INTRODUCTION

Creating a Competitive Education Industry

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This special issue of the *Cato Journal* explores the nature of a competitive education industry (CEI) by examining the key ingredients of and minimal requirements for a true education market. Most of the articles were first presented at the Cato Institute's conference on "Creating a True Marketplace in Education" held in Washington in September 2004. The articles are intended to serve as a starting point for an increasingly informed discussion of the CEI concept. We also want to highlight the differences between a CEI and the traditional school system governance and funding processes that prevail—and disappoint—virtually everywhere.

In our article, we describe the CEI concept and the reasons for devoting more attention to studying it. Understanding the critical elements of a competitive education market is essential. Unless we know what the key ingredients are, we cannot design policies or programs that will lead to establishing such a system. In our article, we point out eight critical ingredients for a CEI and describe why each ingredient must be present for a true CEI to emerge.

Australian economist *Mark Harrison* looks at the problems with government provision of education in general. The major problems he points to are the lack of normal market incentives, the lack of innovation, and the inability to encourage good teaching. Also, because the unsatisfactory performance of the government school

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system affects those from impoverished backgrounds the most, government provision of schooling has the unintended consequence of harming the poor. Harrison then describes how a market approach would solve each of these problems.

John Wenders shows how U.S. public schools today operate much like the U.S. airline industry did before the 1980s, when the now-defunct Civil Aeronautics Board exercised monopoly power over most aspects of airline operations. As in the pre-CAB airline industry, the results of this regulated monopoly are waste, rent dissipation, entrenched parasitic constituencies, and organizational sclerosis, making public schools impervious to change. Consumers, faced with a monopoly, cannot escape by voting with their feet. Thus, producers cater to political pressures, not to consumers. By comparing U.S. public and private school costs, Wenders identifies the primary sources, and causes, of waste in the public system. Wenders calculates the amount of waste to be nearly $160 billion annually, about 1.58 percent of U.S. gross domestic product, or about $560 per capita for the year 2000.

Myron Lieberman compares the educational research produced by the current system with research produced by some large industries driven by free enterprise. He explains how government support has politicized research, and that there are few incentives for teachers to utilize best practices. For this reason, research on more effective or efficient educational methods has had little impact on schools. Lieberman contrasts this situation with how research is utilized in competitive industries. His analysis suggests that a competitive education industry would prompt the diligent pursuit and rapid adoption of effective education practices.

Charter schools, which often operate under heavy regulation and in close contact with the status quo, are generally viewed as lacking most of the needed competitive features for a CEI. Yet *Lisa Snell* shows that, to date, charter schools have generated the most growth in the crucial for-profit education sector and substantial growth in brand name nonprofit schools. Because charter options tend to have more political support than reforms like vouchers and tax credits, Snell argues for a course of action that involves increasing competition for charter school authorizers, abolishing caps on the number of charter schools, and legalizing for-profit charter schools in states where they are currently prohibited. Such a course can push education reform in a more market-oriented direction.

Why are American universities viewed as among the best in the world while American K-12 public schools are considered to be, at best, fairly mediocre relative to their overseas counterparts? *Richard Vedder* examines American higher education and outlines what K-12 reformers should learn from the nation's universities. As Vedder points out, the U.S. higher education environment is far more competitive and market based than is K-12 education. Colleges can charge tuition, are free to specialize, and have a high level of independence. Due to constant rising trends in tuition costs, for-profit universities have become increasingly affordable relative to state and not-for-profit private colleges. Based on these observations, Vedder suggests that a first step toward the adoption of some of the better features of higher education would be for states to allow local school districts to charge tuition, perhaps at first to fund activities beyond basic learning requirements. Over time, the system might evolve into something resembling the current funding model for higher education, with most students paying a good portion of the cost of their education. As at the university level, states might provide scholarship aid (or tuition discounting) for lower income students. In such an environment, for-profit elementary and secondary schools could begin to compete with public schools and nonprofit private schools. Vedder examines the arguments against such an approach and finds no compelling reason why customers shouldn't pay some of the bills themselves for K-12 education. Doing so may be the key to reversing the decline in productivity of American public education in recent decades.

The last quarter-century has seen many countries, with varying degrees of success, attempt to shift from wealth-destroying state-controlled economic policies to more market-oriented ones. Elements of such a shift often include privatizing state-owned companies, cutting government spending, and restoring market pricing. Some of these reforms are directly applicable to education reform. *Evan Osborne* explores the similarities between education reform and economic reform and proposes that the rent-seeking model of economic policy is a useful way to view K-12 education. When applied to the problem of education, this model reveals several clear paths toward improved educational performance: decentralize choice, localize funding, foster jurisdictional competition, and avoid the temptation for piecemeal reform. Allowing parents to finance their own children or subsidizing schooling in whatever format parents choose would move us quickly down these paths and alleviate education from the rent-seeking problems that currently cripple it.

John Merrifield looks at competitive education markets by addressing the benefits of specialization by schools. In almost any enterprise, competition tends to force producers to specialize, yet discussions of parental choice almost universally ignore the major catalytic role that specialization would have in a competitive K-12 education industry.

The academic literature and the school reform debate is much the worse for its inattention to the importance of specialization in a productive and innovative education industry. Merrifield's article seeks to explain why so little specialization exists in today's schools and what the role of specialization would be in a competitive education industry.

Andrew Coulson proposes a metric that allows us to assess the degree to which the key elements of a CEI are present or absent in school choice programs and proposals. Based on knowledge of market factors and precedents in other countries, Coulson's metric allows us to predict the size and quality of the education marketplace that is likely to be created by a given education policy proposal. The metric takes the legal and regulatory conditions surrounding the program as input data and uses them to produce a numeric score from zero to 100, and also rates several subcomponents that reveal both the strong and weak points of the proposal. Coulson's Market Reform Metric (MRM) is intended to sensitize school reformers and policymakers to the importance of key market ingredients. In this way, the MRM can become a useful tool for constructing future school choice legislation or improving current programs.

These nine articles only begin to address the many issues surrounding a transition from schooling as a government operated monopoly to schooling as a competitive education industry. There are many more issues to be addressed. We offer these articles only as stimulus for a continued discussion and invite professional researchers, practitioners, and policy experts to join in the dialogue and begin a process of describing and defining a CEI.