

Poor Indians Prove Amartya Sen Wrong

Nobel prize-winning economist Amartya Sen sure has a low opinion of India's poor. In an interview with Mint newspaper published on July 23, Mr. Sen was asked about cash-transfer programs such as education vouchers. "If you are a peasant farmer and have never been to school, your ability to choose on the basis of information is very limited. Given the asymmetry of information, you'll never be able to get there," he said.

Yet the poor in India appear to disagree with Mr. Sen. Parents are increasingly choosing to send their children to low-cost private schools, where students often outperform their peers who attend free public schools.

Surveys suggest that poor Indian parents spend up to 13% of their income on education, well above the national average of 8%. But how do parents who are often illiterate and have little formal education themselves make informed decisions about the merits of schools?

Mr. Sen's claim rests on two assumptions: that poor parents are incapable of choosing good schools by themselves; and that markets will not help parents identify a good school from a bad one. Evidence suggests neither assumption is true.

First, the theory that peasants cannot select the best schools is inconsistent with the evidence that they tend to transfer children from failing government schools to better-performing private schools. It is true that poor parents choose schools by considering "simple" things, like whether the medium of instruction is English or the visible state of the building. Yet there is no evidence that such decision-making process favors bad schools.

Research indicates that ordinary people making decisions based on relatively simple data can outperform experts who use much more complex measurements in a wide variety of areas, including predicting Wimbledon winners and picking stock portfolios. Professor Gerd Gigerenzer, a cognitive scientist at the Max Planck Institute, finds that "ignoring part of the information can lead to more accurate judgments than weighting and adding all information." In other words, one does not need a degree in mechanical engineering to pick a good car.

Mr. Sen's second assumption is that asymmetrical information makes it impossible for parents to decide which schools are best. The basic idea is that if sellers (low-cost schools)

know the quality of a good (education) and buyers (poor parents) have no way of discerning quality, then buyers will either be ripped off or refrain from buying altogether.

However, most of us don't know how to assemble a computer, manufacture a car engine or even how to make a simple pencil; yet we are able to buy these products fairly regularly. This is because the quality of these products is reflected in their prices. Ever wondered why the price of a car drops as soon as you drive it out of a showroom? The showroom prices include a premium for quality assurance. There is no reason to presume markets are capable of certifying cars but not schools.

In addition, the reality that parents can choose schools creates a market incentive for entrepreneurs to provide better information—in the same way that the market incentivizes the publisher of Consumer Reports to provide other product reviews. Organizations in Hyderabad, southern India, have begun rating low-cost schools so that poor parents can make better choices and better-performing schools can benefit from increased patronage. In fact, surveys by Grey Matters Capital, one such startup, suggest that poor parents are willing to pay up to 150 rupees, roughly \$2, for this information.

The real problem is that the education market is still too small to see a proliferation of such certification agencies. Stringent government regulation has meant that most low-cost private schools are not recognized as legal entities. This limits their ability to grow by accessing loans from banks. Legalizing low-cost schools could result in more ratings organizations and increased transparency, ultimately giving poor parents a bigger say in their children's' futures.

In his Mint interview, Mr. Sen went on to say, "We need nothing short of a revolution, not an armed revolution, but a revolution in thinking." The poor are on a mass exodus from government schools to private schools, and the bottom line is that the kids are performing better. It may not be a revolution in thinking but it is most definitely a revolution in doing. Perhaps it is time we treat Indian peasants with a little more respect.

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