

Cato Institute Briefing Paper No. 23: Public Schools: Make Them Private

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Milton Friedman, a senior research fellow at the Hoover Institution, won the Nobel Prize for Economics in 1976. This article appeared in the *Washington Post* on February 19, 1995. Reprinted by permission of the author and the *Washington Post*.

Executive Summary

Our elementary and secondary educational system needs to be radically restructured. Such a reconstruction can be achieved only by privatizing a major segment of the educational system--i.e., by enabling a private, for-profit industry to develop that will provide a wide variety of learning opportunities and offer effective competition to public schools. The most feasible way to bring about such a transfer from government to private enterprise is to enact in each state a voucher system that enables parents to choose freely the schools their children attend. The voucher must be universal, available to all parents, and large enough to cover the costs of a high-quality education. No conditions should be attached to vouchers that interfere with the freedom of private enterprises to experiment, to explore, and to innovate.

Introduction

Our elementary and secondary educational system needs to be radically reconstructed. That need arises in the first instance from the defects of our current system. But it has been greatly reinforced by some of the consequences of the technological and political revolutions of the past few decades. Those revolutions promise a major increase in world output, but they also threaten advanced countries with serious social conflict arising from a widening gap between the incomes of the highly skilled (cognitive elite) and the unskilled.

A radical reconstruction of the educational system has the potential of staving off social conflict while at the same time strengthening the growth in living standards made possible by the new technology and the increasingly global market. In my view, such a radical reconstruction can be achieved only by privatizing a major segment of the educational system--i.e., by enabling a private, for-profit industry to develop that will provide a wide variety of learning opportunities and offer effective competition to public schools. Such a reconstruction cannot come about overnight. It inevitably must be gradual.

The most feasible way to bring about a gradual yet substantial transfer from government to private enterprise is to enact in each state a voucher system that enables parents to choose freely the schools their children attend. I first proposed such a voucher system 40 years ago.

Many attempts have been made in the years since to adopt educational vouchers. With minor exceptions, no one has succeeded in getting a voucher system adopted, thanks primarily to the political power of the school establishment, more recently reinforced by the National Education Association and the American Federation of Teachers, together the strongest political lobbying body in the United States.

1. The Deterioration of Schooling

The quality of schooling is far worse today than it was in 1955. There is no respect in which inhabitants of a low-income neighborhood are so disadvantaged as in the kind of schooling they can get for their children. The reason is partly the deterioration of our central cities, partly the increased centralization of public schools--as evidenced by the decline in the number of school districts from 55,000 in 1955 to 15,000 in 1992. Along with centralization has come--as both cause and effect--the growing strength of teachers' unions. Whatever the reason, the fact of deterioration of elementary and secondary schools is not disputable.

The system over time has become more defective as it has become more centralized. Power has moved from the local community to the school district to the state, and to the federal government. About 90 percent of our kids now go to so-called public schools, which are really not public at all but simply private fiefs primarily of the administrators and the union officials.

We all know the dismal results: some relatively good government schools in high-income suburbs and communities; very poor government schools in our inner cities with high dropout rates, increasing violence, lower performance and demoralized students and teachers.

These changes in our educational system have clearly strengthened the need for basic reform. But they have also strengthened the obstacles to the kind of sweeping reform that could be produced by an effective voucher system. The teachers' unions are bitterly opposed to any reform that lessens their own power, and they have acquired enormous political and financial strength that they are prepared to devote to defeating any attempt to adopt a voucher system. The latest example is the defeat of Proposition 174 in California in 1993.

2. The New Industrial Revolution

A radical reconstruction of our educational system has been made more urgent by the twin revolutions that have occurred within the past few decades: a technological revolution--the development, in particular, of more effective and efficient methods of communication, transportation and transmission of data; and a political revolution that has widened the influence of the technological revolution.

The fall of the Berlin Wall was the most dramatic event of the political revolution. But it was not necessarily the most important event. For example, communism is not dead in China and has not collapsed. And yet beginning in 1976, Premier Deng initiated a revolution within China that led to its being opened up to the rest of the world. Similarly, a political revolution took place in Latin America that, over the course of the past several decades, has led to a major increase in the fraction of people there who live in countries that can properly be described as democracies rather than military dictatorships and that are striving to enter open world markets.

The technological revolution has made it possible for a company located anywhere in the world to use resources located anywhere in the world, to produce a product anywhere in the world, to be sold anywhere in the world. It's impossible to say, "this is an American car" or "this is a Japanese car," and the same goes for many other products.

The possibility for labor and capital anywhere to cooperate with labor and capital anywhere else had dramatic effects even before the political revolution took over. It meant that there was a large supply of relatively low-wage labor to cooperate with capital from the advanced countries, capital in the form of physical capital, but perhaps even more important, capital in the form of human capital--of skills, of knowledge, of techniques, of training.

Before the political revolution came along, this international linkage of labor, capital and know-how had already led to a rapid expansion in world trade, to the growth of multinational companies and to a hitherto unimaginable degree of prosperity in such formerly underdeveloped countries in East Asia as the "Four Tigers." Chile was the first to benefit from these developments in Latin America, but its example soon spread to Mexico, Argentina and other countries in the region. In Asia, the latest to embark on a program of market reform is India.

The political revolution greatly reinforced the technological revolution in two different ways. First, it added greatly to the pool of low-wage, yet not necessarily unskilled labor that could be tapped for cooperation with labor and capital from the advanced countries. The fall of the Iron Curtain added perhaps a half-billion people and China close to a billion, freed at least partly to engage in capitalist acts with people elsewhere.

Second, the political revolution discredited the idea of central planning. It led everywhere to greater confidence in market mechanisms as opposed to central control by government. And that in turn fostered international trade and international cooperation.

These two revolutions offer the opportunity for a major industrial revolution comparable to that which occurred 200 years ago--also spread by technological developments and freedom to trade. In those 200 years, world output grew more than in the preceding 2000. That record could be exceeded in the next two centuries if the peoples of the world take full advantage of their new opportunities.

3. Wage Differentials

The twin revolutions have produced higher wages and incomes for almost all classes in the underdeveloped countries. The effect has been somewhat different in the advanced countries. The greatly increased ratio of low-cost labor to capital has raised the wages of highly skilled labor and the return on physical capital but has put downward pressure on the wages of low-skilled labor. The result has been a sharp widening in the differential between the wages of highly skilled and low-skilled labor in the United States and other advanced countries.

If the widening of the wage differential is allowed to proceed unchecked, it threatens to create within our own country a social problem of major proportions. We shall not be willing to see a group of our population move into Third World conditions at the same time that another group of our population becomes increasingly well off. Such stratification is a recipe for social disaster. The pressure to avoid it by protectionist and other similar measures will be irresistible.

4. Education

So far, our educational system has been adding to the tendency to stratification. Yet it is the only major force in sight capable of offsetting that tendency. Innate intelligence undoubtedly plays a major role in determining the opportunities open to individuals. Yet it is by no means the only human quality that is important, as numerous examples demonstrate. Unfortunately, our current educational system does little to enable either low-IQ or high-IQ individuals to make the most of other qualities. Yet that is the way to offset the tendencies to stratification. A greatly improved educational system can do more than anything else to limit the harm to our social stability from a permanent and large underclass.

There is enormous room for improvement in our educational system. Hardly any activity in the United States is technically more backward. We essentially teach children in the same way that we did 200 years ago: one teacher in front of a bunch of kids in a closed room. The availability of computers has changed the situation, but not fundamentally. Computers are being added to public schools, but they are typically not being used in an imaginative and innovative way.

I believe that the only way to make a major improvement in our educational system is through privatization to the point at which a substantial fraction of all educational services is rendered to individuals by private enterprises. Nothing else will destroy or even greatly weaken the power of the current educational establishment--a necessary pre-condition for radical improvement in our educational system. And nothing else will provide the public schools with the competition that will force them to improve in order to hold their clientele.

No one can predict in advance the direction that a truly free-market educational system would take. We know from the experience of every other industry how imaginative competitive free enterprise can be, what new products and services can be introduced, how driven it is to satisfy the customers--that is what we need in education. We know how the telephone industry has been revolutionized by opening it to competition; how fax has begun to undermine the postal monopoly in first-class mail; how UPS, Federal Express and many other private enterprises have transformed package and message delivery and, on the strictly private level, how competition from Japan has transformed the domestic automobile industry.

The private schools that 10 percent of children now attend consist of a few elite schools serving at high cost a tiny

fraction of the population, and many mostly parochial nonprofit schools able to compete with government schools by charging low fees made possible by the dedicated services of many of the teachers and subsidies from the sponsoring institutions. These private schools do provide a superior education for a small fraction of the children, but they are not in a position to make innovative changes. For that, we need a much larger and more vigorous private enterprise system.

The problem is how to get from here to there. Vouchers are not an end in themselves; they are a means to make a transition from a government to a market system. The deterioration of our school system and the stratification arising out of the new industrial revolution have made privatization of education far more urgent and important than it was 40 years ago.

Vouchers can promote rapid privatization only if they create a large demand for private schools to constitute a real incentive for entrepreneurs to enter the industry. That requires first that the voucher be universal, available to all who are now entitled to send their children to government schools, and second that the voucher, though less than the government now spends per pupil on education, be large enough to cover the costs of a private profit-making school offering a high-quality education. If that is achieved there will in addition be a substantial number of families that will be willing and able to supplement the voucher in order to get an even higher quality of education. As in all cases, the innovations in the "luxury" product will soon spread to the basic product.

For this image to be realized, it is essential that no conditions be attached to the acceptance of vouchers that interfere with the freedom of private enterprises to experiment, to explore and to innovate. If this image is realized, everybody, except a small group of vested interests, will win: parents, students, dedicated teachers, taxpayers--for whom the cost of the educational system will decline--and especially the residents of central cities, who will have a real alternative to the wretched schools so many of their children are now forced to attend.

The business community has a major interest in expanding the pool of well-schooled potential employees and in maintaining a free society with open trade and expanding markets around the world. Both objectives would be promoted by the right kind of voucher system.

Finally, as in every other area in which there has been extensive privatization, the privatization of schooling would produce a new, highly active and profitable private industry that would provide a real opportunity for many talented people who are currently deterred from entering the teaching profession by the dreadful state of so many of our schools.

This is not a federal issue. Schooling is and should remain primarily a local responsibility. Support for free choice of schools has been growing rapidly and cannot be held back indefinitely by the vested interests of the unions and educational bureaucracy. I sense that we are on the verge of a breakthrough in one state or another, which will then sweep like a wildfire through the rest of the country as it demonstrates its effectiveness.

To get a majority of the public to support a general and substantial voucher, we must structure the proposal so that it (1) is simple and straightforward so as to be comprehensible to the voter, and (2) guarantees that the proposal will not add to the tax burden in any way but will rather reduce net government spending on education. A group of us in California has produced a tentative proposition that meets these conditions. The prospects for getting sufficient backing to have a real chance of passing such a proposition in 1996 are bright.