Book Reviews

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The Political Economy of Education: Implications for Growth and Inequality. MARK GRADSTEIN, MOSHE JUSTMAN, AND VOLKER MEIER. Cambridge, MA: The MIT Press, 2005. Pp. x, 169. $32.00.

The Political Economy of Education is written as a summary of the research findings in the field. The role government plays in the provision, financing, and regulation of K-12 education is based on the societal value that education is a key component of both personal and economic growth and stability. The actual organization and content of schooling depends on each country's political economy of education. Each society has contrasting views on matters such as preserving norms and culture, income inequality, diversity, social mobility, and assimilation of immigrants, which directly influence the governance of education.

The book starts with a historical overview of the development of both public and private education in Europe and the United States. The authors present education in the context of human capital theory, using empirical evidence to show the role of education in nation building and economic growth. They then build a theoretical model of the political economy of education. The basic model explains how political decisions determine spending for education. They expand the model to incorporate various issues, including: residential segregation, fiscal decentralization, private versus public schooling, and welfare implications. The authors extensively analyze the relationship among education, economic growth, and income distribution. The book also explores education vouchers, different financing regimes, social capital, cultural, societal cohesion, and education policy issues.

Each chapter in the book presents a pivotal issue to the political economy of education and the corresponding research findings. Chapter one maps out the content and context of the book. The chapter shows how education is a key component to a civilized and prosperous society. Education is justified on both moral and economic grounds, including social responsibility and human capital theory. The public financing of education is justified by both the egalitarian argument, which leads to civil stability, and the private and social returns to education. The absence of public education for poor parents, without the financial means (or priority) to provide education for their children, may create a perpetual poverty trap.

Chapter two presents an overview of the historical evolution and institutional structure of public education starting with the protestant reformation of the sixteenth century. The practical beginning of modern public education began in eighteenth century Prussia when Frederick William I legislated compulsory elementary education to be financed by local taxes. The chapter concludes by contrasting the current structure of public education in four countries: Germany, United States, Chile, and New Zealand.

The third chapter is an overview of human capital theory. The second half of the chapter presents the empirical evidence for the relationships between education and economic growth, and between education and income distribution.

Chapter four presents a formal static model that incorporates the political dimensions in the finance and distribution of public education. The authors model the political dimension by using the utility functions of heterogeneous individuals regarding the distribution of public spending on education. They use constant elasticity utility function to control for a variety of preferences. This utility-based model contrasts private and public education in the short run. Under private education, spending is proportional to individual household income, while under public education, spending is proportional to average household income.

Chapter five extends the model to include long run implications. This extended model formally presents the dynamics of poverty traps, income growth and inequality, and inter-temporal decision making.

Despite numerous model specifications, chapter six demonstrates that centralized finance reduces both inequities in education and income inequality. The authors also cite numerous studies to reinforce this conclusion.

Educational regimes composed of both private and public schools are the focus of chapter seven. School vouchers, parental choice, and the libertarian argument that increased competition between schools improves education efficiency are analyzed using a constant elasticity utility function. The authors conclude that depending on model specification, numerous outcomes are plausible.

Chapter eight analyzes the static and dynamic effects of education on social cohesion. The model finds that centralized education leads to greater cohesion. By contrast, both decentralized and private education can lead to societal polarization if schools are heterogeneous in either their values or funding. Finally, chapter nine addresses current research deficiencies in the political economy of education literature and proposes an agenda for future research.

Overall, *The Political Economy of Education* is an organized and concise review of the literature. For any economist interested in the economics of education, this book will serve as a primer to the field.

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Stability with Growth: Macroeconomics, Liberalization, and Development. JOSEPH E. STIGLITZ, JOSE ANTONIO OCAMPO, SHARI SPIEGEL, RICHARDO FRENCH-DAVIS, AND DEEPAK NAYYAR. Oxford, UK: Oxford University Press, 2006. Pp. xi, 339. $35.00.

Shortly after leaving the World Bank where he had served as chief economist, Joseph Stiglitz formed the Initiative for Policy Dialogue (IPD) to provide a forum for discussing policy alternatives for developing countries. The core of the IPD's mission is the acknowledgement that policies involve trade-offs. One size does not necessarily fit all. The IPD advocates a heterodox approach to policy rather than forcing all developing countries to implement the same macroeconomic policies and liberalize their markets in a similar fashion as suggested by the Washington Consensus. It is in that heterodox spirit that Stiglitz, along with co-authors Jose Antonio Ocampo, Shari Spiegel, Ricardo Ffrench-Davis, and Deepak Nayyar, have written *Stability with Growth: Macroeconomics, Liberalization, and Development*. The authors admit that the book is not neutral toward the policies of the Washington Consensus. They attempt to counterbalance the substantial amount of literature on the other side of the debate.

The book explains two closely related aspects of development. Economic growth is important, but growth without stability can harm the poor. On the other hand, the wrong kind of stability, such as