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Regulatory Reform in Schooling

My task today is to consider reforms for the government's regulation of schooling. By way of introduction, let me refer briefly to a talk I gave during my previous visit to New Zealand, in December 1995, entitled 'The Role of the Government in Education'.

In that talk, I questioned whether the government had any role in education at all. Essentially I tried to put all of you, as education administrators, out of business by favouring a system of privately supplied education supplemented by charitable endeavours, with no government involvement. I also discussed the intermediate possibility of introducing an educational voucher system.

The theory behind the voucher system is simple – it injects government into education only to smooth out differences in wealth between families, creating a level of resource equality that will permit all children to get a fair start in life. This funding can be achieved without the government supplying or controlling the content of education from the centre – government support no longer entails a government monopoly. I am, however, somewhat uneasy about vouchers, not because I dislike the idea of decentralisation, but because I am still concerned about the dangers of abuse. My fear is that the government will attach unpalatable conditions to schools that receive vouchers in order to force an unwanted conformity on independent private institutions that are currently operating in competition with each other. Through the alchemy

of government conditions, we could end up with even more state control over education than we have today.

With these caveats, I shall discuss an issue more limited than my talk four years ago – the incremental reforms that could improve public education short of dismantling the system and starting over from scratch. While this topic is more modest in scope, its practical implications are extremely important.

Problems of transition

The problem of transition arises whenever one seeks to change a complicated social institution with long and eccentric traditions. Education is no exception to this rule. While the existing system is in need of reform, the challenge is to plan an intelligent transition to a preferred alternative, but one whose realisation can only be imperfectly attained.

All transitions are inherently risky and messy. Most vehicle accidents, for example, occur when people are in transition: lane changes, getting in and out of cars, parking lots and so forth. Most litigation takes place when legal systems are in transition. If a state changes its water law from a riparian regime to a prior appropriation regime, the transformation in private fortunes could easily lead to blood in the streets. In telecommunications, the government monopoly has been changed to an ostensibly competitive situation. But the shift has caused battalions of lawyers to amass on both sides of the struggle, ready to fight to the death with somebody else's dollars. Those transition problems are commonplace in industry, and I would reject the fanciful notion that they wouldn't occur in education. Regardless of noble purposes, there is nothing in the daily administration of education to immunise it from the daunting problems posed by a major transition.

The impetus for systematic change is usually in response to some lingering dissatisfaction with an institution's current operation. Educational quality is devilishly difficult to monitor for individual teachers working

in individual classrooms, but the overall educational product is easier to monitor through standardised test scores and other quantitative data. While persuasive excuses can be made for a particular student's poor performance, these will be offset by the unexpectedly strong achievements of other students. So the noise within the educational system runs in both directions. For that reason, people are rightly concerned when they perceive a system-wide decline, because that overall shift cannot be blithely attributed to a few indifferent parents or recalcitrant students.

I gather that this widespread unease about declining educational achievement is taking hold in New Zealand as well as the United States. A concerned citizenry could respond to the bad news in two ways. One is simply to redefine the problem away, and this is what the United States has done. Because college board scores were declining, we simply re-centred the examination to give the same distribution of test scores we had 35 years ago, even though student performance today is far inferior to what it had been. This statistical legerdemain covers up rather than solves the underlying problem. The second, and only viable, approach to declining achievement levels is to question the educational system's structure and delivery. Those who understand how the system operates can chart a path for its intelligent, incremental reform.

The problem of government monopoly

My views on education have been shaped by a general orientation in my thinking in favour of limiting government activity to the bare essentials. The goal is to decentralise political control by having lots of private property holders who can enter into voluntary transactions with each other. The threat to this ideal is monopoly – where there is only one supplier of some good or service who can demand too high a price and who will supply you with too little. The usual response to this problem is for antitrust legislation (or competition policy in this part of the world) to counteract the efforts of private firms to obtain that lofty position by entering into contracts in restraint of trade.

The dangers of monopoly behaviour are not restricted to private agents. If government agents are put into monopoly situations, they will tend to behave in exactly the same selfish way. As the sole source of supply of any particular good or service, the monopolist can either withhold supply or transform how and when those goods and services are provided. In the rendering of essential services, such as water and electricity, any implicit free-market check on the monopolist is ineffectual because individual customers do not have the credible alternatives necessary to exercise their exit rights. This problem is particularly acute with compulsory public education, just as with public utilities, because parents cannot remove their children from the system except by shouldering the financial burden of private school tuition while still being forced to pay school taxes. Nor can they always choose a public school other than the one to which their children are assigned. Thus, if a single government organisation controls public schooling, government servants within it will tend to act like ordinary monopolists in the private sector, lacking incentives to respond to their customers' demands.

This capsule summary has implicitly assumed that virtue does not reside exclusively in the government sector. While I believe there is some virtue in both sectors, the same kinds of temptations, opportunities and incentives that lead to untoward behaviour in the private sector are likely to surface in the government sector as well. We cannot count on some mystical transformation of human nature as people move from private enterprise to government service. In both settings, people tend to be comfortable with exclusive monopolies. But what is comfortable for us as individuals can be very dangerous for society.

The importance of choice

Combating the dangers of government monopoly requires courageous behaviour by key people in government ministries and agencies, who must consciously build greater elements of choice into the public education monopoly. A government monopolist must encourage competition between different groups operating under the same government umbrella,

and offer a menu of opportunities to the various individuals who depend on it for educational services.

Recent disputes over the curriculum reveal a clash between two different views of how best to educate children. There are those, like myself, who tend to favour the older hierarchical and disciplined way of learning, involving drill and memorisation, especially in the earlier years, as a precondition for more rigorous analytical thought. Others support more child-centred education, and want teachers to spend more time inculcating values and less time transmitting knowledge. These teachers tend to doubt the canons of objectivity and are more likely to find fatal flaws in the present distribution of life chances of children born in different social circles. It is very difficult to find common ground between these views, and while I am reasonably confident in my educational beliefs, I am willing to admit they may be wrong. Yet we cannot find out whether these beliefs – or any others – are wrong if we design a system that requires all students to march in the same direction. Educational administrators need to create opportunities for different schools – or different classrooms within individual schools – to experiment with alternative forms of curriculum.

Some schools in the United States allow parents to choose between a teacher-centred curriculum and a child-centred curriculum – both within the same government school. Teachers have incentives to refine and perfect their work, otherwise parents and students might opt for a different curriculum. After an initial period of experimentation, a consensus may emerge that all curriculums should adopt some novel ingredient that first appeared only on the educational fringe. So competition offers a way to assess, over time, the strengths and weaknesses of different educational philosophies. Entering a competitive situation requires a person to have a certain amount of courage, coupled with the strong conviction that the product or service being offered will find acceptance by others. But all participants need to be open to feedback, including the feedback of customer rejection, which may expose their mistakes and allow them to rethink their position.

Choice within the government school system

One way to introduce choice is by breaking down monolithic approaches within government educational institutions. For example, budgets can allocate funds for an experimental curriculum, which can be adjusted in response to the demonstrated preferences of students and parents. Parallel lines of curriculum inside government schools introduce a form of interfirm competition similar to an educational publisher marketing two books by different authors to the same segment of the teaching market. If a given school is too small to accommodate parallel programmes, then nearby schools could adopt different educational philosophies, whose successes and failures can then be advertised to parents and students within the relevant community.

Given this need for choice, we should be suspicious of any education policy that tells parents where to send their children to school. Monolithic systems of allocation may look very efficient, but they tend to have devastating consequences on competition and choice. If children are assigned to particular schools, those in control of the system do not receive sufficient feedback to make needed improvements. Even if they get the information, they have no strong incentive to respond, because they face little risk of loss of customers. In an open situation, however, parents can vote with their feet, and thereby give those in charge of the system an unmistakable signal about the level of parental satisfaction. If a business experiences this kind of shift in behaviour – people 'exiting' from a particular product or service line – it will typically re-examine its products, pricing decisions and service behaviour. The same practices should apply to schools.

Another development in the United States is the creation of a 'fifth column' within the state-run school system whereby more choice and competition can be engendered. That fifth column is the charter school.

A charter school is essentially a government school that receives a separate charter from the government. This charter guarantees government funding for the school, but allows its principal to hire and fire teachers

at their discretion and to organise the school according to the principles that it thinks are best.

In the ideal design, student entry to charter schools is voluntary. If a charter school is successful, and many of them are, the children seeking admission far exceed the number of places available. Since they do not have the advantage of an effective pricing system, which would help ration these opportunities according to willingness to pay**,** charter schools must go through the difficult process of deciding which children to accept and which to reject.

There is little dispute that, on balance, the charter schools have performed sufficiently well to attract large amounts of funds, a great deal of parental interest, and considerable student loyalty. One innovation in New Zealand could be to experiment with these chartering arrangements. The formula to success incorporates many of the same principles that McDonald's uses when organising its franchisees: the people running these operations should have an entrepreneurial spirit and a desire for excellence. This means hiring people who are willing to put in the hard work needed to run a school, and giving them the freedom to operate it successfully.

Choice in the private sector

In the United States, we worry about the appropriate mix between government and private institutions. But in the United States, the availability of private educational institutions is a powerful antidote to the virtual monopoly enjoyed by the government schools. Everybody, I think, regards the increasing number of parents opting for private education, religious or secular, and, increasingly, for home schooling, as an important sign of the failure of the US government school system.

Clearly, those opting out of the US government school system are expressing an enormous dissatisfaction with it. Their rejection of the public schools is even more significant given the current financial structure that forces all parents to pay for the government schools through local real estate taxes whether or not they send their children to them. So anybody

who chooses to leave the government school system must pay twice for their children's education. The widespread acceptance of this lopsided offer is powerful testimony to the deep dissatisfaction with public institutions.

Likewise in New Zealand, I have been told that government subsidies provide far less support to those who send their children to a private school rather than a government school. This government imbalance precludes the undistorted choice that would provide an accurate picture of parental preferences. Parents who might prefer to send their children to private schools are kept in the public school fold by the skewed payment structure. So I would recommend equalising the support payments between government and private schools.

In the United States, home schooling is another important private alternative to the government school system. It generates an enormous amount of hostility from the educational establishment, especially the teachers' unions, which regard it as a genuine competitor that reduces the need for government-supplied education. Notwithstanding the intense opposition, the home-schooling movement has increased mightily in recent times. There are now hundreds of thousands of students who are educated outside of the standard school institutions, subject only to review by way of testing, curricular supervision and the like.

An interesting home-schooling trend over the last four or five years is its increased professionalisation and institutionalisation. I had always pictured home schooling as an intelligent parent sitting down with their children and working out lesson plans for English, mathematics, science and so on. Autonomous individuals creating curricular materials in isolation, however, seems like a reinvention of the wheel. Home-schoolers quickly realise that the advantages associated with specialisation and the division of labour will be lost by this form of education, which would be inferior to that provided by a staff of professionals.

In practice, of course, home-schooling parents realise that as individuals they are not sufficiently well versed to teach everything. Hence, networks form on the Internet and through cooperative associations of one kind or another. These associations provide, often for quite reasonable fees, a

whole series of curricular packets for parental use. Also, because many activities cannot be done with a single child, parents set up networks to enable home-schooled children to come together for activities like music or physical education, for which collaborative efforts are indispensable.

Home schooling in the United States depends heavily on parental investment, more than any other type of schooling. But it also relies in very large measure on an array of private sector providers, some not-for-profit, who put together the information and the expertise that parents need. Its growth is also a response to the opportunities for decentralisation that now exist in every culture through the Internet – much of the information parents require can be obtained on-line. Also, the Internet enables home-schooling parents to maintain instant communication with each other, thereby easing any incipient fear of isolation that they might otherwise experience.

The evolution and growth of home-school networks has led to the successful development of products provided under arrangements very different from those in the government system. Public officials should not seek to suppress home schooling by subjecting it to endless inspections or externally imposed minimums. Rather, they should foster an environment where educators in both the public and private school systems can learn from the parents and professionals in home schooling and thus enrich their own curricula.

This last observation leads me to make another recommendation regarding teacher certification and registration in both public and private schools. I am told that in New Zealand the government schools are treated as the benchmark for assessing various private systems. But that cannot be right. It may well be that government schools with their vast amount of experience in education have certain advantages over other institutions. But treating something as a benchmark is like elevating it to a gold standard, and the only practices that can ever aspire to that lofty standard are those that have worked. If public schools are in difficulty because of their virtual monopoly, then we are well advised to jettison the idea that their standards set presumptive benchmarks for education writ large.

Obstacles to choice

I have discussed some of the ways that both government and private schools can widen their offerings to parents. These proposals are not meant to undo the Ministry of Education or the government school system; they are meant to make the overall system more responsive to parental and student needs. The obstacles and difficulties in implementing this programme, I think, include the managerial and bureaucratic opposition to innovation, and especially the attitude of teacher unions to decentralisation.

To have any chance of success an organisation must have broad, if not absolute power to hire and fire and to set wages and conditions for its staff. The employees' counterweight comes from their power to leave and work elsewhere if they do not like the conditions that are being set. Paradoxically, that will not work in a monopolistic system because the single employer will usually offer the same pay structure and employment conditions everywhere.

If the government is the teachers' only possible employer, teachers will have to fight against their undesirable conditions by collective action. Thus, as day follows the night, a monopolistic provider of education will face a monopolistic response from employees, notwithstanding the inefficiencies associated with unionised workforces. This behavior is perfectly understandable given the power of government on the one side and the limited options available to teachers on the other. Happily, it follows that opening up the range of employment possibilities for teachers should reduce the power of, and the need and justification for, teacher unions.

Unions in the United States, in Britain and, I dare say, in New Zealand tend to arise most conspicuously in those industries engaged in mass production. The basic logic behind unionisation is that the work undertaken by one employee is similar to the work that is done by another. This parallelism of work reduces the risk of conflicts of interest between co-workers who are represented by the same agent, whether chosen by political fiat or majority rule.

Within a system of public education, large numbers of teachers can put aside their differences given their basic commonality of interests. To be sure, they pay a price – a perceived loss in professional status – but that might well be overcome by a greater sense of self-determination. More importantly, unions know that once they have organised the teachers throughout the state, then they have organised the market. However, once education is opened to the rich array of institutions that I described before, the effectiveness of unionisation will necessarily decrease. This prediction has nothing to do with the skill or adeptness of individual unions or the loyalties of union members. Rather, the alternatives to public education will break the commonality of interest that currently exists amongst teachers within the system.

As the range of educational institutions expands, it creates multiple independent sources of market power. To be recognised by school officials, unions no longer deal simply with the Ministry of Education or a single high-powered official or negotiating team. Instead, they have to unionise school by school, region by region, organisation by organisation. When they approach religious schools, however, they may encounter powerful resistance from school leaders whose moral norms make them unwilling to yield control over their hiring policies and conditions of employment.

So, when multiple types of educational institutions exist, prospects for unionisation are affected in two ways. First, the ability to run a tight union-type structure will be diminished, and second, the need for this structure will be diminished as well. This analysis is perfectly apparent to the leaders of teacher unions. They understand, as well as anyone else, that fragmentation in the supply of schooling compounds the task of maintaining a powerful union structure.

This threat to teacher unions generates an unfortunate political dynamic: strong union resistance to decentralising education. So teacher unions, while perhaps serving useful functions in the day-to-day management of schools, such as the handling of individual grievances, turn out, in my judgment, to have a baleful influence in basic restructuring.

This negative union influence exists not only in education, but in virtually every other setting. Transitions are required in modern society; they are often forced upon us by changes in technology and an insistent demand for innovative goods and services. But labour monopoly-type structures, or any management monopoly-type structures, will tenaciously resist change because the elaborate internal division of power is easier to maintain so long as they can defend the status quo.

Teacher union resistance is manifest in political activity, because decisions in the political arena determine the basic structure of education. In the United States, it is no accident that around one-eighth of the delegates at a recent Democratic National Convention were members of national teachers' unions. This phenomenal figure has paid off for unions, because President Bill Clinton has been a strong opponent of school vouchers. And it seems quite likely that unions will support efforts designed to make charter schools take students on a first-come, first-served basis, which could reduce their general effectiveness.

The United States has been the scene of many efforts to undermine charter schools or to prevent their establishment. My daughter, who is interested in education and has worked on schooling issues, gave me an example. She told me that in Washington DC the government schools had such lax internal control and management that they could not open many of the classrooms. One of the saddest aspects of that appalling situation is that many of the senators who were champions of both public education and big government, such as Senator Ted Kennedy of Massachusetts, fought the expansion of charter schools in the city for students who had been left stranded by government incompetence. These senators refused to support charter schools because they were beholden to teachers' unions. I recall my daughter Melissa's frustration over one child who had been beaten up regularly in a public school. Due to the government blocking charter schools and denying vouchers, that child was held hostage to a public school system that had failed to supply an adequate environment. The child was told to remain lest the public sector

be drained of its necessary resources. No consideration was paid to the risks that the child had to face, or to the possibility that some alternative institution could supply this child, and others in a similar situation, with better education at lower cost.

This argument used by charter school opponents about draining children and resources suggests a new form of externality: you create negative externalities to the rest of the world if you do not stay around as a punching bag for some other student. It is that kind of rigid mentality that blocks self-improvement everywhere. In industry, regulations, tariffs and inspection techniques are routinely promoted by established companies to thwart the entry of new competitors who might better serve their existing customers. The use of these tactics is not limited to private business; they are a recurrent feature in all political contests, education not excepted.

Schooling of children from ethnic minorities

My final topic is how a public school system should deal with minority student education. This is, of course, a burning issue in the United States where there is great dispute over how to assimilate large African-American and Hispanic populations. More recently, we have seen parallel concerns about the Asian population, which is divided between those from countries in South Asia, like India and Sri Lanka, and those from the Eastern rim, like Korea and Japan. In fact, as the Asian population expands, the word 'Asian' loses its descriptive usefulness: we now talk instead about Japanese, Korean, Vietnamese, Filipino, Indian and so on.

How are children from these diverse groups best educated? Typically, they bring strong ethnic identities to the school system, their families have different expectations and aspirations for their children, and the levels of parental involvement in education are very different. Often major squabbles arise between two minority groups when each is trying to reshape educational programmes to be more congenial to its respective members. While these tensions cannot be eliminated, perhaps something can be done to minimise them.

I begin with the following proposition about ethnic diversity, which applies not only in education but also in all institutional settings: the greater the level of ethnic diversity, the more perilous it is to run a centralised set of institutions. Greater diversity strengthens the case for small government – it is not the other way around. If all students come from the same background, then the school needs only to provide curricular materials congenial to that group. Similar backgrounds will reduce the level of disagreement amongst the parents, who tend to share similar concerns for their children.

This convergence of sentiments was something I experienced when attending Public School 161 in Brooklyn, New York, during the late 1940s and the early 1950s. The class was 98 percent Jewish and we knew exactly what cultural norms determined the attitudes inside and outside the classroom. But diversity blocks easy consensus, and makes unanimous sentiments almost unattainable. To take but one example, if English is a second language in some families, but not all, it becomes difficult to develop a curriculum that serves all groups equally well. Only flexible educational systems can flourish in these complex environments.

One advantage of decentralisation is that it allows for a sensible sorting of children, which must be understood in order to be appreciated. The conventional wisdom holds that the world as we know it will come to an end once voluntary sorting is tolerated. The assumption is that rich children will segregate themselves into educational ghettoes, or their parents will do it for them to exclude poor children from their midst. Similarly, it is assumed that white parents will no longer want to have people of colour in their classrooms. The fear is that privileged groups will insulate themselves from our modern multicultural age. It can happen, but in reality the typical outcome is quite different.

One of the things that impresses me about the University of Chicago, not only at the school level but also at the college graduate school level, is that the support for diversity comes from unexpected quarters. My own dean is stunned by the number of times that conservative lawyers instruct him on the need to have a diverse student population to prepare our law

students for the next generation. Hearing that message from its usual public supporters does not have much novel impact – it sounds like predictable political rhetoric. But hearing it from the people whom you would least expect to say it warns doubters (like myself) to take the message seriously. So a concerted effort emerges, especially in elite institutions, to respond to these concerns at an institutional level with aggressive recruiting of minority students and faculty. The same process occurs at the University of Chicago Laboratory Schools, which my own children have attended and where my wife works today. Outsiders could easily regard such a renowned private institution as a bastion of privilege. Yet from the inside, it is often easier to raise money for scholarships for ethnic minorities than to build a new gymnasium.

Of course, not all schools are run in this way, as certain groups want to preserve a degree of ethnic homogeneity in schooling. It may be Maori excluding non-Maori; it may be the African-American excluding the Asian; or it may be the other way around. But if you have confidence in the ability of both firms and parents to enter and exit markets, there is no need to worry about the configuration of a student body in the short run. If the racial make-up of a school's student body is undesirable for any reason, then parents and teachers can leave to try something else.

More generally, we could invoke one of two principles of justice to explain the racial and ethnic composition of schools. One of these (that is incorrect, in my view) is the so-called 'pattern principle' of justice, which says that we can know the proper end-state of distribution, and our institutions should be adjusted to achieve that desired end-state. That approach often leads to state-imposed racial and ethnic quotas on enrolments. Its rival principle, however, says that the right distribution is unknown to abstract deliberation, perhaps because collectively we are not as smart as we would like to think. This second approach points to the need to create and keep an open society with lots of choices, and to permit people to sort themselves into patterns that they consider sensible. The result will be pronounced good if the process that led to it was open, with schools organised under a principle of freedom of association for

students and faculty alike. This process often yields provisional goods: consensual arrangements may yield unhappy results, prompting institutional changes as people learn from their experiences.

The task of a political theory is not to determine the ends for education any more than it is to set the ideal mix between industrial and consumer goods. Rather, political theory should create a process whereby individuals are able to act on their preferences in their own way, without first having to obtain permission from some higher government official. The common thread throughout this talk has been the concept of decentralisation of choice. I think it offers a powerful answer to many of the vexing problems that face education today.

Questions

I would be interested in your views about the role that self-regulation by schools or teachers might have in this sector and what are the conditions for it to work effectively.

I am always in favour of self-regulation. But suppose you have a school with a captive market and you have a system of self-regulation. It could simply be a system where providers do what all monopolists tend to do – supply insufficient services at a very high price. Self-regulation becomes much more credible when there is an exit option because now if you regulate in a way that promotes efficiencies, people will come to you. But if you regulate in a way that raises prices and reduces the quality of services, people will leave.

Regulators tend to understand what is going on in their industries because they have acquired information useful for regulation. But information can be used to both good ends and bad ends. It could be used to advance the common good, or to promote various kinds of bias and entrenchment. The only way to cull out the perverse incentives in self-regulation is to provide the exit option. Again the dominant theme must be choice. By focusing on choice, you can short-circuit, at least at the ministry level, some of the really divisive debates over curricular content. Those sorts of issues can now be pushed downstream where they may be solved in different ways. I would think that choice also eases some of the tensions associated with diversity, affirmative action and similar issues.

In general, you will never get everybody to agree on some vital questions. But if people have other places to go, there is a sorting mechanism instead of a voting mechanism, which makes everybody better off. Self-regulation should be considered within that overall approach.

I was interested in your comment about McDonald's. You were talking about charter schools and that raises the question of property rights in an industry where there are no property rights. In the McDonald's system, there is a franchise relationship so whoever runs one of its outlets has a property right in a franchise. Now it seems to me that one way of really giving the charter school idea a boost is to adopt the franchise model that McDonald's uses so that those who take on the charter school have huge property right incentives to make it a success.

I absolutely agree. The question is how to do it. Let me tell you what the problem is. When McDonald's opens up franchises it will determine the number, invite the applicants, set the rules, and basically search for a market-clearing price for its product. When you are opening up charter schools you don't have the same market mechanism. The government does not give unlimited numbers of charters to schools – it awards very few. Since there is no price mechanism at work, you get queues. With queues come queue jumpers, using influence to get their children in.

In the early days of the charter school movement, queues were not a problem because the schools were seen as risky ventures. There were more charters available than applicants to take them in. Today, the landscape is rather complicated with some interesting historical antecedents. In the nineteenth century, for example, getting a corporate charter required a special act of the parliament or legislature. Those groups who were awarded the early charters then worked very hard to make sure that no new charters would be issued to their rivals. I am worried that this same dynamic situation could develop with charter schools – that the recipients of the early charters will try to protect their own position by pressing for restrictions on the number of new charters. So I am in favour, generally speaking, of an open charter system subject to some minimum fitness

requirements. I would keep those requirements relatively basic. If incompetent people open up schools, they are not going to attract many students, which places an effective check on them. Therefore a school in an open, diverse setting has less need for certification than a monopoly provider. By way of contrast, if every child in a given district were compelled to attend one charter school, you would not let just anybody run the school. You would have to scrutinise the applicants very carefully. Happily, when you open up choice, the locus of review moves away from bureaucrats and on to parents. The intensive parental review allows for a reduction in the level of institutional review.

The efforts in the United States to restrict the number of charters have created an unwholesome political dynamic with a great deal of unnecessary bitterness. The trick is to open up this new educational avenue on a broad and permanent basis to forestall rent-seeking and political machinations.

One theme I always stress when speaking about education, or indeed about anything else, is that of non-exceptionalism. Everyone claims to be special but no one really is. Rather, certain general principles about political organisation apply regardless of the nature of the underlying business. The special charter game was a racket for nineteenth-century corporations, and it could easily become a racket for charter schools in the twentieth or the twenty-first century unless we take firm steps to guard against that risk, which gets us back to the theme of decentralisation and parental control.

Some would argue that there are certain matters that require attention at the centre of the system. One point would be that positive externalities arise from common social values that need to be established in a common curriculum. What, if anything, would you see regulated at that central level?

Beware of overstating the role of positive externalities. Parents care about their children's education and have strong incentives to keep their children from becoming social misfits. They know as well as anybody else that

unless their children acquire social skills, they are not going to be able to get a job, join a club or find a partner. So there are large internalised gains from education, that correlate well with the social gains that you are rightly concerned about.

Thus the question is not: 'Are there positive externalities that the government ought to create?'. Rather, it is the question at the margin: 'Given that private education also creates positive externalities, is the cost of centralisation justified by the incremental gains from the positive externalities that you hope to create?'. My answer to that question is one of breathtaking simplicity. One of the great dangers of government education lies in the negative externalities it creates. The assumption here, of course, is that the wrong attitudes imparted to students can influence how they participate in public life. At no point can we say that the sign of the externality is always positive simply by virtue of government control. Many projects presently undertaken by central bureaucracies create attitudes that I regard as defeatist and self-destructive for the students exposed to them. The last thing we should do is to promote them at public expense.

Let me expand on the current political debate. One clear undercurrent is the difference in views about how the market and collective institutions affect our social lives. Some say we should recognise society as a place with massive injustice and oppression by race, gender and so on. This assessment leads to the conclusion that putting the means of production into private hands will necessarily result in mischievous behaviour by profit-gouging managers and firms. I regard these descriptions as very unfortunate and, when accepted by an electorate, as potentially catastrophic.

A possible antidote to this is to run schools that promote capitalism and deplore socialism. But I think that approach would also be a terrible mistake. I believe that students develop good judgment through argumentation. In the early stages of schooling, I would have children worry about technique and craft and mastering a set of skills. The last

topic I talked about to my own children in their early years was the glories of the competitive economy. Instead, I helped teach them to read music and play the violin or piano, because those skills opened up new conceptual vistas. Music allowed them to develop cognitive skills and digital technique, it taught patience and precision, and it forced them to work together with other kids in cooperative ventures. If I want to teach children how to get along with other people it is better to use music, or theatre, or sports, or hobbies – not politics, at least not at a younger age.

So 'yes', there are these positive externalities. But 'no', it does not follow that they will necessarily be created by government institutions. Let me also say that government is not the only source of negative externalities. Some fashionable private schools seem to be in the business of creating negative externalities as well as positive ones. Everybody brings different attitudes to schooling. We can expect disagreement as to which attitudes are positive and which are negative. The only safe rule in the face of factual uncertainty regarding the sign of any given externality is diversification. So let lots of people create lots of externalities in order that we do not lock ourselves into one view. I am prepared to back off from insisting that the rest of the world embrace my views on education. But what I would like to see in return is mutual disengagement.

Now you were also worried about curricular standards. My reaction to uniform state curricular standards in the United States is mixed. What these nationwide or statewide standards do, I think, is raise up the bottom, but lower the top. One illustration is the New York State Regents' examination I took as a boy. These were statewide tests administered in English, social studies, mathematics, science and foreign languages. Their content was predictable – the strong student who reviewed the examinations of the previous five years could easily score at least 90 percent. But the statewide average was 75, which says something about the variation between school districts.

My high school was filled with strong students who worked at a very high level. But come May 10 or so, we closed our books and we took

out the Regents' examination material, and all of a sudden we were refining skills for a standardised test to see that we scored in the high 90s. But we paid a steep educational price for this burst of public achievement.

I do not have any pat answer to how these tests should be designed and administered. But one possible approach is to have private certification, so long as it is not provided by a monopoly institution. If you want to test schools, just evaluate the results of their students on the College Board tests, the Scholastic Aptitude Test or SAT. If that test is subject to criticism, a second provider could produce an alternative. That is what we have in the United States now with the newer ACT test. I do not know which test is better, but there is a strong correlation between them, and each seems to have carved out a niche for itself. Under private certification, the private certifiers can aggressively use the available information. They can bundle it together to learn about the school through its students, and they will use the collective information to guide individual students in their own school and career choices.

One reason why I am strongly opposed to government centralisation of information is because the monopoly over knowledge allows government officials to keep the bad news in the dark. So in the evaluation of state programmes in New Zealand, I would be cautious about internal agency review. Instead, I would invite to New Zealand agencies from the United States, Europe, or wherever else to examine the system, to administer tests and to propose reforms. The end product should by and large be public information available to all participants in the debate over educational reform.

I was wondering what differences you see between compulsory education and early childhood education. For example, you talked about parallel systems in compulsory education. Would this also apply to pre-school arrangements?

I would approach the question by asking: 'How early is early?'. In my own community of Hyde Park, kids aged five or six entering the school system may have eight or 10 choices of school inside the neighbourhood, which

is a lot. But the two- and three-year-olds may have 50 choices. There is no government system for the pre-schoolers, and parents can and do open up all sorts of informal schooling arrangements.

It is an indication of the relative power of governments and markets that the unfunded, unregulated private sector turns out to have the greater diversity. The first and most powerful consequence of government coercion is a reduction of choice. So we should strive to keep the government's role minimal.

One of the reasons why I am so uneasy about having any compulsory schooling is that I doubt that much suddenly changes when formal school-based education begins. Is it really conceivable that the parents who sent their children to pre-school at the age of two will, all of a sudden, send these same children at age six to a cotton mill to earn a few extra dollars? I just do not think it is likely to happen. Therefore I do not see changes in the level of education changing my attitude to the question of government involvement.

But I do believe that as students move up through the system to the college level, the case for government subsidies reduces to vanishing point. I am in favour of private institutions giving scholarships or loans at below-market rates of interest if they see fit. But I have a different attitude toward government loans at below-market rates of interest, which create a constant mischief by bringing too many students into higher education, often for the wrong reasons. Students over-invest in education because they do not bear its full costs. Also, when government loans are used at private institutions, it is necessary to make sure that government funding does not lead to government dictation of programme. So it is back to the decentralisation theme again.

To follow up that last question: does the government have a role in regulating for the safety of children at schools?

I think that often government regulation is the wrong way to approach safety issues.

Governments can regulate doctors and hospitals, or teachers and schools. But it is much more difficult to regulate the conduct of parents. Do we really want to have, for example, the Mandatory Breast Feeding Act of 1999? I happen to be a staunch defender of breast feeding, but not so staunch that I would impose it on the rest of the world.

More generally, I think that the usual rule on parental discretion should apply to education. Government intervention is appropriate for cases of parental neglect and abuse, and we could discuss what behaviour falls into these two categories. Abuse is relatively easy. Neglect, on the other hand, turns out to be rather difficult, but whatever its definition, it should not include cases where parents make considered educational choices that are out of step with some social consensus. The consensus is strong enough of its own right, and we should always resist the temptation to take positions with wide support and then ratchet that position into the only acceptable social answer. The social consensus will be strengthened in a responsible fashion if it can survive in competition with principled dissenters.

What are your thoughts on teacher employment arrangements?

The path to good education lies through good teachers, and you get good teachers by having key administrators who know how to hire them. Government regulation tends to limit the applicant pool to candidates who have a standard teacher's college education. This programme excludes a lot of people – or forces them to go through a lot of hoops. One of my former research assistants, PJ Karafiol, who simultaneously pursued a law degree and a PhD in mathematics, while taking coursework toward a second PhD in philosophy, decided to chuck it all in to teach high school mathematics. He had no teaching credentials, although he is an inspired teacher. He got several offers from different schools, and now has asked me to write a letter on his behalf to get the appropriate state teaching credential. Why? I would hire PJ because he is smart and dedicated. Good principals who have hiring authority can make just those choices.

It seems to me that one structural mistake in the New Zealand system is that the central agency, not the school principal, determines teachers' salaries in government schools. This arrangement means that knowledge about a teacher's performance and the ability to set salaries are largely separate. Consequently, schools tend to use lock-step progressions that systematically underestimate the importance of teaching merit. This lock-step progression also means that people like PJ, who might be the best maths teacher in the school, can only get a salary based on age, not ability. The ultimate irony is that, without teacher unions, principals could spend the tens of thousands of dollars not spent on negotiations on pay rises for strong teachers.

Would you be concerned about favouritism with school-based contracts?

There is always a danger of favouritism in personnel matters. But it is of much less concern when exit is available than when it is not. One sign of a well-managed private firm is instability of wage schedules. In business, if wage differentials do not change over time, then the firm is likely to fail. Stable orderings of salaries mean that the firm has not obtained, or has turned a blind eye toward, any useful information about employee performance. Schools are not exceptions to this danger of lock-step progression. So I also recommend that state systems decentralise authority for salaries and tell managers and principals that they should shake these orderings up; it is too easy for indifferent principals to take refuge behind a principle of lock-step compensation. Wage schedules should be set individually. Great teachers may leave because they are not getting an extra $1,000, and explaining to parents why less competent people have taken their places is the last thing any good school would want. Those administrators who work on autopilot should be shipped out and others appointed who will make these hard calls. What is true of principals and administrators also applies to teachers. No one deserves a sinecure.

The wage-setting situation, moreover, is much more difficult because of legislation: age-discrimination laws are a prime culprit. There is an inevitable generation gap in teaching. Teachers get older, lose energy, and

may no longer relate well to children. One of my colleagues at the University of Chicago told me: 'I don't interview college applicants any more. I am 55, I can't do that. I run the business and I hire younger people to do college admissions for me'. I replied: 'Congratulations! You've just violated a statute, but it's a self-violation, and you don't have to file a grievance against your own conscience'. But it is far harder to reassign staff functions when the law imposes heavy sanctions for taking into account factors that everyone on the ground knows to be relevant to performance.

You put a high emphasis on the ability to exit. But in New Zealand many parents live in small towns where there is no choice of exit because there is only one school. Also parents of pre-school children who want to exit from one early childhood centre and send their children to another may not be able to do so because of financial constraints. I wonder if you've got any comment on this situation.

I think what you have said is absolutely correct. What you are talking about here is not a legal monopoly but a geographical one. Go back to the first of my proposals which was that when there is a single government school in a community you should try to create a menu of choices within that school – to create, as it were, an internal exit option. In such schools it is all the more critical not to have a single approach that dominates the style of education. The dominance of the single school also means you have to be very careful in hiring people. What you have said in effect is that it is always harder to cope with educational choices when there is a single provider. You cannot shut the school down because the kids need education. More internal management is needed as a substitute for the students' right to exit.

A lot of what you've talked about is choice driving quality, and the best way to diversify is through choice rather than central direction. I would certainly agree with a lot of that. I think, however, that one assumption you tend to be making is that choice is always about educational quality and differentiation of curriculum. But it is also often about social association, so people are making choices on this

basis rather than for educational reasons. So choice then starts to have a downside. A lot of people may be choosing private schools not because they're providing a level of education superior to what their children would receive in the government system but for reasons of social status.

The elite schools in the US private school systems offer the most scholarships. This may not apply so much to the religious schools that understandably use religious litmus tests for entry that reduce the level of diversity. But in New Zealand the fee structure is so much lower that the cost issue is not that great, at least not in the Catholic school system. And where it is, other devices are often used, such as having parents do work about the school in exchange for tuition reductions.

Let me just ask you a question. What percentage of the Catholic school system is Protestant in respect of the students that it educates? What would be your guess for an inner city New Zealand school?

About 5 percent

Well it is more like 75 to 80 percent in many US Catholic schools located in the inner city, and many of those students are members of minority groups. The parents would rather their kids learn the catechism and stay out of trouble than get into trouble and not learn the catechism. In fact the demand for places is one of the biggest challenges that these schools face. They have huge black enrolments in the city schools, and then they have go back to their suburban Catholic parishioners for the finances to keep them open. There are limits to benevolence.

The drive for diversity that you see in the political sphere – and it is a strong one – does not disappear in the private sector. I believe in freedom of choice and association and do not think that people radically change their preferences when they move from political activity to private activity. If these choices manifest themselves in the political area, they will also manifest themselves in the private area.

Let me take the argument one step further. Suppose we find an academy that will only accept rich white male students. Now anybody meeting the criteria can enrol, and it will make life a lot easier for all

the other schools that do not have to accept intolerant youths. Also, the graduates of that academy might be branded and find that they have a real problem in the labour market.

So my general attitude is to relax about the actual patterns of behaviour where there is a fairly large private school system. I think any drive for social elitism is unfortunate, but I do not want to ban it. That is the point of a free society. If you consider your fellow citizens offensive, you learn to make adjustments to them. You do not go to court. Some of the strongest supporters of diversity are the people whom you think would be most opposed to it. I have been lectured to by heads of large corporations on the need for diversity in education. They explain that they are going to be hiring 10,000 people in the next five years and this so-called elite white male population does not offer enough bodies for their needs; nor does it contain all the strongest applicants. Employers also do not want to have people in their businesses who cannot get along with each other. Once you hear the sentiments in the private sector, you can shut down your Human Rights Commission. There are already a lot of people in the field doing a better job than any commission could do.

My question is about information: what information should be generated and what should be the role of government in producing it? Also, how should we think about the varying capacities of parents for accessing and interpreting information?

I think those are great questions, but I have a somewhat different response to them than perhaps you do.

One reason why the current education system generates so little information is that no one can seize on this information to effect change. If your school choices are fixed by external agencies, what difference does it make how much the principal learns about the child, or about the teachers, or about anything? Nothing any individual player finds out can affect basic behaviours. The current participants respond in rational fashion to the low value that is placed on information, and thus do little to acquire or organise it. But the converse is also true. If choices are available, all of

a sudden there is a return to investments in information. People will invest more in learning about schooling. The government does not need to subsidise information. What it should do is to remove the constraints that make it unrewarding to acquire that information.

The second issue concerns parents who do not quite know what is going on. It would be silly to deny that many parents need help in planning for their children's education. But it does not follow that there should be a government monopoly in the helping business. It is possible for people to form all sorts of neighbourhood groups. Parents and providers can take to the Internet. Guidebooks on schools proliferate. Ratings in weekly magazines are all the rage. There is a market for relevant information. In the United States, between 20 and 30 percent of parents, even professional parents, hire private guidance counsellors to assist their children into college. They do that because the schools have cut down on that part of their budgets. But parents still have to decide which school amongst the wide range of possibilities is going to be best for their children. It is not just a matter of finance. Some people may be willing to pay $500 or $1,000 for advice of this sort. At the low end of the market, somebody else will give you the same kind of information – maybe not as good, maybe in a less congenial setting, maybe through an on-line tape instead of through a personal counselling session – but it will be available for those who want it.

I would certainly not encourage the government bureaucracy to provide information, because in my view any information generated by the government about the government is likely to be regarded as tainted by the consumers. What is generally desired is independent evaluation and certification. So the government should actively encourage others to fill that gap and not take on the primary responsibility. Government control over information about government monopolies is not a good way to solve the monopoly problem.