False Choices

The Economic Argument Against Market-Driven Education Reform

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Minnesota’s experience has not supported the idea that increased competition drives improvement.
EXECUTIVE SUMMARY

Many current education reforms—including incentivization of assessment data, charter schools, voucher programs, and open enrollment areas—are supported on the grounds that they place competitive pressure on traditional public schools. This approach to education reform is grounded in the idea that the United States education system can be turned into a competitive market for education.

Home to the country’s oldest charter school law, Minnesota’s experience with this simulated market has not supported the idea that increased competition drives improvement. Minnesota’s national test scores in math have increased by less than 7 percent since the introduction of a competitive system 20 years ago, and reading scores increased by less than 1 percent during the same time frame. An analysis of graduation rates between traditional public schools and charter schools further suggests that little competitive pressure is being applied.

Studies of voucher programs in Milwaukee and Cleveland, as well as in other countries, have found little conclusive evidence that those programs have affected school quality either. Indeed, the mounting evidence suggests that this market approach to education does not produce gains anywhere like those needed for universal student achievement.

This is, in part, because the current goal of the US school system is incompatible with the economic conditions for pure competition. Lacking pure competition, attempts to create an educational marketplace cannot be assumed to produce an efficient solution.

For a marketplace to work at all, it must meet (or closely approximate) five conditions of pure competition:

1) A large number of buyers and sellers
2) Homogeneous products
3) Free entry and exit of firms
4) Lack of transport costs
5) Independent decision-making for profit maximization

A mandatory education system that prepares all students for post-secondary success (at no direct cost to their families) is incompatible with these conditions. Each condition is violated by such a system, and attempts to satisfy all of these conditions will undermine the goal of universal student achievement. As such, reforms that seek to create or simulate an “educational marketplace” are doomed to failure.
While these reforms will not work on economic grounds, some have been conflated with ideas that do have an educational rationale. Unfortunately, the market-based versions of these ideas corrupt the education-based components. As such, it is recommended that competition-oriented policies be significantly reformed to cleanse them of this misplaced marketplace thinking. To preserve the education-oriented aspects of these programs, policymakers should consult with professional educators. Teachers should be included and respected in future education reform discussions, and their input should be valued more highly than economic hypotheses.

Consider an analogy to a factory that takes in wood and produces chairs. If the wood the factory is provided is difficult to turn into chairs, the factory can find a different wood supplier. If the factory were like a school, with the wood being students and the chairs being citizens ready for post-secondary success, the factory would not be able to change suppliers and would instead be forced to make chairs from whatever wood was given to them. The requirement that all students be educated to post-secondary readiness means that some schools will be forced to take on students that are not easily convertible to post-secondary ready citizens. This is one of several ways that schools cannot function like a conventional market.
FINDINGS

Minnesota has tried to adapt what conservative reformers call free-market elements to improve education for two decades—charters, open enrollment, school choice—with no marked improvements in achievement or graduation rates.

Turning public education into a competitive market to drive reform misses the mark because none of the five conditions needed for pure competition exist in public education.

While free-market firms can reject inferior raw materials, schools can’t discard poor performing students, students with disabilities, and students lacking necessary family support, especially in a system seeking universal post-secondary readiness.

All but two Hennepin County charter schools rank behind traditional public schools’ graduation rates. In Ramsey County, all but one charter rank behind traditional public schools.

Studies of voucher systems in states where they’re available show little or no progress in student achievement.

A study in Michigan, which allows for-profit companies to manage schools, shows for-profits have poorer performance than traditional public schools.

Market-driven approaches incentivize schools to increase public relations, sales pitches, and teach-to-the-test strategies that do little to truly improve achievement and learning.

Minnesota’s large rural make up lacks the concentrated populations necessary to have a truly open market and choice in much of the state.
RECOMMENDATIONS

There is a place in education for efficiency, incentives, and innovation; however, policymakers must stop trying to achieve these goals with a false, market-based approach.

Schools must adapt to achieve universal post-secondary readiness by focusing on initiatives that enhance teachers’ professional development and provide comprehensive teacher assessment and feedback.

Instead of using a false market-mentality as political cover to systematically defund schools, we must invest in education for the 21st century, using some of that investment to develop a comprehensive and fair teacher evaluation metric.

Charter schools have a place in the public education system as partners, not competitors, with traditional schools.
INTRODUCTION: EDUCATION AS MARKETPLACE

It has become fashionable in policy creation circles over the past few decades to reform public institutions in the mold of the free market. This sort of market-based thinking has most recently been applied to education. After several years of protracted efforts to impose market-driven solutions on the United States school system, however, results have been more or less the same as they were prior to the introduction of these market-based strategies.

Central to the market critique of the public schools is the charge that public schools represent an anti-competitive monopoly, and that they therefore have no incentive to improve. This is held up as the reason for not having attained universal student achievement. Such an assumption is mistaken because it fundamentally misunderstands the historically changing role of schools in the United States.

While the past three or four decades have featured a slow, consistent upward trend in school performance, the universality of achievement desired by policymakers today simply lacks any historical precedent. From the 1700’s through the middle of the 20th century, most education policy was concerned with gradually increasing school attendance. The quality of education was left to the educators, while public policy focused on increasing access to and time spent in education.

Having secured near-universal attendance by the middle of the twentieth century, policy focus finally shifted to universal achievement. At present, the core goal for the school system is to prepare all students for success in a post-secondary experience. Considering that most US residents did not even complete high school for most of the country’s history, this represents a significant shift in focus.

In 1900, over one hundred years after the ratification of the constitution and more than two hundred years after the establishment of English-speaking colonies on this continent, the high school completion rate was 6%. One hundred years later, the high school completion rate was 86.5%. This increase in enrollment and completion has been the driving project of the United States education system, and it’s only recently that the focus has changed from completion to outcomes.

Unfortunately, much of current education reform policy does not acknowledge this major recalibration of systemic aims. Instead, reformers look at a school system that has only recently (in historical terms) started graduating most students from high school and ask why it isn’t producing students ready for post-secondary success. This neglects the fact that post-secondary opportunities have, until recently, been unavailable to many students on racial and socioeconomic grounds.
This is not to dispute the worthy nature of the new goal of post-secondary readiness. It represents a commendable, higher aspiration than has existed before. The income-based achievement gap that stands in the way of realizing this goal is significant and lamentable. It is not, however, the result of a school system that has somehow stopped functioning; rather, it is the result of a school system built for one purpose (attendance) that is now being changed to meet a new purpose (achievement).

As a result, policymakers who view education reform solely through the lenses of efficiency and competition will miss key factors of the school system and its structure that confound attempts to simulate a free market. In other words, the mindset that schools are not meeting their new goals because they are an innovation-challenged public monopoly that only needs increased competition to trigger improvement lacks an adequate basis in economic theory.

Public Schools as Monopoly

One of the core critiques of market-based education reformers is that public schools are a monopoly. Single providers that lack sufficient competition, these reformers argue, have no incentive to improve the quality of goods or services they provide. This monopoly thus constitutes a market failure, the solution to which is competition.

In a would-be free market, monopoly providers do of course represent a market failure. This is the primary economic reason for anti-trust laws and regulations. However, there are some areas, such as utility provision, where monopolies have been deemed acceptable for the public good.

The critique of public schools as a monopoly has been bolstered by findings that some aspects of schooling such as food service, facilities contracting, and other school functions can be provided more efficiently through privatization. From this perspective, the extension of competition to the entirety of the school experience appears to be a logical leap. While this conflates the role of schools as consumers of some services with their role as the providers of a different service (namely, education), it has proven a sufficiently compelling rationale for some to craft competition-based models for education reform.
Market-Driven Education Reform

In response to this portrayal of public schools as a monopoly, some policymakers and reform advocates have adopted a market-driven approach to education reform. This is characterized by a few key elements, chief among which are increasing competition between schools and simulating profit through the use of high-stakes tests.

If one accepts the notion that public schools are in fact an anti-competitive monopoly—and therefore lack incentive to innovate or improve the service they provide—one solution seems obvious: break up the monopoly by creating competing schools. This can be done through a variety of mechanisms, including charter schools, private school vouchers, and open enrollment zones. Each of these options either creates new schools to compete with traditional public schools or opens up access to schools that were financially or geographically inaccessible to some families. By giving families choice, the argument goes, traditional public schools must improve or risk losing students (and their attendant state funding) to their competitors.
Figure 1: NAEP Scores - Reading

Figure 2: NAEP Scores - Math
While losing “customers” in the form of students and their families might prove disincentive enough, those seeking to employ market solutions to schools also favor linking a school’s funding to its academic performance. The goal from a market perspective here is to ensure that schools reap benefits from higher performance and face costs for lower performance. In other words, performance should be convertible to profit or loss. In practice, this has been implemented by linking some aspect of school funding to testing.

It should be noted that not everyone who favors these reforms does so for market-based reasons. Charter schools began as a mechanism for increasing teacher flexibility in designing school programs, open enrollment can be used to address the de facto school segregation that is common in many urban areas, and testing is also invoked in discussions of teacher accountability rather than school-based incentive/punishment schemes. While other purposes exist, however, all of these reforms have been supported on the grounds that they increase competition and will therefore apply pressure on the traditional public schools to improve.

The Results So Far

Minnesota provides an excellent test case for several market-based initiatives. Open enrollment policies push public schools into competition with one another by allowing students to enroll outside the neighborhood school to which they have been assigned. Most of the struggling public schools in the Twin Cities metropolitan area have been in an open enrollment zone for several years. Charter schools allow for even more choices, and their freedom to create specialized programs further encourages competition. Minnesota has the nation’s oldest charter school law, and it is rated as one of the best in the country by the Center for Education Reform.

Despite these disruptions of the so-called public school monopoly, Minnesota’s performance on the National Assessment of Educational Progress since the implementation of the charter law in the early ’90s shows only slight improvement (see Figures 1 and 2). The rate of growth is similar to that shown by the nation as a whole, even though most other states have newer, lower-rated, or nonexistent charter school laws. If charter schools and open enrollment zones really did offer strong alternatives that competed with the public schools, and if that competition did drive improvement for all schools, we would expect to see noticeably stronger results from Minnesota relative to the rest of the country.
Some of this can be explained as an enrollment issue. Roughly 90% of Minnesota’s students are enrolled in a public school of some sort (including charters). Despite our 20-year-old charter school law, less than 5% of Minnesota’s public school students attend a charter school (see Figure 3 1). This is unlikely to be an adequate level of enrollment to drive improvement, and yet it is reasonable to assume that, after twenty years, this proportion is unlikely to climb much higher.

Further consideration of this question reveals another possibility: Perhaps a major reason for low charter enrollment is the heavily rural nature of much of the state. Rural areas often lack the concentration of students and teachers necessary to justify opening another school. It is thus reasonable to assume that most of the charter school attendance is concentrated in the Twin Cities where higher density better supports the creation of charter schools. This would also make the Twin Cities a good case study for charter schools’ ability to provide competitive pressure on traditional public schools.

Examining Figures 4 and 5, however, we can see that charter schools’ graduation rates tend to be much lower than those of nearby public schools in both Hennepin and Ramsey counties. It should be noted here that several of the charter schools in question target student populations that have historically struggled in the public schools, and as such may be posting graduation rates that—while lower than traditional public schools overall—are in fact higher than typical for those particular populations. In any case, however, there is little evidence to suggest that charter schools in the Twin Cities are applying significant competitive pressure on traditional public schools. These findings from Minnesota are similar to other charter school studies across the country.

1 Figures 3-5 source: Minnesota Department of Education.
Figure 4: Public vs. Charter School Graduation Rates in Hennepin County

* indicates 5-yr rate  ** indicates 6-yr rate

Figure 5: Public vs. Charter Graduation Rates in Ramsey County

* indicates 5-yr rate  ** indicates 6-yr rate
Figure 6: Vouchers vs. Public - Reading
(2009-10 Wisconsin Knowledge and Concepts Examination)

Figure 7: Vouchers vs. Public - Mathematics
(2009-10 Scores on the Wisconsin Knowledge and Concepts Examination)
As for increasing access to private schools as a competitive alternative, studies of voucher programs in Milwaukee\(^2\) and Cleveland\(^3\) have found, at best, mixed results about overall school quality. (For specific results from Milwaukee, see Figures 6 and 7. None of the differences shown are statistically significant.) The private schools in the voucher program are certainly not producing results strong enough to drive competition with the public schools. A study of the nationwide voucher program in Chile\(^4\)—which was much more extensive in scope than anything tried so far in the US—found that privatization of schools led to increased student segregation with little change in aggregate achievement.

All of these findings suggest that market-based reforms are not producing the results their proponents have suggested they would. Upon examination, however, these market-based reforms do not acknowledge all of the conditions of competitive markets. A fuller understanding of these conditions explains why market-based reforms cannot be relied upon to produce the sort of change needed to ready all students for post-secondary success.

**Conditions of Perfect/Pure Competition**

The premise that competition produces efficient solutions is based on a set of conditions. While there are different ways of organizing these conditions, the basics are generally accepted by economists. For the premise to be realized exactly as in theory, seven conditions must be met to form a system of perfect competition. In practice, perfect competition is nearly impossible to achieve, so a subset of five conditions are considered necessary for “pure competition.”

Pure competition, in other words, is the most achievable real-world proxy for a theoretically perfect market. Its conditions are as follows:

1) A large number of buyers and sellers  
2) Homogeneous products  
3) Free entry and exit of firms  
4) Lack of transport costs  
5) Independent decision-making for profit maximization

The next section of this paper will address each of these as they relate to education in the United States.

The two additional conditions of perfect competition (nearly impossible to realize in practice in any industry) are:

6) Perfect information  
7) Perfect mobility

These are treated with respect to education in Appendix A.

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EDUCATION AND THE CONDITIONS FOR PURE COMPETITION

It is assumed for the purposes of this section that the generally accepted social goal of the United States education system at this time should be to provide each citizen with easy access to an education that by 12th grade has adequately prepared him/her for success in a post-secondary academic career, should that citizen desire to pursue such a career. Post-secondary academic careers are construed as including four-year and two-year programs as applicable based on student interest. In short, any student that wants to pursue a four-year degree should be academically equipped to do so, though it should not be assumed that all students will choose that path.

Condition 1: Large Number of Buyers and Sellers

The primary point of critique for market-based reformers, is that this condition is violated by the public schools’ “monopoly” on education services. Closer examination, however, reveals that there are several other flaws with this condition, and that creating more competition between various schooling options would not be enough. The most substantial problem with this condition is a matter of definition: students’ families aren’t the buyers of education, and schools aren’t sellers of education.

In casual debate, it is easy and often harmless to conflate “consumers” with “buyers,” because in most cases, consumers are buyers. This is not true in education, however. While the primary consumers of education are students and their families, taxpayers are the people who buy the services. (The one exception here is the small number of families who pay for their children to attend private schools; in addition to contributing to the purchase of public education for others, they also buy separate services for their own children.) There is no question that taxpayers benefit from the presence of an education system, as it serves as a stabilizing social influence and increases the competitiveness of the general economy to the benefit of all taxpayers. In a sense, then, taxpayers are buying the social stability that comes from education, regardless of whether or not they consume it.

Students’ families aren’t the buyers of education, and schools aren’t sellers of education.

The distortionary effects of this difference between consumers and buyers run deep. Because taxpayers pay the same amount for education regardless of their consumption, and because families’ consumption of public education is not linked to a direct purchase of services, the decision-making behavior of families with regards to education cannot be assumed to follow the usual rules of a market with pure competition. In such a market, taxpayers would not contribute to education and families would purchase available services based on their own resources and the variety of options accessible via those resources. Even in such a system, however, the position of students in the marketplace is unclear.
This question of students’ role is one of the running difficulties of the market metaphor. In some sense, students are consumers of education as they are the people who most immediately benefit from schools as service providers. However, students—especially young students—would rarely make their own decisions about which school to attend. In this sense, the market metaphor produces a distinctly less appealing analogical role for students: that of the good in need of improvement from a professional service. In other words, the market metaphor in some ways treats children like cars regularly dropped off at a mechanic’s until they are fully functional. This is an unappealing analogue for children, but it is a necessary conclusion of the market metaphor for education.

The “large number of buyers and sellers” condition is, of course, not just violated on the buyers’ side; it is also violated on the sellers’ side with the difference between a “seller” and a “producer.” Schools produce educational services, true, but they do not sell* them.

When it comes to this condition, then, the social goal of universally high-quality education is incompatible with the marketplace mindset. If the education system is to prepare all students for post-secondary success, it must keep the direct costs to students and families as low as possible (otherwise some students will be priced out of the system). Since consumers and producers will not actually be buying or selling a good, we cannot assume that an “educational marketplace” would actually function like a real market with real buyers and sellers.

* It should be noted here that “sell” is different from “advertise.” One of the effects of proliferating choices is placing schools in competition over students; however, this competition only exists on the level of advertising and not on the level of negotiation or true selling. When all schools (again, with the exception of private schools) are free for families, schools’ incentive is not to improve the efficiency with which they create their product—thereby driving prices down to attract more customers—nor is it to improve the quality of the product—thereby increasing demand. Instead, the incentive is for schools to improve the appearance of their product. This may carry with it real improvements in the quality of educational services provided, but such changes in quality are in fact a byproduct of the advertising competition between schools placed in competition rather than a driving concern. In many cases, increasing the “dog and pony show” characteristics of a school may prove less expensive in money or effort than improving the quality of the education they provide. As a result, these schools’ incentives are not aligned with the ostensible goal of the market approach to education, that of improving educational quality.

The social goal of universally high-quality education is incompatible with the marketplace mindset.
**Condition 2: Homogeneous Products**

The worth of homogeneity in education is debatable. Indeed, with the proliferation of multiple intelligences theory amongst educators and repeated calls for differentiation of instruction in general classrooms, it is possible that asking all schools to deliver the same basic product to a varied student body is in fact the wrong pedagogical choice.

This, however, is not the goal of market-based reformers. A competitive market depends on all producers making roughly the same good (otherwise the “market” turns into several small monopolies). This mindset encourages firms to seek the “one right answer,” the most efficient way of producing and selling their product. Many market-based education reformers will claim that, “We know what works,” and that it’s simply a matter of replicating that model everywhere. The risk here is that there may not be “one right answer.” The variation between students suggests that heterogeneity, not homogeneity, may be a better goal.

This dissonance is a symptom of the flawed mindset that approaches education with an overly economics-centric philosophy. By neglecting the input of educators and acknowledging the realities of pedagogy, reformers may strive for the creation of a system that does not actually meet the heterogeneous needs of the student population. Such a system would then struggle mightily to achieve the goal of universal post-secondary readiness.

**Condition 3: Free Entry and Exit of Firms**

In a truly pure market environment, this condition means that companies can easily start up in an industry and leave of their own will. This is one of the conditions that allows supply to expand and contract with demand. In education, however, this is not the case, nor is it desirable.

Clearly the current system of education does not provide free entry and exit of firms; schools have little choice over their opening and closing, responding instead to districts and higher governmental pressures. Traditional public schools rarely open or close (and certainly do not so regularly enough to suggest free entry and exit). Since most students continue to be enrolled in traditional public schools, this situation is unlikely to change even with charter schools and private schools that can enter and exit more easily.
What’s more, it is unclear whether free entry and exit of firms would even be desirable considering the goal of universal post-secondary readiness. The condition exists so that firms can enter if they identify the possibility of profit and can leave if they are experiencing losses. In other words, a “pure market” school would begin if it thought it could make money, and it would leave if it wasn’t making enough. The real-world lack of profit motive in education destabilizes the “free entry and exit” condition.

Consider other market-based, commonly consumed goods and services: food producers exist to make profit selling food (not to ensure universal access to high-quality food), energy producers exist to make profit selling energy (not to ensure universal access to high-quality energy), and housing producers exist to make profit selling housing (not to ensure universal access to high-quality housing). United States society does not demand universal access to high-quality food, energy, or housing. It does, however, demand universal access to high-quality education. Even though food, energy, and housing are almost universally consumed, the operation of a market has not produced near-universal access (where affordability is a component of access) to high-quality variants on these.

Indeed, the near-universal access to mixed-quality variants has required government intervention and redistribution of resources. To apply a similar framework to education would suggest that, even in the existence of a competitive market for education, the school equivalent of food stamps or adjusted-price housing would be needed in some of the same areas where schools are struggling now. While a “school stamp” education might provide basic literacy for some students, it would be highly unlikely to close the achievement gap and produce post-secondary readiness for its students.

In summary, to allow free entry and exit of schools would require profit-based schools and a significant redistribution of income just to ensure basic access to schools. If other industries are any guide, achieving universal access to schools of the quality demanded by society would be difficult bordering on impossible in a system with free entry and exit of firms. After all, the government would not just need to provide “school stamps” to families in low-income areas so they could afford to send their children to school; the provision of “school stamps” would also be necessary to entice schools to open in those areas (as without “school stamps,” schools would struggle to be profitable). The amount of redistribution necessary to create “school stamps” of sufficient profitability to ensure competition among high-quality schools capable of readying all children for their post-secondary careers would likely be so high as to be politically impossible.
Condition 4: Lack of Transport Costs

This condition is relatively minor for this discussion. Transport costs, sometimes known as transaction costs, are the costs incurred when implementing the trade resulting from a buyer/seller negotiation. Consider the purchase of an item from an online retailer; in this case, the buyer’s costs include the time and energy of searching for the product (and engaging in any relevant information-gathering), the cost of their Internet connection, and the cost of shipping (the most literal of transport costs). The seller similarly incurs costs.

In education, of course, buyers and sellers do not exist as classically defined in economics, as discussed previously. Lacking buyers and sellers, transport costs are a moot point. It is worth considering, however, what transport costs could look like in an education “market” where families pay schools directly for services.

Transport costs do exist in education. Information gathering (“search costs”) about the best school options can be very time- and energy-intensive, often requiring initial research, school visits, interviews with current school stakeholders, and negotiating particulars of the school experience (adaptations for allergies or other medical conditions, payment plans, and so on). After an agreement had been reached between school and family, the family would incur ongoing costs of monitoring the school’s compliance with their particular contract and taking appropriate action—including legal steps—in case of contract breach. An exact accounting of such hypothetical costs is beyond the purview of this analysis, but the possibility exists for these transaction costs to be non-negligible. While a total absence of transport costs is rare in private industry, it is generally accepted that transport costs must at least be low for a market to function efficiently. What low transport costs would mean in the context of education is uncertain, and as such the relative importance of transport costs in an education market is unknown at this time.

The costs described above do still exist for many families. However, the existence of traditional public schools as a default choice provides families that cannot take on these costs with a low-transport-cost alternative. In a market with a large number of buyers and sellers (none of which had the market share of traditional public schools in the current system), however, all families would need to assume these costs. Again, it is unclear whether these costs would be prohibitive or acceptable for families, but it is another potential source of market failure in a pure market environment for schools.
Condition 5: Independent Decision-making for Profit Maximization

This condition is key for markets to function, and it is entirely untenable for a school system with the goal of universal post-secondary readiness. A few definitions are important for this condition. “Independent decision-making” means that everyone participating in the market is making their own choices; this includes both buyers and sellers. “Profit maximization” for this condition also includes both buyers and sellers (though for buyers it can also be formulated as “utility maximization”; for the sake of parsimony, “profit maximization” will refer both to firms’ profit maximization and customers’ utility maximization). The plainest summary of this condition is that everyone in the market does what they think is best for themselves.

The universal attendance that has been the goal of much top-down education policy in US history is the first major violation of this condition. On the “customer” side, requiring all students to attend school for kindergarten through 12th grade may force families and students to remain in the “market” longer than they would have given free choice. This, incidentally, is another area where the ambiguous position of children in a market framework complicates any attempt to create such a market structure in education. If students are customers along with their families, a “unit customer” (consisting of a student and their family) in a free education market could be divided on the question of how much education to consume. If, on the other hand, students are some sort of raw material or “item” being improved at the family’s request, they are the only such materials or items with agency and a future as citizens and contributors to society. In that conceptualization, they are certainly deprived of their ability to be independent decision-makers.

The current system legally requiring students to attend school until age 18 (with some rarely-used exceptions for early departure between the ages of 16 and 18) circumvents these questions by framing the issue in educational rather than economic terms. Instead of a choice, education under the current framework is an obligation or duty. In market terms, then, consumption of K-12 education has been forced into inelasticity. (Inelasticity is the condition of needing to consume a good or service; the classic example of an inelastic good is insulin for a diabetic.) Unless society is willing to relinquish the goal of universal post-secondary readiness, that condition must be in place. Especially if post-secondary readiness (or at the very least a decent quality K-12 education) is considered a moral requirement, leaving children’s futures subject to the resources and whims of their families (as would be the case in a true market for education) could very well constitute an immoral action and would be deemed socially unacceptable.

Instead of a choice, education under the current framework is an obligation or duty.
The universality condition does not just affect the consumption side of education, however. If all children are required to attend school, then schools in aggregate must be required to serve all children. This becomes problematic for students that would not be particularly profitable to educate—those who are well behind where they should be, those who qualify for special education, those who are otherwise deemed “at-risk”. Many of the increases in education spending over the past two decades have been aimed at better serving these students, and government would likely need to step in to offer additional voucher support for these students in a hypothetical market scenario.

In addition to the difficulties caused by the universality condition, the motivations of schools also confound this condition. At least at present, schools (with some exceptions) are not profit-seekers. School funding, after all, is not determined by schools negotiating prices with families. Instead, school funds are awarded primarily on a fixed per-pupil basis with additional per-pupil allocations for particular categories of students generally organized around income or exceptionalities (qualification for special education or gifted and talented programming). What’s more, the acquisition of these funds has not traditionally been the force driving schools; public schools exist to educate, not to make money or generate institution-specific returns on investment.

Some attempts have been made to change the education system to more closely match this condition. Introducing more competition in the form charter schools, voucher programs, and open enrollment zones has forced public schools to more directly make the case for attendance to families so that they can maintain their funding, and tying federal or state funding to performance on high-stakes tests can be seen as simulating profit based on the quality of service provision. However, the competition-based policies have only linked school revenue to quality in the sense of linking student population to the school’s ability to sell itself. Performance-based funding, especially when linked to a very small set of measurements, corrupts those measurements (per Campbell’s Law) and provides significant incentive to cheat rather than improve (as cheating is generally less cost-intensive than actual pedagogical reform). As such, these partial measures have not truly simulated a profit-driven system, while at the same time forcing public schools into non-education-related activities in an attempt to preserve funding.

Consider a recent example from Saint Paul. In an effort to boost enrollment, the Saint Paul Public Schools launched the “One Thing I Love” campaign in October of 2011. The campaign is a PR effort to convince local families to enroll their students in one of the Saint Paul Public Schools instead of a private or charter school. Funding for this work largely came from the Saint Paul Public Schools Foundation and the R.F. Bigelow Foundation. The money and effort being put into the campaign does not produce any educational benefit for the students in question, but it is a necessary survival strategy for the district. Even though the charter schools with which it “competes” are not, on the whole, any higher-performing than the traditional public schools, the Saint Paul district must...
engage in this kind of marketing to counteract the negative reputation that has accrued to public schools as well as the specific counter-marketing of these competitor schools. All of this results in the diversion of money and people-hours that could have gone to academic improvement or program expansion.

Some market-minded reformers might counter that these problems would be fixed by freeing schools from typical public funding entirely and letting them actively seek profit. However, it is not clear that profit-driven schools would be at all desirable for providing an education. Research from Michigan\(^5\) (see Figure 8) suggests that schools managed by for-profit organizations have tended to underperform schools managed by not-for-profit organizations. What’s more, a truly profit-driven system would be left with the earlier question of how students who are not profitable would get educated.

In summary, then, public schools as they are known today cannot possibly meet the condition of independent decision-making for profit maximization. The expectation of universal post-secondary readiness distorts consumer preferences, and the desirability of profit-driven schools remains highly questionable. Given that the school system cannot meet the conditions of pure competition while seeking universal post-secondary readiness, attempts to create or simulate market conditions in the education system cannot be assumed to produce efficient, effective, or equitable results.

RAMIFICATIONS FOR PUBLIC POLICY

The profound disconnect between the education system’s goals and the necessary conditions for success through market-based reforms should force a significant re-evaluation of several policies. It should be reiterated here that many policies can be supported for multiple reasons. However, the effects of viewing a policy through the lens of pedagogy may be different than the view from a market-based reform standpoint. While many current policies may deserve to stay on the table, they should be rethought and reformed with an eye towards pedagogy alone, as their potential to trigger school change through market reform is minimal.

This section will evaluate four current elements of education reform in light of this. Assessment, charter schools, voucher programs, and open enrollment will each be addressed, with a particular emphasis on the perspective shift from market-based thinking to education-based thinking.

Assessment

A key component of education is, has been, and must be assessment. By this, it is meant that measurements of student progress always have a role to play in determining the effectiveness of educators and their institutions. However, assessment has often been co-opted by market-based reformers to advance an agenda that ties funding, teacher pay, and punishment (for schools or teachers) to high-stakes tests. This is meant to better simulate market conditions of profit and the corresponding incentive schemes of marketplace sellers. However, the failure of a socially acceptable education system to meet the true conditions for pure competition compel policymakers to reconsider assessment’s role in school change.

One alternative that could be considered immediately is the decoupling of standardized testing from school “accountability” mechanisms. While the idea of incentivizing performance may be politically advantageous, the use of a limited range of measurements corrupts those measurements by incentivizing the skill to produce — whether legitimately or illegitimately — high scores on those particular measurements used for incentivization. As demonstrated previously, schools are not profit-seeking and are not likely to become profit-seeking even with the use of incentivized test scores as simulated profit. Additionally, the use of assessment mechanisms to simulate profit produces an unintended incentive to avoid responsibility for teaching “unprofitable” students. All of these outcomes run counter to the ideal of continuously improving true pedagogy to meet the social goal of universal post-secondary readiness.
If an education system (whether local, state, or federal) did want to continue using assessment for an accountability scheme, they would be best off cultivating a diversified set of assessments that measure a myriad of skills in several formats over a long period of time instead of relying solely or primarily on the more commonplace “snapshot” assessments of basic math, reading, and science skills through multiple choice testing. By de-emphasizing any one assessment, districts can decrease the likelihood of corrupted measurements inherent to the use of a limited range of assessments. However, it should be noted that accountability steps along these lines are still unlikely to produce the desired results as they do not address the true motivation of most educators and schools, nor do they address the incentive to avoid teaching “unprofitable” students.

Rather than try to create incentive-based accountability schemes tied to assessment at all, education systems would be better off focusing on the use of assessment in a high-quality process of continuous teacher improvement. Incentive schemes tend to assume that teachers are motivated to improve by money or fear, and that linking assessments to money or fear will give otherwise “bad” teachers a reason to be better. Similar logic drives the assessment-based approach to school or district accountability. The effectiveness of this, however, is highly questionable, as the preceding discussion of school motivation suggests that many educators and schools are not in fact profit-driven.

In contrast to this economics-centric system, an education-centric approach would take as a goal continuous improvement for all schools, with the assumption that most teachers are inherently driven to improve. A natural outgrowth of such an approach would be a robust system for professional development combining instructional coaching, mentoring for new teachers, regular observations, and routine use of assessment data to guide the next steps of teacher development. An educational system that emphasizes continuous improvement and only penalizes teachers who are, over the course of a few years, either unable or unwilling to develop their skills would enjoy a strong foundation in professional development theory, stronger than the surrogate profit scheme’s foundation in economic theory.

Of course, an assessment scheme along these lines would be much more expensive in terms of time and money than the current reliance on standardized multiple-choice assessments. It would also lack some of the feel-good elements of “rewarding good teachers” and “punishing bad teachers,” replacing such emotion- and economics-driven concerns with education-based thinking. Politically, then, this option would be less appealing than the current education reform agenda; however, policymakers who are primarily concerned with what will actually increase the quality of education should consider this approach or something similarly founded in real education practices instead of systemically compromised economic theory.
Charter Schools

Despite having a strong foundation in educational programming, charter schools have often been co-opted by those who prefer to treat them as competitors with the traditional public schools. This competition has had negative effects for all schools involved, as documented earlier in this report. In particular, the competition over students and families who are not actually purchasing services results in advertising competition rather than educational competition. By realigning charter schools to be in collaboration with traditional public schools, the educator-driven innovation intended by the original charter school conception can be maintained while the damaging competition-related effects of the market mindset can be minimized.

The idea for charter schools started with the goal of encouraging educational innovation, a goal nominally shared by the market-based reform movement as well. However, the innovation as conceptualized by the initial charter school advocates was to be led by teachers looking to experiment with programming, often by starting a “charter school” as a separate program in a traditional public school at which they already worked. The idea of charter schools as laboratories to develop new or re-imagined approaches to pedagogy, while still part of some charter school advocates’ motivation, has often been eclipsed by the market idea of competition.

After the collapse of school choice arguments built around private schools, school choice advocates found the charter schools initiative an amenable alternative for advancing their agenda. While publicly funded, charter schools nevertheless had autonomy closer to that of a private school than the traditional public schools they were originally intended to support. As such, charter schools came to be seen as a means of putting competitive pressure on the traditional public schools. Instead of being about innovation to improve education, then, charter schools in some advocates’ eyes became about competition, with potential innovation as a side benefit produced by that competition.

By framing charter schools as being in competition with traditional public schools, market-minded policymakers have undermined any argument for charter schools to collaborate with nearby public schools. The chance of charter school innovations being adopted by traditional public schools is decreased by playing the two systems against each other. If a charter school’s survival depends on its ability to offer some new innovation, its administration, sponsor, or authorizing organization may be unwilling to share that innovation with traditional public schools (or other charter
schools) for fear of losing students to those schools. Simultaneously, traditional public schools may find internal resistance to adopting techniques used in charter schools because of the hostility engendered by the competition mindset. In short, the competition mindset, driven by misplaced assumptions about the applicability of market-based thinking to schooling, undercuts the idea of charter schools as laboratories for developing new approaches to education.

There are ways to restore the innovation-supportive approach to education that charter schools were meant to embody while distancing that innovation from the destructive competition-oriented mindset that undermines their success. For example, charter schools could be partnered with a nearby traditional public school or district; in effect, per pupil funding and other funds would be given to the charter-traditional partnership for appropriate disbursement based on relevant student attendance figures, while day-to-day policies would remain localized to each school. This would remove a significant portion of the competitive pressure while maintaining the autonomy inherent to the charter school identity. It would also facilitate easier sharing of innovative approaches between the two schools and allow for staff reapportionment to be smoothed out as student attendance figures fluctuated. Site-by-site contract negotiations (or approved site-specific variations on a district-level contract) would allow these schools to combine innovative potential with the professional security and treatment afforded by unionization.

In any event, the educational potential of charter schools remains strong, provided they can be restored to their initial, education-centric vision. Placing charter schools and traditional public schools in competition based on the false hope that “market forces” will somehow improve all schools involved is an approach that lacks foundation in economic theory. By returning the focus to education rather than economics, the hope of the charter school idea can be given a fairer chance to shine in its own right rather than being co-opted by a separate ideological mindset.

**Voucher Programs**

If charter schools have been used as an attempt to simulate market-based competitive pressures in education, voucher programs have tried to create a market outright. Again, however, economic theory does not support the idea of market-based education creating the socially desired outcomes of the US school system. Instead, voucher programs have become an exercise in non-random apportionment of students and diversion of funding from public schools to private schools.

Voucher programs, like other school choice programs, can be misleading to analyze. The private schools that benefit from the diversion of public money to their new students are nonetheless only taking in students who come from families that are willing to navigate the process of changing schools. This means that students who switch to private schools through the use of vouchers are a non-random subset of the student population that is disproportionately prone to academic success due to non-school factors, namely family support and/or the student’s own intrinsic investment to succeed. Students who move to charter schools or participate in open enrollment...
programs are similarly disproportionately prone to succeed, but the point is raised here because the only academic argument for voucher programs is that increased access to competitors with the traditional public system will benefit students.

Studies have shown that students who change schools through school choice programs, including voucher programs, do not succeed at any higher rate than students who applied to change schools but were denied the opportunity based on a random lottery. As such, all schools whose membership comes from school choice programs should be expected to outperform nearby traditional public schools because their students are already more likely to outperform those schools.

What’s more, even if academic gains were to be found and proven to be the result of the switch, it is unlikely that the results are generalizable to the overall student population. As noted earlier, the goal of the US school system is universal post-secondary readiness, and that universality condition (forcing education to be inelastic through age 18) means that choice programs (dealing, as they do, with a non-random subset of students) will by definition only affect the students who are predisposed to success due their personal or familial motivation level. Students and families who do not fall into this group would be unaffected by voucher programs, and the system would still fail to achieve its goal.

As the only academic rationale for voucher programs is founded in a mistaken reading of economic marketplace theory, such programs should be abandoned entirely, with the funds currently allocated to them restored to traditional public schools.

Open Enrollment

Open enrollment systems (that allow students to choose between traditional public schools), like charter schools and assessment policies, often have both an economic and an educational rationale. The economic rationale is that open enrollment policies foster competition between traditional public schools. As has already been amply demonstrated, that rationale is flawed in its understanding of economic theory and cannot be expected to produce improved academic results.
There are two primary educational reasons for open enrollment policies. One is to increase access to specific academic resources or programs that may not be easily scalable to all schools (e.g. extensive STEM facilities or arts programs). The other is to facilitate desegregation of schools in a region. Until recently, the Minnesota Desegregation Rule formed “integration school districts” by linking nearby independent school districts with generally segregated student populations. (A policy change that was part of the 2011-2013 budget deal dissolves these districts and places a 12-person commission in charge of reallocating the funds used.) These reasons, being grounded in directly improving the educational experience for students, are valid. However, it should be noted that open enrollment policies, like all choice policies, only serve to redistribute students based on individual or familial motivation and cannot be expected to prepare all students for post-secondary success.

The economic rationale that open enrollment policies foster competition between traditional public schools is flawed.
As demonstrated in several of the above examples, application of the marketplace metaphor to education corrupts some policies that have legitimate educational purposes and diverts attention and resources to other policies — like voucher programs — that will not succeed because all academic benefits are contained in misplaced assumptions about market behavior.

The consequences of this approach go deeper, however. Implicit in the assumption that competition will drive pre-existing schools to produce universal post-secondary readiness is the assumption that the people who work at those schools are not already driven to reach this goal. Policies that are framed in this light, and especially those that explicitly assume that educators are self-interested so-called “rational actors,” cannot help but impugn the motivations and professionalism of those working at the pre-existing schools. Asserting policies in this way, especially when cloaked in rhetoric about “what’s best for kids,” only serves to alienate the currently serving educational professionals who will continue to educate most children in the country. This alienation in turn leads to resistance to the use of some approaches, like assessment and charter schools, that can be educationally positive but which have been co-opted by flawed economics-centric thinking.

The marketplace metaphor does not apply to education. The conditions for pure competition are not met and cannot be met by a system aimed at producing universal post-secondary readiness. As such, market-based education reform policies cannot be expected to succeed.

Furthermore, the implementation of market-based policies in education undermines the education-based rationale for several policies and alienates many professional educators. As such, all policies currently in place on market-based grounds should either be removed or should be reformed to reflect only educational priorities.
APPENDIX I: EDUCATION AND THE CONDITIONS FOR PERFECT COMPETITION

While the preceding report addresses the conditions of pure competition, two other conditions are theoretically required for perfect competition of the time that could be expected to produce economically efficient solutions according to economic theory. Each of these is discussed in relation to schooling below.

Perfect Information

In a marketplace with perfect information, every buyer knows the price and quality of every seller’s goods or services, and every seller knows the size of the demand for their goods or services and the prices being offered by all competitors. This, in turn, is necessary for independent decision-making for profit and utility maximization.

While this condition is almost never realized in practice, close approximations of it can be achieved in many industries (particularly in the age of the Internet). However, this condition does not apply to education for two major reasons. For one, the free (or at least very low cost) nature of public education required for universal access eliminates one of the major factors of independent decision-making for utility maximization by education consumers, and thereby undermines the applicability of this condition. For another, the universality condition also means that schools’ ability to act on consumer preferences is also undermined because some schools will be forced to take on “unprofitable” students.

Perfect Mobility

This condition requires all resources (generally understood to be reducible to labor, land, and capital) to be able to enter and leave a market.

Because of the nature of public education, particularly in high-density areas, land cannot be assumed to be mobile. Labor, too, is partially restricted in its flow due to the specialized licensing and certification requirements society expects of its teachers. Because states set different requirements for teachers, labor cannot move easily between all regions of the country. Additionally, tenure rules—at least for as long as they remain—can also alter the movement of labor in education, though they have valid educational reasons for existing.

Most important for education, however, is the ambiguous position of students in the marketplace metaphor. While partially consumers, students also in a very real way serve as capital, the raw materials improved by schools into post-secondary ready citizens. Students, however, are far from mobile in the economic sense, and to the extent that they are mobile, their mobility is not solely driven by reasons related to the performance of schools. The biggest obstacle to students’ economic mobility as a resource is the universality condition.
Consider an analogy to a factory that takes in wood and produces chairs. If the wood the factory is provided is difficult to turn into chairs, the factory can find a different wood supplier. If the factory were like a school, with the wood being students and the chairs being post-secondary ready citizens, the factory would not be able to change suppliers and would instead be forced to make chairs from whatever wood was given to them. The requirement that all students be educated to post-secondary readiness means that some schools will be forced to take on students that are not easily convertible to post-secondary ready citizens. As such, this condition fails.
Minnesota 2020 is a progressive, non-partisan think tank, focused on what really matters.

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