

# Introduction

Since 1960, the national debate over how best to organize K–12 schooling in the United States was powerfully influenced by three books: *Capitalism and Freedom* by Milton Friedman, published in 1962; *A Nation at Risk*, produced in 1983 by the National Commission on Excellence in Education; and *Politics, Markets and America's Schools* by John Chubb and Terry Moe, published in 1990. The themes of these books and the reactions they provoked provide a valuable overview of the state of the debate today.

## MILTON FRIEDMAN'S LEGACY

In 1962, University of Chicago economics professor Milton Friedman, who would later win the Nobel Prize for Economics, produced a controversial and influential manifesto on the proper role of government in a free society titled *Capitalism and Freedom*. In a 23-page chapter titled “The Role of Government in Education,” Friedman set out a profound challenge to the status quo of government funding and operation of K–12 schools, calling it “an indiscriminate extension of governmental responsibility.”<sup>1</sup>

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<sup>1</sup>Milton Friedman, “The Role of Government in Education,” chap. 6 in *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 85. The chapter is based on an article that first appeared in Robert A. Solo, ed., *Economics and the Public Interest* (New Brunswick, N.J.: Rutgers University Press, 1955).

Friedman recognized the social value of universal education and realized that not all parents would, or could afford to, finance the education of their children without assistance. But “these grounds justify government subsidy of only certain kinds of schooling,” he wrote, not the present arrangement where governments own and operate most K–12 schools. Friedman proposed an alternative:

Governments could require a minimum level of schooling financed by giving parents vouchers redeemable for a specified maximum sum per child per year if spent on “approved” educational services. Parents would then be free to spend this sum and any additional sum they themselves provided on purchasing educational services from an “approved” institution of their own choice. The educational services could be rendered by private enterprises operated for profit, or by non-profit institutions. The role of the government would be limited to insuring that the schools met certain minimum standards, such as the inclusion of a minimum common content in their programs, much as it now inspects restaurants to insure that they maintain minimum sanitary standards.<sup>2</sup>

Friedman’s endorsement of tax-financed tuition assistance, or vouchers, lifted the idea from obscurity to the center of the debate over how to improve schools, a position that vouchers have retained ever since. Friedman was not, however, the first to propose vouchers as the way to restore the proper balance of capitalism and government to schooling.

Adam Smith, Tom Paine, and John Stuart Mill had all previously endorsed vouchers; the states of Vermont and Maine have allowed voucherlike processes called tuitioning for more than 100 years; the GI Bill, adopted in 1944, is a voucher program for higher education; and European countries have long paid some or all tuition for students attending both parochial and independent private schools.<sup>3</sup> Virgil C. Blum, a Jesuit professor of political science at Marquette University, was making the case for vouchers on civil libertarian grounds around the same time Friedman made his proposal.<sup>4</sup>

<sup>2</sup>Ibid., 89.

<sup>3</sup>David Kirkpatrick, *School Choice: The Idea That Will Not Die* (Mesa, Ariz.: Blue Bird Publishing, 1997).

<sup>4</sup>Virgil C. Blum, *Freedom of Choice in Education* (New York: The Macmillan Company, 1958).

*Capitalism and Freedom* started the debate over the proper role of capitalism in education because it applied modern economic reasoning to elementary and secondary schooling and proposed a solution that was conceptually simple, fair, and practical. It did so with a brevity and style that put the voucher idea within reach of high school and college students, noneconomists, and concerned citizens.

Although Friedman's book enabled the idea of school choice to gain intellectual ground during the 1960s and 1970s, a sense of urgency for such a major reform did not materialize until the early 1980s following the publication of *A Nation at Risk*. This slim volume, produced by a panel of educators and business leaders appointed by Terrell Bell, secretary of education under President Ronald Reagan, decried the steady erosion of standards and student achievement and warned of a "rising tide of mediocrity that threatens our very future as a Nation and a people."<sup>5</sup> The message hit a popular nerve like no previous book had: Six million copies of the book were printed and disseminated in one year.

Thousands of initiatives, reforms, and experiments were launched in the second half of the 1980s and during the 1990s as educators and elected officials responded to the call for reform.<sup>6</sup> Popular reforms included raising teacher pay and reducing class size, decentralizing the management of school districts that previously had been centralized and centralizing the management of districts that had been decentralized, changing teacher certification requirements, changing student graduation requirements, changing curricula and teaching practices, encouraging greater parental involvement, extending the school day or year, targeting resources to students in poverty and those with learning disabilities, changing assessment methods, making schools bigger through consolidation or smaller through "schools within schools," ending social promotion, requiring school uniforms, increasing school security, recruiting people with military backgrounds as school superintendents, and more.

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<sup>5</sup>National Commission on Excellence in Education, *A Nation at Risk* (Washington, DC: U.S. Department of Education, 1983), 5.

<sup>6</sup>For an overview of these failed reforms, see Diane Ravitch, *Left Back: A Century of Failed School Reforms* (New York: Simon & Schuster, 2000).

The results of all this activity have been disappointing. Test scores that first prompted the national alarm in 1983 remain poor, and relatively few American students achieve at levels as high as those of students in other economically advanced nations. U.S. students make smaller achievement gains during their K–12 school careers than students from other economically advanced countries. Even so, as reported in Chapter 1, American spending per student is nearly the highest in the world.

Missing from the large-scale, expensive reforms sparked by *A Nation at Risk* were Friedman’s vouchers. Allowing schooling to be delivered through markets—the same way other goods and services are delivered in a capitalist economy—requires changes in institutions and incentives that go well beyond tinkering with curricula, class size, or teacher training. Efforts to experiment with vouchers were blocked during the 1980s by teachers unions, school administrators, and liberal advocacy groups.

The antireform blockade was breached in 1990 with the publication of a third influential book, John Chubb and Terry Moe’s *Politics, Markets and America’s Schools*.<sup>7</sup> Written by distinguished authors and published by the widely respected liberal Brookings Institution, the book had to be taken seriously by educators and policymakers who may have dismissed the earlier works as being conservative or leaning toward libertarianism. Chubb and Moe spoke at conferences and seminars, debated the leading opponents of market-based reforms, and won debates often enough to affect the course of reform.

Chubb and Moe said, in effect, that government has not solved the education problem because government *is* the problem.<sup>8</sup> All of the reforms listed previously were ineffective because they failed to shift management and accountability for schools from the public sector to the private sector. Such a shift would require allowing parents to choose the schools their children attend.

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<sup>7</sup>John Chubb and Terry Moe, *Politics, Markets and America’s Schools* (Washington, DC: The Brookings Institution, 1990).

<sup>8</sup>Bruce K. Maclaury, foreword to *Politics, Markets and America’s Schools* by Chubb and Moe, ix.

“Choice,” they wrote, “is a self-contained reform with its own rationale and justification. It has the capacity *all by itself* to bring about the kind of transformation that, for years, reformers have been seeking to engineer in myriad other ways.”<sup>9</sup>

Chubb and Moe forced policymakers to confront the fact that institutions and incentives matter because schools lack reasons and incentives to reform themselves. Fundamental reform, if it is to come, will result from pressure applied from outside the education establishment. But Chubb and Moe’s brief advocacy of parental choice through a system of school vouchers, which comes at the end of their book, was and still is widely viewed by critics as unsupported by the book’s empirical research.<sup>10</sup>

*Politics, Markets and America’s Schools* was a pioneering work, so it is hardly criticism to say it left the task incomplete. In particular, Chubb and Moe, being political scientists, devoted little attention to explaining or defending either capitalism or the application of economics to the task of school reform. Many people, including educators, have inaccurate and negative perceptions of capitalism and of economics. Although Chubb and Moe explained how political science, particularly theories of institutional behavior, explain the failure of a government-run education monopoly, they provided no economic explanation of why we should trust markets to do any better.

## **NEW RESEARCH AND POLITICAL BREAKTHROUGHS**

Chubb and Moe wrote their book just prior to an explosion of new research and political breakthroughs for market-based reform. Analysis of international test scores and domestic data on student achievement, effective schools, and the income of school

<sup>9</sup>Chubb and Moe, *Politics, Markets and American Schools*, 217.

<sup>10</sup>Edith Rasell and Richard Rothstein, eds., *School Choice: Examining the Evidence* (Washington, DC: Economic Policy Institute, 1993), 185–203; Kevin B. Smith and Kenneth J. Meier, *The Case Against School Choice: Politics, Markets, and Fools* (Armonk, N.Y.: M.E. Sharpe, 1995).

graduates helped resolve the controversy over whether school outcomes and productivity had deteriorated since the 1950s, and if so, why.

Charter schools, the private scholarship movement, and pilot voucher programs all emerged after 1990, creating a wealth of empirical data on how parents, when given a choice, go about selecting their children's schools. A pilot public voucher plan in Milwaukee was enacted in 1990, and one in Cleveland several years after that. In Florida, a statewide voucher program (with an enrollment of just 53 students at the time this is written) started in 1999.

A growing literature, summarized in Chapter 1, documents the successes of these modest market-based school reforms. Although few market reforms to date meet the requirements of a true social science experiment, research has laid to rest many of the old myths and objections to vouchers, including presumptions that low-income parents are not qualified to choose their children's schools, that vouchers would lead to segregation by income or race, and that student achievement would not improve because factors outside the control of schools would overwhelm the positive effects of competition and choice.

## WHAT OTHER BOOKS OVERLOOK

A careful reading of the new crop of proreform and pro-parental-choice books reveals a gap: Like Chubb and Moe, recent writers still fail to discuss how economics explains the school dilemma and why capitalism can solve it. Even books that purport to address these topics head-on often devote only a few pages to why and how market-based reforms work.<sup>11</sup>

The legal, sociological, and political cases for school choice have been made again and again, but the economic case has be-

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<sup>11</sup>John F. Witte, *The Market Approach to Education* (Princeton: Princeton University Press, 2000); Andrew J. Coulson, *Market Education: The Unknown History* (New Brunswick, N.J.: Transaction Publishers, 1999).

come the weak sister of the argument. That the success of the school reform movement should hinge on winning the economic debate is ironic in light of the fact that Nobel laureate economists Milton Friedman and Gary Becker provided scholarly impetus for the movement almost half a century ago.<sup>12</sup>

We contend the American public will not embrace market-based reforms beyond pilot programs for the inner-city poor or charter schools unless they understand what markets are and trust them to provide quality educations for their children. A conversation with an average person about economics usually reveals myths and misunderstandings. Many people believe capitalism encourages greed and exacerbates inequality, tends toward monopoly and low-quality products, and allows corporations to manipulate consumers and waste money on advertising. Most people believe mass illiteracy was commonplace before government took over the funding and operation of schools.

The failure of the economics profession to debunk these myths about capitalism poses a tremendous challenge for market-based school reform. When reform advocates talk about choice, empowering families, and healthy competition, their audiences often have visions from Charles Dickens's *Oliver Twist* or Upton Sinclair's *The Jungle* running through their minds. (For younger audiences, substitute popular films such as Steven Soderbergh's *Erin Brockovich* and Michael Mann's *The Insider*.)

Because they do not understand economics or capitalism, many people cling to a romantic notion that the current system of government finance and operation of schooling protects children and poor families from the predations of capitalists and markets. People with strongly held religious convictions, who surveys suggest compose a large and possibly growing majority of the general public, wonder if relying on competition and self-interest to produce a school system is compatible with their faith and the teachings of their churches. Teachers unions take advantage

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<sup>12</sup>For a selection of columns on school vouchers written by Gary Becker, see Gary S. Becker and Guity Nashat Becker, *The Economics of Life* (New York: McGraw-Hill, 1997), 82–91.

of this popular misunderstanding and mistrust of market institutions.<sup>13</sup>

This helps explain why just a few weeks of negative advertising run by opponents of market-based reforms can so dramatically reduce, often from 60 percent or more down to 40 percent or less, the portion of the voting public that favors vouchers. People fear what they do not understand, and most people do not understand capitalism.

Unless popular myths about capitalism are challenged, school reform will stall well short of success. In fact, without a broader understanding of how and why markets work, small steps in the right direction taken at the end of the twentieth century risk being swept away at the start of the twenty-first.

## HOW TO READ THIS BOOK

This book picks up where Chubb and Moe left off a decade ago. Part One summarizes the most recent data on student achievement and school productivity. It documents the need for fundamental reform of the nation's schools and then describes the main reasons why schools and past efforts at school reform have failed. It reviews the history of private schooling in the United States and describes how a capitalist school system would work.

Part Two explains why capitalism can be trusted to produce safe and effective schools. The basic institutions of capitalism are explained and misconceptions about how it operates are addressed. Nine myths about capitalism—for example, that businesses earn obscene profits and that businesses would exploit

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<sup>13</sup>As Myron Lieberman wrote, "The NEA and AFT conventions feature attacks on 'profits' and 'corporate greed' that could easily pass for a series of speeches at a Communist Party convention. Hunger, child labor, inadequate health care, malnutrition—whatever the problem, 'corporate profits' and greed are either responsible for it, or stand in the way of ameliorating it. It would be surprising if NEA/AFT rhetoric did not affect attitudes toward market oriented reforms generally, as they are obviously intended to do." Myron Lieberman, *The Teacher Unions* (New York: The Free Press, 1997), 123. An explicitly Marxist critique of market-based school reform is Kenneth J. Saltman's *Collateral Damage: Corporatizing Public Schools—a Threat to Democracy* (Lanham, Md.: Rowman & Littlefield Publishers, Inc., 2000).



workers if not for government intervention—are put to rest. The morality of capitalism is defended along with its compatibility with religious and humane beliefs, and the reasons intellectuals and academics oppose capitalism are explained.

Part Three examines the relationship between education and capitalism in greater depth. Is schooling like other goods and services provided by markets, or is it exceptional? Chapter 8 in Part Three explains why economics is an appropriate tool for studying how schooling is delivered, and Chapter 9 presents economic insights about school reform. Chapter 10 describes privatization and how it is expanding choices in education.

Part Four makes the case that vouchers are the best way to privatize K–12 schooling in the United States. Chapter 11 explains how vouchers work and looks ahead to their long-term consequences. Chapter 12 presents design guidelines for the voucher programs that protect the poorest and most vulnerable members of society and address common objections.

Not all readers will be sufficiently interested in every topic addressed in this book to read every chapter. In particular, readers who already understand capitalism, or who wish to focus more narrowly on education, may skip the chapters in parts Two and Three. However, readers with reservations about capitalism based on their understandings of its history or its effect on workers, African-Americans, or the environment will find parts of Chapter 4 and 5 of particular interest.

Chapter 8 of Part Three (“What Is Economics?”) may seem dense and technical to nonspecialists (but perhaps superficial to professional economists). It was written to respond thoroughly to the claim that economics is biased or otherwise flawed, assertions that appear often in antimarket and antichoice literature. Readers who skip Chapter 8 will find Chapter 9 briefly reiterates its essential findings.

Chapter 12 (“Design Guidelines for School Vouchers”) responds to debates taking place in a specialized literature. Pro-market-reform advocates sometimes disagree on the best strategies for reform, and antimarket critics have raised a mind-numbing series of yes-but arguments challenging their workability. Chapter 12 addresses elements of legislative design at

a level of detail some readers may want to skim or skip. Both readers who doubt that voucher programs can be written to address all of their concerns and those involved in drafting legislation should pay special attention to this chapter.

Most of the book assumes the reader is prepared to consider proposals to privatize the delivery of schooling but not to end its subsidization by taxpayers, at least not in the near term and not for children from low-income families. A postscript titled “Why Conservatives and Libertarians Should Support Vouchers” answers some of the questions and concerns raised by those who believe government should have no role at all in providing or regulating schooling.<sup>14</sup> Read this postscript to get a better idea of why some people who support capitalism might nevertheless oppose vouchers.

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<sup>14</sup>Sheldon Richman, *Separating School and State: How to Liberate America's Families* (Fairfax, Va.: The Future of Freedom Foundation, 1994). Other books expressing this view are cited at the beginning of the Postscript.