Analytic Note 3#:

Markets as Devices for Producing Significant Social Change

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In liberal, democratic societies the alternative to politics and government as an instrument of social change is markets and the private firms that seek to spot and respond to the demands of those with money to spend on the products and services the firms can organize themselves to produce. Generally speaking, markets (and the commercial firms that populate them) are thought to be more dynamic and more responsive to individual need than government and its subordinate agencies. The reason is that private firms have to satisfy the needs of their customers, and do so in ways that are superior what their competitors can offer, or they will go out of business. Moreover, since the desires of customers are very diverse, and since they also change over time, there is constant pressure on producing organizations to adapt and change in response to these varied and dynamic demands. This stimulates innovation in products and services on one hand, and on processes for producing the desired products and services on the other. In this way, market pressures – created by the freedom of individuals to make choices about how to spend their own money on one hand, and competition among suppliers on the other – cause the suppliers to become highly responsive to what the individuals with money want, and to become highly responsive in both the short and the long run to changing market conditions.

These well known mechanisms work best when the following conditions are met: 1) individual consumers can be relied upon to be the important social arbiters of the value of what they are getting from private firms (that is, they have well-formed preferences that are aligned with their own interests and values and they cannot be deceived or coerced by suppliers); 2) the society as a whole (understood to be all the other individuals in society whose interests might be affected by the voluntary transactions carried out by private suppliers and consumers on one hand, and the representative government that does its best to represent the interests of the public properly understood) has no significant interest in the transactions that occur between supplier and consumer; 3) the distribution of wealth and income among consumers is generally thought to be fair; and 4) there are no important issues of social justice and fairness which society as a whole might be interested in pursuing that are involved in the transaction.

The problem of, course, is that in education we cannot rely on these conditions to be met. It is not clear that society as a whole can rely entirely on the choices made by parents and students to precisely align with the goals that all citizens and taxpayers in a democratic society might have for the education of children in their society, nor that they could make accurate judgments about how to pursue those goals in individual transactions even if they were aligned. It also seems clear that there are important effects on society as a whole in economic, social, and political terms that might be of concern to citizens and taxpayers and not much attended to parents and students. And, to the degree that society has to be concerned about the overall level and distribution of educational opportunities and services as an economic, social, and political concern, society may have to act to distribute educational opportunity more equally than would be produced if individuals of very different economic status made individual choices about how much money to spend on education.

Note, however, that these concerns focus primarily on the overall level and distribution of quality educational opportunity; and secondarily on the degree to which social views about the ends of education might differ from those of parents and students. They do not speak to what is an admittedly powerful feature of a market – namely its ability to create conditions for experimentation and continuous improvement. Or, put somewhat differently, the discussion of the market often braids two concerns together in an impenetrable tangle; namely, the fact that a market system can outperform a (typical) governmental system both in the capacity to meet the demands of individual clients and users of the system, and in terms of its ability to improve its performance over time through continuous innovation. These two go hand in hand in market systems since it is precisely the fact that suppliers are forced to pay attention to what paying consumers want, and that they will be economically rewarded by responding to that want, that causes them to become responsive and innovative.

Assuming for a minute that we want both some degree of responsiveness to consumer/client demand (recognizing that consumer satisfaction is at least part of what an educational system is supposed to produce, and might turn out to be both instrumentally valuable in achieving longer term individually and socially valued outcomes, and consistent with some conceptions of individual rights), and some continuing capacity for innovation in educational service provision (both to meet niche demands, as well as to find generally improved methods of education), an important question becomes whether it is possible for a publicly dominated system to accomplish this end while preserving important public values and forms of accountability.

One simple answer to this is “yes.” Many years ago Milton Freedman suggested that a good way to handle the provision of goods and services in which society had a strong interest in both the level and distribution of the provision of that good or service was for society to rely on publicly financed vouchers. This idea has not been enthusiastically embraced. But we seem to be rapidly moving to an equivalent policy. In this policy, parents choose from among public schools, and the dollars follow their choices. This allows choice to work within the framework of a public school system, and to give room for many charter schools. But it has not allowed parents to use public money to pay for private schools, religious schools, or themselves for home schooling.

Both of these methods allow individual parent values to become a force for arbitering value and forcing suppliers to respond. There are other methods that would allow individual parents and students to gain some effective voice over what happens to them educationally. Community organizing, combined with local control of schools, can give parents voice if they choose to exercise their political rights for this purpose. This can be parlayed into national effectiveness if the community groups form themselves in some national association like the PTA. Some states have passed laws that require school officials to close schools where more than half the parents of the students would prefer that it be closed, and that they be allowed to look elsewhere or create a new public school to meet their needs. Other laws give individual parents the right to demand special services for their children. Micro processes of complaint and consultation with parents also allow parents to try to shape what schools produce for their students.

These are all methods that allow parents to become more influential in demanding and getting accountability from public school systems. And, insofar as parents educational objectives are closely aligned with social objectives, that energy may be helpful in guiding education providers to desired objectives.

It is also true that government itself could become a more reliable, discriminating purchaser of educational services for the benefit of both individual clients and the wide public. The government, for example, could say exactly what it wanted schools to produce that were consistent with its desires, and then organize a competition among both public, non-profit, and for profit suppliers to meet those performance goals. This approach is very similar to the national standards approach which seeks to articulate a collective (rather than individual) view of desirable educational results, and then relies on testing and competition among suppliers to promote both short and long run efficiency. It is in this important sense that government policy that specifies desired outcomes, and attaches money to the achievement of those results operates like a market demand in the sector – it is just not an individual demand.

One can also see hints of this approach in the role that government takes in regulating the conduct of educational institutions. If the government decides that it wants to use a particular textbook, and a particular pedagogy, and a particular kind of qualified worker to provide educational services, it is operating on the supply side of the market (only those firms that adhere to these principles may receive public certification as a school, and therefore receive government funds and meet government requirements), but it is having a very strong effect on what gets produced and for whom.

Finally, the government can be importantly involved in financing and evaluating experiments in education much as it is in the financing and evaluation of new pharmaceuticals. The private sector is not the only investor/purchaser of research and innovation. Government has long underwritten efforts to develop knowledge that could be used for economic and social purposes – sometimes helping private firms find ways to use new knowledge for commercial products, sometimes helping nonprofit and government agencies find new and better way to do their work.

The point here is that while markets – understood to be systems in which individuals with money to spend search for producers that have what they want, and in which individuals with ideas are encouraged to invest in the development of those ideas by the prospect of large financial rewards, while individuals who already have working ideas are encouraged to find ways to reduce costs and improve operations by their duty and desire to get more money out of the production for themselves – have the capacity for both responding to individual desires, for innovating, and for improving the performance of a sector over time, there is nothing that prevents a government dominated market from producing some of the same results. It can give more force to individual client demand by putting public funds in individuals’ hands, or by having public funding follow choices by individuals as to the kind of education they want. It can seek short run efficiency and long run productivity gains by setting clear performance targets, and promoting competition among suppliers. It can consolidate new learning around best practices and take advantage of economies of scale by standardizing procedures. It can improve those standardized procedures by stimulating research and development. Etc.

In thinking about the desirability of using market forces, then, one has to think a bit about whether one is trying to achieve responsiveness to individual clients (through empowering individual clients), or improved efficiency in the short run (through the use of competitive pressures), or improved efficiency over the long run (through measures that protect the profitability of innovations made by an individual so that others cannot easily copy).