

# THE AUSTRIAN ECONOMICS OF EDUCATION

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The economics of education may lay claim to being one of the duller and least inspirational sub-disciplines in economics. Born in the late 1950s, it peaked sometime around 1970 and has been in terminal decline ever since. In the aftermath of World War II, politicians were faced with some difficult and increasingly complex problems of how best to plan, manage and finance their nationalised education systems. Questions which used to be the sole concern of parents, such as understanding the value of different levels and types of education and how they would benefit their children, were now to be addressed nationally by a new breed of economist. With the increasing demand for education, politicians also needed to know how best to invest our money in education. For example, should public funds be directed towards primary, secondary or university education? Was vocational training more valuable than academic study? If so, what kind of vocational training was required to meet the future needs of the economy? What were the future needs of the economy?

In short, the economics of education was about government planning or 'the application of rational, systematic analysis to the process of educational development with the aim of making education more effective and efficient in responding to the needs and goals of its students and society' (Coombes, 1970). Unfortunately there was one major problem. The only people with any real idea about the educational needs of each individual child were the children's parents, which the government had already removed from the debate. Their needs were therefore replaced by the collective needs of 'society', which were constantly changing depending on the political party currently in power.

Fast forward to the present day and the increasing recognition of the emergence of hundreds of thousands of private schools serving low-income families across the developing world. These purely private education markets are now developing at some pace. Primary schools are now extending their activities into secondary education, schools are now co-operating with each other and forming private school associations, and others are making use of micro-finance loans to help fund their expansion. For an academic researcher who is interested in understanding more about these spontaneous developments, one thing has become increasingly clear – the traditional 'Economics of Education' textbook has become completely redundant.

After carrying out focus group discussions with hundreds of parents in the Kibera slums of Nairobi, it became increasingly clear that the market for education was an incredibly complex phenomenon. The concept of value and what was viewed as quality in education was entirely subjective and dependent on each parent's circumstances at that particular time and place. School fees (prices) played a fundamental role in making teachers accountable to parents and when these fees were removed and 'free' education introduced, it became immediately clear to parents that there was no such thing as 'free' education. While the costs were not immediate and were often hidden, parents were fully aware of them whilst the government planners remained completely in the dark. Discussions with school owners also highlighted the important role of entrepreneurship in these emerging education markets. The variety of skills which they possessed and their unique ability to recognise potential opportunities, combined with their positive attitude towards risk taking, placed the educational entrepreneur centre stage. The impact of increasing choice on the actions of parents and the schools themselves was also clearly visible. Competition was obviously viewed as an ongoing process 'in which people acquire and communicate knowledge'. For parents it was a process which was beginning to drive innovations in the content of education and how it was delivered. The magic of these developing markets was that parents were now back in control of their children's education. The decisions that were previously being made by government planners and their so-called economists were now being made by parents.

Questions such as how and why markets work, the role of prices, competition, the entrepreneur and the different methodologies which can be used when examining these markets – all these concepts now need to be explained to a completely new audience. So come on all you budding Austrian economists, fix your bayonets and prepare to charge. The economics of education is dead. Long live the Austrian economics of education.

## Reference

Coombes, P. H. (1970) *What is Educational Planning?*, Paris: IIEP, UNESCO.

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