Privatization and Educational Equity:
Can Markets Create a Just School System?

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The Market Argument

For a decade or more, Americans have been exposed to an argument about educational change and improvement that has as its core concept the deregulation of public education. Essentially, market advocates claim that educational bureaucrats, intent on preserving their monopoly, have blocked educational reform by refusing to place schools in competition with each other for students and hence resources. In effect, the government is engaging in restraint of trade by supporting the existing public school system and not supporting families directly through vouchers or other direct payment schemes. The potential of this demand-side educational experiment and innovation is thus diminished, causing student achievement to remain suppressed. Market advocates argue vociferously that poor students, in particular, are unjustly punished by the present state system, which due to residential segregation, discrimination and unequal resources make the concept of equal educational opportunity, an empty, if not hypocritical, political promise.

Market advocates seldom call for complete deregulation, rather they advance a theory of quasi-markets which blends state regulation with entrepreneurship. This theory of social and educational change, however, has at its core the enduring belief that the preferences shown by rational choosers results in greater and better opportunities than state mandated and managed change. The cumulative effect of thousands of individual choices amounts to a collective decision that holds providers accountable and therefore more responsible and responsive. For the market advocates, schools and education are governed by the same economic laws of supply and demand as the commodities market. Good products drive out bad and the public will not tolerate waste if it holds the purse strings directly.

I have been skeptical of the market argument for some time. I perceive wholesale educational privatization as a threat to community responsibility and democratic accountability. I believe that public education is a political, cultural and educational space that, if properly cultivated, will become an oasis for the development of civil society and democracy. Yet, I must confess I have not tackled directly the main thrust of the market argument, which maintains that markets and social justice are inexorably intertwined because freedom of choice is the defining freedom of democracy. No choice, no freedom. Moreover, markets cannot help but produce greater equity because the desire for social and personal gain motivates all to acquire more skill and status. The very competitiveness of markets produces a democracy of strivers, if you will. The spoiler is politics, which distorts market operations by injecting into the choice process state power, personal ambition and graft.

There is much of interest in these arguments. Do social markets operate in similar ways to commodities markets? Are families and children rational choosers? Who will actually

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start and maintain the new demand-side schools? How will they be held accountable? Do we need a unifying educational institution in a democracy? What are the real costs of deregulation? In this essay, however, I confine myself to one question--what evidence is there that markets distribute goods and services in an equitable manner? Obviously, if markets create unjust distribution systems then we should be very skeptical about applying market strategies to school improvement. If markets do spread wealth equitably by merit and/or need then we should acknowledge that privatizing public education might result in better schools for more children. After all, market advocates argue "give us a chance," some might say to them "show us where you have succeeded in creating greater social opportunities?" Market advocates believe that human capital improves with investment and we--human capitalists--will rationally choose educational opportunities that are market sensitive and that reward us with increased income. Several questions come to mind: Are educational skills related to income? To what degree do educational skills and credentials level the economic and social playing fields? Have markets provided more skilled workers or fewer? How many top income positions are there anyway? Is the economy endlessly expandable? What evidence is there that markets distribute wealth according to merit and/or need? In short, do markets work the way their advocates claim, or are markets really engines for producing goods without reference to the commonweal or even the common need?

The Monopoly Structure of Markets

The American economist John Kenneth Galbraith (1998) in his most recent work on economic history and social policy has written that:

Half or more of American households accumulate nothing; the lower middle class and below live month to month. For the majority of the remainder, accumulation takes the form of a house and a mandatory retirement plan, nether of which they control. The bottom 80 percent of American households controlled just 6 percent of total financial wealth in 1989; the top 20 percent controlled 94 percent, and the top 1 percent controlled nearly half (p. 187).

Advocates of educational privatization promote a theory of laissez-faire capitalism based on competition, choice and individual accountability. In a somewhat unsophisticated reading of Adam Smith and his more fundamentalist epigoni, privatizers argue that consumers make judgments about goods and services, which, because choices are rational and utilitarian, have the effect of separating winners from losers. This simple belief in choice assumes a neutral, competitive market that is absent politics, power and privilege. Even in its more moderate form (i.e., the state has some role to play in the economy), the theory of rational choice presupposes a social world free of cultural constraint, ideological distortion, and organized self-interest.

The first thing to note about this theory of choice and markets is that it is oddly theoretical and abstract. It is in many ways an intellectual castle in the sky, floating above the grit and struggle of real people who walk the earth in a ceaseless struggle to survive. As such, it is more akin to a faith, than a testable hypothesis. Like the flat earth theory, simple primitive market theory assumes a world that can appear in theory to be correct, but may crumble when confronted by fact. The flat earth theory was disproved by sailing over the horizon; the power of markets to create a just distribution of real and

symbolic resources is also testable. So let's sail over the horizon!

As Galbraith's above quotation demonstrates, the distribution of income in the United States is highly--even extraordinarily--uneven. Most of this income and wealth inequality is accounted for by families' locations in the economy. Those families in the bottom rung of the service sector have little hope of sharing in the expanding market because the threat of unemployment keeps them disorganized and desperate. Families in the stable skilled sector of society are often protected by unions or job tenure because their skills are in demand. These skills cannot be easily found outside certain employment cachement areas. But these skilled workers have little access to income outside their wages and wages are not necessarily pegged to profits. As we will see, profits are contingent on wage suppression. Finally, the managerial class, which includes many entrepreneurs and high level "symbolic analysts," is able to create and manage wealth. The upper level of the management class is able to create markets and use wage transfers in the form of tax relief opportunities to create equity through early investment, growth and the public sales of businesses. These investment strategies provide dramatic opportunities to create wealth, with little relationship to need or labor.

This three-tiered economy is supported not by competition, but by monopoly. One of the ironies of school reform is that opponents of public education refer repeatedly to public education as a "monopoly." This accusation is empirically false (i.e., high decentralization and support for private education) but also naive and perhaps disingenuous. Capital markets inherently produce firms, which, in an effort to maximize profits, attempt to destroy, swallow or join competing firms. Market share is the key to profitability, witness Microsoft's corporate style. Historically, large companies could defeat competing companies by colluding to fix prices and generally to exclude outside competition through such restrain of trade tactics as giveaways and threats to retailers; witness Microsoft's economic war on Internet competitors. Control, not competition, is the key to profits. The government attempts, from time to time, to enter into the market equation a degree of competition through anti-trust litigation, but the structure of interlocking monopolies remains intact. There are four major consequences to this monopoly structure: (1) concentration of wealth; (2) speculation in public offerings often bordering on "wild capitalism"; (3) unstable economic performance; and, (4) the suppression of wages. We have already seen the evidence of the concentration of wealth. Let's examine briefly the remaining three consequences.

Wild capitalism

The recent surges in the stock market have led some analysts to claim that we are entering a new era of general affluence. Moreover, with the collapse of Soviet style socialism and the explosion of computer technology in the marketplace, an argument is made that worldwide capitalism is creating a new world order based on mass consumption. Whether a stable world economy can be based on speculation remains to be seen. But given what we know about the distribution of opportunities in the core capitalist countries it seems speculative at best to predict a general elevation of income on a global basis. In fact, there is now an exploitative element to this new global economy whereby poverty-stricken children in "underdeveloped" countries produce cheap goods for sale in "developed" countries, producing for the manufacturers considerable profit, which in turn stimulates stock market speculation.

Unstable economic performance

From roughly 1960-1970, there were no economic depressions or recessions; from 1970 to the present day there have been five. The consequences of these downturns have been concentrated unemployment in certain urban and rural areas and chronic unemployment for males with a high school education or less, particularly African-American males. Moreover, debt has been a major source for financing the American lifestyle, particularly for those in the middle income range (Galbraith, 1998). This debt increase, of course, fuels the economy in the short run by providing large amounts of capital to those who finance credit cards, home mortgages and loans.

Industrial performance from 1958-1992 has not been smooth. Of course, the computer business has grown enormously, as has aircraft, communication systems and medical services and supplies. Traditional goods such as steel and heavy equipment, oil, homes, food, clothing and other low-tech consumer goods have not experienced the exponential growth of the computer industry. The current growth cycle of the market is fueled almost exclusively by the new technology. In short, the current enthusiasm for the power of markets to wash away history and deprivation masks a very uneven and even fragile economy that would essentially show a flat growth rate if it were not for the expansion of the computer industry.

The suppression of wages

Some have suggested that a rising tide lifts all boats. In its very simplicity this analogy reveals the common belief that increased prosperity is shared by all. It is a comfortable belief because: (a) it associates economic laws with natural laws; (b) it suggests that yachts and dinghies share the same harbor; and, (c) what's good for the yacht is good for the dinghy. None of these assumptions is true. Economics is not governed by the laws of the universe, but by social relations that are subject to negotiation and change. Yachts and dinghies may share the same water, but it is the yachts that draw deeper and take pride of place and last, a rising tide may lift the dinghy a little, but only to ride the surface; the yacht's hull displaces more water and can stabilize even in bad weather.

We have already seen that the wealth of the country is concentrated in a few hands. Hacker (1997) provides the following data in terms of the twenty-year percentage increases in the average income for each of the quartiles and also for the top five percent:

Richest 5 percent	+54.1 percent
Top 20 percent	+35.4 percent
Second 20 percent	+13.0 percent
Middle 20 percent	+6.7 percent
Fourth 20 percent	+4.4 percent
Bottom 20 percent	+1.5 percent

Table 1

It is manifestly false that all Americans share equally or proportionally in increased national wealth. Galbraith (1998) argues persuasively that the inequality in family incomes has risen dramatically since 1970. And this inequality continues to grow. In fact, the gap between the rich and the poor in the United States is the widest of any OECD

country. Moreover, job creation, a much touted accomplishment of current and past administrations, has remained lackluster throughout the 1990s, just over two percent a year, Galbraith (1998). Progress in unemployment has been moderate at best, and, of course, employment for many millions means a minimum wage with no or little hope of advancement. This is not to mention the many men, women, and children who work in the twilight economy of migrant labor, off-the-books servitude, and organized crime. Real wages, the average wage adjusted for inflation, has risen far more slowly than the level of production. Real wages have stagnated requiring families to have two wage earners to keep up with the rate of inflation. The suppression of wages is compounded by the fact that much of the United States' productive capacity has been relocated to poor countries, whose wage suppression borders on the criminal. In the end, it is clear that in terms of creating greater economic equality, the market has not succeeded.

This brings us full circle to our original question--do markets distribute goods and services equitably? Clearly not. But let's press the argument further in reference to educational improvement. Supposing our hypothetical market advocate counters as follows: the purpose of privatizing education is not to spread education more equally, but to provide greater opportunities for skill development. That is, the democratic function of schooling is to provide a rich array of educational opportunities so that anybody, through discipline and application, can succeed. The present state-controlled education monopoly limits opportunities by regulation and collusion with the professional unions.

This argument rests on two conjectures: (1) there is room at the top; and (2) skills are the royal road to the top. These two conjectures are at the heart of the human capital argument. The way to advance the economy and therefore, the society, is to invest in children (and adults) so that they can participate in the global information society. This argument has broad appeal. Conservatives endorse it because it thrusts the responsibility for inequality back to the individual, freeing the broader society from the obligations involved in creating a more just society. Liberals are attracted to human capital theory because it offers a way out of the class structure bind without revolution. Mobility through skills and the appeal of a mild form of social engineering is, for liberals, the royal road to a more just society. Certainly, almost the entire school improvement movement is built on this assumption. Better education (higher standards?) leads to a better economy, which in turn makes democracy possible, or at least plausible. Questions of genuine democracy versus cosmic democracy remain for further discussion.

Before beginning this analysis, it may be useful to pause and reflect on two research traditions that have all but been forgotten in the school improvement literature. Almost thirty years ago, Randall Collins conducted an experiment in which he asked employers why they preferred to hire college graduates over non-college graduates (1972). He discovered that nearly all the employers saw the college credential as a proxy for certain social/political skills needed on the job. What the applicant knew was of little or no importance. In other words, in the credential game, it is not the quality of education that is sought after by important gatekeepers but a pedigree that testifies to an applicant's social capabilities.

These findings are not isolated or idiosyncratic; they are consistent. So much so that sociologists such as John Meyer (1970) have argued that schools possess a social charter that signals to the world, and to significant gatekeepers, the entitlements the graduates of a particular school can expect--graduates of West Point are expected to become military officers; Harvard graduates expect to be interviewed for important jobs. Of course, this line of thinking is completely in keeping with our everyday experience. The social selectivity of a school or college has everything to do with who is admitted and the educational and social options open to the schools' graduates.

The second line of research that ought to give human capital theorists pause is the most plausible explanation for the historic expansion of state sponsored education. Was it demand for skilled workers or was it some other cause? While the growth of any institution as complex as public education cannot be reasonably expected to have its origins in a single cause, one "expansion" hypothesis is that nation-states invested in public education largely as a matter of state building. There is little evidence that "skill building" was considered worth the expense and effort required to construct such a complex system. States require soldiers, workers and citizens. Loyalty to the state was, and remains, the sine qua non of successful nationhood in an era of competing nations. The history of the twentieth century could be read as the enduring and fierce competition among states for economic resources and economic markets.

Human capitalists take a rather non-historical and microeconomic view of the origins and purposes of public education. The methodological individualism, at the root of human capital theory treats the individual as a solitary unit of analysis, measurable in quantitative terms. The sum total of what we need to know about an individual is the amount of variance explained by such factors as IQ, race, schooling and, for the very bold, family background. But as we have seen, we are not a society of individuals, we are a society of groups, groups whose very definition is determined by their relationship to the production side of the economy. A worker is a worker is worker as long as he or she has little or no control of the means of production and is paid a fixed wage. No amount of skill enhancement can change that status, although more skills might entitle an individual to marginally more monthly income.

Returning to the original argument we ought to ask how much room is there at the top anyway? As we have seen, job creation is rather sluggish, which means that new positions are rather scarce, especially at the top. Galbraith (1998) expresses this with some useful imagery. First, he argues that the wage structure is about relations between and within economic groups. This means that these relationships are fairly stable and only subject to change according to significant social, political and economic forces. He likens the wage structure to a skyscraper:

> a few people--chief executive officers of large corporations and banks, top professionals, athletic and film superstars--occupy penthouses on the top floor. Middle management, ordinary professionals, and the best of the small businessmen fill up the floors below them. Next come the workers, each taking a position in line with their relative pay. And in the basement (fitting for this metaphor) we find the underclass--the unemployed, the disabled, the chronically ill, and the unfit (p. 55).

The key to this metaphor is that while race, class and gender discrimination play a role in determining who is on each of these floors, discrimination does not determine the height of the building or the number of places on each floor. Expansion might be marginally possible--real life is not totally a sum-zero game--but also according to real life, there is little room at the top.

The supply of educated individuals does not create more spaces on the top floors. As education increases, credentials get more specialized so that it gets even harder to break into the top floors. Years ago, I took a job as a copyboy at a large New York newspaper. At that time, the newspapers used an apprentice system of promotion; college graduation was desirable, but not essential for promotion to reporter. In fact, even though I was 18 I was sent out to do some reporting. I was put in charge of the daily weather report, on the assumption that I would learn journalism from the ground up. Today, such a career is not possible. Novices in the news business arrive with journalism school credentials. Whether or not the quality of reporting has improved is another question. The point is that, ironically, increased education for everyone results in its declining worth or premium on many educational credentials. As Galbraith (1998) writes, "there is no reason to think that an expanded supply of educated talent will reduce the gap between those most highly paid and the middle ranks" (p. 56). Even if every American third grader could read at or above grade level, the number of potential high paying jobs would not expand. We have confused cause and effect. First, the economy expands, than educational competency counts. And as we have seen even this relationship is suspect.

Finally, are skills the royal road to the top? If the entire population were computer "literate" would unemployment evaporate; would a whole new set of high salaried jobs emerge; would wage suppression end? Let's look at the basic historical facts. For roughly two hundred years technology has been driving economic change--the computer is only the latest manifestation of this trend. But with each technological breakthrough there was both a skilling and deskilling effect. This is evident in architecture when we visit "old" buildings and marvel at the "craftsmanship" compared to today's frame and plasterboard constructions. Automation does not require more skilled workers; it requires less skilled operatives. A skill is related to its degree of difficulty in its acquisition and maintenance. Today, checkout clerks in supermarkets do not have to make change in their heads, the computer does it for them. Are they more skilled than previous checkout clerks? Are they paid more? The answer is no on both counts.

Computers are useful, but they do not require high level skills to operate, in fact, these labor saving devices hardly require any skill to operate. The argument that a world class work force is necessary to compete in the global economy rests on the assumption that the economy will need . . . what? Legions of clerks sitting at computer terminals? The automation of "white" collar work is not resulting in a demand for new complex skills, but a demand for patient clerks. Who knows . . . in several years, even these clerks may not be necessary. In short, the human capital argument looks good on the chalkboard, but shaky in the real world. And these are the folks most anxious to privatize public education.

Who Benefits?

Most murder mysteries are solved by clever detectives who discover the hidden, but true, beneficiary of the crime. When we speak of privatizing education, it is entirely fair to ask, "who benefits?" Is it the children? The teachers? The parents? Given the analysis in this article, there is little chance that privatization will lead to greater equal educational opportunity. As we have seen, markets do not create opportunity for all. Rather, they create profits, unevenly shared. Since markets are not built on competition, but on monopolistic striving, we are far more likely to have a system of franchised privately operated schools than thousands of mom and pop schools. Markets favor scale and monopoly.

So who benefits? The answer is obvious, the companies that start school franchises. Today, scores of educational management organizations are publicly traded. Education, Wall Street assures us, is big business. Very big. And vulnerable to takeover. When this takeover succeeds, can we look forward to greater equity? No, we will have lost the last remaining citadel of the public good, and for that we will have no one to blame but ourselves.

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