

# English or Languish

## The Market Ramifications of Artificial Demand

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### INTRODUCTION

This is a theoretical enquiry into the wisdom of mandatory universal English language programs from the point of view of economic efficiency and social cost. The analysis is based on a joint supply curve that divides the supply of English language competence into two levels: low-level competence supplied by government as a quasi-free, quasi-public, economic good at the primary and secondary levels, and high-level competence supplied by and to the market according to a high-level competence premium. This paper shows that in the relative absence of a market for low-level competence the market for high-level competence is clearly distorted. The key players in this model include government and industrial employers, public and private sector suppliers, taxpayers, and second language learners.

The motivation for this paper is based on more than two-decades of teaching experience in the global English language industry acquired in seven countries on three continents including Europe, North America, Northeast Asia, East Asia, Southeast Asia, and the Middle East. It is further complemented by the personal acquisition of several second languages including good competence in German, French, and Japanese, as well as partial knowledge of Spanish, Chinese, Korean, Thai, and Arabic. Finally, several years of empirical analysis of the Hong Kong educational system have provided the author with good insight into the real social costs and market barriers highlighted in this model.

Certainly we live in a world of unparalleled openness, but let us never forget that something learned is easily forgotten when it is not used. This is most certainly true when it is not learned very well in the first place. As this paper is written with a minimum of mathematical sophistication, it can be easily understood by anyone with a solid foundation in microeconomic principles and a serious interest in language policy and acquisition.

## The Model

### THE ASSUMPTIONS

1. As the industry for English language competence is one of the most competitive industries in the world standard assumptions for a perfectly competitive market are appropriate.
2. Though there is obviously demand for low-level competence, it is assumed that high-level competence is always preferred.
3. The public and private sectors are able to provide low-level and high-level competence with equally

good efficiency. This is a simplifying assumption that is at least plausible, when low- and high-level language competence are supplied in the absence of the universal language requirement.

4. Under the popular assumption that the English language is necessary for all residents, it is assumed that the market for high-level competence only stops when all citizens have high-level competence. Though this assumption is not crucial, it is convenient, because it allows us to draw the demand curve for high level competence in such a way that it crosses the X-axis at that point where the number of highly competent individuals includes the entire population.

### THE SUPPLY OF LANGUAGE COMPETENCE

The language industry differs from most other retail industries insofar as the consumer of the produced commodity often participates in the production and distribution of the final product. In effect, both study and mandatory schooling require sacrifice on the part of the learner that cannot be ignored when seeking to understand the true cost of second language acquisition. This model takes into consideration these additional, but too often ignored costs.

#### Diminishing Returns to Scale

Though one may be inclined to assume economies of scale in the supply of English language training, such an assumption would ignore the opportunity cost to the individual learner and the very competitive nature of the second-language industry. Several important points can be made in this regard.

*Near Native and Native Speaking Talent* - Language is best acquired through use among people who have already acquired it. In most countries there is a dearth of native or near-native language talent relative to the perceived need. This talent is expensive as it often necessitates that a person abandon his or her native social and biological environment and live as an alien in a foreign environment for a prolonged period. As a result, this talent tends to be spread thinly over a large number of second-language learners, and the competition among students for exposure to this talent necessarily increases with increasing student number.

*Large Classrooms* - In an effort to control costs many public schools limit the number of teachers and maximize the number of students per classroom. Although this strategy can work in the acquisition of certain passive language skills, it is very unlikely to result in the acquisition of very good active skills. In effect, the cost of acquisition to all students rises with each additional student, as each student struggles harder to obtain the same active exposure that he could have obtained more easily with fewer classmates.

*Private Sector Training* - In the private sector there are only so many students that can occupy a given space, and it is necessary to keep one's classrooms full in order to cover one's fixed operational costs. To this end a variety of different instructional programs, learning materials, teaching techniques, and promotional activities are required. These programs, materials, techniques, and activities must be continually upgraded to attract the best motivated students and obtain the parental and governmental funding necessary to educate the less-motivated students. As more schools enter into the industry, the number of

resources devoted to accomplishing these tasks increases and scarcity ensues.

*Homework and Study* - Learning a second language often requires significant drilling, memorization, and stamina. Furthermore, there is only so much time and effort that one can put into the mastery of any subject before other interests that bring greater personal utility intrude. This aspect of diminishing returns applies both to the language enthusiast and to the student who learns the language merely to advance through the system. This latter effort is made doubly difficult to muster, when one can find little or no readily apparent use of the target language.

*Relative Absence of Synergistic Externalities* - Because few students of the English language have an opportunity to utilize their classroom training outside of class, there are few positive external economies associated with second language learning. Most students cannot simply strike up a conversation with one's neighbor in his or her target language. Moreover, it is either difficult or expensive to find someone who can readily proofread what one has written. The internet is certainly available to most, if not everyone, depending on where one lives, but like all learning it must compete with a myriad of other interests that the internet can more easily satisfy in one's native language.

### High and Low Level Competence

For the purpose of simplification and better understanding only two levels of English language competence are considered --high and low.

*High Level Competence* ( $S_hS_h$ ) corresponds to that of a native or near native speaker. The speaker can be specially trained in a particular area of the language and/or have good familiarity across a broad range of topics. The speaker's writing and speaking ability are in good balance, and the speaker demonstrates competence in more formal written and oral presentation.

*Low-Level Competence* ( $S_lS_l$ ) corresponds to someone who is barely able to offer very useful help to a lost tourist and can feel challenged when asked to explain the meaning of what is written on the back of his or her t-shirt or pant-leg.

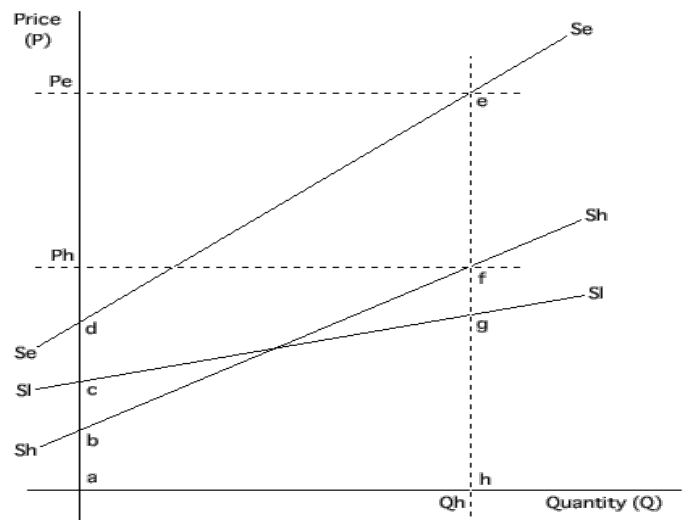


Figure 1. The Supply Curves

In any one school there are likely more teachers who can teach low-level competence than there are teachers who actually teach it. As a result when a school is faced with increasing enrolment, it can shift teachers away from less essential courses into the required core courses.

### The Cost of Supply

At price  $P_e$  the cost of supplying high level competence to  $Q_h$  individuals is equal to the area described by the letters  $adeh$ . This cost is determined by adding the cost of supplying low-level competence (the area  $acgh$ ) plus a high-level competence premium (the area  $acgh$ ) for all individuals who acquire high-level competence. This discrepancy results in the important market distortion described in figure 2 below.

The cost of supplying low-level competence is generally covered by taxpaying parents and their children in the form of mandatory, government-funded, second-language, public education. In contrast, the high-level competence premium is generally covered through the voluntary outlay of private individuals seeking educational opportunity above that provided in the public sector. This opportunity is typically supplied by privately owned and run language schools. Although this dichotomy is not strict, it generally reflects the state of the industry.

#### THE MARKET FOR LANGUAGE COMPETENCE

As government provides low-level language competence as a quasi-public, quasi-free good, it is both plentiful and readily available. As such, low-level competence is not a scarce good, and there is no effective demand for its purchase and use. This results in only the market for high-level competence -- namely,  $D_hD_h$ . Important to note is that in the absence of a market for low-level demand, the demand for high-level competence is defined only by the supply of the high-level language premium and not the total cost of the provision of high-level competence. Thus, it is  $P_h$  that clears the market for high-level language competence and not  $P_e$ . This latter represents the true cost of supplying high-level competence at a much lower-level of supply -- namely,  $Q_e$ .

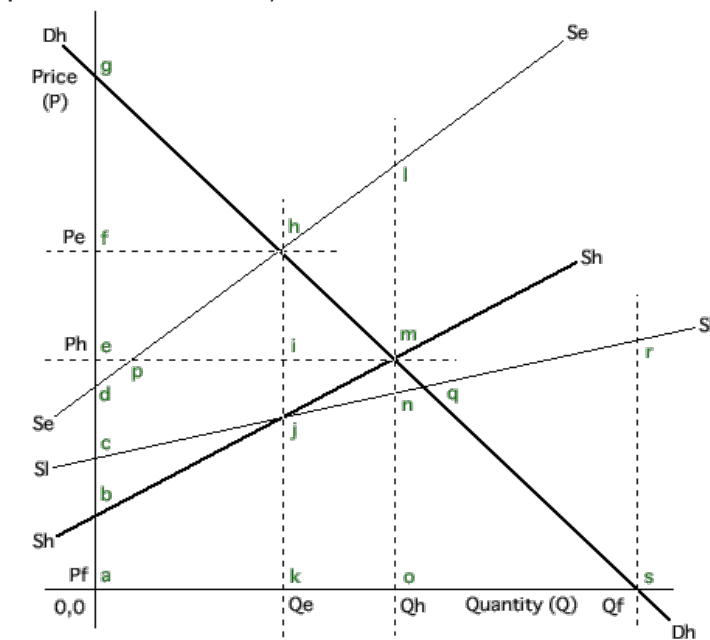


Figure 2. The Market for Language Competence

Thus, when industry cries out that there is a shortage of high-level competence, they are already enjoying much more than that for which they are actually paying. This is unfortunate, because it is the children who must participate in the mandatory universal second language programs and their taxpaying parents who are subsidizing industries free-ride.

#### THE SOCIAL GAINS AND LOSSES

If the market were clearing at  $P_e$  where the demand and supply of high-level competence were equal -- namely,  $Q_e$  --, there would be a net social gain of  $dhg$  (see yellow-shaded area in figure 3). This, how-

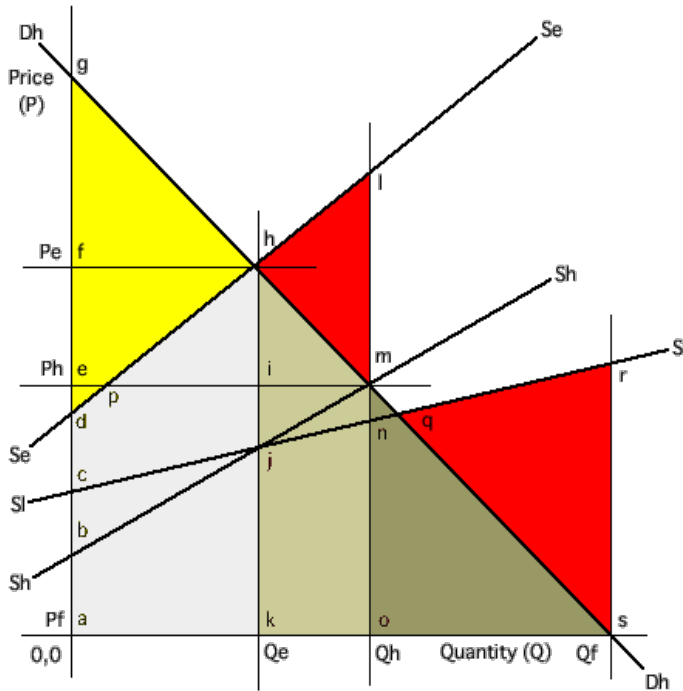


Figure 3. Net Social Gains and Losses

ever, is not the case, for the market is clearing at  $P_h$ ,  $Q_h$  where the demand for high level competence is equal only to the supply of the high-level competence premium. In effect, the cost of low-level competence that must be acquired before high-level competence can be achieved is ignored. As a result, there is a clear net social loss of  $hlm$  (a portion of the total red-shaded area). Unfortunately, the story does not end here. Not only are the social benefits indicated by the brown areas  $hkmo$  and  $mos$  questionable, but there is another area of clear social loss -- namely, the red-shaded area indicated by  $qrs$ .

**PRIVATE SECTOR PROFIT**

As government policy and regulation are just as likely to benefit private industry, as they are to protect the general public from its abuses, a careful examination of the profit that accrues to the private sector in both the absence and presence of a mandatory universal second language requirement is in order.

Consider first the green-shaded area circumscribed by the letters  $bem$  in Figure 4. At  $P_h$ ,  $Q_h$  the cost of supplying the high-level competence premium is equal to the unshaded area  $abmo$ . In contrast, the market value of what is sold and purchased amounts to the area  $aemo$ . The profit to private industry is, of course, the difference  $bem$ . This latter amount is necessarily larger than that obtainable were the market for high-level competence traded at  $P_e$ ,  $Q_e$  -- namely, the unshaded area  $dfh$ .

This is not the only way in which private industry benefits at the public's expense, however. This is because many of the resources supplied to government for the provision of low-level competence are purchased in the private sector.

**SOCIAL AND MARKET WASTE REDUCTION**

The obvious way for governments to eliminate the social waste produced by their mandatory universal sec-

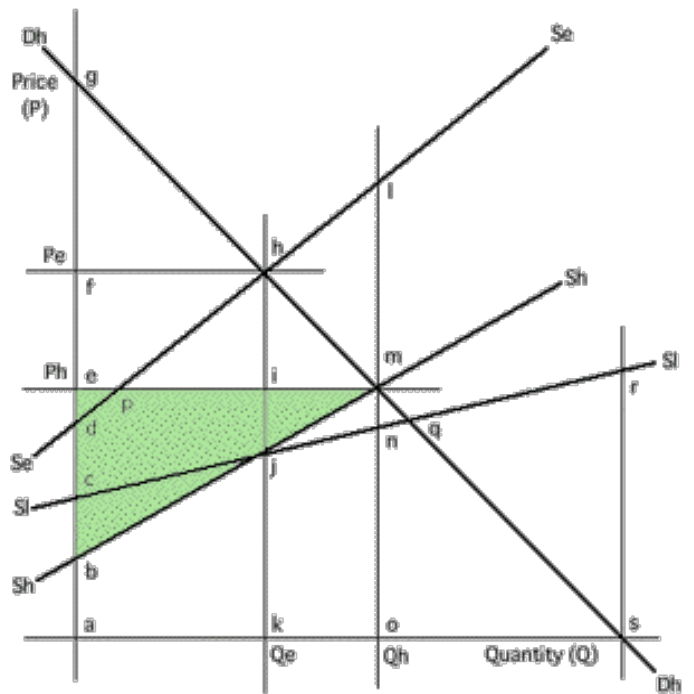


Figure 4. Current Market



and language programs is to eliminate the programs.

As the demand for high-level competence is knowable and the cost of its supply measurable, there is no reason why governments cannot use a more targeted approach toward the satisfaction of their nation's second and tertiary language needs. There are three available approaches that governments can take in this regard: one, the provision of the full range of language skills for a limited number of students; two, the provision of only low-level competence for a limited number of students; or three, zero provision thus relegating the entire problem of second- and third-language education to the private sector. These three alternatives are summarized in figure 5 by the areas *abjk* (unshaded), *bdhj* (blue shaded), and *dfh* (yellow-shaded).

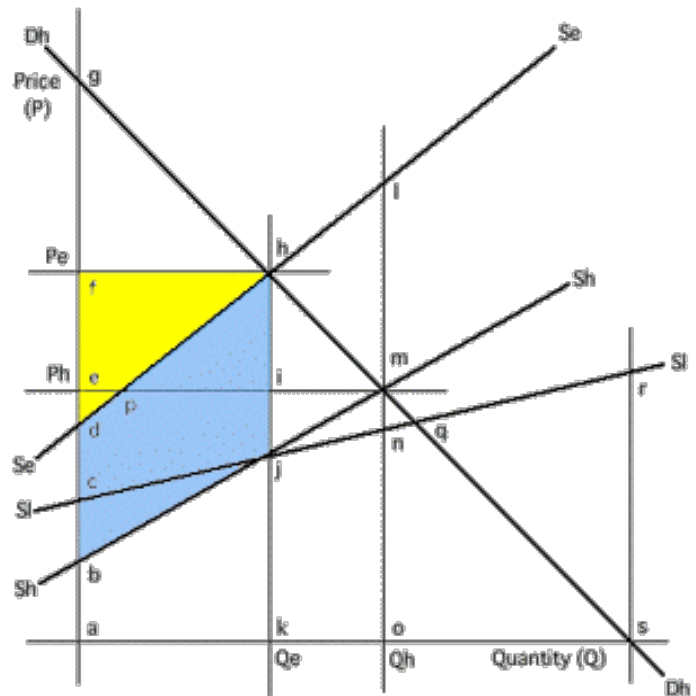


Figure 5. Adjusted Market With and Without Government Subsidy

In the first instance the public outlay would consist of the combined areas *abjk* (unshaded) and *bdhj* (blue-shaded). All profit (area *dfh*) from this provision would be passed on to those who successfully acquire high-level competence. In the second, instance, the taxpayer would cover the cost of low-level competence, and private industry would cover the cost of the high-competence premium. The profits would then be shared between private industry and those students who successfully attain high-level competence. As the third instance is unlikely ever to occur, there is little need to spend additional time with it here.

Important is that the private sector could easily compensate for whatever shortfall might occur due to poor government forecasting. Thus, in an effort to minimize social and economic waste the government should always err on the side of *underprovision*.

### PRIVATE-PUBLIC SECTOR TRADE-OFF

Though providing an optimal level of language competence may be straightforward from a theoretical perspective, its political implementation is far more difficult. This is because the private and public sector stakeholders are various, numerous, and/or large.

In order to simply the problem it is useful to distinguish between two kinds of private sector providers: those who supply the public sector with the materials, equipment, and personnel required for the provision of low-level competence, and those who contribute more directly to the provision of high-level competence in the private sector through the actual training of students and the direct provision of language services. Figure 6 applies directly to these latter providers. At  $P_e$ ,  $Q_e$  industry revenue is obtained by multiplying  $P_e$  and  $Q_e$  together; it is depicted by the sum of the large light-brown rectangle and the smaller dark-green

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rectangle. At  $P_h$ ,  $Q_h$  industry revenue is obtained by multiplying  $P_h$  and  $Q_h$  together; it is depicted by the sum of the large light-brown rectangle and the smaller dark-brown rectangle. From this depiction it should be clear that the elasticity of the demand for high-level language competence would play a crucial role in the amount of wealth transferred to or away from the private sector. Indeed, without proper knowledge of the market's demand for this provision the effect of eliminating the mandatory universal language requirement on these suppliers is unclear.

In direct contrast, there would be a clear loss to the suppliers of materials, equipment and personnel to the

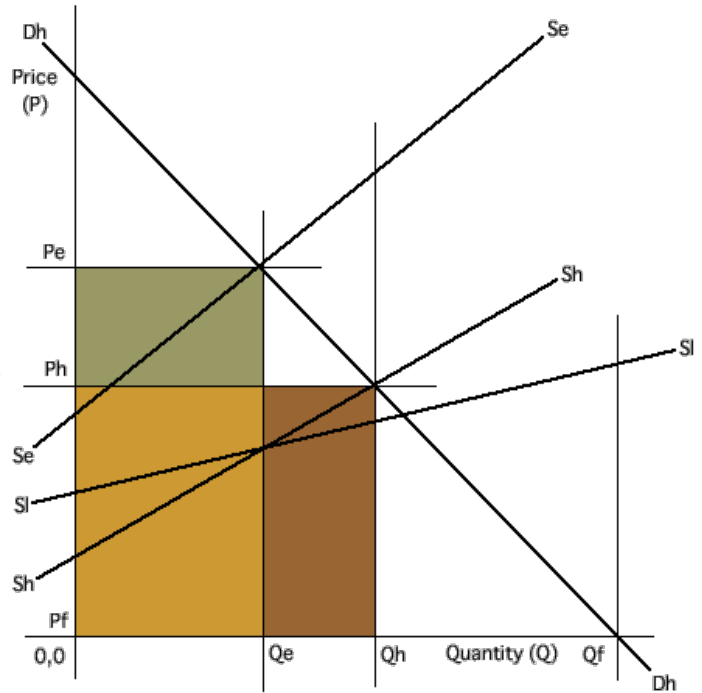


Figure 7. Cost to Government, Industry, and the General Public

public sector. This loss is depicted in Figure 7 by an estimable portion of the dark-green area  $jkrs$ . The loss of business to this portion of the private sector could be compensated in part, if the public sector were to provide both low-level and high-level competence in the provision of  $Q_e$ .

In effect, there is a clear trade-off with which private sector stakeholders would have to deal were the government to eliminate the mandatory universal second language requirement -- a trade-off that would surely result in a highly politicized battle for control of the industry.

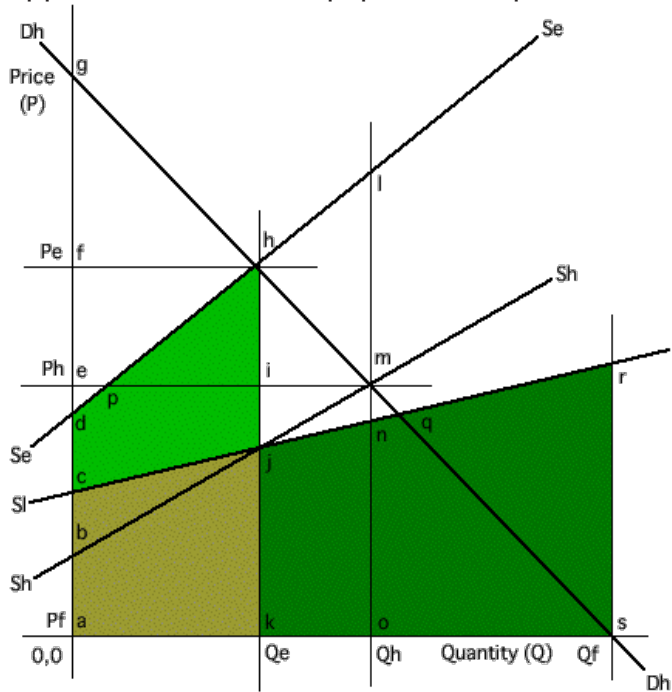


Figure 6. Subsidization With and Without Market Adjustment

## Conclusion

Governments around the world have been embarked on a journey of severe social and market waste for many decades now. The most obvious market losers in this struggle for market dominance has been the taxpayers. The more numerous, but often overlooked losers, in this struggle are the second language learners whose opportunity cost of second- and tertiary-language acquisition often appears to go ignored.

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When seeking to understand why these programs persist one must, however, look beyond the standard arguments offered by government leaders. For, underneath the propaganda there are private sector stakeholders whose clear gains under the current system of waste and inefficiency are too often ignored.