in schooling bear the private costs of being so as well as foregoing employment.
- 13 See also OECD (1998, pp. 31–2, 74 and 86–7) for the range of elements involved in the stock, the returns and the costs and benefits of human capital, respectively.
- 14 For him, this militates against learning later in life, as returns in the form of higher wages will only extend over a shorter remaining lifetime. This is presumed to explain why wages over a life-cycle rise from a low level before peaking and falling (in parallel with levels of human capital, which need to be renewed).
- 15 See Jones (1992) for an account of how education came to be a favoured target for World Bank loans and, having become so, has become internalised as part of a loan culture with considerable momentum.
- 16 Psacharopoulos (1981, p. 141) stated that the 1980 Bank Policy Paper deserves the full attention of the academic community as it represents the major explicit statement on applied educational policy in LDCs and, therefore, suggested that 'It might not be an exaggeration to treat this Paper as a modern Bible on educational development'. Furthermore, the 1995 World Bank (1995, p. 145) *Review* reports that it is the largest single source of external finance for education in developing countries, accounting for about a quarter of all external support.

- 17 It appears as if adult literacy is liable to continue to be neglected since it is very difficult to deploy as a general rationale for making loans. See Jones (1992 and 1997a). However, we do not cover this issue here.
- 18 For example, complete issues of journals have been dedicated to criticism of World Bank policy papers including *Prospects* 1980 and 1981; *Comparative Education* 1981; *Canadian and International Education* 1983; *Comparative Education Review* 1989; as well as *International Journal of Educational Development* 1996.
- 19 See Jones (1992, pp. 226–7) on the World Bank's research in the era of its commitment to human capital theory.
- 20 See, for example, Kingdon (1998) and Appleton *et al.* (1995).
- 21 For example, Kingdon (1998) shows that wage differentials between men and women in her sample are determined more by labour market discrimination than by differences in educational attainment.
- 22 See, for example, Knodel and Jones (1996).
- 23 The approach outlined in this section has been applied to schooling (and health, electrification and housing) in the context of South Africa (MERC 1993).
- 24 For a critical exposition, see Fine (1999).
- 25 Archer (1979) is the classic reference. For a review of approaches, see Green (1990).
- 26 See also Ashton *et al.* (1999) and Green *et al.* (1999).
- 27 See Fine and Leopold (1993).
- 28 For an approach to the transition in these terms in the context of Britain and female labour markets, see Fine (1992).

References

- African Development Bank (ADB) (1998) *African Development Report: Human Capital Development*, New York: Oxford University Press for the African Development Bank.
- Agbodza, C. and B. Fine (1996) 'The genealogy of human capital theory: One step forward, two steps back', mimeo.
- Appleton, S., J. Hoddinott, P. Krishnan and K. Max (1995) *Gender Differences in the Returns to Schooling in Three African Countries*, Milano: Economics Energy Environment.
- Archer, M. (1979) *Social Origins of Educational Systems*, London: Sage Publications.
- Ashton, D. and F. Green (1996) *Education, Training and the Global Economy*, Cheltenham: Edward Elgar.
- Ashton, D., F. Green, D. James and J. Sung (1999) *Education and Training for Development in East Asia: The Political Economy of Skill Formation in Newly Industrialized Economies*, London: Routledge.
- Baden, S. and A. Goetz (1997) 'Who needs sex when you can have gender? Conflicting discourses on gender at Beijing', *Feminist Review* 56: 3–25.
- Baumol, W. and W. Becker (1996) 'The economist's approach', in Becker and Baumol (eds) (1996).
- Becker, G. (1993) *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*, Chicago: University of Chicago Press.
- (1996) *Accounting for Tastes*, Cambridge, MA: Harvard University Press.
- Becker, W. and W. Baumol (eds) (1996) *Assessing Educational Practices: The Contribution of Economics*, Cambridge, MA: The MIT Press.
- Bennell, P. (1996) 'Using and abusing rates of return: A critique of the World Bank's 1995 Education Sector Review', *International Journal of Educational Development* 16(3): 235–48.
- Blaug, M. (1987) *The Economics of Education and the Education of an Economist*, New York: New York University Press.
- Bloch, M., J. A. Beoku-Betts and B. R. Tabachnik (eds) (1998) *Women and Education in Sub-Saharan Africa: Power, Opportunities and Constraints*, Colorado: Lynne Rienner Publishers.
- Bowles, S. and H. Gintis (1976) *Schooling in Capitalist America: Educational Reform and the Contradictions of Economic Life*, London: Routledge and Kegan Paul.
- Burnett, N. and H. Patrinos (1996) 'Response to critiques of priorities and strategies for education: A World Bank review', *International Journal of Educational Development* 16(3): 273–6.
- Card, D. and A. Krueger (1996) 'The Economic Return to School Quality', in Becker and Baumol (eds) (1996).
- Carnoy, M. (1999) 'Globalisation and educational restructuring', mimeo.
- Carrier, J. and D. Miller (eds) (1998) *Virtualism: The New Political Economy*, London: Berg.
- Chiswick, B. (1997) 'Interpreting the coefficient of schooling in the human capital earnings function', World Bank, Human Development Department, Policy Research Working Paper, no. 1790.
- Colclough C. (ed.) (1997) *Marketising Education and Health in Developing Countries: Miracle or Mirage?*, Oxford: Clarendon Press.
- Coleman, J. (1988) 'Social capital in the creation of human capital', *American Journal of Sociology* 94, Supplement, S95–S120, reproduced in Swedberg (ed.) (1996).
- Cornia, G., R. Jolly and F. Stewart (1987) *Adjustment with a Human Face*, Oxford: Clarendon Press.
- Fine, B. (1992) *Women's Employment and the Capitalist Family*, London: Routledge.
- (1998a) *Labour Market Theory: A Constructive Reassessment*, London: Routledge.
- (1998b) 'The triumph of economics: Or "rationality" can be dangerous to your reasoning', in Carrier and Miller (eds) (1998).
- Fine, B. (2000a) 'Endogenous Growth Theory: A Critical Assessment', *Cambridge Journal of Economics* 24(2): 245–65, a shortened and amended version of identically titled, SOAS Working Paper, No. 80, February 1998.
- Fine, B. and E. Leopold (1993) *The World of Consumption*, London: Routledge.
- Green, A. (1990) *Education and State Formation: The Rise of Education Systems in England, France and the USA*, London: Macmillan.
- (1997) *Education, Globalisation and the National State*, London: Macmillan.
- Green, E., D. Ashton, D. James and J. Sung (1999) 'The role of the state in skill formation: Evidence from the Republic of Korea, Singapore and Taiwan', *Oxford Review of Economic Policy* 15(1): 82–96.
- Griliches, Z. (1997) 'Education, human capital, and growth: A personal perspective', *Journal of Labor Research Observer* 10(2), Part 2: S330–S344.
- Hanushek, E. (1995) 'Interpreting recent research on schooling in developing countries', *World Bank Research Observer* 10(2), August: 227–46.
- Heward, C. (1997) 'The women of Husseinabad and the men in Washington: The rhetoric and reality of "Educating the Girl Child"', paper presented at the Oxford Conference on Education and Development, Oxford.
- Ilon, L. (1996) 'The changing role of the World Bank: Education policy as global welfare', *Policy and Politics* 24(4): 413–24.
- Jeffrey, R. and A. Basu (1996) *Girls' Schooling, Women's Autonomy and Fertility Change in South Asia*, New Delhi: Sage.

- Jejeebhoy, S. (1995) *Women's Education, Autonomy and Reproductive Behaviour: Experience from Developing Countries*, Oxford: Oxford University Press.
- Jones, P. (1992) *World Bank Financing of Education: Lending, Learning and Development*, London: Routledge.
- (1997a) 'The World Bank and the literacy question: Orthodoxy, heresy and ideology', *International Review of Education* 43(4): 367–375.
- (1997b) 'On World Bank education financing', *Comparative Education*, 33(1): 117–29.
- Kingdon, G. (1998) 'Does the labour market explain lower female schooling in India?', *Journal of Development Studies* 35(1): 39–65.
- Knodel, J. and G. Jones (1996) 'Post-Cairo population policy: Does promoting girls' schooling miss the mark', *Population and Development Review* 22(4): 683–702.
- Kremer, M. (1995) 'Research on schooling: What we know and what we don't: A comment on Hanushek', *World Bank Research Observer* 10(2), August: 247–54.
- Kumar, A. and C. Vlassoff (1997) 'Gender relations and education of girls in two Indian communities: Implications for decisions about childbearing', *Reproductive Health Matters*, 10: 139–50.
- Laroche, M., M. Mérette and G. Ruggeri (1997) 'On the concept and dimensions of human capital in a knowledge-based economy context', University of New Brunswick, Department of Finance, Working Paper, no. 89-01.
- Lauglo, J. (1996) 'Banking on education and the uses of research: A critique of World Bank priorities and strategies for education', *International Journal of Educational Development* 16(3): 221–33.
- Longwe, S. (1998) 'Education for women's empowerment or schooling for women's subordination?', *Gender and Development*, 6(2): 19–26.
- MERG (Macroeconomic Research Group) (1993) *Making Democracy Work: A Framework for Macroeconomic Policy in South Africa*, Cape Town: CDS.
- Mincer, J. (1997) 'The production of human capital and the life cycle of earnings: Variations on a theme', *Journal of Labor Economics* 15(1), Part 2: S26–S47.
- OECD (1998) *Human Capital Investment – an International Comparison*, Paris: OECD.
- Prendergast, R. and F. Stewart (eds) (1994) *Market Forces and World Development*, London: Macmillan Press.
- Preston, A. (1997) 'Where are we now with human capital theory in Australia?', *Economic Record* 73(220): 51–78.
- Psacharopoulos, G. (1981) 'The World Bank in the world of education: Some policy changes and some remnants', *Comparative Education* 17(2): 141–5.
- (1996) 'Designing educational policy: A mini-primer on values, theories and tools', *International Journal of Educational Development*, 16(3): 277–9.
- Psacharopoulos, G., J.-P. Tan and E. Jimenez (1986) *Financing Education in Developing Countries*, Washington, DC: World Bank.
- Puiggros, A. (1997) 'World Bank education policy: Market liberalism meets ideological conservatism', *International Journal of Health Services* 27(2): 217–26.
- Samoff, J. (1996) 'Which priorities and strategies for education?', *International Journal of Educational Development* 16(3): 249–71.
- Schultz, T.P. (1995) *Investment in Women's Human Capital*, Chicago: University of Chicago Press.
- (1998) 'The formation of human capital and the economic development of Africa: Returns to health and schooling investments', African Development Bank, Economic Research Papers, no. 37.
- Stewart, F. (1994) 'Education and adjustment: The experience of the 1980s and lessons for the 1990s', in Prendergast and Stewart (eds) (1994).
- Stiglitz, J. (1996) 'Some lessons from the East Asian miracle', *World Bank Research Observer* 11(2): 151–77.
- (1997) 'An agenda for development for the twenty-first century', Ninth Annual Bank Conference on Development Economics, Washington DC: World Bank.
- (1998a) 'More instruments and broader goals: Moving toward the post-Washington consensus', the 1998 WIDER Annual Lecture, Helsinki: WIDER.
- (1998b) 'Towards a new paradigm for development: Strategies, policies and processes', the 1998 Prebisch Lecture, Geneva: UNCTAD.
- Stromquist, N. (1994) 'Gender and basic education in international development cooperation', UNICEF Staff Working Papers no. 13, New York: UNICEF.
- (1998) 'Agents in women's education: Some trends in the African context', in Bloch *et al.* (eds) (1998).
- Summers, L. (1994) 'Investing in all the people: Educating women in developing countries', EDI Seminar Paper, no. 45, Washington DC: World Bank.
- Swainson, N. (1998) 'Background paper on gender and education', mimeo, Oxford.
- Swedberg, R. (ed) (1996) *Economic Sociology*, Cheltenham: Edward Elgar.
- Tilak, J. (1997) 'Lessons from cost recovery in education', in Colclough (ed.) (1997).
- Watson, K. (1996) 'Editorial', *International Journal of Educational Development* 16(3): 213–14.
- World Bank (1995) *Priorities and Strategies for Education: A World Bank Review*, Washington, DC: World Bank.
- (1999a) *Education Sector Strategy*, Washington, DC: World Bank.
- (1999b) *World Development Report. Knowledge for Development*, Washington, DC: World Bank.