

EDUCATION AND EMPLOYMENT

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I wish to draw my essential argument together by way of a commentary on some widely held shibboleths about the role of education in the "employment problem"; in short, a critique of the platitudes that are heard in every country whenever men and women sit down around conference tables to discuss the problems of less developed countries.

I. Education Increases the Volume of Employment

This is certainly true in the short run, if what is meant is that education itself is a labour-intensive industry, and it may be true in the long run, if what is meant is that education is a type of social investment because it renders people more productive. But in what way is it more productive? By teaching children manual or mechanical skills they could not have acquired elsewhere? True for certain specific professions, but surely not true in general. By imparting "developmental" values and attitudes? But can schools do this; and, if so, how do they do it? Unless we know that, we cannot be sure that more education would impart more of these appropriate values. Perhaps schools only sort out children in terms of their native drives and aptitudes, in which case there may be better and cheaper sorting machines than the educational system. In other words, the proposition is likely to be misleading unless the relevant time period is specified and unless the sense in which education is said to be "investment" is explained.

A different interpretation of this proposition depends on the idea that more educated people save more and spend less, and when they do spend they tend to consume labour-intensive goods and services.

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There may well be a relationship between education and individual saving; however, it is not really inadequate saving that explains the poverty of poor countries, but rather the type of investment outlets into which the savings are transferred. As for the pattern of consumption spending, it has yet to be empirically demonstrated that its factor intensity is well defined in terms of the educational attainments of consumers.

II. Education Works to Eliminate Poverty

Over the long run, this reduces to the first shibboleth. It may be taken in another sense, however. Education acts to reduce the birth rate, directly via the education of women and indirectly via an increase in the period for which children are dependent on their parents. And the lower the rate of population growth, the higher the level of income per head. Furthermore, education is a necessary complement to sanitation and nutrition programmes, and these work directly to eliminate the consequences of poverty. The trouble with all such arguments is that they do not lead anywhere: it is not enough to know that education is casually related to family limitation; we need to know the magnitude of the casual effect if we are to choose between more education and other ways of restricting population growth.

Still another interpretation of the proposition before us is that education is a necessary input into certain activities for which there is an effective demand but which cannot now be produced at all; in other words, there are manpower shortages and these shortages inhibit the growth of output. No doubt there are still examples around the world which are capable of supporting this extremely simple reason for expanding education, but they are rapidly becoming harder and harder to find. Even some of the remaining examples are spurious: if there is a shortage of plumbers that holds back the construction industry, it is usually because the scarcity of plumbers has not been allowed to raise the wages of plumbers; or because plumbing equipment cannot be imported owing to foreign exchange control; or because there really is no shortage of plumbers as such but only of good plumbers, a problem which cannot be solved simply by training more plumbers.

III. Education Causes Unemployment

Taken at its face value, this is clearly wrong. What is meant, however, is that there is something about education that makes people unemployable; it raises their aspirations beyond all hopes of satisfying them; it gives them the wrong skills, or the wrong attitudes. There is clearly something in this argument, but the point about aspirations is really true of the entire development process. Imagine if there were no education. Surely then the complaint would be that these countries are poor because they do not want to better themselves? Is there an educational system anywhere that raises career expectations just so much but not a jot more than can be satisfied by prospective job opportunities?

If the skills and attitudes now fostered by educational systems are wrong, what would be the right skills and attitudes? Vocational skills, of course, and attitudes of self-reliance. But what is a vocational skill? One that can be turned directly into the production of saleable output? Surely, this is better learnt on the job? Is it instead a foundation which expedites on-the-job learning? If so, that is what schools aim to do. If it is too specific, it will not serve the needs of every student; and if it is general, why call it a vocational skill? As for self-reliance, we have yet to learn how to instill it, although admittedly traditional education makes a poor job of it.

IV. Education converts underemployment into open unemployment

Traditional rural societies share the work to be done among members of the family, each member working perhaps less than he would like. Education causes people to leave these traditional communities and to move into the modern urban sector where the same work will be done by fewer workers, the rest being left unemployed. In that sense, the more highly educated a poor society is, the greater the amount of open unemployment observed in it.

True, and yet too general. Education indeed stimulates the "flight from farming" - not, however, because it is bad education but because the same impetus that drives parents to send their children to school sends these same children to seek employment in towns:

the awareness of greater earnings in towns and even greater opportunities for part-time employment while continuing the search for a full-time job. Beside, towns in Africa and Asia are poorly described as made up entirely of the modern sector; the intermediate urban sector is not unaccustomed to work sharing and it also provides ample opportunities for apprenticeship training. Furthermore, it is not just education that converts underemployment into open unemployment but the entire development process. The real problem is that education absorbs resources so that educated unemployment is a more serious economic problem than open unemployment as such; it represents a using-up of resources that might have been devoted to creating employment opportunities.

V. Education is Simply Part of the Scramble for a Limited Supply of Top Jobs

Employers will always prefer more highly educated people for any job whether or not the higher qualifications are in fact necessary for efficient performance. Hence, students are motivated to acquire extra education in order that they may better compete in the rat race; but their education does not make them more productive and hence has no ultimate consequences, either for total output or for total employment.

We recognise this argument as the so-called "screening hypothesis" or "certificate effect" and cannot stop to do justice to it here. Suffice it to say that it is unconvincing as a general explanation of why educated people earn more than uneducated ones. Notice, however, that it contradicts propositions III and IV. If education by its irrelevant content renders people unemployable, how is it that employers are "conspicuous consumers" of more educated people? Perhaps it is the government which is the irrational employer in question. Is it that education is relevant to the clerical needs of the civil service but not the profit-maximizing needs of industry? Why then is industry reluctant to convert these badly educated workers by means of labour training? And if it already does so why does it prefer people as trainees instead of simply hiring able people as revealed by aptitude tests, whatever their educational qualifications? But enough said. Proposition V is too extreme to be worth a full discussion.

VI. Public Subsidies to Further Education Always Result in Excess Demand for Education and Hence in Excess Supply Educated Manpower

The argument is simply that as the benefits of education accrue almost exclusively to educated individuals themselves in the form of higher salaries, while the costs of education are largely borne by society as a whole, further education continues to be a privately profitable investment far beyond the point at which it has ceased to be socially profitable. Moreover, the much greater visibility of the earnings of those who are employed, as against the lack of earnings of those who are not, exaggerates the profitability of more education to private individuals and so encourages the demand for education. By implication, the remedy is to shift more of the costs of education to students and parents and to publicize the evidence on the incidence of educated unemployment.

All too true, and yet not the whole story. If the labour market worked smoothly and more or less instantly, it would long ago have adjusted to the excessive demand for education by reducing the earnings differentials between more educated and less educated people to zero. And if the labour market does not work smoothly and works only with long lags, there may be educated unemployment even though education is not heavily subsidized, as witness the case of higher education in the Philippines. Thus, educated unemployment must be attacked both in terms of educational finance and in terms of labour market policies.

VII. Excessive Salary Differentials in the Interests of the Ruling Elite are Responsible for Educated Unemployment

Earnings differentials in less developed countries are excessive by international standards: in the United States of America, a doctor earns three times the average income per head, in India he earns 20 times as much, and so on. These differentials were frequently created at the time of the independence of the countries concerned in an effort to attract expatriate personnel, and they have been maintained ever since by highly educated political elites through their control of the public sector and their influence on private firms.

Obviously, this creates an insatiable demand for higher education, and we get educated unemployment simply because at some point tax revenues prove incapable of absorbing even more graduates into the public sector.

This argument is clearly modelled on the former British colonies of tropical Africa, but if suitably amended it has some relevance to Asia as well. It depends critically on what is meant by excessive salary differentials. International comparisons prove nothing except that, as economic theory predicts, a scarcer factor will always receive a relatively higher price: after all, educated people are scarcer in India than in the USA. Nevertheless, there is a clear sense in which earnings differentials associated with education are excessive in less developed countries; the fact that it is educated unemployment is enough to tell us that there are more educated people looking for work at going wage rates than are vacancies. But the maxim: "Reduce differentials" is not by itself very helpful. What keeps the differentials artificially high? Is it government policy? Surely not in all countries because in many of them salaries are dominated by private firms? We are not going to make much progress here unless we find out much more than we now know about the hiring practices of both the private and the public sector in less developed countries. Thus, labour market studies ought to be the kernel of research work on the role of education in the employment problem of developing countries.

VIII. A Transitory Problem

We know that unemployment in poor countries is at present concentrated among the young and that even among them it is concentrated in the early years of their working lives. Is this the invariant pattern or can we expect the high rates of unemployment at present observed in the younger age group to become characteristic of the older age groups in time to come? In other words, will it always be largely youth unemployment and hence educated unemployment, simply because in a rapidly growing educational system it is the young who receive the bulk of the additional education; or will it gradually turn into mass unemployment evenly distributed throughout all ages and all levels of education? This is the critical question for the developing world.

To attempt a decisive answer to the question would be presumptuous. But a stab at an answer would run as follows: if the less developed countries maintain their present growth rates, the problem in the foreseeable future will indeed remain that of unemployment heavily concentrated among those aged 15 to 25. On the other hand, there is no easy remedy in sight for youth unemployment and for educated unemployment. The present tendency of educational systems to grow more quickly at the top rather than at the bottom of the educational ladder must somehow be reserved, and I have argued that this can be achieved only by a restructured pattern of educational finance combined with deliberate intervention in labour markets. To reverse these trends does mean that we shall cure educated unemployment only to create or to aggravate the "school leaver problem". But the remedy for the school leaver problem, at least in the short run, lies in the provision of out-of-school education. In the long run, it lies in the slow and patient reform of primary education from within by curriculum reform, examination reform and the improvement of teacher training. It may not be a very exciting prospect for those who hanker for quick results, convinced that there is somewhere a clever idea never previously considered which will solve all our difficulties overnight. But here, as elsewhere, it is "piece-meal social engineering" which I believe will prove to be the method by which we shall eventually solve the problem.