Chapter 9

The Economics of Education

Friends and foes alike agree that market-based school reform is the center of the modern debate over how to improve the nation's schools. Henry M. Levin, who heads the National Center for the Study of Privatization in Education at Columbia Teachers College, wrote in 2001, "privatization of education—in whatever form—has become a prevalent dimension of educational debate and operations."[1]

This chapter uses the economic principles presented in Chapter 8 to pick up where Chapter 3 left off: to explain how schools are necessarily more than mere businesses, yet their creation and operation respond to market forces and rules. Eight propositions of public-choice theory relevant to school reform are presented later in this chapter, and they are used to explain why relying on markets would lead to better schools for all children. The chapter ends by showing how economic principles can be applied inside classrooms to encourage students and teachers to strive for excellence.

[1]Henry M. Levin, ed., *Privatizing Education* (Boulder, Colo.: Westview Press, 2001), 3.

IS INFORMATION AN EXCEPTION?

Information, the content of education, differs in some ways from other commodities produced and distributed by markets. Some commentators are thus led to wonder if markets unaided by government would ensure an adequate supply. We call this viewpoint *education exceptionalism* because it implies education is an exception to the rules that apply to most other goods and services. Daniel Bell, for example, has written, "Information is not a commodity, at least not in the way the term is used in neoclassical economics or understood in industrial society. Industrial commodities are produced in discrete, identifiable units, exchanged and sold, consumed and used up, like a loaf of bread or an automobile. One buys the product from a seller and takes physical possession of it; the exchange is governed by legal rules of contract. . . . Information, or knowledge, even when it is sold, remains with the producer. It is a collective good in that once it has been created, it is by its nature available to all."[2]

Bell goes on to remark that "it is a challenge for economic theory to design a socially optimal policy of investment in knowledge (including how much money should be spent for basic research; what allocations should be made for education, and for what fields; in what areas of health do we obtain the 'better returns'; and so on) and to determine how to 'price' information and knowledge to users."[3]

The distinctions Bell makes are more important and valid than his conclusions. Much information is not produced costlessly, nor is it costlessly made available to all. For example, trade secrets or scientific discoveries may require years and millions of dollars to produce, and they are bought and sold for millions or even billions of dollars.

The creators of new and valuable information respond to incentives, just as do the producers of more tangible products. If the

[2]Daniel Bell, "The Social Framework of the Information Society," in *The Microelectronics Revolution,* ed. Tom Forester (Cambridge: The MIT Press, 1980), 513.

[3]Ibid.

property rights of the producers of information are unprotected, less will be produced and we would all be worse off. Moreover, the value of some kinds of information exists largely, or entirely, in the fact that their owners buy the right to act on them or announce them first, as in the case of patentable manufacturing processes and breaking news. In these cases, information is indeed consumed the first time it is acquired or broadcast. It is worth far less to people who acquire or rebroadcast it later.

How much information is bought and sold, rather than given away for free? The tip of the iceberg is the information technology industry. Advances in computing and data transmission technologies have made it possible to capture, store, manipulate, and transport unprecedented amounts of data at unprecedented speeds. In 1999, software programs worth $157 billion were bought and sold in the United States, and another $800 billion in hardware and services related to that software was purchased.[4]

To this could be added some part of the $30 billion spent on research and development by the pharmaceutical industry in 2001.[5] Add biotech, engineering, much of law, management, and the broadcasting industries, and you begin to see that many industries are turning information into discrete, identifiable units, enabling it to be exchanged and sold with rights to its use governed by legal rules of contract.

Not all information is exchanged in formal markets, and Bell addresses correctly the part that is not. We benefit immensely from information we do not pay (at least not directly) to acquire. Great literature and music, for example, are public goods, in the way such goods are usually defined by economists. Governments collect and process enormous quantities of data in the course of providing services (such as national defense), regulating commercial activities, collecting taxes, and performing other functions. That information is properly considered a public good, and as

[4]"The Beast of Complexity," *The Economist,* 14 April 2001, p. 4 of "Software Survey."

[5]Pharmaceutical Research and Manufacturers Association, *The Value of Medicines* (Washington, DC: PhRMA, 2001), 25.

Bell says, deliberate decisions are required about how much to invest, how to prioritize spending, and how to price it.

Because the quantity of information being produced is enormous and much of it is not destroyed when it is consumed, we perceive it to be free. But even in many of these cases, economic transactions—choices made in the face of scarcity—occur. We acquire new information through experience, observation, or study, trading time, convenience, risk, and sometimes money for what we gain. More common than pay-per-view television, for example, is free television, but viewers still pay a price, measured in the time spent viewing commercials. For both pay-per-view and free television, the viewer buys a television set and often a cable or satellite connection from competing producers, and those producers compete with the producers of information delivered by newspaper, radio, magazines, seminars, and so forth.

Bell's observations underscore why the production and distribution of information are inherently economic activities. The production of information requires investment and the organization of capital and human resources, all of which takes place in capitalist institutions and in competition with those seeking to produce other goods and services. Because of its ubiquitous nature, much information is distributed spontaneously without the formal trappings of exchange, but especially valuable information is bought and sold under terms of agreements that are sometimes implicit although often explicit. Either kind of transaction takes place in markets, even though those markets may not resemble those in which more common commodities are traded.[6]

SCHOOLING AS A MARKET PHENOMENON

Jeffrey Henig contends that schools are not really commodities and parents are not really consumers; to characterize schools as

[6]Richard C. Huseman and Jon P. Goodman, *Leading with Knowledge: The Nature of Competition in the 21st Century* (Thousand Oaks, Calif.: SAGE Publishing, 1999).

businesses and parents as shoppers is thus to speak only in metaphors.[7] Others make the same claim. Edward Fiske and Helen Ladd, for example, say the concepts of market competition and choice were "borrowed from other fields, such as management theory or economics, with the expectation that they could be readily adapted to the delivery of public education."[8] Clifford Cobb, a proponent of school choice and competition, wrote, "The marketplace metaphors of competition and efficiency have their place in discussions of school choice. Nevertheless, those features are only part of the story, perhaps no more than a footnote."[9] Such statements reveal a fundamental misunderstanding of the relationship between education and capitalism.

Schooling is as much a part of the information industry as are biotechnology, computer software production, law, and other information-focused services. Approximately $600 billion a year is spent in the United States on formal schooling from the preschool to doctorate and postdoctoral levels.[10] About 60 percent of this total is devoted to K–12 schools.

Education producers and consumers make choices under the constraint of limited budgets; in other words, they engage in economic activity. Figure 9.1 lists a few of these choices. All but two of these decisions must be made regardless of whether schooling is provided by government agencies or by competing private schools. The exceptions are when government both finances and operates schools, in which case the producers of schooling need not decide on the amount of tuition to charge and consumers generally are not free to choose the schools their children attend.

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[7]Jeffrey R. Henig, *Rethinking School Choice: Limits of the Market Metaphor* (Princeton: Princeton University Press, 1994), 13. This is not to say that economists do not use metaphors. See Deirdre N. McCloskey, *The Rhetoric of Economics* (1985; reprint, Madison: University of Wisconsin Press, 1998), 40–51.

[8]Edward B. Fiske and Helen F. Ladd, *When Schools Compete: A Cautionary Tale* (Washington, DC: Brookings Institution Press, 2000), 312.

[9]Clifford W. Cobb, *Responsive Schools, Renewed Communities* (San Francisco: Institute for Contemporary Studies, 1992), 1.

[10]National Center for Education Statistics, *Digest of Education Statistics 1999,* 6.

FIGURE 9.1. The Education Marketplace

Some Choices Made in the Presence of Scarcity

Producers

What classes to offer
What grade levels to offer
Which students to admit
How many teachers to hire
How many administrators to hire
How much to pay teachers
How much to pay administrators
Class sizes
Total enrollment
How to provide busing
Budgeting for supplies
What kind of facilities to buy
Whether to offer preschool programs
What postschool activities to offer
How much to invest in facilities
What security measures are needed
How much to spend on maintenance
How much to charge for tuition

Consumers

What school to choose
Which classes to enroll in
How to transport students
How much involvement with teachers
Whether to support school tax referenda
What supplies to buy
How much time to devote to homework
Summer school, tutoring, or test preparation
Whom to vote for in school board elections
Whom to vote for in other elections

Most of the resources that make schooling possible are scarce. Teachers, administrators, books, other learning aids, and facilities all must be purchased, which means bidding them away from competing uses. In government schools, some policy is set by voting, but much also occurs in the market. Teachers and administrators, for example, are not elected but hired, and they are paid salaries competitive with other occupational choices. The same is true of nearly all the items identified in Figure 9.1. Some key choices concerning whether and how to provide services are made by elected officials, but nearly all the activity of actually producing the service is done in the market.

More of the decision-making process of private schools takes place in the market, because, unlike their government counterparts, private schools cannot count on steady supplies of tax revenue and students assigned to schools based on where they live. Nevertheless, in the case of religiously affiliated schools, many decisions are also made by church officials and appointed or parent-elected school boards and based on considerations other than maximizing monetary returns on investments.

Parents who consider enrolling their children in Catholic schools do not merely act like consumers; they really are consumers. They take into consideration expenses such as tuition and travel time, the school's reputation, students' test scores and graduation rates, and other matters of cost and quality. Catholic schools close when they cannot convince a sufficient number of churchgoers to make contributions and parents to pay tuition sufficient to keep these nonprofit enterprises financially solvent. Much the same can be said of other private schools, both sectarian and independent.

Parents who limit their search to government schools are also real consumers of a service, although they participate in an exchange system that has different rules. Those who can afford to do so weigh the property taxes and amenities of various communities against measures or impressions of the quality of local schools before buying a home in a particular community. Communities compete for residents, and therefore tax revenue, by offering the best combinations of tax price and service quality. To say a family is shopping for a school is not to speak metaphorically. It is every bit as real as shopping for a house, a car, or food.

Schools also compete in more than a metaphorical sense. Principals compete with other schools and with businesses that produce entirely different goods and services for staff, equipment, supplies, and other inputs. The boards and principals of private schools compete with those of other schools to offer a combination of price and quality that parents will prefer. Government-school teachers and administrators are well insulated from the choices of parents (government schools seldom close, for example), yet the failure to maintain quality instruction or facilities eventually harms their communities and their professional reputations. For their public funding, government schools compete with other demands on local and state government budgets and, although not on an equal footing, with private schools in the community and government schools in other communities.

MORE THAN A COMMODITY

Some writers acknowledge that schooling is bought and sold like other goods and services but assert schools are more than mere commodities. "Good schools are more than the efficient utilization of inputs," writes Robert Hawkins. "Good schools are morally and intellectually productive communities."[11] The point is unarguably correct: Schools are related in complex and vitally important ways to other institutions of civil and political society.

Schools, particularly private schools, have long been recognized as among the most important mediating institutions in the United States.[12] Religious, ethnic, and ideological communities create schools to spread and perpetuate their particular sets of beliefs, create opportunities for civic involvement, and establish a

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[11] Robert B. Hawkins Jr., "A Note from the Publisher" in Cobb, *Responsive Schools,* vii.

[12] Rockne McCarthy et al., *Society, State, and Schools: A Case for Structural and Confessional Pluralism* (Grand Rapids, Mich.: William B. Eerdmans Publishing Company, 1981); Virgil C. Blum, *Freedom of Choice in Education* (New York: Macmillan Publishing, 1958).

sense of identity and permanence for their members.[13] Catholic schools, for example, provided alternative religious instruction at a time when most government schools used the King James Bible and incorporated anti-Catholic curricula. They and other religious schools continue to educate today millions of students whose parents wish to supplement the secular humanism taught in government schools.

But how do schools differ in this respect from many of the institutions that deliver food, housing, or health care? Delivery of these goods and services often involves institutions that exist for multiple purposes, not just to maximize profits. Family-owned farms are a cherished American institution, for example, and many types of food have cultural and religious significance. Homes are houses, yes, but also much more than just so much land, lumber, and shingles. A wide range of health care modalities and philosophies are delivered by hospitals, many of them started by ethnic groups, churches, and benevolent societies committed to a particular vision of service or health. Eight out of ten hospitals in the United States still operate as nonprofit organizations.

The more closely one looks, the less plausible becomes the argument that education should be treated as an exception to the usual rules of markets because schools are institutions, not merely firms. Is transportation just a commodity, given the immense role it plays in virtually every aspect of our lives? Mobility, after all, is critical to our freedom and self-realization.[14] Should cars and trucks be publicly financed, produced, and distributed free?

And what of electricity and water? Should these be viewed as exceptions to the ordinary processes of capitalism? If the answer is yes, precious little is left to be produced by the marvelously efficient and just capitalist institutions.

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[13]Rousas J. Rushdoony, *The Messianic Character of American Education* (Nutley, N.J.: The Craig Press, 1963).

[14]Leslie Dale Feldman, *Freedom as Motion* (Lanham, Md.: University Press of America, December 2000).

In fact, the reality that schools are institutions imbued with social meaning does not contradict the reality that schooling is also a commodity that can be bought and sold, one whose supply responds to cost and demand and other rules of economics. Think again of Catholic schools. They compete in the marketplace to hire staff (more than 80 percent of teachers in Catholic schools are lay), purchase books, buy electricity, transport students, and make use of countless other required inputs. These schools are real businesses that produce a real product.

NOT LIKE BLUEBERRIES

Resistance to regarding schools as businesses may arise from poorly considered demands that government schools operate in a more businesslike fashion. In an essay triumphantly titled "The Blueberry Story: A Business Leader Learns His Lesson," published in *Education Week,* Jamie Robert Vollmer, a former business executive and attorney, told of how an audience of teachers convinced him schools could not be run in a businesslike fashion. "I have learned that a school is not a business," Vollmer wrote, because "Schools are unable to control the quality of their raw material, they are dependent upon the vagaries of politics for a reliable revenue stream, and they are constantly mauled by a howling horde of disparate, competing customer groups that would send the best CEO screaming into the night."[15] The argument that apparently persuaded Mr. Vollmer was that, although his private ice cream company was able to reject a supplier's delivery of inferior blueberries, schools must accept and attempt to educate every child in the community, no matter how challenged. Mr. Vollmer's conversion was apparently complete: He "is now a keynote presenter and consultant who works to increase community support for public schools."[16]

[15]Jamie Robert Vollmer, "The Blueberry Story: A Business Leader Learns His Lesson," *Education Week,* 6 March 2002, 42.

[16]Ibid.

But the analogy upon which Mr. Vollmer's conversion rests is wrong. Children are not raw material in a production process, but customers to be served. The real inputs are teachers, books, and facilities, and a good principal should indeed reject those that are of low quality or come at an inflated price.

Asking government schools to operate in a more businesslike fashion while they depend on "the vagaries of politics for a reliable revenue stream" is indeed to ask the impossible. But that is not what the advocates of market-based reforms seek. Rather, they call for an end to the political allocation of funding for schools. The current public school monopoly explains why schools find it so difficult to appease "disparate, competing customer groups." Mr. Vollmer's ice cream company did not suffer because different customers wanted different flavors of ice cream; indeed, it thrived by catering to those differences. If schooling, like ice cream, were delivered by a competitive education marketplace, schools would specialize in serving children with certain needs, rather than provide one-size-fits-all curricula that satisfy no one. And it is the public school monopoly, not the inherent nature of schooling, that turns conscientious parents into what Mr. Vollmer calls a howling horde.

Schooling, in conclusion, is a commodity bought by consumers and sold by producers. Most schools are government-owned and -operated, and most private schools are not for profit. They have missions and implications beyond the marketplace, but all schools nonetheless operate *in* the marketplace. Even government schools compete with other industries for inputs and ultimately, if only in an attenuated way, for students and parental support. That they do this poorly today is evidence of the need for competition and choice, not of any inherent public nature of schools.

EIGHT PUBLIC-CHOICE PROPOSITIONS

Government schools are owned and managed by political institutions, so if economists are to study them, they must apply the tools of public-choice theory. The following eight propositions of public-choice theory have been validated by empirical research and are all relevant to the study of government schools.

- *Bureaucrats tend to favor more spending by their bureaus.* Rather than passively implementing policies adopted by elected officials, bureaucrats act in ways that increase their income, authority, and prestige. In government, this frequently means expanding the size, jurisdiction, and budgets of their departments.[17]
- *Regulators tend to represent the interests of those they are supposed to regulate rather than those they are supposed to protect.* Regulators are often captured by the industries they are supposed to regulate because industry representatives influence political decisions affecting the regulator's budget, restrict access to information needed to implement regulations, and promise employment after regulators leave government service.[18]
- *Elected officials tend not to share most of the views of most of their constituents.* Voters typically have a choice between just two candidates for public office, each representing a set of positions on scores of issues that may matter to a voter. The odds that a candidate's views on even a handful of major issues will match those of any one constituent are small, and the odds that the winner in the election will share the constituent's views are smaller still.[19]

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[17]William A. Niskanen Jr., *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971); T. E. Borcherding, ed., *Budgets and Bureaucrats: The Sources of Government Growth* (Durham: Duke University Press, 1977); Charlotte A. Twight, *Dependent on DC: The Rise of Federal Control over the Lives of Ordinary Americans* (New York: Palgrave, 2002).

[18]George Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2 (spring 1971): 3–21.

[19]Harold Hotelling, "Stability in Competition," *Economic Journal* 39 (March 1929): 41–57; Dennis C. Mueller, "Public Choice in a Representative Democracy," chap. 6 in *Public Choice* (1979; reprint, New York: Cambridge University Press, 1987), 97–124. Lawrence R. Jacobs and Robert Y. Shapiro, *Politicians Don't Pander: Political Manipulation and the Loss of Democratic Responsiveness* (Chicago: University of Chicago Press, 2000).

- *Once elected, officials tend to use the powers of their offices to entrench themselves, becoming less accountable to voters.* The rate at which incumbents running for reelection are returned to office is more than 90 percent at both the national and state levels. Incumbents benefit from the financial support of well-organized interest groups, free postage, generous office budgets, restrictive ballot-access laws, district gerrymandering, and sometimes limits on campaign contributions to preserve their status.[20]
- *Elected officials tend to favor higher levels of spending than do the voters they claim to represent.* Recognizing the political influence of organized beneficiaries of government largesse, elected officials seek to ensure their re-election by promising new entitlements and subsidies financed by higher spending. Focusing only on the two or six years before their next election, officials discount the long-term cost of creating new programs.[21]
- *Locally elected officials tend to be more accountable to voters than state officials, who in turn are more accountable than national officials.* The relatively small size and open borders of local political jurisdictions allow taxpayers to vote with their feet by moving to jurisdictions that better meet their needs. The result is competition among local political units for residents, culminating in greater efficiency and accountability.[22] Systems of government where powers are divided

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[20]James L. Payne and Michael Jerbich, "Curbing the Governmental Class," Heartland Policy Study No. 51, Chicago, The Heartland Institute, 1992; Daniel D. Polsby and Robert D. Popper, "Partisan Gerrymandering: Harms and a New Solution," Heartland Policy Study No. 34, Chicago, The Heartland Institute, 1991.

[21]James L. Payne, *The Culture of Spending* (San Francisco: ICS Press, 1991); Richard E. Neustadt and Ernest R. May, *Thinking in Time: The Uses of History for Decision-Makers* (New York: The Free Press, 1986), 96–105.

[22] Mueller, *Public Choice* (in note 19 above); Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64 (October 1956): 416–24; Albert Hirschman, *Exit, Voice, and Loyalty* (Cambridge: Harvard University Press, 1970).

and limited "function more like markets than like single firms or hierarchical bureaucracies."[23]

- *Government programs tend to redistribute income from the general public to small but well-organized interest groups.* Small groups receiving concentrated benefits from government spending programs or regulations are more highly motivated to organize and influence policymakers than are members of the general public. Members of the general public each bear only a small share of the widely dispersed cost of a government program; rarely is it worth their time to organize resistance or even monitor the cost of such programs and regulations. The general public will thus tend to stop voting or to vote on the basis of nonpolicy factors (name recognition, party label, and the like) rather than careful study of the issues and the candidates.[24]
- *The votes of legislative bodies tend not to reflect the wishes of the majority of their members.* Votes by deliberative bodies can be, and often are, manipulated by presiding officers who change the order of a series of either-or votes (a tactic called cycling) and by individual members pledging their votes on measures of little concern to them in exchange for the votes of others on issues they consider more important (a tactic called logrolling). Both practices produce outcomes that are both different from what would be produced by simple majority voting and undesirable in terms of the objectives identified by the elected officials themselves.[25]

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[23]Robert L. Bish, "Federalism: A Market Economics Perspective," in James D. Gwartney and Richard E. Wagner, eds., *Public Choice and Constitutional Economics* (Greenwich, Conn.: JAI Press, Inc.), 366.

[24]Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1971); and by the same author, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982) and *Power and Prosperity* (New York: Basic Books, 2000).

[25]Kenneth Arrow, *Social Choice and Individual Values* (1951; reprint, New Haven: Yale University Press, 1963); James M. Buchanan and Gordon Tullock, "Simple Majority Voting and the Theory of Games," chap. 11 in *The Calculus of Consent* (1965; reprint, Ann Arbor: University of Michigan Press, 1974), 147–69.

These findings infuriate advocates of continued (or greater) reliance on government in any number of fields, including education. They make a strong case, confirmed by empirical research, that elected bodies and bureaucracies are often ineffective at achieving social goals. The flaws, it should be made clear, are institutional, and are not in the people involved. They result from incentive structures and information systems that frustrate even those with the best intentions.

Public-choice theory, illustrated by these eight propositions, does not prove that the private sector delivers every good and service better than the public sector. However, it increases the burden of proof on those who argue government agencies are superior to private entities. They can no longer assert the superiority of government by assuming government is a flawless vessel for their ideas and dreams.

WHY CHOOSE MARKETS?

By simply rephrasing the eight public-choice propositions, we can summarize the case for relying on markets, rather than government, to produce schooling.

- *Markets reward efficiency rather than budgetary expansion.* Government bureaucracy rewards school administrators according to the size of their staffs and budgets. In the private sector, by contrast, school administrators are rewarded if they satisfy the demands of parents by providing the best educational services at a given tuition price. Clearly, the market-based approach is more efficient and produces greater satisfaction for parents.
- *Markets replace top-down accountability through regulation with bottom-up accountability to consumers.* School board members and other government school administrators are often subjected to political interference, have limited information and resources, and are captured by teachers unions and other service providers. Because they are not free to choose the schools their children attend, parents have little

incentive to monitor the quality or efficiency of government schools. By contrast, every parent who chooses a private school becomes a regulator motivated by self-interest and personal preference to inspect their schools' operations and compare their prices. This forces private schools to be more efficient and accountable to parents.

- *Markets ensure that the interests of a greater number of citizens are met.* Elected school board members and government school administrators must focus on the needs of the median or typical voter and thus neglect interests that are not widely shared. Because student needs and parent preferences are so diverse, voting on school policies—curricula, discipline, facilities, sports programs, and so on—becomes a win-lose proposition. Private schools, by contrast, because their management is decentralized and parents are free to choose among a variety of schools competing for their children, are free to specialize in creating schools parents want. This market approach to schooling enables some parents to reveal their preferences by choosing Greek, Latin, Japanese, or photography, allowing some schools to specialize in delivering those courses of instruction without requiring that all schools offer such courses.
- *Markets make it easier for consumers to hold producers accountable for the quality of their work.* Because elected officials use the perks of their offices to win re-election, they face little pressure to keep campaign promises or to ensure the public gets its money's worth. In the private sector, no one stands between producers and consumers, so consumers "vote" each time they buy from one provider rather than another. Consequently, private school administrators are more responsive to parents than government school administrators are.
- *Markets allow consumers, not producers, to determine the proper price and quantity of goods and services to be produced.* Government officials spend other people's money and are often rewarded—with campaign contributions, favorable

publicity, and career advancement—when they support increased public spending. Consumers, by contrast, spend their own money, and therefore spend as much on a particular combination of goods and services as they deem best. If parents pay a share of their children's school costs, they are likely to take greater care in monitoring how the money is spent.

- *Markets decentralize decision-making authority, minimizing opportunities for corruption and the cost of mistakes.* Centralized power and large bureaucracies are vulnerable to corruption, and the consequences of mistakes can be vast. Private ownership of assets and competition among private providers decentralizes and limits authority by putting resources into the hands of firms and nonprofit organizations that, unlike governments, cannot operate as subsidized cartels. Relying on markets rather than government would reduce the widespread waste and corruption that characterizes many big-city school systems.
- *By empowering the general public, markets overcome the organizational advantages held by well-organized interest groups.* Interest groups, such as teacher's unions, mobilize their members, raise funds, and lobby elected officials to shape public policies to advance their interests, sometimes at the expense of the general public. Moving a service from the government to the private sector reduces the rewards for this kind of activity by moving decision making beyond the reach of politics. In this way, markets overcome the incentives that otherwise prevent many parents from participating in the operation of schools.
- *Markets rely on consumer choices, rather than on votes by deliberative bodies, which can be manipulated.* Anyone familiar with *Roberts' Rules of Order* knows democracy is much more complicated than majority rule. The decisions of elected bodies often depart from the views of the majority of their members because of the organization, procedures, and tactics of competing sides. Markets rely instead on the

> informed choices of many consumers, who are less apt to be manipulated. Parents who send their children to private schools are free to choose schools that have policies they support. They do not have to run for public office, attend frequent and lengthy school board meetings, and engage in endless negotiation with other school board members who have different ideas about how schools ought to be run.

For all these reasons, market production of schooling would tend to be more efficient and responsive to consumer demands than the current public school monopoly.

REFORMS THAT REACH STUDENTS

Economic insights into education suggest how school policies and classroom procedures could be changed to improve student achievement. It is widely observed, for example, that, in many schools today, talented students coast, taking easy classes and never developing disciplined study habits.[26] Students who could earn good grades by studying harder often realize they will be promoted to the next grade even if they do not demonstrate academic progress. They see fellow students who openly ridicule academic achievement and disrupt classes yet are kept in the school.

Because it comes so cheaply, few students place a high value on getting a high school diploma, and they receive little encouragement from parents. A recent survey found that nearly half of all parents don't believe a high school diploma signifies mastery of even basic literacy skills.[27] Once the importance of incentives,

[26]Jean Johnson and Steve Farkas with Ali Bers, *Getting By: What American Teenagers Really Think about Their Schools* (New York: Public Agenda, 1997); Arthur Powell, Eleanor Farrar, and David K. Cohen, *The Shopping Mall High School: Winners and Losers in the Educational Marketplace* (Boston: Houghton Mifflin, 1985); Allan Bloom focuses on college freshmen, but his criticism often reflects the failure of their high schools to offer a challenging curriculum. See *The Closing of the American Mind* (New York: Simon & Schuster, 1987).

[27]Ann Bradley, "Public Backing for Schools Is Called Tenuous," *Education Week,* 18 October 1995, 1, 13.

competition, and choice is understood, reforms come to mind that could challenge this antiacademic culture by giving students incentives to study hard and take challenging courses. Such reforms include

- Sponsoring more interscholastic competitions to allow students to display their advanced academic achievement without having to compete against students in their own schools. Sports and debate programs are models on which to build.
- Developing high standards for mastery of serious subject matter and measuring progress by using curriculum-based external exams (discussed in Chapter 10) taken at regular intervals by all students.
- Providing financial and status awards for high achievement to students, teachers, and parents. It is not crass to award scholarships, savings bonds, bicycles, or other prizes to high-scoring students. Nor is it unfair to reward teachers and others who spend time tutoring promising students by offering cash bonuses, special recognition, and other benefits. To control for the heterogeneous nature of student populations, performance gains, rather than performance levels, can be measured and rewarded.
- Giving awards to groups as well as individuals to encourage groups of teachers, parents, and students to cooperate rather than compete as individuals. Such rewards for innovation and cooperation promote the creation of new norms inside a school and a sense of community among participating teachers, parents, and students.
- Eliminating no-fail and social-promotion policies that tell students they will not be held to any standards. Create a policy whereby disruptive students are encouraged to resign as students but are invited to return when they are ready to learn. Often, getting them out of the classroom would significantly benefit a school's academic culture.

- Tightening college admission standards and encouraging colleges to scrutinize high school grade transcripts before making admission decisions. Students should not be encouraged to think that college admission is automatic or that they will be able to take remedial courses to make up for skills and knowledge they should have acquired in high school. High school teachers and administrators should frequently remind students that meeting rigorous college admission standards will benefit them.
- Increasing standards of potential employers. Students need to be made aware that coursework will be taken into account when they apply for jobs after graduation. During job interviews, employers should ask to see grades and the titles of courses taken.[28] Students should hear business owners say that coursework matters, and this should happen early (beginning in middle school) and often.[29]

Two further reforms would enable school administrators to take charge of their schools and make the decisions necessary to boost efficiency and productivity:

- Liberating school boards from mandatory bargaining rules on such matters as contracting for services and classroom instruction.[30] For example, legislation passed in Michigan in 1994 (Public Act 112) gave school boards the freedom

[28]This recommendation was endorsed by the country's governors at the Education Summit in Palisades, New York, in March 1996. See Carrol Innerst, "It's Politics as Usual in Palisades," *Insight,* 29 April 1996, 36.

[29]The Greater O'Hare Association is doing this with some success in District 59 (Des Plaines, Ill.). See Kelly Womer, "Business Partnerships Mold Future Workers," *Chicago Tribune,* 24 April 1996.

[30]See Myron Lieberman, "Teachers Unions: Is the End Near? How to End the Teacher Union Veto over State Education Policy," *Briefing,* The Claremont Institute, 15 December 1994; and by the same author, "Restoring School Board Options on Contracting Out," The Claremont Institute, 20 November 1995.

to contract out food, custodial, and transportation services without being held up by teachers union leaders at the bargaining table.

- Prohibiting teachers union leaders from automatically deducting dues for political contributions. Michigan is also a leader in this regard, with Public Act 117. It is not legally required that government agencies collect dues for teachers unions, and the U.S. Supreme Court has made it clear that union members may not be required to pay dues that are used for political purposes. Much undue influence by teachers unions over school board elections could be ended simply by acting in accordance with current laws.

These reforms could be made without changing the way schools are financed and without regard to whether the schools involved are private or government. Regretfully, few schools have adopted these "micro" policies because they operate in "macro" environments that do not reward them for success or penalize them for failure. The only way to ensure that worthwhile reforms such as these are implemented widely is to subject the schools themselves to competition and consumer choice, a process called privatization.

RECOMMENDED READING

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West, E. G. *Education and the State.* Indianapolis: Liberty Press, 1965, 3d rev. edition, 1994.