

Auckland Rotary Club

Education, Teacher Unions And Competition

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I have been working with the New Zealand Business Roundtable since January to evaluate the sections of the Employment Contracts Act 1991 which impose mandatory unjustifiable dismissal restrictions on all employment contracts. The topic of today's talk is related to the Employment Contracts Act 1991, but it focuses on the problems of unionism in education. I have entitled this talk 'Education, Teacher Unions and Competition'.

New Zealand has come a long way since 1984 in its deregulatory activities. You started with financial markets and product markets, and finally in 1991 you went to labour markets. The United States is way behind New Zealand now, especially in the labour market area. However, there is one market in which New Zealand is still as badly off as the United States, maybe even a little worse off, and that is the education market.

The reason why we have education failure, in particular government-based education failure, in the United States, and I suspect in New Zealand too, is that schooling is a government monopoly in both countries. This is especially the case with primary and secondary education in the United States. Tertiary education in the United States is more competitive, and it is tertiary education in the United States that everybody looks up to and considers to be a model for the rest of the world. But if you look at the performance of our elementary and secondary level students in international comparisons of standard testing, you find the United States way down at the bottom.

The reason the public school monopoly exists is pretty well understood, and I suspect it is the same here as it is in the United States. Parents who want to send their children to non-government schools have to pay twice. They have to pay government school tuition in the form of taxes, and on top of that they have to pay whatever the private school charges. For many people, maybe even most people, that double tuition is out of reach. So that creates an effective public school monopoly.

Monopolies don't have to worry about losing their market shares, especially monopolies that are protected by government regulation like the public school monopoly. Since they don't have to worry about losing their market shares, they are less concerned with consumer satisfaction than private firms in open markets.

Let me pose a few questions so you can see the contrast between the private market and the public market. Why do private retail stores stay open evenings and weekends, but government offices do not? Why do Sylvan Learning Centres, which is a private enterprise, entrepreneurial remedial education programme in the United States, succeed at teaching kids on whom the government schools have given up, how to read and write and calculate? Why have the ABCs in government monopoly schools become **A**sbestos removal, **B**usiness bashing, and **C**ondom distribution? The answer to all of these questions is the same. Government monopoly providers can safely pursue their own interests rather than the interests of their customers and clients.

This does not mean that government monopoly providers are somehow evil people - worse people than private competitors. People in the government sector are exactly the same as people in the private sector. They are the same as all of us. They are self-interested. The point is that in open competitive markets the only way to serve your

own interest is to serve the interest of others. You have to get people to do business with you if you are going to prosper.

Self-interest is a fact of life; it is a part of human nature. The trick is to harness self-interest, to tame it, to direct it, so that it does more good than harm. As Adam Smith taught us two centuries ago in his *The Wealth of Nations*, the private property voluntary exchange economic system is one which includes a set of institutional rules which channel self-interest toward the interest of others. The key aspect of a market economy is voluntary exchange and mutual consent. The only way that you can prosper in such an environment is if you are serving the interests of others.

Now there is no question that, at least since the 1960s, government education monopolies have produced educational failure. The chart on page 257 is from *Forbes* magazine of June 7, 1993. The top green line shows the scholastic aptitude test math scores starting at 493 in 1950 and coming down to 476 in 1992. The lower line shows the SAT verbal score, starting at 470 in 1950 and ending up at 423 in 1992. That is just one indication of the massive extent of failure in the public schools - failure to teach elementary reading, writing, calculating, thinking and so on.

To substantiate my hypothesis that teacher unions are one of the primary forces responsible for public school failure, look at the red line in the *Forbes* chart. That line shows the rate of unionisation of teachers since 1962. Look at how it shoots up like a rocket at the same time that the SAT scores are diving like a submarine.

Now, correlation does not imply causation. But a friend of mine, Michael Kurth, in the *Journal of Labor Research*, Fall 1987, did a multiple regression analysis study, which is a statistical technique for separating out all of the various possible influences that could be at work. After he had controlled for all the other variables that could be involved in such a correlation, he found that there was indeed a strong and statistically significant negative relationship between teacher unionisation and educational results as measured by standard testing.

American businesses spend \$25 billion every year on remedial training of new employees. The American Management Association basic skills test given to job applicants coming out of secondary school has a failure rate of almost 40 percent. Around 72 percent of Americans give government schools either a C, D, or F in terms of their own perceptions about what the schools are doing.

Now, the teacher unions will tell you the reason why the public schools aren't doing well is because they don't have enough money. The solution to every problem, according to the teacher unions, is more money. But I invite you to look at the yellow line in the *Forbes* chart. In 1945 average spending per pupil in the United States, in 1992 dollars, was \$974. In 1992 it was \$5216. Look at the difference between the yellow line which is showing spending per pupil and the green lines which are showing the results. The problem isn't money.

Eric Hanusheck, who is a researcher in education matters, wrote a paper in 1989 in which he surveyed 187 empirical studies, done by others, of the relationship between spending and education outcomes. He concluded there is no connection. If anything there is a small negative correlation - the more spending the worse the outcomes.

Why? Albert Shanker, President of the American Federation of Teachers, put his finger on the problem in *The Wall Street Journal* of October 2, 1989. In his words:

It is time to admit that public education operates like a planned economy. A bureaucratic system in which everybody's role is spelled out in advance and there are few incentives for innovation and productivity. It is no surprise that our school system doesn't improve; it more resembles the communist economy than our own market economy.

Imagine that: the president of the second largest teacher union in the United States admits that the public school system more resembles a communist economy than a market economy.

The solution, of course, which Shanker refuses to acknowledge, is to open up the education market to the wholesome effects of competition. In other words, tear down the government school monopoly. What is the purpose of spending tax money on education? It is to teach kids what they are supposed to know, what they are going to need to know in order to live independent, productive and happy lives. There is nothing in that purpose that says it has to be done in government-owned, government-run, Soviet-style schools. It can just as easily, and much more effectively, be done in private schools. You have to separate the question of how do you pay for education from the other question: how do you provide it? Currently we have the government paying for it and we have the government providing it. But the government is a monopoly provider so it is not performing. We could still have the government paying for education in the form of tax credits, or vouchers, or scholarships - i.e. taxpayers could give families the resources they need to pay tuition at private schools.

On the provision side, we could have open competition. Let those schools that cannot attract students face the consequences and be taken over or close down. Let those teachers who are not performing go out and find honest work. That is how competition works, and it is only that hard discipline that is going to be effective in coping with the problem of education failure.

If we opened up the education market to competition through allowing the provision of education to be separate from its financing, we could have more and better education at less than half the cost. In the 1994/95 academic year, the average private school cost per student in the United States, K through 12, was \$3,116. In government schools the average per pupil cost was \$6,857. The private school figure is corrected for the fact that some religious schools subsidise tuition through general parish resources.

The only way to put private schools in reach of the general public is to grant tax-funded scholarships. Milton Friedman, of course, used the word 'vouchers' in 1962. Then, at least in the United States, the word 'vouchers' came to be a dirty word because of teacher union propaganda. So I recommend we use the word 'scholarships'.

At the end of World War II when American servicemen came home, they were given money to go to colleges and universities of their choice. The programme was called the GI Bill. Some of them took it to Notre Dame, a Catholic university. Nobody raised

the issue of separation of church and state then, when it was at the college level, but now when you suggest that a parent should be given a voucher out of tax funds and be allowed to select Notre Dame High School, all of a sudden that is a violation of the US Constitution.

Now, you don't have the problem of the constitutional separation of church and state in New Zealand. The point, however, is that in a voucher plan government subsidies do not go to religious organisations; they go to families, and families select schools based upon performance.

However, I have to admit there is one big problem with this scholarship idea, whether it is done directly or through tax credits. At least in the United States, and I strongly suspect it is true here in New Zealand as well, whenever there is government money, government control will not be far behind. That is a huge problem. The risk is that we start a voucher programme and parents select whatever schools they value most highly, and then some department of education bureaucrat in Washington DC, who doesn't have anything better to do, cooks up a whole bunch of regulations which all voucher- or scholarship-recipient schools must adhere to. I think there is a real danger that a government scholarship plan would spread the tentacles of government into the private education market, even though such schemes are intended to do the opposite.

We coped, or tried to cope with that danger in 1994 in California. We had a proposed referendum initiative that would have allowed parents to pick schools using government scholarships. The big objection that many people raised, especially people who were considered conservatives and supporters of the free market, was this likelihood of government encroachment. In response, the authors of the initiative added a provision that said the government could not impose any new regulations on any voucher-recipient schools beyond the date of the passage of the initiative. You know what happened? That clause in the initiative was a principal reason why the initiative lost.

Most people in the state of California, like, perhaps, most people in New Zealand, are addicted to government regulation. They have lost faith and confidence in private enterprise and individual initiative and entrepreneurship. They think there must be regulations to make things work. The teacher unions were very effective in exploiting that clause in the initiative, and, in the event, the initiative was lost. But the battle is not over.

In conclusion, what have the three Rs become in US government schools? Without too much hyperbole I suggest the agenda has become **R**ecycling, **R**eproduction, and **R**acism. If we want to return the focus to the three Rs that most of us grew up with - Reading, Writing, and Arithmetic - if we want to get back to the fundamentals, there is only one way to do it. We have to tear down the government school monopoly and the parasitic teacher unions that depend upon it.

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