Theory into Practice
Free Markets and Public Schooling

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Critics have attacked public education since its inception. The 1980s charge that public education should make America more globally competitive and the 1990s mandate that public education should make itself more productive gave rise to two contemporary themes of mainstream criticism. Themes of global competition and educational productivity, indeed, are interrelated by social priority and political process. The themes are also economic, perhaps inviting voting citizens to conceptualize the purpose, nature, and cost of schooling differently than in the past.

As America struggled to become more competitive throughout recent decades, a major push emerged to deregulate highly regulated institutions and industries—that is, to privatize what was once subsidized in the public interest. For example, airlines, banks, and public utilities were deregulated or broken up to allow "the magic of the marketplace" to take hold. At the same time, there was a push to make centralized government less burdensome, especially in the area of finance. For example, tax cuts, rebates, rollbacks, exemptions, and abatements flourished while the Internal Revenue Service (IRS) was required to cut back on rules, regulations, and personnel.

Each of these events in public policy satisfied theoretical assumptions about the free market but failed the practical test of reality in implementation. Airline safety and security concerns, savings and loan foreclosures, and predatory practices in telecommunications did nothing to advance the public good. In fact, public welfare diminished as newly created or modified markets shook out and settled down. These markets will likely become stronger, more competitive, and more efficient over time; citizen consumers will likely benefit in the long run. Meanwhile, translating theory into practice proved less than perfect. Can we afford to take the same chance with public schooling?

Public schooling is a reflection of America. To some of us, public schooling is America. As social and political forces in America push institutions and industries to adopt economic standards, it should come as no surprise that we in education are expected to do so as well. There might be, however, some important differences in the public service that educators provide which affect the application of economic reasoning to our profession. The purpose of this article is to review some of the economic reasoning that has been applied to public schooling and to explore the potential consequences of free market public policies for the education system.

School Choice

School choice has always existed. Early on, families could choose schooling if it was important to them, available to them, and affordable to them. As free public schools became commonplace, the availability and affordability of schooling became less problematic for most families; and compulsory education laws reinforced the importance of schooling. There was a price to be paid, however. Law essentially eliminated the possibility of choosing not to participate in schooling, and choices for most families were limited by social and political constraints. Socioeconomic status defined neighborhoods, where resident children were funneled into geopolitical subdivisions called school districts. Nevertheless, school choice existed. Families that could gain access to private school systems were free to do so if they could afford to pay tuition.

Freedom of choice in schooling existed for the few

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rather than the many. The masses enrolled in public schools, and a burgeoning middle class began to complain about its lack of freedom. The initial financial complaint was that middle class families could not afford to pay the taxes that supported public schools in addition to paying the tuition required by private schools. Freedom of choice in schooling was impeded if not impossible for many American families. Over time, public demands for school choice grew and public policymakers were forced to deal with the issue. The two fundamental public policy responses to increased demand for school choice were (a) increasing the number of choices that families would have within the public school system, and (b) improving the quality of public schooling so that families would have little reason to make choices outside the public school system. Each of these public policy responses required more money and time to implement than did the existing system. Meanwhile, as public schooling expenditures spiraled upward, state and local tax burdens increased, and the initial financial complaints gained further support. Public frustration pushed policymakers to develop new responses as well as alternatives outside the public school system.

Today a great variety of schooling choices exists within and outside the public school district. For example, there are intradistrict options that include choice of schools within the district on the basis of their curriculum or teachers, as well as magnet schools and some charter schools. There are also extradistrict options that include choice of schools in other districts, home schooling, Web-based schooling, private schools and other charter schools. The relative effect of each of these school choice options requires further study and scrutiny. Perhaps the voucher concept provides the best framework for studying and understanding free markets and public schooling.

Education Vouchers

One of the oldest, most well known, and most fervently criticized forms of school choice is vouchers. The voucher itself is little more than a piece of paper or a credit that can be used to pay for schooling. Adam Smith (1776/1952), Milton Friedman (1955, 1962), Coons and Sugarman (1978), and Chubb and Moe (1990) produced foundational and controversial works that contributed greatly to the education voucher movement. The social and political context that surrounded each of their works was, however, remarkably different.

Smith (1776/1952) envisioned the voucher as a means for encouraging more citizens to acquire education. He conceived his vision at a time when common schools for the masses did not exist. The free market of schooling consisted of limited supply and limited demand. Nation-states generally neither required nor supplied schooling; national investments in education were sorely lacking (Schultz 1961, 1963; Sweetland 1996, 1997). Centuries later, Friedman (1955, 1962) observed that statewide monopolies required and supplied most schooling in America. The market of schooling was not free. Vouchers for education were posited among a plethora of reforms that were aimed at breaking up governmental monopoly and power that had evolved too far and threatened the libertarian American way of life (Siegan 1980).

Coons and Sugarman (1978) asserted that vouchers could be used to promote social justice and equal educational opportunity. Especially concerned for the urban poor and minority families, they championed access by lottery to the best private schools and sliding-scale voucher amounts that would neutralize poverty's effects on family choices among schools. The social stratification of American society was clear at this time (Coleman et al. 1966). Generally speaking, the market of schooling catered to wealthy families with the best private schools; allocated middle class families to solid public schools, many of which were funded and operated like private schools; and relegated poor families to underfunded, impoverished, and often massive schools. Vouchers were proposed as a means to break down the barriers that existed between the educated classes and those who attended lower-status schools.

Chubb and Moe (1990) argued that school vouchers would switch educational decision making from a political process to an economic one and would thus strengthen American education. Synthesizing earlier positions, they appealed to libertarian and egalitarian sentiments about freedom and opportunity in schooling. Moreover, they reinforced the economic argument that freeing the school market would promote competition and provide incentives for ailing schools to recover and become healthy. The tide had turned, and vouchers were placed on the national agenda. Milwaukee, Wisconsin implemented its publicly funded educational voucher program in 1990 (Witte 2000; Witte and Thorn 1996); Cleveland, Ohio's, publicly funded educational voucher program was authorized in 1995 (Metcalf 2001; Sweetland 2000); and Florida's publicly funded educational voucher program was implemented in 1999 (U.S. General Accounting Office 2001). Notwithstanding legal challenges to this use of public funds for vouchers that could be used for private or religious schools (Daniel 1993; McCarthy 2000), their rise was well under way and was further fueled by private funding for other voucher "experiments."

Much was written about education vouchers prior to their widespread implementation. For example, Levin (1980, 1987, 1990) explained educational vouchers and pointed out important relationships between school choice program design characteristics and potential public policy implications. Rothstein (1993) and his colleagues critically examined whether vouchers and school choice were a viable means to school reform that would promote equal opportunity and raise student achievement. Fowler (1996) questioned the ability of public school districts to react favorably in a marketplace where expanded school choice programs such as vouchers were introduced.

Free Markets

Free markets are becoming more and more difficult to identify. In a variety of ways, public sector involvement in the market economy is expanding, and this reality requires new interpretations of traditional economic thinking. Nevertheless, healthy competition depends on many buyers and sellers having reasonable access to a marketplace for goods and services. Where such a marketplace exists, consumers are able to choose among a variety of producers, who compete with each other. Unless they provide higher quality products or ancillary services, producers that do not lower prices fail to attract customers and eventually go out of business. Here it is particularly important to note that some producers fail owing to greed while other producers fail owing to inefficiency.

Free market mechanics are not especially concerned with whether producers fail from inefficiency or unbridled greed for profit. Failures create room for more-successful producers to enter the market, and consumers, in turn, benefit from even lower prices due to increasing competition among producers. Hence, the market is strengthened. There are, however, a number of exceptions to this free market scenario. Most important, limitations on the number of producers tend to lead to price increases. A market that includes only one producer involves zero competition and, therefore, the price paid by consumers can spiral upward infinitely. More common is the market that includes only a few producers. Competition is limited and collusion becomes a distinct possibility.

Also, when the market mechanism works, too-powerful producers are kept in check by a substitution effect. That is, if you cannot beat them, you replace them. Rumor has it that a few railroad giants became too powerful and charged excessive prices for rail transportation. Consumers responded by switching to commercial trucking and bus lines to meet their transportation needs. How many fewer railroads exist today as compared to twenty years ago, and twenty years before that? Unfortunately, the market cannot always correct itself through competition or substitution; government intervention is required in such instances.

Finally, it is important to recognize that free markets can include exclusive market segments. Typically, exclusive market segments involve products that are considered luxuries rather than necessities. For example, owning a Rolls Royce is considered a luxury rather than a necessity. The market for Rolls Royces is a slim segment of the automobile market, just as the market for large blue sapphires is a slim segment of the gem market. In broader markets, there are plenty of lower cost gems and automobiles to go around, making for a potentially healthy, competitive, and efficient marketplace. Certain products are, however, luxuries reserved for the very rich.

Public Schooling

Public decisions long ago established schooling as a necessity, not a luxury. The need for public schooling was established on a number of social, political, religious, and economic bases. Nevertheless, the upper limit of school quality and expansive extracurricular programs most certainly relates to wants rather than needs. Society must continually address the question of how much schooling is truly necessary. Economic studies of efficiency and optimization provide some answers to this question. Comprehensive and lifelong measurements of such important economic concepts are, however, conspicuously inadequate, and therefore attempts to answer the question succumb to political forces. These political forces are increasingly broad based where public schooling is concerned, but more characteristically have been defined locally and in accord with history.

Historical limitations on rapid communication and transportation, as well as the establishment of communities in geographic isolation from each other contributed to systemic homogeneity. The systems were small and both locally controlled and funded. It was then possible to forge an amalgam of social, political, religious, and economic priorities for the school. Modern day opportunities and realities are different, pressing toward heterogeneity as a systemic norm. Here it becomes difficult. The historical structures do not work today; at least not as effectively or efficiently as in the past. Today the school must cater to multiple social, political, religious, and economic demands. A consumer orientation is developing, but who is the customer? As impractical as it might seem, the customer is everyone. Successful businesses adapt to serve the needs of their customers. In fact, the best business identifies customers, learns about customer needs and preferences, and actively pursues new customers through product development, marketing, and sales. The knowledge base of the best business also includes knowing that an organization cannot serve all customers in every way. The operational benefit of this practical limitation is not granted to the public school.

The public school complex was designed to serve everyone, not just the best, brightest, or most able. Throughout the industrial revolution, the product of public schools was schooling. Consistent with the state of society and industry at the time, whether all children learned was not particularly important. Just as in the industrial complex, defects and rejects were tolerated, not to mention expected. The product—schooling—was considered effective as long as some or enough children learned. Then somewhere along the line, the charge of public schools shifted. The charge became more inclusive and all encompassing. The logic was simple: all children can learn; all children will learn; all children must learn; and now, the public school mandate is to ensure that every child learns. A substantial shift in the very nature of the public school product and responsibility for product quality occurred.

Not only must every child be served, but all children must learn up to an increasingly specified level of achievement. With the psychological, sociological, and economic backgrounds of students forgotten, public schools are increasingly expected to produce a uniform product. Equalizing the output of public schools when inputs are unequal simultaneously requires multiple interventions that are time consuming and expensive. Simply stated, highly motivated and able children require few resources to attain a standardized level of achievement relative to unmotivated or disabled children. If public schools are charged with bringing all children up to a standardized level of achievement, then inefficiencies as currently measured will not be difficult to find. If public schools lack the resources needed to bring all children up to a standardized level of achievement, then effectiveness as currently measured will suffer. A business that knows its customers can in all likelihood produce schooling more effectively and less expensively than a public school—simply because a business that knows its customers will select its customers accordingly. Public schools cannot exercise this choice, and yet they are increasingly called on to remedy emergent societal ills that affect schooling as a product.

Public Policy Crossroads

The crossroads of public policy on school choice is both simple and complex. As public awareness of the importance of schooling grows, public demands on the education system increase. Frustrated by their inability to satisfy all public demands, policymakers attempt to appease constituents with a patchwork of reform that includes school choice alternatives. New choices, along with changing mandates, standards, enforcement provisions, and funding mechanisms create a lexicon of public policy implications. Education vouchers, for example, tease the theory and underlying assumptions of free markets and public schooling.

In the classical theory, free markets develop naturally and in accordance with the law of supply and demand. In the eighteenth and nineteenth centuries a market for schooling developed naturally, but that market was quite limited. In short, the free market of private transactions did not satisfy public requirements for schooling. Whether for democratic purposes, economic development, or other reasons, government intervened to establish a system of schooling for the masses. Vouchers might have been used for this purpose, but they were not. Instead, layers of governance, administration, and funding were erected to serve public purposes. Bureaucracy grew.

Public bureaucracy was necessary to establish a system of free public schools that served all households. Many people now think that public bureaucracy is too large, costly, inefficient, and ineffective. Some people think that dismantling public bureaucracy will solve all size, cost, efficiency, and effectiveness problems in education. They advance vouchers as a way to make school exchanges and transactions more market-based—thus overcoming the downside of public bureaucracy and, through the market mechanism, forcing public schools to be more responsive and efficient. Through the establishment of educational voucher programs, public policymakers have been responsive and efficient: they have responded to constituencies demanding change, and they have been efficient inasmuch as vouchers are less expensive per child than public school expenditures. The aim of public policy and purpose, however, must be to improve the responsiveness and efficiency of public schooling, not that of policymakers or the marketplace.

In many respects, the theory of the marketplace itself has become the assumption. That is, some voucher proponents assume that the market will solve public school problems, while ignoring the fact that public schools solve many problems inherent in an otherwise free market of schooling. For example, the free schooling market of the past did not serve all children of all families, combat segregation and discrimination, or serve the needs of psychologically or physically challenged individuals. Shifting the provision of schooling back into the realm of free market enterprise, through vouchers or by other means, will inevitably and primarily support the pursuit of profit. Then the profit equation's revenue component will eventually dictate serving only those who can pay the most, and its expenditure component will dictate ignoring those most costly to educate. Government intervention will be required once more to make market-based schooling systems work to further American ideals; government intervention will characteristically undermine the operational assumptions and strengths of market-based reasoning; and policymakers therefore will continue to face the challenge of making public systems more effective, private systems more inclusive, or both.

Conclusion

The price of public schooling has shot higher than many Americans ever imagined. The price might not seem so high if one considered the seemingly insurmountable challenge that society has imposed on public schools. Given that most public schools operate as near monopolies in their respective jurisdictions, classical economic reasoning likely applies to them. That is, because of the lack of competition, the price of public schooling gravitates toward artificial inflation. One way to keep this inflation in check is to introduce competition through school choice. The introduction of school choice has already begun, albeit on a relatively limited scale. Armed with mixed research results, school choice advocates continue to assert that catalyzing market forces in the education system will drive schooling costs down and effectiveness up. Many educators continue to warn that vouchers in particular will decimate public schools. The final outcomes are likely to be less dramatic, reflecting the current public policy environment in marginal scale.

On a limited basis, free market dynamics will likely reduce the cost of schooling and perhaps increase school effectiveness—until the population of students served expands to include those most expensive to educate. Freeing the market will also draw some students away from public schools, perhaps some of the best, but neither all students nor all of the best students. Meanwhile, the sometimes frenzied attention focused on the great school choice debate will undoubtedly spark important research. Breakthroughs may be found in how schools are governed, structured, funded, and operated; district, school, and classroom staffing ratios; curriculum and instructional delivery designs; intervention and remediation support systems; administrative and managerial lines of communication and control; and the optimal interplay between public and private sector educational service provisions.

Unless there is a revolutionary shift in American ideology, liberties will prevail for those who are free to participate in exclusive segments of the education market. The very rich will choose elite private schools, and somewhat less wealthy families will establish communities and public school districts with funding that supports inordinate levels of educational investment. American ideology will also preserve the public education system. Broad-based aspirations for fraternity in national community and identity as well as momentum toward equity and adequacy will not allow public schools to become obsolescent, but will be forces for continuous improvement. The major question is whether free markets will ultimately spawn improvements in public schooling. A definitive answer remains elusive.

Key words: public schooling, free markets, vouchers, school choice, public policy

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