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Understanding The Private Demand For Education

Abul Basher

No economist recognises education as consumption. Rather, it is considered as investment which yields the augmentation of productivity of the human being. The non-economic approach to education defines it to be an instrument of cultivating the mind to higher moral percepts and way to life. These two approaches are not conflicting. The economic effects of education can be divided into the effects on the incomes of persons receiving education and the effects on the incomes of others. This distinction largely corresponds to the distinction between private and social effects. Being a source of substantial improvement, education is also socially desirable. But an individual is very much alone to decide whether he/she will be educated or not and what will be his/her level of education. At the early stage one individual goes to school just to obey his/her parents or imitates his/her friends who are no doubt being advised by their parents along similar line. After achieving a standard level of maturity, i.e. becoming an "economic person" he/she can take any decision about undertaking education on the basis of rational economic calculation.

Orthodox economics assume that in making any economic analysis of private demand for education, an individual takes account a number of factors such as private cost of education including both earnings foregone and fees, other direct costs, for example, expenditures on books and other materials, out-of-pocket expenditures for clothes, travel etc. and income of parents. Given these relevant constraints, an individual decides the level of his/her education. Considering high cost as the main impediment to education, policies were taken to reduce the cost of education through providing subsidy at all levels of education. But provision of subsidy in previous decades failed to ensure the dissemination of the light of education. This failure necessitates the search for the root causes and determinants of private demand for education.

Fortunately, modern economics is now capable to take into account the impact of investment in education, and the socio-economic class of the individual, in analysing the decision-process of private education demand. Education, being a human investment results in an addition or augmentation of productive capacity of the individual. Usually, educated individuals in Bangladesh sell this augmented productivity in the market. Thus the market becomes as important for an individual as the cost of education and parental income, in deciding the level of education. If markets were functioning competitively in Bangladesh, actual scope and price of selling the augmented productivity could have been reflected in the market. But in Bangladesh scope and price of selling productivity does not solely depend on market factors i.e. demand and supply forces, but also on institutional factors. Scope is determined by social a class. Kinship conflicts with profit-maximisation, which is a basic in market mechanism.

No economic theory can explain why an MD of a private firm employs his brother/brother-in-law in a vacant post despite having more competent candidates, or why the salary of an employee with similar duties differs widely between a local and foreign firm. Though having no qualitative differences in academic performances/results, jobs wait for some and for some others they are beyond reach only due to the differences in socio-economic background of the two groups.

Bribes required to get a job after education is also counted in making economic calculation of taking education. Availability of a "Mama" (a strong lobby for a lift) also affects the access to the job market. Therefore individuals with different socio-economic status are not equally

drawn to the future "prospects" of education. Social connections of his/her parents, religion and the region where he lives appear to be important in determining private demand for education.

We cannot assume that the individual is in an omniscient position while taking the decision about education. Informational asymmetry is an important factor that must be taken into account to grasp the private demand for education. An individual determines the level of education on the basis of the information about the possible returns of different levels and types of education. But access to information is not equal for each. Usually, between the urban and rural individuals, the former have more access to information than the latter. Again, parental status and education also affect the access to information. A rural individual receives these information from his teachers, aged neighbours or parents. Thus a man of past generation prepares a man of present generation for the future. The private demand for education depends on these information transmitted to the individual. These transmissions include neither objective frequency in information nor the crude information only. They also include predictions and inferences about the future scope and opportunity of different types and levels of education. In maximum cases rural sources of information fail to predict correctly. This may result in wrong selection of level and type of education. Sometimes rural individuals lack sufficient information. This asymmetry of information affects the private demand for education.

Returns of investment in education involve a substantially large time lag. Investment in education means sacrifice of present consumption for an inflated future consumption. Indi-

vidual's time preference between present and future consumption, therefore, plays an important role in the decision making process of demanding education. The implications of high time preference i.e. high subjective discount rate are use of more resources to meet present consumption and low investment in yields with high future returns. The very poor, struggling at the edge of subsistence levels of consumption, are occupied with survival on day-to-day basis. Their ability to plan is often restricted to a critically short time horizon, measured in days or weeks. This lowers the ability to forego consumption today by investing in education for later consumption. A myopic individual also always prefers present consumption to future consumption. Though extent of poverty is the main determinant of time preference, there are also some other factors that influence the time preference. It is not necessarily that an affluent individual will always be less myopic than a non-affluent individual. An individual's instinct, intelligence and merit determine his capability to evaluate the future and therefore influence the time preference, which in turn affects the private demand for education.

An enquiry based on above notions will help to understand the problems of the education sector in Bangladesh. Low level of participation in the education system by rural people irrespective of rich and poor than urban counterpart appears to be consistent with existing social structure and informational asymmetry. High level of drop-out in upper primary and secondary level of education becomes consistent with poverty status and time preference of rural parents. Without eliminating the structural constraints, lowering the transaction cost of information, improving the poverty status, any attempt to lower the cost of education by allowing higher subsidy will not be able to achieve the desired target of ensuring education in the society.