

JEDER MENSCH BRAUCHT  
FREIHEIT, UM SEINE  
ANLAGEN UND FÄHIGKEITEN  
ENTFALTEN UND  
VERWIRKLICHEN ZU KÖNNEN.  
ER MUSS  
VERFÄHREN KULTUR UND  
WISSENSCHAFTEN, STAGNIERT  
DIE WIRTSCHAFT.  
GEISTIGES LEBEN BRAUCHT  
FREIHEIT GENAUSO, WIE DER  
KÖRPER DIE LUFT ZUM ATMEN.

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James Tooley

# Could the Globalisation of Education Benefit the Poor?



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# Could the Globalisation of Education Benefit the Poor?

James Tooley

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# COULD THE GLOBALISATION OF EDUCATION BENEFIT THE POOR?

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## 1 Introduction

A recent poster from the British National Union of Teachers (NUT) features a clean-cut young man wearing a three-piece pinstriped suit, sporting a fat cigar, with red sports car behind and wads of million dollar bills piled in front. The legend reads: 'Education is for children, not for profit'. The NUT intends two messages to emerge from this poster: for profit education is an oxymoron; and, because the character is dealing in dollar bills although in the UK, that globalisation also is a force that threatens education. The NUT is not alone in seeing contradictions between profit, globalisation and education. Numerous education academics (e.g., Rikowski, 2002, Carr and Hartnett, 1996, Foster, 2002, Gewirtz, et al, 1995, Grace, 1989, Ranson, 1993 and Winch, 1996) and education journalists (e.g., Beckett, 1999, Walfish, 2001) have also written about the purported contradictions.

What is it about these relationships, between profit, globalisation and education, that are so objected to? This paper explores these issues in the context of recent research conducted in 'developing' countries, including in urban slum and poor rural areas. The paper examines the question whether globalisation in education could benefit the poor in these contexts. The paper excludes any consideration of 'higher' education, where I believe the arguments are actually much easier to address, but instead takes 'non-higher' education as its focus, to examine the most difficult case for globalisation supporters. It also does not consider whether there are ramifications for whether or not the profit motive could also have a beneficial impact in other contexts, such as in 'developed' countries or with the middle classes.

The argument has four parts. First, we note that globalisation implies that the private sector is involved in education in a significant way. Hence the question 'Could globalisation of education benefit the poor?' requires a prior answer to the question: 'Could *private education* benefit the poor?'. This in itself requires prior discussion of the issue of whether private education is *available* to the poor, in slum and rural areas of developing countries. But globalisation would imply more,

that *for-profit* private education is also permitted to play a part in education; hence the sections exploring whether or not for-profit education is available to the poor, and whether or not it could be of benefit. Finally, we look at the relevance of GATS to the discussion, and point to certain policy conclusions.

## 2 Is private education available to the poor?

The first issue to explore is whether or not private education is available for the poor - for it appears a common assumption in the West that private education only serves the elites or middle classes. In fact, there is mounting evidence of the phenomenon of private schools serving the poor, in urban slums and villages, in a range of developing countries, as summarised, for example, in The Oxfam Education Report: „...the notion that private schools are servicing the needs of a small minority of wealthy parents is misplaced“, (Watkins, 2000, p. 229). One example of this common phenomenon is in Lahore, Pakistan, where „it is interesting to note that a lower-cost private sector has emerged to meet the demands of poor households“ (Watkins, 2000, p. 230).

Research carried out in Pakistan supports this thesis. The study divides households into six income groups to find the percentage of children in private, government or out of school for each income band. The authors note that ‚a high share of children are enrolled in private schools, even children from the poorest families‘ (Alderman et al, 1996 p. 10). Even in the lowest income category the government school enrolment is only slightly higher than private school enrolment (40% in the government and 37% in the private sector), (Alderman et al, 1996 p. 23).

In India, the Probe Team (1999, p. 103) found a similar phenomenon in its research in villages in four northern Indian states:

‚Even among poor families and disadvantaged communities, one finds parents who make great sacrifices to send some or all of their children to private schools, so disillusioned are they with government schools‘

Similarly, the fact that many children in India now attend private schools is reported in Dreze and Sen (2002). They estimate that in 1994, 30% of all 6-14 year olds in rural areas - who will be predominantly from low-income families - were enrolled in private schools. In urban areas, they also estimate that 80% or more of this age group attend private schools, including children from low-income families (Dreze and Sen, 2002, p. 172).

Moreover, the research undertaken by Aggarwal (2000) conducted a census of schools in Haryana, India. Researchers visited every private primary school they found, whether it appeared on a government list or not. Data were collected from 878 private unaided unrecognised primary schools, and 1,242 private unaided recognised primary schools located in the survey area. (In India, the category 'recognised' means that the private unaided school, according to inspectors, complies with government regulations conferring recognition status). The research found that private unrecognised schools 'are operating practically in every locality of the urban centres as well as in rural areas' often located adjacent to a government school (Aggarwal, 2000, p. 20). It was estimated that in Haryana almost 50% of children attending primary schools are enrolled in the private sector (p. 26), many of whom are from low-income families.

But it is not just in the Indian sub-continent that this phenomenon is emerging. In sub-Saharan Africa, researchers have noted the phenomenon of the 'spontaneous' or 'bush' schools, catering for those who otherwise have no access to education: 'independent in funding, management and curriculum, ... They also charge fees and accept contributions in kind but at the minimum level, bearable for the local population.' (Kitaev, 1999). The Independent Schools Association of Southern Africa (ISASA) reports that the number of private schools has at least doubled since 1994, to some 2,000 in total, and that many of the new schools have been set up by black parents in poor communities in response to the shortcomings in state schooling (Business Day, 2002). In rural areas there is also the growing phenomenon of the farm and mine schools, small, multigrade private primary schools, serving poor communities (Donahue, 1997, pp. 210-211). Finally, in China, it is reported that 60 per cent of students in private schools in Zhejiang come from families belonging to the low salaried stratum, while in Qian County, a northern county in the central Shaanxi plain, retired teachers and rich peasants have established nearly a hundred private primary schools, with an enrolment of 10,000, accounting for one seventh of total primary students (Xi, 1996).

All of this evidence concerns published sources. To this I can add that the ongoing, and hence as-yet unpublished, research that I am directing in Ghana, Nigeria, Kenya, Sierra Leone, India and China points to the phenomenon across these countries. A census of three low-income areas in Lagos State, Nigeria, for instance, points to 752 primary and secondary schools available, of which one third are government, one third private schools registered with the government, and fully one third private unregistered (and hence illegal) schools. Similarly, a census conducted in Kibera, Nairobi, one of the largest slum areas in sub-Saharan Africa, has revealed 70 private schools operating at primary and secondary levels.

Finally, a census of three low income areas in Hyderabad, Andhra Pradesh, India, reveals 962 schools, with over half of these unrecognised by government, and fully three quarters of school-going slum children attending private school.

Hence, it can be concluded that private schools are emerging for the poor in a range of developing countries. The key question then is: Why do parents send their children to private unaided schools, when free (at the point of delivery) government schools are usually available? The answer to this question will help us reflect on whether or not private schools are beneficial to the poor, before moving on to the further question of what part the profit motive might play in this provision.

### 3 Is private education beneficial to the poor?

There is considerable evidence available on this issue that suggests that private education is more beneficial to the poor than the government alternative, and hence that parents are making rational decisions by sending their children to private schools. First, the research carried out by Alderman et al (1996) examined the quality of government and private schools in low-income neighbourhoods in Lahore, Pakistan. Children in grade 3 were given exams in Urdu and mathematics, based upon the official curriculum. The conclusion reached was that attending a private school raises maths and language achievement relative to attending a government school. Holding observed and unobserved child and home attributes fixed, the sample means for mathematics and language scores were 17.9 and 19.0 for private schools and 16.3 and 17.4 for government schools.

Second, in India and other developing countries, government schools have also been found by research to be failing to provide quality education, especially when it comes to serving the needs of the poor (The Probe Team, 1999; Dreze and Sen, 2002; Aggarwal, 2000; Watkins, 2000). For instance, the Probe Report gives a detailed picture of how public schools serve low-income families in four Indian states. The picture that the report paints of the government schools is bleak. It describes the 'malfunctioning' in public schools for low-income families (The Probe Team, 1999, p. 47). The schools suffered from poor *physical facilities* and high *pupil-teacher ratios*, but what is most disturbing is the low *level of teaching activity* taking place. When researchers called unannounced on their random sample, *only in 53 per cent* of the schools was there any „teaching activity“ going on. In fully 33 per cent, the headteacher was absent (p. 63). The deterioration of teaching standards is not just to do with disempowered teachers, however. Significantly, the low level of teaching activity occurred even in those schools with relatively good infrastructure, teaching aids and pupil-teacher ratio. Even in these schools,



*„... teaching activity has been reduced to a minimum, in terms of both time and effort. And this pattern is not confined to a minority of irresponsible teachers - it has become a way of life in the profession.' (The Probe Team, 1999, p. 63).*

Significantly, the Probe report points to the existence of the *private* schools serving the poor and low-income families, and concedes that the problems that were found to exist in the government schools were not apparent in the private alternative. In the great majority of private schools – a random sample again visited unannounced – there *was feverish classroom activity!* So much so, that the majority of parents reported that *,if the costs of sending a child to a government and private school were the same, they would rather send their children to a private school!* (The Probe Team, 1999, p. 102).

Exactly the same finding comes from research comparing private and government schools in Uttar Pradesh, India. Here, it is reported that *,no active teaching was taking place in any of the fifteen sample [government] schools at the time of our visit!* The government schools were regarded as *,no more than childminding centres!* with absenteeism of pupils the norm (Dreze and Gazdar, 1997, p. 66). Interestingly, Dreze and Gazdar seek to excuse this absenteeism by pointing to the harvest season and the need for children to become involved in harvesting. However, in the private schools visited *at the same time the*

*,school is packed with enthusiastic children (boys as well as girls) while the local government school exudes a familiar atmosphere of desertion. apathy, and decay' (Dreze and Gazdar, 1997, p. 72).*

Clearly, it was more than the exigencies of the season that was leading to the private schools' greater attentiveness.

So what is it about the private schools that leads to this improved focus on what parents want? The first key feature of the private schools, the Probe Report stresses, that make them better than the public schools, is their *accountability:*

*,In a private school, the teachers are accountable to the manager (who can fire them), and, through him or her, to the parents (who can withdraw their children). In a government school, the chain of accountability is much weaker, as teachers have a permanent job with salaries and promotions unrelated to performance. This contrast is perceived with crystal clarity by the vast majority of parents!' (The Probe Team, 1999, p. 64).*

Accountability is also the factor highlighted by Dreze and Saran (1993), who note that in a government primary school in Palanpur, Uttar Pradesh, 'since the salary of the teacher was not related to his work performance, and since his appointment was technically a „permanent“ one, he had little incentive to take his job seriously. In fact he rarely took the trouble of turning up at all' (Dreze and Saran (1993), p. 36). Again, they note that such problems are not found in the private sector:

*„Private schools have the advantage of being „incentive compatible“, in the sense that it is in the interest of the parents to keep an eye on the teacher, and in the interest of teachers to be responsive to parental demands (unlike in the government primary school, where the teacher is paid irrespective of his performance). (Dreze and Saran (1993), pp. 39-40).*

Sen (2001) also found a high incidence of teacher absenteeism in his research carried out in government schools in poor villages in West Bengal, India. Moreover, the Oxfam Report points out that it is the 'inadequacies of public education systems' that 'have driven many poor households into private systems' (Watkins, 2000, p. 207). The report cites teacher absenteeism in government schools to be the reason why poor households choose to send their children to the private alternative (Watkins (2000), p. 230). And in the Chinese private schools serving low income families, it is reported that, although they charge fees that are half the cost of public schools, notwithstanding this, the private schools have a lower student-teacher ratio (Xi, 1996).

Given this discussion of both the availability and the suggested superiority of private schools – at least in terms of teacher commitment, facilities and teacher-pupil ratio – for the poor vis-à-vis government schools, we can tentatively conclude that the available evidence indicates that private schools may indeed be beneficial to the poor. This is true even though they have to incur higher expense in sending their children to private schools – for the alternative is lower quality education. One caveat must be inserted here: while some of the poor (defined as those who live in urban low income areas or rural villages in developing countries) may be able to afford the required fees, the poorest of the poor clearly cannot. Does this contradict the claim about private schools benefiting the poor? No, for two reasons. First, as indicated below, it has been found that private schools serving low-income families themselves offer free and subsidised places, so that the poorest can avail themselves of the schools; second, if private schools are seen to offer benefits to low-income families, vis-à-vis government schools, then this points to the importance of policy initiatives such as vouchers (private and/or

public) that would enable the poorest to access private education, rather than a dismissal of the potential of private education to benefit the poor (for further discussion of this important issue, see Tooley and Dixon, 2003b, ch. 6). We now turn to the issue of profit to see how this impacts on the argument.

## 4 Is for-profit private education *available* to the poor?

When I've reported data similar to the above to academic seminars, one comment has often been that these figures reflect what the not-for-profit sector is doing in education, and perhaps illustrates its virtues with regards to the poor, but certainly does not defend for-profit education, because such a sector does not exist in developing countries, at least for the poor. Private schools for the poor are assumed to be run by charities, churches, mosques or ashrams, not by commercial concerns. Intuitively, this seems obvious – for if schools are charging as little as about \$1 per month or lower, as in the schools described above (see The Probe Team, 1999, Dreze and Saran, 1993, pp. 39–40, p. 72), then the conclusion is obvious that these must be charitable, rather than profitable, concerns. This reaction, however, is not entirely correct.

First, the ongoing research that I am directing in Africa and Asia has uncovered a wide range of commercially run schools. In the Kibera census, in Kenya, for instance, we found that fully 35% of the schools were run as commercial concerns, (as proprietorships), compared to 35% as church/mosque schools, and 30% as self-help (harambee) or community group schools. Indeed, this is in itself misleading, because about 10% of the private church schools were subsidising the churches, rather than the presumed other way around!

Our work in India is at a more advanced stage, and provides the basis for the rest of the section. Here the reality is vastly different from what one might assume regarding appearances.

For in India, it is certainly true that there is a prohibition on for-profit education. The Unni Krishnan Supreme Court Decision asserts the following concerning private educational institutions:

*,One thing is clear: commercialisation of education cannot and should not be permitted. The Parliament as well as State Legislatures has expressed this intention in unmistakable terms. Both in the light of our tradition and from the standpoint of interest of general public, commercialisation is positively harmful; it is opposed to public policy.' (S.C. 2243 Para 163, in Rao, 2001).*

*,We are certainly of the opinion that such activity can neither be a trade or business nor can it be a profession within the meaning of Article 19(1)(g) [of the Indian Constitution]. Trade or business normally connotes an activity carried on with a profit motive. Education has never been commerce in this country. Making it one is opposed to the ethos, tradition and sensibilities of this nation. The argument to the contrary has an unholy ring to it. Imparting of education has never been treated as a trade or business in this country since time immemorial. It has been treated as a religious duty. It has been treated as a charitable activity. But never as a trade or business.' (S. C. 2244, Para 164, in Rao, 2001).*

On the face of it, then, it would seem that for-profit schools are ruled out in India, and the assumption is safe that the schools described above are necessarily of the *non*-profit variety. The results would then still be interesting regarding the role of the private sector in education, but not about the role of for-profit education. However, in practice - a key finding of research carried out in Andhra Pradesh, India, (Tooley and Dixon, 2003a, b; Dixon, 2003), the legal prohibition does not seem to encroach upon the actual behaviour of schools, except in terms of their reporting of accounts to inspectors, and in the associated payment of 'unofficial payments', or bribes (for more on the role of unofficial payments in Indian society, see Mitra 1998). In fact the research points to the fact that such schools are *de facto* operating as for-profit commercial concerns.

The research in Andhra Pradesh - the Project for the Improvement of Private Education (PIPE), funded by the Trust funds of the British education company, CfBT - was a case study, featuring semi-structured interviews with senior government education officials and politicians (including the Minister and Secretary of Education, District Education Officers and School Inspectors), together with detailed investigations into 15 opportunistically selected private unaided schools serving low income children, usually in the 'notified' slum areas of Hyderabad, including surveys of random samples of parents and children, and interviews with all the teachers and school entrepreneurs (known in Andhra Pradesh as 'correspondents'). All interviews were given under the condition of confidentiality (hence the anonymity given to quotes below). Interviews with government officials and school correspondents were also kept deliberately open, and the ideas discussed below concerning the place of profit were brought forward by the interviewees themselves, rather than by the researchers. It is also important to note that the schools selected for the case study were not chosen with regard to whether or not the school was run on a commercial basis - this indeed was a finding of the research, rather than any assumption at the outset concerning selection of the

schools. (For further details of the research method, see Tooley and Dixon, 2003b, and Dixon 2003).

The finding that the schools were *de facto* operating as commercial concerns came from a variety of sources. From government, for instance, one senior official volunteered:

*„All institutions make a profit... we do not stick to the laws and rules, we are very flexible, and all institutions make a profit, we just let them do it“  
(Government Official, February 2002).*

Data concerning profits were at first difficult to obtain from the school correspondents, who were initially very cautious about giving out information in fear that it would be handed over to the authorities. One school that had been participating in the research refused to continue to take part because the correspondent was unwilling to provide details of his school's accounts. It was only after trust had been established and anonymity assured that the other schools provided their income and expenditure figures to the researchers. The figures were obtained via questionnaire and semi-structured interview with the school correspondent, triangulated using other sources, including examining accounts, receipts and invoices, and interviews with parents and teachers (for fees and salaries, and other income and expenditure); profits were calculated by the researcher as the difference between income and expenditure, and reviewed with the school correspondents.

The simple average of these (fourteen - since one had dropped out) schools is given in Table 1, which reveals, for an average school of 559 pupils and 19 teachers, a surplus of \$6,258 per year, or roughly 29% of income. These are recurrent income and expenditure figures only, and don't take into account capital expenditure, which is substantial in many of the schools (see below).

**Table 1 Average income and expenditure, PIPE schools Income**

		<b>contribution</b>
Tuition Fee	779387	81.08
Annual Fee	70332	7.81
Term Fee	65203	6.10
Exam Fee/ Computers	12575	1.38
Sale of Books	14123	1.19
Sales of ties and belts	10775	1.06
Sale progress cards	973	0.10
Sale of uniforms	0	0.00
Other (donations)	13639	1.27
	0	
Total (Rs.)	967027	100
Total (\$)	21490	
<b>Expenditure</b>		
Fees Concessions	46537	7.46
Teachers salaries	289154	41.76
Admin. Salaries	89226	11.57
Staff training	2215	0.20
Staff welfare	6607	0.92
Electricity	26164	3.69
Water	1431	0.24
Telephone	6836	1.24
Property Tax	6079	1.00
Meetings and functions	35679	4.41
Advertisement and	24376	3.02
Marketing expenses		
DCEB Fees	2529	0.37
School Maintenance	7171	1.16
Printing and Stationary	6614	1.02
Books, chalk & stat.	3480	0.52
Furniture maintenance	3464	0.59
Unofficial payments	6914	1.06
Educational equipment	4643	0.73
Books and periodicals	1321	0.23
Rent	98100	17.06
Ties, belts & badges	12113	1.21
First Aid	0	0.00
Defaulters	2286	0.37
Tax	2500	0.18

Total (Rs.)	685438	100.00
Total (\$)	15232	
Surplus Cash (Rs.)	281590	
Surplus Cash (\$)	6258	

Now these figures are for 14 opportunistically selected schools. The important point to note is that these schools were chosen for a variety of reasons, as noted above, but not whether or not they were commercial concerns. Indeed, at the outset of the research it was not known that this was a common phenomenon. I have since visited about 200 such schools in Hyderabad personally, and thus far nothing has suggested that these schools are any different in regard to the profit motive. So, although we cannot be categorical, the hypothesis is that some proportion – perhaps a large majority – of the private schools serving the poor are operating as *de facto*, although not *de jure*, for profit institutions, in this Indian context. In many other countries, the prohibition on for-profit education is not there, and preliminary findings from the ongoing research in Kenya, Ghana, and Nigeria show the presence of many schools serving the poor *officially* run by proprietors and partnerships, that is, operating officially on a for-profit basis, as noted above.

## 5 Could for-profit private education be *beneficial* to the poor?

This section now moves from hard data to speculation, made necessary by the current lack of data on this important issue – something the ongoing research is seeking to explore. It outlines the implications of the available data, using *a priori* considerations. However, in the absence of firm evidence either way, we can combine two premises that are suggested by the evidence adduced so far in Sections 3 and 4, to suggest the conclusion that for-profit private education could indeed be beneficial to the poor. We will then look at obvious criticisms to this conclusion.

Premise 1: if it is true that some significant proportion of the schools making up the private sector serving the poor are for-profit concerns, as is suggested by the data given in Section 4; and:

Premise 2: if the evidence given in Section 3, concerning higher quality and greater accountability to parents, is applicable to such for-profit schools, then:

Conclusion: for-profit schools would be *beneficial* for the poor, given that they are, *ex hypotheses*, providing a higher quality education, through greater accountability to parents, than the government alternative.

The limitations of such a conclusion are clear: it would only show (if the Premises could be defended empirically) that for-profit private education was better than government education; it would leave entirely open whether or not for-profit private education was better or worse than non-profit private education. Hence the answer would be „yes, but...“: yes, for-profit private education might be beneficial to a certain extent, but *non-profit* would be far more beneficial.

Clear support for this kind of conclusion would seem to be *prima facie* available from the fact that the average PIPE school, as noted above, made 29% profit on its income. With a simple readjustment of the figures, if the schools were non-profit concerns, we could find free places for 170 more students in the average PIPE school (by dividing the average surplus by the average student fee). If schools were to abide by the prohibition on profit, then clearly they could benefit more poor students – or, alternatively, reduce the school fees, or pay teachers more, all of which would seem to be *prima facie* desirable. Should we then conclude that the profit motive is not providing the most beneficial outcome for the poor?

This conclusion may be too quick. For it assumes that everything would remain the same if the profit motive was removed from the equation. But there are at least two additional considerations that need to be taken into account before such a conclusion could be reached: *First*, we need to be clear for what purpose profit is being used in these schools. *Second*, we need to explore the role profit plays as a *motivating force* behind the provision of such schools. If it is a crucial motivating force, then removing it might remove the very schools that are, by hypothesis, currently providing a better education for the poor than the state alternative, thus making things worse for them.

First, we do know that of the 14 schools that gave us the data on which the previous section is based, half of them have embarked on extensive building programmes since the conclusion of the research, in two cases building entirely new schools, in the others building additional classrooms, and/or adding libraries and laboratories. The average expansion costs have been indicated to the researchers to be about \$22,000, although this sum has not been independently verified. If this figure is correct, then, in the average school, it would take at least four years of profit to pay for the expansion, taking into account interest repayments on loans, etc.

Clearly, then, in these cases, the profit made is being used to finance expansion that is likely to be of benefit to children. Hence it might be argued, at least for many of the schools, that the profit motive is benign, that it is being used for the future benefit of poor children, and future cohorts of children. It could then be



conceded that allowing schools to make surpluses should be allowed, provided that these are reinvested in the school. Indeed, this is the approach taken under the *Andhra Pradesh Education Act 1982* (in Reddi, 1993), (although it does specify a lower level of surplus than the schools are currently making), where it is stated that any surplus funds must be reinvested into the educational institution in order to stimulate its development

Allowing schools to make surpluses, providing that they were reinvested in their totality in development of schools, would go some way to providing a defence of for profit educational delivery, arguing that in these cases they could be beneficial to the (poor) children served. The higher fees that parents are paying than they would otherwise need to pay are actually an investment in their and their communities' future. But such a justification would, of course, leave exposed those schools that are not engaged in this active re-investment, and would still forbid the taking of profits once expansion had been completed. This brings us to the second, crucial issue – would curtailing the ability of entrepreneurs to make a profit (whether or not it is used for reinvestment) have any impact on the desire of school correspondents to continue in, or enter, the business of educational delivery? (For an important distinction between „educational delivery“, and „education“, as a business, see Tooley, 1997 and 2000). Would school correspondents continue to work so hard, to explore the possibilities of innovation and improvement, without being able to eventually make a profit for themselves and their families? There is no categorical answer to this, but interviews with the entrepreneurs suggest that the desire for profit is at least one of their important motivations. This was revealed in many of the interviews:

The correspondent of School C offered this assessment:

*„We charge very low fees, but we feel that from our school everyone should profit and that includes ourselves. The teachers profit from us because we are giving them a job, the students benefit from us because we are giving them a good education and the parents are benefiting because we are giving an education that is very low cost. We therefore benefit as correspondents because we work very hard. We feel that we should be able to make a profit because of our efforts“ (School entrepreneur, School C, Sth February, Nacharam).*

Similarly, the correspondent of School H commented that:

*„If you left everything up to the government then this type of education wouldn't exist. The need to make a profit makes you do well. That is what I*

*have found over the last 20 years. Otherwise I wouldn't still be in business, with two schools to my name" (School entrepreneur, School H, 8<sup>th</sup> February, Premnagar).*

Another entrepreneur explained that:

*„It is my business, everyone is in business to make a profit, if anyone tells you different... ..no one does it for free, no one has a business that doesn't make money" (School entrepreneur, School I, 8<sup>th</sup> February, Saroornagar).*

Profit is clearly not the only motivation. For, as can be seen in Table 1 above, the schools also offer free and subsidised places, which amount to over 7% of the average school's total expenditure, and provide, on average 15% of all places (Tooley and Dixon, 2003b, p. 20). These funds could have been used to make the profits even higher, instead of subsidising the education of the poorest. The entrepreneurs also speak openly of their role as 'social workers' helping the 'less blessed' people of their community. But nonetheless, profit is clearly important to the school correspondents, at least in terms of the interview responses given. This is likely to be one of the reasons, of course, why there are so many such schools in the market - the *official* figures suggest that 61% of all children go to private unaided schools in Hyderabad, and this figure is likely to overestimate the numbers in government schools, because of corrupt over-reporting, and underestimate the numbers in private schools, because many are unrecognised, and hence not on government lists (Tooley and Dixon, 2003b, p. 9). (Our current research estimates the proportion of slum children in Hyderabad in private unaided schools at 75%).

Thus the important conclusion: the making of profits is an important motivator for entrepreneurs to enter the education market, and hence it may have some desirable impact, leading to the provision of schools that poor parents prefer to the government alternative. Without the profit motive, this suggests that there would be far fewer private schools available, hence the choices available to poor parents would be severely limited. But what about the actual level of profits made - 29% of income might be considered to be excessive, amounting to profiteering, and that only a much lower level of profit should be tolerated. How can we decide whether or not this is the case? This would bring in subjective judgements about what level of profit is the right one in order to motivate enough entrepreneurs to enter the market, and hence to provide the competitive environment that is satisfying the parents, better than if they only had choice of government schools.

One consideration that must be borne in mind here is the opportunity cost of

any capital invested. In India, commercial and state bank interest rates were high at the time of the research – up to 16% – and interest rates of 30% or more are not uncommon on chit funds. So any return on investment would need to take into account the fact that such returns would be available simply by banking capital, without taking any risks or exerting any effort. In other words, well over that rate would be required to be returned to any investor to compensate for the risk, time and energy that is required in starting up a school.

Another way of approaching the issue of excessive profits is to explore why school entrepreneurs can't make *even greater* profits. The argument can then be used in reverse to show why the level of profits might be the level that the market needs to sustain the existing level of competition, or at least that there are corrective mechanisms within the market that could lead to lower profits being generated. For a school entrepreneur clearly could seek to make even greater profits in the market, in one or both of two ways: first, she or he could increase income, i.e. raise fees; second, she or he could decrease expenditure. Regarding the second, however, it is hard to see how this is an option at all. The school entrepreneur could, for instance, employ fewer teachers and hence increase class size. However, when parents were interviewed for the Andhra Pradesh study about why they chose private schools over government schools, one of the most important factors mentioned was class size – so if class size was increased, then the schools would become less attractive to the parents, who, very importantly, were found not to be at all adverse to moving their children if they perceived the quality of education to be deteriorating (Tooley and Dixon, 2003b, p. 15); similarly, the school could invest less in blackboards, benches, chairs, teaching and learning materials, toilet facilities or drinking water, etc. But again, research shows that private schools are superior in these basic facilities to government schools (e.g., The Probe Team, 1999), so again it is likely that parents are attracted to private schools precisely because of the presence of such features, and would exodus the sector, or move to private schools with superior facilities, if these were cut back on. Finally, a school could theoretically reduce teacher salaries, and so make greater profits that way. But again, it is hard to see how this is possible in practice. Schools already report the pressure on them to pay their teachers more, and report that some staff leave their schools to go to private schools that do pay more, and teachers mentioned in interviews that higher wages were desirable, and that they would leave their current school if offered higher wages elsewhere (Tooley and Dixon, 2003b, p. 12).

What about the option of increasing fees, above the rate of inflation? Again, this is only possible within a very narrow range, if at all, precisely because any fee increase will drastically hurt parents, whose budgets are very tight, and who are

already skimping and saving for school fees. If fees are increased, they will want to know why. When surveyed, a majority of parents agreed that they would be willing to pay for small increases in fees for recognisable improvements in English or for computing. But if fees were increased and quality of inputs did not improve, or became noticeably inferior, then it is highly unlikely that parents would keep their children in the school, but would move to another competitor where this was not happening.

In other words, competition between the private schools ensures that profits over and above those currently found are not an option - if a school attempts to cut costs or increase income in the ways described, then it will lose customers to schools that are not doing this. Indeed, the market is moving in precisely the opposite direction - as noted above, many entrepreneurs are investing in their schools, i.e., not realising their potential profits, precisely because that is the only way they perceive of keeping a presence in the market.

This argument suggests that the (average) level of profits is unlikely to be pushed higher, because of competition in the market. But we can reverse the argument to suggest that the current level of profits might not be amenable to being pushed any lower - or if it is, that the market will be working to ensure that this happens.

Suppose that an educational entrepreneur wished to win market share from existing schools. One way of course would be to 'hoodwink' the parents into believing that what she or he was offering was superior at the same cost - which would soon come up against the ways in which the Andhra Pradesh study found parents were active choosers in the market, surveying many schools in order to choose the one they eventually sent their child to, and willing to move their child from one school to another if they were dissatisfied with what they were finding in the school (Tooley and Dixon, 2003b, p. 15). The more practical route would be to seek to undercut the price, or improve quality by increasing the costs of inputs such as teacher salaries - that is, by going for a lower profit margin. We do not have any data on the dynamics of the market, so we can't answer the question of whether or not this is happening. But it is clearly one of the correctives against 'excessive' profits in the market: I open a school and charge lower fees than those currently offered in the market, having satisfied myself that I can provide as good quality an education as others for these lower fees, and still gain a suitable, although somewhat lower profit. My school would attract students away from other, higher fee schools, as parents are very sensitive to the cost of the school. The fact that this is a possibility suggests either (a) that it is happening already, and that the level of profits we found in the study are the lowest level that will encourage

entrepreneurs into this risky market; or (b) that such entrepreneurs will enter the market at some point, if the profit levels are currently excessive, hence bringing the current profit margin down. All this suggests that the market as it stands has the necessary corrective measures within it to counter any tendencies to excessive profits.

## **6 Could moving towards globalisation in education benefit the poor?**

We've investigated thus far at the level of the individual school, suggesting both that profit might provide a valuable motivation for educational entrepreneurs to enter the market - in turn valuable to the poor, who are given expanded educational choices - and that the levels of profit are likely to be, or soon will be, optimal - high enough to attract investors, but low enough to circumvent profiteering. Do similar considerations apply moving from the level of the individual school to bring in globalisation considerations?

Now, one of the detailed areas pursued in the Andhra Pradesh study with the school correspondents, teachers, students and parents concerned how the schools could be improved - hence the title of the project, 'Project for the Improvement of Private Education' (PIPE). Correspondents were candid about areas in their schools that needed improvement, including the teaching of English - the highest priority for parents - and facilities, including the development of libraries and laboratories and computing facilities; they were also aware of the need for teacher training, management training and accreditation, to help differentiate good from bad schools in the market (Tooley and Dixon, 2003b, pp. 21-22). A business model of an 'educational services and loan company' emerged from the study, that would invest in research and development to find appropriate, cost-effective improvements along these lines, creating a package of school improvement measures that would offer all the services required, including a loan facility, at a cost that the private schools serving the poor could afford. Ultimately, the company would run schools itself, as well as franchise its model extensively across India and perhaps the developing world more generally. The estimate for the amount of capital needed to start up such a project was in the region of \$300,000, that would bring a modest surplus after an estimated four to five years. An international company was found that wanted to invest these funds in a for-profit education services company for private schools for the poor - inspired perhaps by other examples of global brands of private education, such as Objetivo and Pitagoras in Brazil, NIIT in India, and GEMS, (itself based on Varkey Schools, in the Emirates), the Dubai based company that wants to open a chain of private schools in England, as well as provide educatio-

nal services. (For more details on these and other global education brands, see Tooley, 2001).

However, the Reserve Bank of India rejected the proposed investment in a for-profit education company, stating that education is not a commercial concern as its reason for rejection. The company is currently exploring the possibility of setting up as a non-profit concern, although this will inevitably mean lower investment, however.

Such an investment – which would have been likely to result in considerable improvements for the children of poor parents attending the schools, now and in the future – was beyond the reach of the schools themselves, and no domestic capitalist could be found who was interested. Should we agree with the Indian government and rule out, *a priori*, the possibilities of finding investors who would be willing to invest their capital, in return for a share of the profits? And should we seek to rule out *international* investors, moving towards the globalisation stage? The question then is: Why should we narrow the scope for school improvement for the poor, by saying that only through dependency on philanthropy or the state should the poor be able to have their schools improved?

One possible answer to this question focuses on the differences that emerge when big, or bigger business is introduced into the equation. For then, the problems of outside investors – who may be shareholders without any particular interest in education, but whose bottom line is the profit they can make from the enterprise – are brought in. Perhaps this is the major objection to the idea of profit operating in education, for it is seen to corrupt or distort the relationship between the educational entrepreneur and those she or he serves.

In the cases outlined thus far, the situation described has featured an individual entrepreneur (or husband and wife team) who invests her or his own money, creates a school that she or he directly manages, so parents and the community are very much able to influence him or her directly. Any profits go directly into her or his pocket, or into reinvestment in the school. But as soon as outside shareholders are brought in, then this intimate relationship is broken. Shareholders can now dictate to the management about what should be done in their schools, and shareholders are remote and ultimately most concerned with maintaining or increasing their profits.

The problem with such an argument is that it ignores possible extensions to the discussion already given above. Yes of course these outside investors may only be interested in profit. But their profits will be dependent on the ability of the

school (whether in the chain or using the services of the education services and loan company) to attract parents. If the quality of the school is not seen to be high, if expenditure is being squeezed, or fees raised, in order only to increase profits, then the school will lose market share, hence leading to a loss of profits. The only way an education services company, or a chain of schools, could maintain or increase market share is by offering educational services that parents and children value. To see this argument more clearly, it may be worth considering other services where we take for granted that the profit motive applies – e.g., in the market for quality books in the UK: I buy my philosophy books from a for-profit bookstore chain, offering me books published by for-profit publishers. The bottom line of both bookstore and publisher shareholders is profit. Does this mean that my books come to me with shoddy covers, with pages missing, and poor printing, as a result of the publisher seeking to cut costs at the behest of shareholders? Does this mean that I have to buy my books from a store with a leaking roof in inhospitable surroundings, at ever increasing expense, because the chain is seeking to cut costs and raise prices? No, because of the competitiveness of the market, publishers know that they can't produce shoddy goods, because they know I as a customer will go elsewhere if they did; and bookstores compete to offer the lowest price in the most amenable surroundings, because if they didn't, customers will go where the combination of price and surroundings suits them best. Exactly parallel arguments apply to schools serving low-income families in India and elsewhere.

One other objection might concern the possibility of monopoly or cartels developing. If the chain of schools (or the number of schools under the education services company) became so big that it dominated the market, or dominated it to the extent that it was able to create a cartel with other big brands, then it could push out smaller competitors and, eventually, raise prices or squeeze costs that would result in lower quality. It seems highly unlikely that such could arise in education, given the relatively low cost of entry into the market, as witnessed by the number of schools that do currently enter the market, created by entrepreneurs who are themselves of low income. If such a monopoly or cartel was to arise, there would be plenty of scope for small operators to move in again to the market, offering schools that were lower in cost. The market again would have the appropriate corrective mechanisms to ensure that such problems did not arise (for further details of the theoretical argument behind this approach, see O'Driscoll, 1982, Kirzner, 1997a, b, Hayek, 1948).

The final objection might concern the problem of bringing in overseas investors, that somehow this would distort the market unduly. Here we have the key objection to globalisation, and the role that GATS – the General Agreement on

Trade in Services that came into force in January 1995 under the auspices of the World Trade Organisation - might play. Many educationalists are not happy about this at all. Dr Rikowski, for instance, after describing GATS as a 'virus', notes that „One day, a company in Detroit or Vancouver that focuses primarily on the bottom-line could control your local secondary school. Now, that would certainly stretch the notion of a 'community school' and the concept of democratic accountability." (Rikowski, 2002).

The issue here is that democratic accountability would be undermined if we moved towards globalisation of education provision. Elsewhere I have argued about the inadequacy of democratic accountability when applied to school quality (Tooley, 2000, Session 5). The bones of the argument are as follows: why would democratic accountability, where we have a vote once every four or five years to determine who is in power over many areas of our lives, not just education, and where in any case decisions about education will get corrupted and distorted as they go through the bureaucratic process, be preferable to having the right of 'exit' that we take for granted will bring accountability in all other areas of our lives, such as in food and clothing quality? The arguments given above fully support this notion: in the Indian context, for instance, we found that 'democratic accountability' has brought the kind of situation that the Probe Report found, with only 53% of teachers found to be teaching in the government schools for the poor. The type of accountability that is surely more desirable is that found in the private schools for the poor, where the same report found 'feverish' teaching activity going on in all schools visited. The considerations above suggest that, in pursuit of profit, a global company would have to be intimately concerned with what parents and children want, wherever the company headquarters are based - for without such a concern, it could not make its desired profit.

Could GATS have a positive role to play in opening up the education market, at primary and secondary level? Clearly, given the considerations above, it could. If the whole of the education services sector, primary, secondary, higher, adult, training services and so on, were opened up to liberalisation, this could potentially enhance the ability of investors to invest in educational provision, including that of the poor. However, although there is a clear reluctance of national governments to open up their markets, certain countries have made commitments regarding primary and secondary education - at the primary level these include Bulgaria, Costa Rica, Czech Republic, European Union, The Gambia, Hungary, Jamaica, Japan, Lesotho, Liechtenstein, Mexico, New Zealand, Norway, Panama, Poland, Sierra Leone, Slovak Republic, Switzerland, Thailand and Turkey. Apparently there is room in these countries to move towards the liberalisation of educational services. World Bank estimates set the value of liberalising services in developing



countries at as much as \$6 trillion in additional income by 2015, at four times the gain from trade in goods liberalisation and that many studies project that developing countries stand to gain the most from liberalisation of trade in services. The considerations above suggest that this may be true for liberalising education too.

## 8 Conclusions

This paper has explored the question of whether for-profit educational delivery could be beneficial to the poor. The focus has been narrowly on the poor – those living in low income areas or rural villages in developing countries – to examine the issue in an extreme context.

The argument began, first, by showing that there are private schools available to, and patronised by, the poor in „developing“ countries. Second, there is limited evidence showing that these schools are offering poor parents and children a better deal, educationally-speaking, than the state alternative. Teachers in the private schools, in particular, the research has suggested, show a much greater commitment to teaching than in the government schools. These two considerations suggest that private education in itself could be beneficial to the poor. Even when the caveat is inserted that the poorest members of these poor societies may not be able to access private education, this does not deflect from this conclusion – instead it leads to policy implications for ways of helping to extend access to these people, e.g., through public or private vouchers.

But what of the more narrow focus of the paper on for-profit private education? The third step in the argument then focused on recent evidence from Andhra Pradesh, India, showing the existence of private schools that are operating as for-profit enterprises, even though there is a legal prohibition against for-profit education. However, in practice this is widely ignored, subject to the payment of bribes. This is far as the existing data can take us. The fourth step in the argument was necessarily speculative, because there is a paucity of data to support an argument either way. But nevertheless it was felt that a priori considerations might be useful to inform the debate, in the absence of such data, and to counter widespread assumptions about the issue. The hypothesis was made that these for-profit schools are likely to be widespread, and a major component of the schools found to be serving the poor, outlined in the first step of the argument. Moreover, it was also conjectured that these for-profit schools would feature amongst those private schools that were better serving the poor than the government schools, as discussed in the second step of the argument.

Given these two hypotheses, it was explored whether or not the profit motive itself could be making a valuable contribution to the education of the poor, or whether people would be better served if the schools were non-profit rather than for-profit. It was noted that profits were often invested in improved infrastructure to the schools, and that this may give a benign perspective on the profit motive. Furthermore, however, it was also suggested that the profit motive may be an important motivator to educational entrepreneurs to create schools in the first place. If so, then it could be argued that the profit motive - leading to the very existence of schools that were, by hypothesis, better serving the poor than the government alternative - would again be benign, and to be welcomed by the poor. The answer to the question, then, whether or not for-profit private education could serve the poor would be: yes, given these assumptions. It was then explored whether or not profits currently being made within private schools for the poor were excessive, resulting in profiteering. At the individual school level this issue was discussed and considerations given that suggested that they were unlikely to be currently excessive, or if they were, that the market would contain corrective mechanisms that could alleviate this.

Finally, moving to the level of globalisation - considering the creation of international brands of schools, or of education services companies offering low cost school improvement packages - the motivating factor of profit was shown to be potentially beneficial to the schools and the people they served. This was so even when the issue of outside shareholders - whose primary concern would be profit rather than education - was brought to bear. Profits could only be made for these shareholders if the educational needs of the parents and children were met, just as profits can only be made, say, for for-profit book publishers if high quality books are produced.

The considerations here raise the following question: I wonder if the NUT poster discussed in the introduction to this paper would have the desired impact if, instead of the caricature of the man in pinstriped suit, it substituted a woman in sari or burka, a hired autorickshaw or scooter for the sports car, and a few spare rupees for the dollar bills? Perhaps the slogan in this modified poster could instead read: 'Education is for children, inspired, amongst other things, by profit'?

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