Chapter 3

How a Capitalist School System Would Work

The preceding two chapters documented the failure of the public school monopoly and revealed the causes of that failure. But would a capitalist school system that relied on markets rather than government to provide schools deliver a higher-quality system of schooling for our children? Are there aspects of education that make it exceptional, unlike other goods and services that markets deliver efficiently?

Competing private schools once educated nearly all of the nation's children, a system gradually replaced, in the mid–nineteenth century, by the current government school monopoly. Examining that earlier system can uncover lessons for today's school reform movement.

Defenders of the government school monopoly have raised four principal objections to returning to a capitalist school system. They warn private schools would fail to inculcate the values needed for citizenship in a free and democratic society. They claim many parents would be unable to make informed choices among schools offering competing programs. They say no one would operate schools to educate the poor. And they contend cooperation, rather than competition, is most appropriate for the field of education. This chapter responds to each of those objections.

PRIVATE SCHOOLS IN U.S. HISTORY

The history of schooling in the United States offers powerful lessons about the roles of capitalism, community, and the state. There never has been a time in U.S. history when schooling was provided exclusively by markets, or by churches and other institutions of civil society, or by the state. Instead, all three have played key roles.

SCHOOLING IN COLONIAL AMERICA

During the first two centuries of American history, schools were typically funded, at least in part, by governments but created and operated by churches and other private institutions. As Rockne McCarthy and colleagues explain, "It was common practice in colonial America for public funds to go to private schools in the form of land grants and taxes. The justification for this practice was that private schools were providing a public service to the community. The fact that private schools were owned and managed by individuals, religious groups, or churches did not disqualify them from being considered 'public' institutions when it came to such matters as funding."[1]

The tradition began when the Massachusetts General Court (the legislature of the Massachusetts Bay Colony) passed two laws in the 1640s. The first law made all parents and ministers responsible for ensuring that children could read the Bible and understand the principles of religion and the laws of the colony. Under the second law, towns of fifty or more families were required to create elementary schools. Towns of one hundred or more families were also required to create Latin grammar schools. Both types of schools qualified for tax support, although some of the expense was offset by charging tuition.[2]

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[1]Rockne McCarthy et al., *Society, State, and Schools: A Case for Structural and Confessional Pluralism* (Grand Rapids, Mich.: William B. Eerdmans Publishing Company, 1981), 80.

[2]Robert William Fogel, *The Fourth Great Awakening and the Future of Egalitarianism* (Chicago: University of Chicago Press, 2000), 99.

A federal role in schooling was endorsed when Congress adopted the Land Ordinance of 1785, setting aside a square mile of every township (which measured 36 square miles) for the support of schools. That policy was reaffirmed in the Northwest Ordinance of 1787, which provided that "religion, morality, and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall be forever encouraged."

The original American colonies, like the European countries from which their populations emigrated, established state churches. Tax dollars paid the salaries of Anglican Church ministers in Virginia, for example, and Congregationalist ministers in Massachusetts.[3] The practice of establishing religion extended to providing public support for church-run schools.

The practice of direct state funding of churches gradually fell into disfavor in the years following the Revolutionary War and ratification of the U.S. Constitution in 1788, but it still took place in several states well into the nineteenth century. During the Constitutional Convention, the First Amendment of the Constitution, stipulating "Congress shall make no laws respecting an establishment of religion, or prohibiting the free exercise thereof," was supported most strongly by delegates from states with state churches. The amendment was intended not to limit states' rights, but to prohibit the national government from interfering in a state's right to favor one church over another.[4]

Religion was eventually privatized—that is, separated from the state—largely as a consequence of the Great Awakening, a religious movement that "produced a form of religious individualism in which people freely accepted the argument that religion was limited to an individual's personal communion with God and such private spheres of life as the family and the church."[5] But the "separation of church and state" did not lead to a similar separation

[3]McCarthy et al., *Society, State, and Schools,* 81.

[4]See Geoffrey R. Stone, Richard A. Epstein, and Cass R. Sunstein, eds., *The Bill of Rights in the Modern State* (Chicago: University of Chicago Press, 1992), 136.

[5]McCarthy et al., *Society, State, and Schools,* 83.

of school and state. One way to understand why is to consider Thomas Jefferson's views on the subject.

Jefferson, author of the Declaration of Independence and the nation's third President, is famous today for his libertarian sentiments on individual rights and the need to limit the powers of the state. Yet Jefferson had no objection to having the state educate its citizens. "In Jefferson's thought the school gave up its autonomy to the state and became little more than a department of the state. And Jefferson saw nothing wrong with indoctrinating students into a philosophy of government as long as it corresponded to his understanding of orthodoxy."[6] Why this apparent contradiction?

Jefferson was keenly aware of how European states had been drawn into disastrous doctrinal disputes among religious sects. Preventing a similar fate from befalling the United States would require a wall of separation between church and state. But Jefferson also believed citizens needed to be educated for democracy, and since churches ran most of the schools in the new nation, he faced a dilemma: The schools were on the wrong side of Jefferson's wall. The total separation of school and state would leave the schools beyond the influence of those (like him) who put education for democracy ahead of religious sectarianism. Jefferson, it should be stressed, was not opposed to the teaching of a nonsectarian Christian or deist belief system; he was only doubtful that religiously affiliated schools could avoid the factionalism that had caused so much suffering in Europe.

Jefferson and other leading thinkers thought the solution to this dilemma could be found in a combination of state funding for private and religiously affiliated schools and government ownership of schools committed to educating for democracy. Jefferson thought schools could operate as institutions of civil society, but like many modern-day reformers, he did not trust parents to make the right decisions in an unregulated market for schooling.

[6]Ibid., 85. Although among the greatest thinkers among America's founders, Jefferson favored freeing slaves but could not bring himself to free his own—perhaps for similarly paternalistic reasons.

The Rise of Government Schooling

For two centuries the Jeffersonian compromise worked. Most schools in the United States were privately owned and managed but funded by government subsidies as well as tuition. This arrangement held sway from the founding of the first colonies until the middle of the nineteenth century. Although the data are somewhat controversial, most historians agree that, in 1840, the population of the northern states had the highest literacy rates in the world (over 90 percent), higher even than literacy rates today.[7] Competition worked, even in education.

Starting around 1840, government aid to private schools was reduced and restricted, and government-owned and -operated schools increasingly took their place. Underlying this trend was growing intolerance of religious diversity and heavy promotion of a new model, imported from Europe, of centralized control over schooling. New York City's experience is typical of how this transition came about.

Before 1805, New York City funded a variety of churches and nonprofit charitable organizations to operate schools. The money was distributed in proportion to the number of students given free education and was used only to pay teacher salaries. In 1805, the New York state legislature chartered the New York Free School Society to provide education to children from low-income families, and in 1807, it granted the society public funds for the construction of schools as well as teacher salaries. Baptists challenged this special treatment and sought more funding for their schools as well.

The Free School Society responded by accusing the Baptists of offering a sectarian education, in contrast to its own nonsectarian curriculum, and challenging the legitimacy of any public money going to support sectarian schools.[8] The New York Common Council accepted the Free School Society's distinction and stopped funding Baptist schools. The following year, the Free

[7]Fogel, *Future of Egalitarianism,* 99.

[8]McCarthy et al., *Society, State, and Schools,* 88.

School Society changed its name to the New York Public School Society, donated its property and buildings to the city, and received in turn a perpetual lease to the same. New York's mayor and recorder were named ex officio members of the society's board of directors, and the society received "what amounted to legal recognition that only its nonsectarian version of education would thereafter receive public support."[9]

In New York, the final split between what are now called private and public schools occurred 30 years later, when the Catholic Church applied for public funding for its 5,000 students (versus the Public School Society's 12,000 students). The city's Common Council "concluded that Catholic schools were not entitled to public funds because they were not 'common' or public schools. A common school was defined as one open to all in which 'those branches of education, and those only, ought to be taught, which tend to prepare a child for the ordinary business of life.' "[10] Thereafter, public funds for schooling would go only to the Public School Society. Jefferson's distinction between sectarian and nonsectarian religious instruction, which had preserved a place for private schools as valuable social institutions, had gradually been turned into the modern distinction between private and public schools, with the latter being government owned, operated, staffed, and funded and the former qualifying for only token amounts of tax funding.

Events similar to those in New York occurred in major cities and states around the country. The nation was awash with recent immigrants (accounting for about 80 percent of the population growth of northern cities between 1820 and 1860), making nativist sentiments politically popular.[11] The model of limited public funding and private delivery of schooling, which had worked for two centuries to preserve diversity of thought and teach democracy, did not offer the degree of control over education that government officials desired.

[9]Ibid.

[10]Ibid., 89.

[11]Fogel, *Future of Egalitarianism,* 154.

Massachusetts led the movement to extend government control over schools. In 1837, the state created a board of education whose first secretary, Horace Mann, was the nation's leading proponent of withholding funds from private schools and directing them instead to government-run schools. Mann's model for reform was the school system of Prussia, a nation without a democratic government and whose institutions of capitalism were much less advanced than those of the United States.[12] Mann's model of centralized control and state-enforced uniformity of standards enhanced the status and salaries of teachers, who became an important force lobbying for adoption of the model across the country.[13]

By the end of the nineteenth century, the current arrangement of granting government schools a near-monopoly on public funding was in place in almost every state in the United States. Anti-Catholic sentiment led most states to amend their constitutions to restrict or prohibit government aid to private schools. Two exceptions to this trend were Vermont and Maine, which to this day make government funds available to pay the tuition of students attending private schools.[14]

Lessons for School Reformers

From 1640 to 1840, schooling in the United States was provided primarily by private schools that received limited government subsidies. During this period, most schools were sponsored by churches, and all but the poorest families paid tuition. This system depended more on the institutions of capitalism and civil society than on government, and it successfully educated generations of Americans. Surely, this history is relevant to those searching for ways to improve today's school system.

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[12]Joel Spring, *The American School, 1642–1985* (White Plains, N.Y.: Longman, Inc., 1986).

[13]E. G. West, "The Political Economy of Public School Legislation," *Journal of Law and Economics,* October 1967.

[14]John McClaughry, "Who Says Vouchers Wouldn't Work?" *Reason,* January 1984, 24–32.

The system in place before 1840 preserved the Founding Fathers' vision of a pluralistic and free society and achieved levels of literacy that apparently exceed those of today. The rise of schools owned and operated by governments after 1840 resulted from disputes among religious sects and advocacy by intellectuals who favored a model appropriated from Europe where economies and schools were centrally controlled. This model was implemented because it solved a political problem, but it did so in a way that was undemocratic: by preventing nongovernment institutions from playing their historical and rightful roles in creating and operating schools.

History is not destiny. The educational system today is hardly the necessary outcome of choices made by Thomas Jefferson or other Founding Fathers centuries ago. Nor is what was best for their time best for ours. History can, however, illustrate and sometimes document theories of how the world works. The history of education in the United States lends considerable weight to the case for a return to a competitive education market in K–12 schooling.

DEMOCRATIC VALUES AND PRIVATE SCHOOLS

Jeffrey Henig thinks we should continue to entrust the education of children to government because "government policy toward public schools is the major opportunity that democratic societies have for upgrading the quality of insight and sensitivity on which future majority decisions will rely."[15] Paul Hill, Lawrence Pierce, and James Guthrie make a similar argument, saying private schools and parents would neglect the "broader community standards for what students will learn" if government stopped managing schools.[16] And Michael Engel has written, "Democratic values

[15]Jeffrey Henig, *Rethinking School Choice: Limits of the Market Metaphor* (Princeton: Princeton University Press, 1994), 10.

[16]Paul T. Hill, Lawrence C. Pierce, and James W. Guthrie, *Reinventing Public Education* (Chicago: University of Chicago Press, 1997), 83–84.

are a necessary, even if not sufficient, condition for defending the existence of a system of public education. Only from a democratic perspective can one claim that the schools have an impact on and responsibility to the whole society and that as a result they are a matter of collective community concern and legitimate objects of democratic decision making."[17]

Similar arguments were made in the 1930s and 1940s, when the progressive education movement was launched by such educators as John Dewey and Boyd Henry Bode.[18] Bode expressed the point eloquently in a 1938 book titled *Democracy as a Way of Life:* "The school is, par excellence, the institution to which a democratic society is entitled to look for clarification of the meaning of democracy. In other words, the school is peculiarly the institution in which democracy becomes conscious of itself."[19]

In the half century since Bode and Dewey wrote, much has been learned about the relationship of capitalism to democracy. We now know protecting property rights is essential to preserving individual freedom, and we know capitalism and democracy historically emerged side by side, each the guarantor of the other. The institutions of capitalism organize the economy of a free society, creating the prosperity history shows is essential to the success of democracy. The institutions of democracy—open elections, political equality, and majority rule—divide and check political power, an essential condition for the preservation of capitalist institutions. There is no contradiction between the two.

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[17]Michael Engel, *The Struggle for Control of Public Education: Market Ideology vs. Democratic Values* (Philadelphia: Temple University Press, 2000), 7. For similar views see Kenneth J. Saltman, *Collateral Damage: Corporatizing Public Schools—a Threat to Democracy* (Lanham, Md.: Rowman & Littlefield, 2000); Gerald W. Bracey, *The War against America's Public Schools* (Boston: Allyn & Bacon, 2002); Alex Molnar, *Giving Kids the Business: The Commercialization of America's Schools* (Boulder, Colo.: Westview Press, 1996).

[18]John Dewey, *Experience and Education* (1938; reprint, New York: The Macmillan Company, 1959), 5–6.

[19]Boyd Henry Bode, *Democracy as a Way of Life* (New York: Macmillan Publishing, 1938), 94–95.

Because they devote so much of their time to inspiring and motivating children and young adults, educators and intellectuals are likely to believe the workplace, and therefore capitalism, discourage creativity, imagination, and play. Deirdre McCloskey sees a fundamental error in such opposition to capitalism: "Impatience with calculation is the mark of a romantic, but the intellectuals were mistaken about the growth of rationality. They mistook bourgeois life, the way a rebellious son mistakes the life of his father. The life of the bourgeoisie is not routine but creative. What has raised income per head in the rich countries by a factor of twelve since the eighteenth century is originality backed by commercial courage, not science."[20]

Even Dewey recognized that his emphasis on creativity and experimentation could be taken too far and result in disorderly classrooms, poor work habits, and low achievement.[21] We now know that mastery of any field to the point of being able to make a creative contribution usually requires concentrated effort over many years, an effort most likely to be made if students have internalized bourgeois values.

If Bode, Dewey, and others in the progressive education tradition understood capitalism, they would have seen how their educational theories supported, and indeed were made meaningful only by reference to, capitalist institutions. Individualism and the embrace of innovation and social change are hallmarks of capitalism as well as progressive education. As explained below, the procedural and distributional justice sought by progressives is achieved through capitalist institutions—secure property rights, freedom to trade, and the Rule of Law—and all too often denied by arbitrary government power.

The claim that private schools cannot prepare citizens for democracy also overlooks a contradictory and opposite concern. Government control over most or all of the schools in a free society

[20]Deirdre McCloskey, "Bourgeois Virtue," *American Scholar* 63, 2 (spring 1994): 189.

[21]Dewey, in fact, wrote *Experience and Education* partly as a reaction to such extremism. See Diane Ravitch, *Left Back: A Century of Failed School Reform* (New York: Simon & Schuster, 2000), 307–10.

undermines the independence of both its citizens and the mediating institutions that help create and protect democracy. How wise is it to allow a government to control the schooling of its own citizens? John Stuart Mill pointed out the conflict of interest over a hundred years ago: "A general state education is a mere contrivance for molding people to be exactly like one another; and as the mold in which it casts them is that which pleases the predominant power in the government . . . it establishes a despotism over the mind, leading by natural tendency to one over the body."[22]

Pluralism requires that a "clear distinction between the state and the schools must be observed."[23] In this way, schools are similar to churches and newspapers. They are all mediating institutions able to perform their vital tasks only if they are free to criticize elected officials and popular ideas without fear of reprisal. Government school administrators and employees are hardly in that position. Clifford Cobb wrote, "In many urban neighborhoods, the school is the complete opposite of community. It is an outside institution with little hold on the loyalty of anyone."[24]

Do the boards and volunteers of private schools contribute less to democracy than government school boards? Both provide vehicles for deliberation, debate, and decision making. Admittedly, the boards and committees of private schools are not open to the general public but only to people whose children attend the schools or whose contributions support the schools, in other words, people who accept responsibilities in return for the right to participate in policymaking. It is easy to see that participation in the management of private schools could be a better experience in democratic decision making than what occurs in many government schools.

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[22]John Stuart Mill, *On Liberty* (Northbrook, Ill.: AHM Publishing Corp., 1947), 108.

[23]McCarthy et al., *Society, State, and Schools,* 166.

[24]Clifford W. Cobb, *Responsive Schools, Renewed Communities* (San Francisco: ICS Press, 1992), 2.

Government schools are also unlikely to give parents an affirmative experience with self-government. By taking away from parents any authority to choose the schools their children attend, and then mitigating their ability to influence the schools' decisions about curricula, staffing, and other operational matters, government schools are more likely to extinguish than promote civic and democratic impulses. What lessons do students learn when their parents are systematically excluded from meaningful participation in their schools?

Finally, standardized tests designed to measure success at teaching democratic values suggest the current system falls far short of what its defenders should deem acceptable. According to a 1998 assessment of fourth-, eighth-, and twelfth-grade students conducted by the National Assessment of Educational Progress, just 23 to 26 percent of U.S. students ranked proficient or advanced in their civic understanding.[25] More than 50 percent of African-American students scored below basic, meaning they were unable to answer correctly even simple questions about the organization of government, the U.S. Constitution, and the roles of citizens in a democracy.[26]

CAN PARENTS BE INFORMED CONSUMERS?

The second common objection to restoring a pluralistic and competitive system of K-12 schooling is that parents lack sufficient knowledge to be informed consumers of the service. Hill, Pierce, and Guthrie make the argument, "In education as in health care, consumers do not have as much information as the professionals, and are therefore at a disadvantage. . . . The only way markets work effectively with asymmetric information is when consumers trust that suppliers are likely to act in the consumers' interests.

[25]National Center for Education Statistics, *The Condition of Education* 2000 (Washington, DC: U.S. Department of Education, 2000), 31.

[26]Ibid., 139.

There must be a relationship of trust created by personal relationships and shared values."[27]

Amitai Etzioni, a prominent sociologist, similarly warned, "there are dangers in the simplistic introduction of competition into areas of human services. In these areas the consumer's knowledge is usually limited; it is more difficult for parents to evaluate education than, say, a can of beans."[28]

No one claims that choosing the best school for a child—much less whether to undergo cardiac surgery and, if so, the best hospital and surgeon—is as easy as choosing a can of beans. But the presence of asymmetric information is not uncommon in the marketplace, and it is routinely overcome by experience, producer reputations, guarantees and warranties, and personal and public sources of information. Producers themselves provide vast amounts of information, as do such independent sources as *Consumer Reports,* newspapers, magazines and Web sites. Parents are hardly as helpless as Etzioni would have us believe. Nor are there alternatives that would be superior to allowing parents to choose in a competitive education marketplace.

Adults in the United States choose their own cars and trucks, although few know much more about a modern car engine than how to change the oil. Despite the pervasive asymmetry of information between manufacturers and consumers, there is no evidence of widespread fraud in the auto industry. Nor are there calls to have government manufacture cars to protect consumers or to have government approve cars before they are offered for sale.

Because a car or truck is expensive, mechanically complex, and intended to last a long time, customers might seem to be especially vulnerable to fraud. And indeed, manufacturers occasionally produce lemons, and in such cases, customers do not always get a complete remedy. But lemons are rare because selling a defective product injures a company's reputation, which can undo the positive effects of money spent on advertising or improving

[27]Ibid., 63–64.

[28]Amitai Etzioni, foreword to *Responsive Schools, Renewed Communities,* by Clifford W. Cobb (San Francisco: ICS Press, 1992), xi.

quality.[29] Manufacturers, too, want to foster and maintain good reputations because producing such products requires large investments in long-lived equipment and human resources. A company with a bad reputation is not able to generate repeat sales, making it unlikely to be profitable for very long.

Besides competition, advertising enables consumers to choose wisely among the many vehicles produced by car and truck manufacturers. Car companies spend hundreds of millions of dollars a year on advertising to distinguish their products from those of competitors. This advertising routinely reports on awards and rankings issued by such third parties as *Road and Driver* and J. D. Power and Associates. Auto manufacturers also offer warranties that consumers recognize would be prohibitively expensive if the products were unreliable.

Despite the problem of information asymmetry, consumers are routinely trusted to make decisions with major implications for safety and well-being. We choose among competing producers for housing, food, and medicines, even though few of us are licensed architects, nutritionists, or pharmacists.

Hill, Pierce, and Guthrie, in the quotation presented earlier, compare the task of choosing a school to choosing health care services.[30] It is a telling example. Few patients indeed know more than a doctor or nurse about medical science . . . but few doctors and nurses know more about their patients' symptoms and medical histories than the patients themselves. The information stored in patients' minds is vital to proper diagnosis and treatment, but it is only communicated to doctors by trusting patients. Government-run health care programs, such as Medicare, Medicaid, and Veterans Administration hospitals, and to a lesser degree health maintenance organizations (HMOs), often violate

[29]The winners of the 2001 Nobel Prize in Economics (George Akerlof, Michael Spence, and Joseph Stiglitz) all made important contributions to the theory of information asymmetry, and Akerlof specifically wrote about used cars. See "Economics Focus: The Lemon Dilemma," *The Economist,* 13 October 2001, 72.

[30]Hill, Pierce, and Guthrie, *Reinventing Public Education,* 83–84.

the trusting relationship between doctors and their patients. Allowing bureaucrats and gatekeepers to make decisions traditionally made by doctors and patients has been heavily criticized by patient advocates.[31]

It is not likely Medicare or HMOs are the correct model for reforming the nation's school system. The parents of six million children choose private schools for their children each year, proving that competition and choice work in education, too. Additional tens of millions of homebuyers take the reputation of local public schools into account when making their decisions. Realtors routinely collect and disseminate information about local schools as part of their sales efforts. In communities where schools are thought to be of high quality, home values are often thousands of dollars higher than in communities where the schools are thought to be inferior. This is the result of parents choosing better schools for their children.

Polls show that majorities of parents (and upward of 80 percent of African-American families) would choose private schools over government schools if tuition were not a consideration.[32] Available evidence says that parents who can afford to exercise choice do so wisely, with private schools consistently achieving higher graduation rates, attendance rates, levels of parental satisfaction, and college admission rates.[33] For example, a poll of New York City parents seeking privately funded scholarships to attend Catholic schools revealed that the first concern of 85 percent of the parents was academic quality. Only 38 percent cited religious instruction as a significant attraction.[34]

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[31]Grace-Marie Arnett, ed., *Empowering Health Care Consumers through Tax Reform* (Ann Arbor: University of Michigan Press, 1999).

[32]William Styring, "Teachers and School Choice," *American Outlook* 1, no. 1 (Hudson Institute, spring 1998): 49–51; The Harwood Group, *Halfway Out the Door: Citizens Talk about Their Mandate for Public Schools* (Dayton, Ohio: Kettering Foundation, 1995).

[33]Data in support of these points are presented in Chapter 1.

[34]Andrew J. Coulson, *Market Education: The Unknown History* (New Brunswick, N.J.: Transaction Publishers, 1999), 260.

All of this suggests that parents, when free to choose the schools their children attend, choose wisely. How do they accomplish this difficult task in the face of asymmetric information? The same way they buy cars, homes, food, and medicines for their children. They seek out people they trust for advice and guidance, read newspapers and magazines that report student achievement and rate schools, and talk to parents and others to learn about what goes on at different schools.

WHO WOULD EDUCATE THE POOR?

Educators have been particularly skeptical of the idea that private schools would serve the needy. Paul T. Hill and his colleagues wrote, "What profit-seeking entrepreneur could be confident of staying solvent running a school in an area burdened by violence, strikes, ill health, and family instability? What investor would choose to build a school in a core urban area when he might collect a similar amount per pupil in a far less stressed suburb?"[35]

Political scientist John Witte has the same concern: "[I]f given the choice, why would one open a school in the ghetto? Some will, out of altruism, desire for religious instruction, or because one is a member of the community. But one will not if the motive is profit, or tradition, or to produce the best school."[36] According to Witte, the quality of a child's education in a market-based education system would be "correlated with current and past family income," and "the pure market model provides an extreme case of stratification, [while] universal vouchers will clearly increase current stratification and subsidy upward in the income stream."[37]

This hand-wringing over the fate of the poor is wrong on many counts. Competition and consumer choice mean entrepreneurs could expect to earn the same long-term profit providing low-cost schooling for low tuition as they would providing high-

[35]Hill, Pierce, and Guthrie, *Reinventing Public Education,* 97.

[36]John Witte, *The Market Approach to Education: An Analysis of America's First Voucher Program* (Princeton: Princeton University Press, 2000), 206–7.

[37]Ibid., 207.

cost schooling for high tuition. It is easy, but wrong, to assume the producer of a high-priced commodity earns greater profits than the producer of a lower-priced commodity. Profits are determined not by revenues alone, but by cost and being able to satisfy customers of all income levels.

It is also wrong to assume that children from wealthy families are somehow easier to teach, and therefore could be taught at a lower cost. As John Merrifield explains, "In a competitive education industry, high achievers definitely will not be among the cheapest to educate. The parents of high achievers and their children demand challenging instruction, no matter how far above average they are. In addition, parents of high achievers demand much more customized attention to their children and to themselves. That's a major reason why their children are high achievers. The profit motive means that it will not matter if some children cost more to educate than others, so long as costs remain below revenues."[38]

The critics of market-based education also assume the high costs of government schools would be a necessary feature of private schools competing for the children of poor families. Parents may, of course, choose to spend more or less than the amount currently spent by governments, but if schooling were entirely privatized, average per-pupil spending would probably be lower than what is spent by government schools today. Private schools spend about half as much on average as government schools.[39] Some of the savings come from paying teachers less, but much of it is due to better utilization of available resources and less spending on bureaucracy. As reported in Chapter 1, administrators outnumber teachers in many government school systems today.

If government schools no longer held a monopoly over public funding for education, a market opportunity would emerge for

[38]Merrifield, *School Choice Wars* (Lanham, Md.: Scarecrow Press, 2000), 76.

[39]David Boaz and R. Morris Barrett, "What Would a School Voucher Buy? The Real Cost of Private Schools," Briefing Paper, Washington, DC, Cato Institute, 1996; Robert J. Genetski and Tim Tully, *A Fiscal Analysis of Public and Private Education* (Chicago: Robert Genetski & Associates, Inc., 1992).

teachers to form private practices, either alone or in combination with other teachers, and offer to teach low-income students for a tuition price below current per-pupil government expenditures.[40] Alternatively, for the same amount of money spent by government schools today, private practice teachers might double the value, efficiency, or attractiveness of their services. Private schools, too, would operate more efficiently than government schools by specializing in delivering what a particular group of parents wants, rather than trying to be everything for everyone.[41]

Another error made by those who think markets would serve up inferior schooling for children from poor families is to assume there would be only for-profit schools competing for students. Schools are started and maintained for many reasons other than the profit motive. Many religious and other not-for-profit schools would continue to pursue their philanthropic missions by keeping their doors open to children from poor families. The existence of a vast not-for-profit sector in the United States (foundations alone reported assets of $448 billion in 1999[42]) is testimony to the fact that billions of dollars a year in business is conducted by organizations seeking to maximize something other than profits.

If schooling were entirely privatized, governments would no longer need to raise some $400 billion a year in taxes to finance schools. Allowing taxpayers to keep that money by cutting taxes would boost family incomes, bringing the cost of private school tuition within reach for millions of low- and middle-income families. A large tax cut also would stimulate a major increase in charitable giving.

Finally, few advocates of capitalism call for completely ending government's role in schooling. Government could provide low-income parents with grants, called vouchers, to help pay for tuition at private schools. Similar safety-net programs are already in place: food stamps, which enable the poor to buy more food

[40]Donald E. Leisley and Charles Lavaroni, *The Educational Entrepreneur: Making a Difference* (San Rafael, Calif.: Edupreneur Press, 2000).

[41]Merrifield, *School Choice Wars,* 75.

[42]U.S. Census Bureau, *Statistical Abstract of the United States: 2001,* Table No. 562.

from private stores; housing vouchers, which enable the poor to rent apartments they otherwise could not afford to occupy; Pell Grants, which enable college students from poor and middle-income families to attend colleges they otherwise could not afford; and Social Security, which enables senior citizens to buy food and shelter and meet other needs. In education, tuition grants or vouchers could be a fixed dollar amount or a percentage of the tuition charged by participating schools.

John Witte, after vigorously condemning the "pure-market model" of schooling, admits vouchers would "partially mitigate" his concerns.[43] But they would do much more than that. Vouchers would allow poor families to withdraw their children from the nation's worst government schools, which are concentrated in poor inner-city neighborhoods, and enroll them in existing or newly created private schools that are safer and more conducive to learning. Vouchers would empower low-income parents in their own minds, in their relationships with school administrators and teachers, and in the eyes of their children. For many poor families, vouchers would be a ticket out of a cycle of frustration and despair in which dysfunctional government schools now play a major role.

IS COMPETITION IN EDUCATION APPROPRIATE?

Evidence cited in Chapter 1 reveals that student achievement in private, charter, and voucher schools tends to be higher, after controlling for parental socioeconomic status, than in government schools. As Melvin Borland and Roy Howsen have observed, "policies that promote or allow competition can be expected to result in higher levels of student achievement."[44]

[43]Witte, *First Voucher Program,* 206.

[44]Melvin V. Borland and Roy M. Howsen, "On the Determination of the Critical Level of Market Concentration in Education," *Economics of Education Review* 12, 2 (1993); Melvin V. Borland and Roy M. Howsen, "Student Academic Achievement and the Degree of Market Concentration in Education," *Economics of Education Review* 11, 1 (1992).

Other studies look beyond school-choice programs and consider measures of competition and choice in all K–12 schooling. Jay Greene compared state average student academic achievement levels with an "Education Freedom Index" weighted for the amount of charter-school choice, subsidized private-school choice, home-schooling choice, and public-school choice offered by each state.[45] Controlling for median household income, per-pupil spending, and the percentage of ethnic minorities in each state, Greene found that achievement test scores and (value-added) score gains on the National Assessment of Educational Progress are significantly and positively associated with the amount of total weighted choice in the state.

Clive Belfield and Henry Levin of the National Center for the Study of Privatization of Education analyzed competitive effects of choice on education outcomes revealed by more than 35 studies.[46] Their review did not concern charter schools or vouchers, but rather considered naturally occurring traditional competition within geographic areas, such as cities and metropolitan areas. The studies typically analyzed the percentages of students enrolled in private schools and the relative scarcity of public-school-district monopoly, for example, the presence of many small districts as opposed to one district within a county. Belfield and Levin concluded, "A sizable majority of these studies report beneficial effects of competition across all outcomes, with many reporting statistically significant coefficients." The positive benefits included higher test scores, graduation rates, efficiency (outcomes per unit of per-student spending), and teacher salaries.

The positive effect of choice on government schools also can be seen in a recent review of research in 38 states showing that states with smaller districts and schools (making parental choice less costly) achieve more than states with larger districts and

[45]Jay P. Greene, *2001 Education Freedom Index* (New York: Manhattan Institute, 2002).

[46]Clyde R. Belfield and Henry M. Levin, *The Effects of Competition on Educational Outcomes: A Review of U.S. Evidence* (New York: National Center for the Study of Privatization in Education, Teachers College, Columbia University, September 2001), 1.

schools.[47] Original explanations for the improved efficiency of small districts focused on the absence of economies of scale in school operation but perhaps another reason is that competition creates a rising tide that lifts all boats.[48]

Finally, experiences in other countries help reveal the effects of competition on schools. Until 1992, nearly all of Sweden's K–12 schools were funded by the national government and operated by local municipalities. Then the national government adopted major reforms: Parents were allowed to choose their children's schools, and municipalities were required to fund approved independent schools at 85 percent of the per-student cost of government schools. A national agency was given responsibility for approving new independent schools. To receive government funding, independent schools had to forgo tuition charges, meet established educational standards, and admit students without regard to ability, religion, or ethnicity.

Following adoption of the new program, the number of independent schools in Sweden increased fivefold, and their enrollments increased fourfold. Although many of these schools were established in affluent areas, they also expanded rapidly in less-privileged areas serving working-class and immigrant populations. A majority of the new independent schools are specialized or pedagogy based, not religion based. Corporations run 30 percent of the independent schools, and some companies are expanding rapidly.

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[47]Valerie E. Lee, Anthony Bryk, and J. B. Smith, "The Organization of Effective Secondary Schools," *Review of Research in Education,* ed. Linda Darling-Hammond, vol. 19 (1993), 171–268. An earlier hypothesis was that school boards and school staff in smaller districts would have direct information on schools and be able to communicate more effectively among themselves and with parents and students. See Herbert J. Walberg and Herbert J. Walberg III, "Losing Local Control," *Educational Researcher* (June/July 1994): 23–29.

[48]Carolyn Minter Hoxby, "Rising Tide," *EducationNext* (winter 2001): 68–75; see also confirming review by Don Goldhaber, "The Interface between Public and Private Schooling" in *Improving Educational Productivity,* ed. David H. Monk, Herbert J. Walberg, and Margaret C. Wang (Greenwich, Conn.: Information Age Publishing, Inc., 2001), 47–76.

Research by Swedish economists Fredrik Bergström and Mikael Sandström found the reforms produced none of the negative consequences feared by the opponents of competition.[49] There is no indication that higher-income earners chose independent schools to a greater extent than low-income earners, no evidence that freedom of choice led to increased economic segregation, and nothing to indicate that independent schools have fewer special-needs students. Moreover, Bergström and Sandström found "the extent of competition from independent schools, measured as the proportion of students in the municipality that goes to independent schools, improves both the test results and the grades in public schools. This is confirmed by the results from the panel data models. The improvement is significant both in statistical and real terms. This result holds for test results, final grades, and for the likelihood that a student will leave school with no failing grades. Thus, our results confirm findings from earlier research which indicates that competition is beneficial for students in public schools."[50]

Experience in the Czech Republic and Hungary also demonstrates the beneficial effects of competition in education. In 1990, the governments of the Czech Republic and Hungary replaced centralized school finance systems with systems that allocate public funds to accredited nonstate schools (independent and religious) as well as to public schools according to the number of students enrolled in those schools. Private schools were illegal in the Czech Republic until 1990; after that year they were eligible for public funding of 50 to 90 percent of the subsidy provided to state schools. In Hungary, where a limited number of religious high schools already existed, private schools have been eligible for per-pupil grants on the same basis as state schools are supported.

Economists Randall Filer and Daniel Munich have studied the effect of these reforms on student achievement in the Czech Republic and Hungary. Using detailed school-level data on aver-

[49]F. Mikael Sandström and Fredrik Bergström, "School Vouchers in Practice: Competition Won't Hurt You!" Working Paper No. 578, 2002, Research Institute of Industrial Economics (Stockholm, 30 April 2002).

[50]Ibid., 6.

age class size, number of personal computers per pupil, rate of university admission for graduates, and improvement in test scores (instead of absolute levels to control for the quality of initial student achievement), they found significant improvements in state schools located in districts where the number of nonstate schools increased the most. The researchers conclude that "the preliminary evidence from the adoption of a nationwide voucher scheme among the countries of Central Europe, especially the Czech Republic, supports the claim of advocates of such systems. Private schools supported by voucher increase educational opportunity and spur public schools to improve performance."[51]

Many professional educators refuse to believe this. Sixty-four percent of education professors responding to a 1997 Public Agenda survey said schools should avoid competition.[52] More favored giving grades for team efforts than for individual accomplishments. Seventy-nine percent of them agreed that "the general public has outmoded and mistaken beliefs about what good teaching means."

Following the lead of French philosopher Jean-Jacques Rousseau and other romantics, these educators say intrinsic motivation should be all that is needed to spur teachers to greatness. Instead of relying on competition and incentives, we should expect educators to do the right things out of their commitment to duty, justice, truth, or other virtues. Only those with anointed or certified commitment should be allowed to teach. Making income or status depend on productivity in the classroom, these experts claim, only serves to distract good teachers from what they would do naturally.

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[51]Randall K. Filer and Daniel Munich, "Responses of Private and Public Schools to Voucher Funding: The Czech and Hungarian Experience." Working Papers from the Center for Economic Research and Graduate Education (Economic Institute, 2000), 32.

[52]Nearly all public school teachers are paid according to their degrees and experience, neither of which influence their students' achievement, rather than academic mastery, the use of effective practices, their students' achievement, or other indicators of merit.

In 1776, Adam Smith anticipated the current debate over the importance and appropriateness of financial incentives in education. In *The Wealth of Nations,* he observed that great objects—the accomplishment of justice or service to humanity, for example—can motivate some people, but such objects are neither necessary nor sufficient to produce reliable results. He wrote, "The greatness of the objects which are to be acquired by success in some particular professions may, no doubt, sometimes animate the exertion of a few men of extraordinary spirit and ambition. Great objects, however, are evidently not necessary in order to occasion the greatest exertions. Rivalship [*sic*] and emulation render excellency, even in mean professions, an object of ambition, and frequently occasion the very greatest exertions. Great objects, on the contrary, alone and unsupported by the necessity of application, have seldom been sufficient to occasion any considerable exertion."[53]

The ability of "great objects" to motivate some individual teachers is plainly on display in the characters of Los Angeles math teacher Jaime Escalante and Chicago miracle worker Marva Collins, who produced impressive results against seemingly impossible odds purely through strength of character and force of will. But it is high praise, not criticism, of such outstanding individuals to recognize that their accomplishments are unlikely to be imitated by others. As James Toub has said, "it turns out that almost anything can work when instituted by a dedicated principal supported by committed teachers . . . but any method that depends on a Jaime Escalante is no method at all."[54]

In the real world, "even in occupations such as surgery, which attracts some of the most diligent and talented persons in the nation, there are significant variations in hours worked and in skill. As a result, those in the top tenth of the distribution of surgeons' income earn six times as much as those in the bottom

[53]Adam Smith, *The Wealth of Nations* (1776; reprint, Indianapolis: Liberty Press, 1976), 759–760.

[54]James Toub, "What No School Can Do," *New York Times Magazine,* 16 January 2000, 56.

tenth."[55] To excel in music, mathematics, or sports requires long, disciplined practice, which some people will do simply for the love of the task, but many will not do.

The focus on incentives, characteristic of the economist's approach, is only grudgingly accepted by many noneconomists. School choice supporters John Coons, Stephen Sugarman, and William Clune, for example, only concede that "financial reform will not itself revitalize education, and its pursuit lacks the allure of public combat over more visible and glamorous objectives. Regrettably, it is a precondition to improvement of any sort whatsoever."[56]

Competition encourages people to do their best work, and as importantly, it creates opportunities to specialize. Because the market for schooling is huge, there are many opportunities to improve productivity by specialization, and yet, because parents are not allowed to choose the schools their children attend, government schools must be all things to all people, exactly the opposite of specialization.[57]

CONCLUSION

Capitalism was responsible for the creation in the United States of an educational system that was second to none in the seventeenth, eighteenth, and early nineteenth centuries. In the second half of the nineteenth century, it was gradually supplanted by a near-monopoly

[55]Fogel, *Future of Egalitariansim,* 165.

[56]John E. Coons, Stephen D. Sugarman, and William H. Clune III, "Reslicing the School Pie," *Teachers College Record* 72, no. 4 (May 1971).

[57]John Merrifield once again sees the problem, and the opportunity, clearly: "Requiring every school to accept any child is a big mistake. Specialization, which by definition makes the services of each school more suitable to some families but less suitable to others, is a cornerstone of high productivity. Because private schools can specialize, and neighborhood 'public' schools can't—the latter must strive to serve every child in their attendance area—the private schools that accept 'public' school cast-offs often serve them better for less than is spent on mainstream 'public' school students. Private schools' ability to specialize in particular subjects or teaching styles significantly increases the total productivity of the private sector." Merrifield, *School Choice Wars,* 108.

of government schools for reasons that had little to do with improving the quality of schooling and much to do with the desire to assert political control over the education of future citizens.

Reestablishing a system of private schools would restore to the nation's K–12 education system the genuine democratic values that many critics of capitalism celebrate with words, but whose existence in the private sector they seem to ignore or denigrate. Far from leading to "the effacement of moral and political principles of equality,"[58] privatization would restore to private schools their vital roles as civil institutions in a free society and bulwarks against excessive government interference in the education of citizens. Objections based on asymmetric information, the fate of the poor, and the appropriateness of competition reflect outmoded ideological reflexes that are readily addressed by observing how markets and schools work in the real world.

RECOMMENDED READING

Boaz, David, ed. *Liberating Schools: Education in the Inner City.* Washington, DC: Cato Institute, 1991.

Friedman, Milton, and Rose Friedman. *Free to Choose: A Personal Statement.* New York: Harcourt Brace Jovanovich, 1980.

McCarthy, Rockne, Donald Oppewal, Walfred Peterson, and Gordon Spykman. *Society, State, and Schools: A Case for Structural and Confessional Pluralism.* Grand Rapids, Mich.: William B. Eerdmans Publishing Company, 1981.

Merrifield, John. *The School Choice Wars.* Lanham, Md.: Scarecrow Press, 2001.

Perelman, Lewis J. *School's Out: Hyperlearning, the New Technology, and the End of Education.* New York: William Morrow, 1992.

[58]Saltman, *Collateral Damage: Corporatizing Public Schools,* xiv. (In note 17 above.)