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Response: Free Market Education

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David Grusky assumes that income inequality is necessarily a bad thing, and lays it at the feet of "market failure." I'll not address the overall contention because it is not my area of expertise, but in education, while Grusky is correct in perceiving many problems, they cannot be ascribed to markets. They are government failures.

On schooling, Grusky fingers two "bottlenecks" as primary inequality producers: first, artificially low supply of disadvantaged college students due to poor academic preparation and, second, constrained demand for students by slot-rationing elite universities.

Few would likely argue with these major concerns. The poor generally aren't well prepared for college work, and elite schools do not expand their available seats to meet demand. To blame market failure for these realities, however, is impossible because American education is dominated by government.

The vast majority—86 percent—of students in elementary and secondary education attend public schools, while 11 percent go to private institutions, and 3 percent are homeschooled. This is largely a result of the requirement that all taxpayers pay for government education and expend additional funds if they want private options. Moreover, in education profit-seeking—a staple of free markets that drives investment and expansion—is highly discouraged because tax benefits accrue only to nonprofit schools.

Problems in education can't be blamed on market failure, because American education is dominated by government.

In higher education the public-private enrollment differential is not as stark, but it is big. In 2009 only 27 percent of college students attended private schools. And government money is a gigantic piece of postsecondary funding, hitting roughly $264 billion in 2010. Again, profit-seeking is powerfully discouraged by tax laws.

We have nothing close to a free market in education—the bottlenecks are real. But, to be fair, it would be wrong to assert that moving to such a market would solve all of our educational problems. Many of those troubles appear to be linked to culture, family structures, and other factors that neither government nor markets can easily manipulate. But the existing evidence suggests that increasing educational freedom would move us in the right direction.

For one thing, in elementary and secondary education, choice already exists. However, it often can be exercised only by buying a house in a neighborhood with a preferred public school. Moving to a system of universal choice would lower the gargantuan barrier of a house-worth's "tuition," somewhat leveling the playing field.

Universal choice would also avoid a pernicious aspect of the current, politically controlled system: the teachers, administrators, and others whose livelihoods come from the public schools, and who therefore have the greatest stake in the system, naturally exert the most power over public schooling. And because they are normal human beings they tend to thwart efforts to hold them accountable for their performance. It's a problem that hurts the poor the most, as they have the least political clout or ability to game the system. Choice would let the poor quickly vote with their feet, whereas the current approach forces them to engage in endless politicking in which they are hopelessly outgunned.

The research on American private school–choice programs strongly suggests that choice works for the poor. No random-assignment studies of such programs, which are usually geared toward low-income families, reveal negative effects of choice, and all show at least some positive effects. The benefits aren't usually gigantic, but the programs are typically too hamstrung to create the widespread competition and innovation needed to create a dynamic, sustainably improving system.

In higher education, government intervention is central to creating bottlenecks. Foremost, college prices rise even more quickly than health care costs largely because the federal government, through student aid, ensures that students can pay them. But aid programs generally favor middle- or upper-class parents who have the personal or accountant savvy to take full advantage of loans and tax credits through effective long-term planning. A 1999 study reported by the National Center for Education Statistics shows that poor parents are dramatically less likely than wealthy ones to estimate the costs of college.

The failure of good colleges to scale up is rooted in the tax bias against profits. Colleges generally plow money back into existing operations rather than expand, because they can't reward, and therefore attract, investors. Instead, existing faculty and administrators are the primary stakeholders.

Of course there are some for-profit colleges, and they have seen demand rise precipitously over the last decade. But they are under constant political attack, and their prices are steep. Again, though, the latter is a function of federal aid enabling all schools to raise their prices with impunity, not the schools' for-profit status. And there is decent evidence that for-profit schools, other things equal, do a more efficient job of providing students the skills they are looking for.

Grusky is right that there are significant problems in American education. They cannot, however, be pinned on market failure.