

## “A Bold Step”

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Governor Beshear, in his inaugural address, outlined a sampling of Kentucky’s economic problems and urged us to “take bold steps” to resolve them. I agree with the Governor: Kentucky has some serious economic issues to deal with and bold steps are called for. I’m going to suggest a bold step for our state that I hope is taken seriously by those in Frankfort. I am surely not the only one to suggest this and I think the time is right for Kentucky to move in this direction: let’s have some serious school reform that brings market-based incentives into the provision of primary and secondary education.

It’s kind of odd that we rely heavily on market provision of so many goods and services, yet rely so little on it regarding schooling. From life’s essentials such as food, housing, clothing to frivolous items like Magic 8-Balls and whoopee cushions that simply tickle our funny bones. From the mundane, such as paper towels and flashlight batteries, to those intangibles . . . music, art, film . . . that touch deep emotional chords. Market provided goods range from the simplest to the incredibly sophisticated, such as automobiles, jet engines, digital cameras, and complex legal cases. It’s not perfect, but the free market system works pretty well in the provision of these. But somehow we seem hesitant to rely on it for primary and secondary schooling. Given the considerable dissatisfaction with our public schools, it’s high time to consider to this alternative approach.

Why does the market do so well regarding the production of such a wide variety of goods and services? Primarily, it’s that free and competitive markets make a great incentive system. An important basis for markets is voluntary exchange. In order to earn income, you have to sell something that someone else wants. This induces the seller to provide goods of value. The role of competition is important, too. Not only must sellers provide something of value to buyers, it must be at least as good as the competition. Sellers that provide a better product are rewarded by the customers. Sellers that improve their efficiency are also rewarded by increased profits.

These mechanisms are largely absent with government provision of goods as with public schools. Public schools are assigned their customers based on the neighborhood that families live in. As a result, competition is greatly diminished. Yes, families can choose schools for their kids by moving to a new residence, but this surely is a cumbersome and difficult way to induce competition. As a result, competitive pressures on schools are limited. Also, public schools automatically get their funding from state and local governments. There is less reason to satisfy the customers - parents with kids at the school - and more reason to please the political “masters” who control the funding. All of this reduces the need to be cost efficient since the same number of students show up with the same funding regardless of how efficient the school is.

It's important to note that bringing market-type incentives into our public schools does not necessarily imply a lack of government support for schools. Indeed, there is plenty of support to families for the purchase of food via the Food Stamp program with exclusive reliance on private-sector grocery stores.

So how can we move toward embracing a system with market incentives? A step in this direction is to allow the opening of charter schools. Charter schools are privately-run schools that are "chartered" by school districts that are allowed to enroll any student who wishes to do so. The public funding for the student is credited to the school. Thus, parents who are dissatisfied with the neighborhood schools can apply to the charter school. The charter school succeeds only if it can attract and retain enough students to make a go of it. Thus, as in markets, it succeeds only by satisfying voluntary buyers. Also, the public schools are forced to compete with the charter school option and incentives to satisfy families and students suddenly emerge. Even more bang for the buck.

A bigger step in the direction of market-based incentives is a full-fledged voucher system. This is where families are awarded funding for each of their children to be spent at a school of their choice. The funding can be used at public or private schools. The funding can be topped off so that parents can add their own money to the voucher if they wish to send their kids to more expensive schools. A school that charges tuition of \$10,000 per year becomes affordable even to families of modest means if the voucher amount is \$8,000. This system is essentially the equivalent of the Food Stamps program for education.

Charters and vouchers are not wild, untried schemes dreamt up by cranks. They are in place and functioning in many locations. Sadly, Kentucky has none. Nationwide, charters are becoming increasingly common, now accounting for 1.8% of enrollment and growing. Once thought to be at the forefront of education reform with the passage of KERA in 1990, we simply have dropped off the radar screen in this regard.

Getting from where we are now to a system with market incentives ingrained in our educational system will not be simple. There will be implementation and transition issues, considerable political resistance, and surely other problems that will occur along the way. Nevertheless, it will be well worth it to have an effective primary and secondary schooling system. Let's take this bold step.

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