

Dickinson College

Restructuring the American Education System:
Milton Friedman and Herbert Gintis on School Choice

Han Hong Cao

FYSM 131 – The Ordinary Business of Life

Professor Edward McPhail

Han Hong Cao

FYSM 131 – The Ordinary Business of Life

Professor McPhail

December 1, 2017

**Restructuring the American Education System:
Milton Friedman and Herbert Gintis on School Choice**

I. Introduction

Today, when one types the word “education” into the search engine of new websites, one will likely encounter headlines such as these:

U.S. Education: Still Separate and Unequal, 2015 (Cook)

How America is Failing Native American Students, 2017 (Clarren)

Private school enrollment contributes to school segregation, study finds, 2017 (Balingit)

What these headlines reflect is a growing awareness of the issues that are prevailing in the current American education system, issues that range from financing and declining facilities to teacher and curricula quality. The American education system is in a state of decline: institutions of elementary, secondary and post-secondary education alike are increasingly less and less successful at performing the functions that they are supposed to fulfill, and parents across the country are dissatisfied. The situation justifiably calls for change, and many intellectuals have risen to the challenge with various proposals for improvements upon, as well as alternatives to, the current system.

One proposal, in particular, has garnered considerable attention over the past century. “School choice,” as the name goes, describes an alternative education system that redirects the flow of public education funds from public schools to parents, which in turn allows parents greater freedom in choosing the education option they believe to be the best fit for their children. Charter schools, magnet schools, education savings accounts and tax-credit scholarships are but a few well-known programs encompassed within the wide array of school choice options currently in existence. Especially notable among these programs is the school voucher system. The first implementation of educational vouchers in the United States can be traced back to the Town Tuitioning programs that began in the late 19th century in Vermont and Maine (“Vermont – Town Tuitioning Program”; “Maine –Town Tuitioning Program”). However, it was American economist Milton Friedman’s 1955 article *The Role of Government in Education* that launched the modern concept of school choice and educational vouchers into the spotlight. His ten-part television series *Free to Choose* and its companion book of the same name, in which he asserted his argument for school vouchers as yielding superior educational outcomes, brought additional attention to the voucher system in 1980. Friedman’s proposal has since sparked vigorous debate over school choice and the implementation of vouchers, and the literature on educational policy saw an upsurge in the number of scholarly publications, statistical investigations, and research studying the practicality of injecting competition into the school system as a vehicle for improving the current education environment.

Herbert Gintis, whose extensive work on economics and education has made him a notably influential figure in these fields, published an article in 1995 reacting to the school choice debate, specifically Friedman's plan for a system of educational vouchers. Entitled *The Political Economy of School Choice*, the article builds on many of Friedman's earlier arguments, defending school choice and competition in education as necessary instruments for raising overall educational standards. A strong believer in the disciplining effects of competition himself, Gintis shared many of Friedman's views on promoting greater parental choice and maximizing equality of access and opportunity across social divisions, and this belief manifests itself in the underlying core principle of Gintis's school choice plan, which is fundamentally identical to that of Friedman's voucher proposal. Where Friedman and Gintis differ is their opinion on the role of government and the extent of state intervention in facilitating school choice. Friedman saw the expansion of governmental involvement in schooling as the main cause behind declining American education standards and favored increasing the role of market mechanisms in the education sector. Gintis, on the other hand, is concerned about market volatility and believes that a system that strikes the right balance between government regulations and market mechanisms is more efficient and desirable, a belief he enunciates in *The Political Economy of School Choice*.

While the positions of Friedman and Gintis on the role of government in education do differ, these differences should not be viewed as irreconcilable, but rather complementary. Friedman's proposal for a voucher system was a catalyst and an important pillar for the school choice debate. However, given the differences in our time and the time during which Friedman composed his proposal, several components of Friedman's voucher plan are no longer applicable today. The school choice plan put forward by Gintis in *The Political Economy of School Choice* can be considered an alternative to Friedman's voucher plan, but his proposal can also be examined as offering a broader framework as well as policy suggestions for how school choice can be implemented in the current American education system. Given that neither proposal is without flaws, it would be constructive to consider the options for how these proposals can be used as models for the current American education system, which seems to have failed more students and families, especially those at the bottom of the socioeconomic ladder, than helping them.

II. What's Wrong with American Schools?

The United States today is well-known as being one of the nations that spend some of the highest amount of government expenditures on education, and American public educational funding has only observed an upward trend in the past years. A study conducted by Andrew J. Coulson at the Cato Institute shows that in 1970, the total amount spent by all levels of government on the K-12 education of a student graduating in any given year, adjusted for inflation, is \$56,903. In 2012, the amount was \$164,426 – a startling increase of 185% over the course of just 43 years. The upward trend in government spending on education should, by and large, improve the quality of schools, since increases in funding would enable schools to build more facilities and attract better teachers by offering them higher salaries. However, such was not the outcome observed. Coulson's study also shows that while total public expenditure on education in the U.S. has risen considerably between 1970 and 2012, student performance on standardized examinations has remained relatively unchanged. In addition, international comparison of student performance in recent years, using results from cross-national tests such as the PISA and NAEP, shows how the U.S. has fallen behind other advanced industrial

countries such as Japan, South Korea and the United Kingdom whose annual expenditure per student is not as high (DeSilver; “Education Expenditures by Country”). Although it is true that test scores are not a comprehensive measurement of educational outcome for their tendency to imply more about students’ backgrounds than their schools, this fact does little to deny the relevance of test scores for such determination. If American schools are doing a good job at educating children, then the benefits from attending school should, to a certain extent, cancel out or compensate for disadvantages resulting from differences in students’ backgrounds. The fact that higher governmental expenditure on education fails to yield better academic performance from students calls attention to the host of issues that are being properly addressed by neither the current educational establishment nor the school system itself, issues that are far more deep-rooted than just a lack of funding.

The problems with the existing system stem primarily from how tax revenue is being used to fund education. Since public schools are directly funded by the government itself, they do not have to worry about losing funding should too few students decide to attend public schools. Student attendance, however, has rarely been a concern for public schools either. Firstly, this is because public schools admit students on a residential basis, so student attendance in public schools vary by geographic area and the population of their district, not by their quality and the number of students who wish to attend. Furthermore, the amount of taxes that every taxpayer must pay each year already covers the costs of public education, so in addition to less wealthy family who cannot afford any other education options, many families with sufficient financial ability see that part of their tax payment as a sunk cost and thus demur from the idea of having to pay twice the cost of education for an alternative schooling option. This kind of financial penalty has allowed public schools to enjoy a markedly higher attendance rate that contributes to their influential position in the national schooling system. Without the need to compete for additional clientele and protected from the threat of closure, public schools are not properly incentivized to improve the quality of the educational services they provide. This lack of incentive has caused overall educational standards in the U.S. to be lower than they could have been.

Given the significant neighborhood effects of education, any problem with the public school system can potentially translate into a problem for not only the education sector but other areas of society as well. As local governments primarily use property taxes as a direct source of tax revenue for local school districts, resources available per student vary considerably between public schools. In more affluent areas, tax support is high enough that public schools are able to not only cover their operational expenses but also attract more well-qualified teachers and offer other additional educational services that serve to enhance the learning of students. In poorer areas, however, the low availability of resources results in a number of disadvantages for students. Schools in these districts are unable to offer a wider range of course electives catering to students’ varying interests, or advanced programs that would allow students to further their academic pursuit. Many teachers at these schools may display less professionalism due to a lack of the promise of higher pay to motivate their effort to better their teaching ability. The facilities at these schools may be in poorer condition or fall short in number. Public schools in low-income and sparsely populated areas suffering from insufficient funding have no way to raise additional financial resources to support efforts at improving the quality of their services. Inequality of resources, therefore, results in inequality of educational opportunity. Furthermore, because admission to public schools is based on residency, already disadvantaged students living in

disadvantageous areas and attending disadvantageous schools would be less likely to be able to transcend their circumstances, and their children will more likely follow in their footsteps, creating a positive feedback loop that, unless otherwise broken by an especially talented or motivated individual in the family, continues to exacerbate class and racial inequality. The achievement gap that has arose from the current education system has been shown to contribute to losses in GDP (McKinsey and Company). Whether it is morals or economics, or both, that each sees as the appropriate incentive for restructuring the current education system, one thing is clear: the U.S. can do a lot better than it is right now in terms of social and economic progress if it can improve the quality and equity of its education system.

III. The Role of Elementary and Secondary Education

While education is a lifelong process, there is no denying that what we learn during the very initial stages of our lives will shape most of our thinking and form most of our cognitive biases. As we grow older, we can learn to overcome our instinct to subject to these biases, but they never truly go away. As such, the focus of our discussion in this paper will be on K-12 education. We should strive to organize our education system in a way that would enable us to instill in our children the values of good citizenship and leadership and teach them universal acceptance of identity differences early on. In addition, while there will always exist natural differences in ability levels, if we can at least ensure that all children are able to receive an education that is of relatively equal quality, then we would be able to minimize perpetuating achievement gaps, which in turn would encourage social mobility and, hopefully, encourage progress in reducing racial and social inequalities and wealth disparities. Since there is an extensive neighborhood effect associated with education, especially early education, improved quality and equity of schooling would contribute to motivating American national development. As the current system is barely making any substantial progress towards the educational goals discussed above, if we can improve upon it – whether by replacing it entirely, restructuring it or making modifications to it – and if improvements can be brought about by school choice or educational vouchers, or even just some components of these models, then we should take the chance instead of accepting the status quo.

IV. Friedman's Voucher Plan

The problem that is causing the declining quality of American education, according to Friedman, is the expansion of the role of government in the administration of schools. After the Great Depression, there was a gradual shift, among the people, to the faith in the virtue and ability of government in reforming American schools. Statistics have shown that as the share of federal funding of public schools rose steadily over the past decades, governmental involvement in education administration has also grown gradually. The expansion of governmental involvement in both the financing and administration of schools gives public schools significant advantages over other types of academic institutions and much greater control over educational decisions than parents and students. Public schools lack the incentive to secure their funding, their attendance rate and their decision-making ability, which has caused their performance to stagnate into mediocrity and contribute to the lower overall quality of the American education system.

Friedman's proposal to solving the problem of lacking incentive is to introduce competition into the education sector, which can be accomplished by the issuance of educational

vouchers. In Friedman’s voucher system, each voucher will be designated a certain sum of money and can be redeemed for covering the cost of any form of schooling of the parents’ choice – be it public, private, online learning or homeschooling. Public schools would charge tuition instead of having the prepaid price tag, and open enrollment law would be adopted so that parents with a preference for governmentally affiliated institutions can choose the public school their children will attend instead of being assigned one based on their residency. In order to avoid raising federal financial contribution to education and increasing the tax burden on taxpayers, the amount of each voucher would be a fixed dollar amount that is lower than the current cost per child attending public schools but large enough to cover all necessary costs of qualified schooling. Parents are welcome and even encouraged to add to the voucher amount they receive – a movement towards more direct parental financing, Friedman argues, would encourage a decline in the need for governmental subsidization of education as general income levels increase.

The first perceptible effect of the voucher plan is a gradual shift of power from educators and administrators to parents and students. In the current system, the only way that parents can voice their discontent is to file a complaint and rally together other parents who share their discontentment to have their voice heard, but even then, there is no guarantee that they will see changes occur. With the voucher system, parents can now exercise greater power as primary consumers. If they want to express their dissatisfaction with the education quality that their children are receiving, they can choose to send their children elsewhere. Eventually, schools that are doing a poor job would see a drop in attendance, and at one point where their attendance has fallen so low that they are unable to keep up with operational costs, these schools would be left with two choices: close down for good, or do something different to reattract more clientele. This ‘something different’ can be improving student performance by improving the quality of teachers and curriculum, specializing in a certain academic area, or attempting innovative school-related offerings. Over time, we should be able to observe an overall increase in American educational standards. In relative terms, there will always be schools that perform better than others – a hierarchy of schooling quality is unavoidable. However, in absolute terms, educational standards would increase, and there is no telling that variation in educational standards cannot be diminished.

V. *Political Economy of School Choice*

In its simplest form, the fundamental principle underlying Gintis’s school choice plan is essentially the same as Friedman’s voucher program: the government pays; parents choose; schools compete; quality improves; everyone benefits.

Friedman, however, was a strong proponent of the power of the “invisible hand.” As such, he believed that free markets are essential for solving the problems of efficiency that the U.S. faces and was highly critical of governmental intervention in social and economic life. For Friedman, the government should take action only when the security of the country and its people is threatened, and immediate action is absolutely imperative; otherwise, when the situation does not call for it, the government should refrain from direct involvement and allow market mechanisms to drive society towards efficiency and socially desirable ends. Gintis, despite his acknowledgement that market mechanisms can and have produced social outcomes that are both efficient and desirable, is not as approving of leaving the functioning of society largely to the volatility of free markets. Gintis’s system of school choice is one in which

government regulation and market mechanisms are complementary instruments for improving schools' performance, where goals are set through political processes and then enacted by the market under state regulations that aim at preventing market failures. The “‘regulated competitive delivery’ of educational services,” as he calls it, would have the fundamental characteristics he outlines as follows:

Choice: parents/guardians choose the schools their children will attend;

Competitive delivery: private firms, public institutions, associations of teachers and local community groups are entitled to offer such educational services;

Public funding: accredited schools are financed from public funds at a fixed rate per eligible student per year, the amount being adjusted for such educationally relevant characteristics as grade level and special learning needs, as well as such economic factors as the local price level;

Accreditation: schools receiving public funds must meet acceptable standards concerning physical plant, staffing, curriculum, admissions and financing;

Accountability: quantitative measures of the performance of participating schools are maintained and disseminated to the public. (*Political Economy of School Choice*)

The first two components of Gintis's plan – choice and competitive delivery – correspond entirely with Friedman's two major emphases for his voucher proposal. Gintis's divergence from Friedman's position gradually becomes more evident in the remaining three foundational components of his school choice program, especially with respect to the funding of education: whereas Friedman advocates for an unrestricted voucher plan, Gintis prefers a restricted one. The education sector, Gintis argues, is one of those areas of the economy where governmental interference is beneficial and necessary; without sufficient government regulation, an unregulated system of school choice would be subjected to market failures and engender further inequality and segregation as everyone elects to follow their best possible choice.

With regard to public funding, Gintis does not state any explicit approval or opposition to indirect funding of schools through the use of vouchers by parents and students, though he appears to be more in favor of direct government funding of all schools that meet accreditation requirements. In Gintis's system, the amount of financial support granted to accredited schools will be at an annual fixed rate per qualifying student, with corrections for variations in “‘educationally relevant characteristics” and local economic circumstances. Since Gintis is against unrestricted vouchers, if educational vouchers are employed, accredited schools receiving vouchers must then be prohibited from supplementing their own financing with additional tuition charges so as to prevent the kind of resource inequality present in the current system. Gintis's reasoning behind this restriction is that if private supplements are allowed, then political pressures to lower federal educational expenditure would cause resource inequality to reoccur, since wealthier families would most likely choose to make supplemental payments while poorer families without the financial means would have no choice but to accept the value of education that their vouchers can afford them.

On accreditation, Gintis's position is more flexible. Gintis sees accreditation requirements in the same light as Friedman did – a double-edged knife: stricter requirements would provide parents with better knowledge of school quality and greater assurance of

relatively equal educational opportunity, but they would also impose conformity and reduce the range of schooling choices available to parents, increase administrative overhead costs and result in greater leeway for political corruption in the standard-setting process. How accreditation requirements are to be framed, and what requirements are to be instituted, would therefore depend on the goals intended for the education system. The federal government would be charged with the responsibility of identifying and implementing these standards as well as deciding how strict these standards should be. The final component of Gintis's program – accountability – is more of a supporting device for ensuring that parents are able to make the most informed choices possible by requiring the development and standardization of measurements of school performance and making this information available to the public.

In summary, with Gintis's regulated system of school choice, society's goals will be set through political channels, and the market is to aid in carrying out these goals.

VI. Practicality of Implementation

While the notions of school choice and educational vouchers have gained considerable support in the past decades, their actual implementation has been met with equally significant opposition. One objection to school choice that has stirred considerable controversy concerns the introduction of competition into the education sector and the expansion of parents' freedom to choose. Many opponents of school choice agree that because market economies have a tendency to produce disparity in income distribution, regulated competitive delivery and vouchers – with their employment of market competition as an instrument for improving schooling standards – would result in a similar disparity in the quality of educational services. In addition, school choice can induce further racial segregation rather than integration due to the influence of persisting biases against people of colors on admission policies, teacher treatment and peer interactions in school settings. Many parents have voiced their concerns about the physical and emotional safety of their children in modern schools, and these concerns have served as incentives for families of similar backgrounds to send their children to schools where they are not the minority to avoid being discriminated against.

This issue was recognized and addressed by Friedman, but his explanation was not entirely satisfactory. He reasons, in his book *Free to Choose*, that common interest – whether reserved for a special field of study or coming from concerns for personal safety – would “overcome bias of color and lead to more integration than now occurs.” This integration, he asserts, would be “real” because it would be voluntary. Friedman's response to the racial issue of school choice is a purely hypothetical assumption, whose rationale we can understand but would not find to be adequate enough to justify relying primarily on market forces to drive the education sector. The possibilities of Friedman's hypothesis and of the scenario where similar interests would exacerbate segregation are equally likely. Should Friedman's hypothesis fail to materialize, the resulting worsened situation of segregation and inequality would be difficult and costly to remedy. A possible solution for this shortcoming in Friedman's proposal is Gintis's suggestion for governmental intervention in the form of a diversity accreditation requirement, a bonus or subsidy for schools with diverse student bodies, or a penalty for schools that are excessively homogenous (*Political Economy of School Choice*). By ensuring that schools across the country maintain relatively heterogenous student populations, the issue of racial segregation and cultural division would be ameliorated.

One of the obstacles to the implementation of Friedman's voucher plan would arguably be how radically different it is from the current education system, particularly the high extent of its reliance on unpredictable market mechanisms. With vouchers, public schools would still receive government funding, except instead of receiving this funding directly, public schools would be receiving them indirectly through parents and students, who are now intermediaries of governmental financial contribution to the education sector. Many educators and educational reformers are resistant to the idea of shifting the power of educational choices to parents because they believe that parents, especially low-income parents, are not as capable at making informed choices – a paternalistic attitude that Friedman has pointed out as being one of the causes as to why social class biases persist into the way it is today. Many parents are also concerned since the idea of subjecting so critical a service as education to competition implies to them a possibility of worsening inequality of opportunity. Some parents are uncomfortable with public education having a tuition price tag like private institutions instead of being supposedly “free”, and others are simply doubtful of whether a system of educational vouchers can bring about the changes it promises or not.

Although there are currently sixteen states that offer vouchers to students, the implementation of a nationwide voucher program is still a venture that is considered as exceedingly dramatic and risky. However, as previously discussed, while vouchers are undeniably an innovative idea whose application would likely carry great potential for inducing positive changes in the American education system, there also exist other alternatives that would appear less radical to the public and would thus be less controversial. Gintis's school choice model is broader since it does not explicitly require vouchers but rather offers guidelines for how competition can be injected into the education sector with as few risks as possible by using government intervention as insurance devices. As such, the regulated competitive delivery of educational services proposed by Gintis would likely be a more practical model for restructuring the American education system since it will be less radical and controversial in its approach, at least when compared to Friedman's voucher program. If Friedman's voucher program comes to be accepted, but the transition process proves to be too dramatic and abrupt, then Gintis's school choice model, or some of its components, can be used as a transitional step into using vouchers. The possibilities are endless, since neither proposal requires that they be implemented as a whole: by adopting some parts of one and some parts of another, we can use these two programs as guidelines for improving the current schooling system in the U.S.

VII. Conclusion

The fact that the issues concerning education are so multifaceted indicates that the goals for American schools must be multifaceted as well. The expected function of schools has expanded considerably over the past century: in addition to their original function of teaching children the three R's – reading, writing and arithmetic – and other core subjects such as history, arts and sciences, schools are now expected to act as instruments for facilitating social mobility and racial integration, building up students' cultural capital and strengthening social cohesion. The United States, with its diverse body of citizenry, can no longer expect to have its education system work the same way the education systems of other countries with more homogenous populations work. The American melting-pot culture necessitates a nationwide acceptance of a shared set of values that every citizen, regardless of race, gender, and religious beliefs, can agree upon as well as respectful acknowledgement of identity differences. Schooling, especially at the

elementary and secondary level, can aid significantly in achieving this, which makes reforming the current declining system of education in the U.S. all the more important.

There is no denying that Friedman's proposal of a system of educational vouchers and his defense of it has made a significant impact on the literature of American education reform policies – Gintis's school choice model, even with its divergences from Friedman's position, was very much inspired by the ideas suggested by the grandfather of school choice. Indeed, there exists impracticalities of application in Friedman's proposal, impracticalities that most likely arises from differences in time eras and the circumstances during which Friedman composed his proposal, but such impracticalities can be curtailed. The shortcomings in Friedman's voucher system can be made up for by some policy recommendations put forward by Gintis in *The Political Economy of School Choice*. Recalling the existing problems in the American schooling system and their effects on other areas of life in the U.S. – declining educational standards, falling student performance, reemerging racial segregation, worsening economic inequalities, weakening social cohesion – it is clear that changes need to be made. What is important here is the understanding that while neither system is perfect, and neither was proposed with the intention of creating instant miracles, the application of either models, or a combination of the two, or even simply some components of each, would be a better course of action than accepting the American education's status quo.

Works Cited

- Friedman, Milton, and Rose D. Friedman. *Free to Choose: A Personal Statement*. Paw Prints, 2008.
- Friedman, Milton, and Rose D. Friedman. *Capitalism and Freedom*. University of Chicago Press, 2012.
- Gintis, Herbert. "The Political Economy of School Choice." *Teachers College Record*, vol. 96, no. 3, 1995, pp. 492 – 511.
- "Vermont - Town Tuitioning Program." *EdChoice*, <www.edchoice.org/school-choice/programs/vermont-town-tuitioning-program/>.
- "Maine - Town Tuitioning Program." *EdChoice*, <www.edchoice.org/school-choice/programs/maine-town-tuitioning-program/>.
- Turner, Cory, et al. "Why America's Schools Have A Money Problem." *NPR*, NPR, 18 Apr. 2016, <www.npr.org/2016/04/18/474256366/why-americas-schools-have-a-money-problem/>.
- "Education Expenditures by Country." *The Condition of Education - Elementary and Secondary Education - Finance - Education Expenditures by Country - Indicator May (2017)*, NCES, May 2017, nces.ed.gov/programs/coe/indicator_cmd.asp.
- DeSilver, Drew. "U.S. Students' Academic Achievement Still Lags That of Their Peers in Many Other Countries." *Pew Research Center*, 15 Feb. 2017, <www.pewresearch.org/fact-tank/2017/02/15/u-s-students-internationally-math-science/>.
- "School Funding." *New America*, <www.newamerica.org/education-policy/policy-explainers/early-ed-prek-12/school-funding/>.
- "Federal Role in Education." *ED*, US Department of Education (ED), 25 May 2017, <www2.ed.gov/about/overview/fed/role.html?src=ln>.
- McKinsey and Company. "McKinsey Report: The Economic Impact of the Achievement Gap on America's Schools." *Social ROI Stories About Social Entrepreneurship*, <socialroi.com/mckinsey-report-the-economic-impact-of-the-achievement-gap-on-america%E2%80%99s-schools.html>.
- Cook, Lindsey. "U.S. Education: Still Separate and Unequal." *U.S. News & World Report*, U.S. News & World Report, 28 Jan. 2015, <www.usnews.com/news/blogs/damine/2015/01/28/us-education-still-separate-and-unequal>.
- Clarren, Rebecca. "How America Is Failing Native American Students." *The Nation*, 14 Aug. 2017, <www.thenation.com/article/left-behind/>.
- Balingit, Moriah. "Private School Enrollment Contributes to School Segregation, Study Finds." *The Washington Post*, WP Company, 24 Nov. 2017, <www.washingtonpost.com/local/education/private-school-enrollment-contributes-to>.

[school-segregation-study-finds/2017/11/24/b34aa654-d142-11e7-81bc-c55a220c8cbe_story.html](https://www.washingtonpost.com/school-segregation-study-finds/2017/11/24/b34aa654-d142-11e7-81bc-c55a220c8cbe_story.html)>.