I. Introduction

The older discipline of basic or traditional economics confined itself to the study of rational behaviour by individuals who relate to each other through one particular social mechanism, the market. There is little remaining disagreement on some of its essential findings, including especially the conclusion that government created monopoly imposes welfare costs on consumers. The public school monopoly is no exception. Krashinsky concedes that “the free market works reasonably well in supplying a wide variety of goods and services ... to reject vouchers seems to be to reject basic economics”.1 His criticism appears to be that, although vouchers would indeed combat the public school monopoly, a complete evaluation needs to extend beyond basic economics and analyse relevant non-market interactions. In particular we should examine unique public, as distinct from private (market), benefits from education.

Modern economics does, however, embrace this public non-market dimension. New additions to the discipline such as “the economics of politics”, “public choice”, and the government expenditure side of “public finance”, are all devoted to this task. Krashinsky’s reasoning in fact is located in the latter, more modern, area of economics. And within it the differences among economists do not imply that economics is fruitless or unscientific. It is not universal agreement but rather the willingness to consider all the evidence and all the variables that constitutes the scientific approach. I shall argue, indeed, that the differences between Krashinsky and myself stem from the fact that, in my opinion, he has not considered all the

economically relevant aspects of the question. His reasoning, in other words, seem to me to constitute an economics that is incomplete.

As is well known the modern form of the discipline is conventionally divided into positive and normative economics. The former contains the strictly scientific aspect and attempts to answer the question of the true nature of existing economic reality. Normative issues, however, such as those that involve the question of ‘what ought to be done?”, also requires economic analysis. The usual requirement here is an examination of the most efficient means for attaining clearly defined social ends. Since Krashinsky’s critique involves both normative and positive economics it will be appropriate to deal with each. The next section of this article will examine the arguments from normative economics; this will be followed by a review of positive economic ‘predictions’. Section IV will focus attention on the legal or constitutional barriers to vouchers that are peculiar to the US. Section V presents my concluding comments.

II. Normative Economics

Choosing the most efficient means for clearly defined ends in education raises several questions about Krashinsky’s reasoning. In particular we may first ask whether the goals he mentions are clearly defined. He admits himself that the public external benefits that are central to his analysis are “hard to measure objectively” (p. 11) and that the ingredients of a quality education” that embraces public benefits are difficult to “write down” (p. 13). I shall, nevertheless, postpone this line of criticism and assume that the public benefits he speaks of are unambiguous.

The essence of Krashinsky’s argument can then be stated in terms of what in economics is called “joint supply”. Education simultaneously produces two distinct goods, (a) private benefits, (b) public benefits. This is perfectly analogous to the classic joint supply example in economics literature of the sheep producing two goods, wool and mutton. The question is how to determine the correct product mix, bearing in mind that this is a joint supply example where variable proportions are possible so that a switch from one breed of sheep to another will result in a better
quality of wool and a lower quality of mutton and vice versa. In other words the cost of higher quality wool is the inevitable reduction in the quality of meat (and vice versa). I shall argue similarly that, under Krashinsky’s assumptions, the cost of more (or better quality) public benefits from education appears in terms of fewer (or worse quality) average private benefits.

Accepting for the moment Krashinsky’s proposition that public benefits are best supplied by public schools, the cost of obtaining a marginal increase of such benefits (by an enlargement of the public sector of schooling) appears in the form of a marginal reduction of average private benefits per unit of expenditure because the resultant switch from private to public schools strengthens the monopoly elements in education. Krashinsky (p. 17) accepts that there are what he calls “problems within public education.” He agrees that “public producers can be unresponsive and inefficient”. Most economists recognise that such inefficiency stems from the monopoly structure and is absent (or much less serious) where competition prevails, as it does for instance in a private system of education.

On the same reasoning the further expansion of the public system in the quest for public benefits will be obtained at increasing marginal cost (diminishing returns) as the public monopoly is progressively strengthened. In technical terms the relevant production possibility curve relating to private and public benefits will have a concave shape. Meanwhile, since both types of benefits produce welfare, the marginal rate of substitution relating to them will be negative and the resultant social indifference curve will be convex to the origin. The outcome, at the tangency between the indifference curve and the production possibility curve, will normally be an ‘interior solution’ where society chooses a combination of some public benefits with some private benefits. The result will, accordingly, imply the choice of some private and some public schooling. There will be no absolutes: public benefits will not be considered to the exclusion of private benefits and vice versa. Instead a ‘compromise’ will be settled on. Thus a policy of vouchers which ensures some maintenance of competition, and therefore typically of some significantly sized
private system, is consistent with a state of social optimum even on Krashinsky’s own assumptions.

Krashinsky appears to give the impression that in the joint supply situation education’s public benefit (analogous e.g. to mutton) is somehow ‘more important’ than its private benefit (analogous to wool). In fact, as just demonstrated, a trade-off is required between them, just as happens in the markets for wool and mutton. And it is for society, not Krashinsky, to determine what this trade off is. Economics, meanwhile, is useful in pursuing its normal task of attempting to identify all the costs as well as all the benefits.

Similar comments can be made about Krashinsky’s proposition that the public benefits are so subtle that the transaction costs are too high for the government to contract out to private suppliers. Even if this were the case, family consumers of private benefits from education could also claim that the education quality they are seeking is so difficult to define that the transaction costs of delegating the task to governments are prohibitive.

But there is another component of Krashinsky’s logic that makes the trade-off still less inimical to vouchers than he appears to believe. He argues that one of the public (external) benefits from education is that of increasing economic growth. “But since this education has significant private benefits, the public interest is identical to the private interest and parents will themselves seek to ensure this type of education” (p. 11). The public interest here is obviously that of encouraging an educational supply that generates the largest output (and therefore the largest rate of growth) for a given expenditure (or produces a given output for lowest cost). The appropriate choice of institutions in this case is obviously the free market; for compared with the public school monopoly, this will yield the most efficient results in terms of private benefits and ipso facto in terms of the public benefit of increased growth. It follows that Krashinsky’s preference for a public system will, on his own logic, result in the pursuit of some kinds of external benefits (e.g. the diffusion of common values) to the detriment of others (e.g. economic growth). A further type of trade-off is therefore called for and a weighting system is needed to indicate the relevant
priorities between the separate externalities themselves. And again a compromise is called for and one that, for reasons stated previously, is not likely to dictate one form of supply exclusively over another.

Consider now the remaining public benefits that Krashinsky’s admits “are hard to measure objectively”. These include (p.11) the alleviation of poverty, equal opportunity, and the teaching of common values. On the matter of poverty alleviation and equality of opportunity, Krashinsky is on very controversial ground. Friedman, the originator of the voucher idea in its modern form, claims that he too is in favour of the reduction of both poverty and unequal opportunity and that in both respects the voucher system would improve upon the present state of the world. In Friedman’s work, liberty, equality of opportunity, and the reduction of poverty are complementary and not competitive goals of his voucher system. The main argument is that lower income families who are usually trapped in large city ghetto schools would benefit the most from vouchers. It is contained succinctly in the following quotation:

Are the supermarkets available to different economic groups anything like so divergent in quality as the schools? Vouchers would improve the quality of the (public) schooling available to the rich hardly at all; to the middle class, moderately; to the lower-income class, enormously.

Krashinsky may respond that such a view is merely one opinion. Yet his own position is simply that of an implicit assertion that public schools do in fact promote equality of opportunity better than a voucher system would. In order to decide between competing propositions of course we need some kind of evidence. While there is none to be found in Krashinsky’s essay some empirical material is now appearing that would seem to support the Friedmans’ diagnosis. The 1983 Gallup

\[2\] Krashinsky argues that Friedman’s exclusive goal is the pursuit of liberty while the concern for the disadvantaged has been expressed primarily by Jencks and his followers.

\[3\] It must be recognized that the present—day, public school system is heterogeneous in quality, those living in the poorest residential area are receiving the poorest quality education while the country’s outstanding public schools are located in high—income enclaves.

Poll, for instance, showed that while 51 percent of the total population were in favour of a voucher scheme, of black respondents 64 percent were in favour. In the same year the U.S. Department of Education published the results of an elaborate survey on tuition tax credits (which have the same general purpose and effects as vouchers) with the following similar conclusion: “The inclination to take advantage of a tax credit was greatest among two groups of public school parents - non white and lower status parents who are currently under represented in private schools and those with prior interest in and knowledge about private schools.” Judging from this evidence therefore, the majority of the poorest educational consumers do not believe that the present public education system is more conducive to their interests than a voucher system. This finding is in striking conflict with Krashinsky’s opposite view.

Consider next his argument that children should be exposed to majoritarian values, since some sharing of values is necessary in a democratic society (p. 13). The implicit assumption here is that children in public schools are exposed to such values because they inevitably contain a fully representative population. I have already pointed out however that, because of residential stratification, public schools do not typically contain a cross-section of the population. In fact considerable polarisation according to class, race, and income takes place in the public system.

Krashinsky argues, in the same vein, that education produces the external benefit of providing the informed and literate electorate necessary for a democratic society (p. 8). This appears to be another testable hypothesis. No evidence is given, however, to support it. And this is not surprising since the claim that public schools have been producing a literate electorate has been seriously challenged by recent findings by four major national studies on public education that were published in 1983.

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6 The four reports were as follows: *A Nation At Risk* The National Commission on Excellence in Education; *The National Task Force on Education For Economic Growth* sponsored by the Education Commission of the States; the third study was sponsored by the New York—based Twentieth Century Fund, and was chaired by Robert Wood, a former U.S. Secretary of Housing and Urban Development; the fourth study was directed by Theodore R. Sizer, former Harvard University Education School Dean and Headmaster of Andover Academy.
The National Commission on Excellence revealed that about 13 percent of all 17 year olds, and 40 percent of minority youth, were functionally illiterate. Krashinsky’s implicit claim that the public schools are adequately producing an “informed electorate” is severely weakened therefore when we appeal to the facts. The prediction concerning any monopoly is that, compared with competition, all outputs will be produced at a lower quality for a given expense (or at a greater expense for a given quality). In this case the lack of efficiency of a monopoly school system in producing literacy is a reflection on its ability to produce the other public benefits mentioned. Indeed some might argue that the very ability of a public school system to fail to produce an informed electorate, is one reason why the voucher system in the U.S. has not so far had much success.

III. Positive Economics

The focus now will be upon the argument (p. 1) that, were the cost savings to be anything near the magnitude quoted by voucher supporters, politicians espousing vouchers would obtain more votes from householders than they would lose from the special interest groups comprising administrators and others employed by the public system.

One response to this proposition is that today economists are not necessarily surprised at the lack of progress in establishing vouchers. Most of them no longer see the political process as an all-powerful God who shares their preoccupation with efficiency. The political process, in fact, also considers values other than efficiency and especially those of income redistribution. But the income redistribution that results does not derive from some common ethic that sees virtue in redistributing income more equally. As George Stigler has recently observed

The beneficiaries of income distribution in modern state include an unbelievably varied assortment of groups: oil millionaires, the largest banks in the nation, the elderly, families without male heads, airline pilots, Harvard professors, government employees, city landowners, and beekeepers. The losers include automobile drivers, small bank depositors, young workers,
Among the government employees who are among Stigler’s above quoted beneficiaries of income redistribution, workers in the public education sector comprise a significant proportion. And to balance this on the losing side, Stigler would, presumably, include parents and children.

Economists have been arguing for years against several other inefficiencies produced by government legislation including those stemming from minimum wage laws, rent controls, agricultural marketing arrangements, and several other governmental monopoly creations or regulations. The fact that, despite the economists’ criticisms, such phenomenon have not yet disappeared does not lead them to abandon their logic or cause them to assume that perhaps after all they have overlooked some hidden advantages in government provided arrangements. To do so in all cases, indeed, would imply the assumption of a perfectly competitive political process. In fact it is now acknowledged that the process is imperfect or biased.

Krashinsky appears to believe that because “there has been no practical enthusiasm among states ... for vouchers” (p. 1) this represents the typical wishes of the democratic electorate. In fact, he openly states (p. 16) that “vouchers have not been adopted because voters are concerned about protecting the public interest in education.” Yet the Gallup Poll mentioned above showed 51 percent of the total population in favour of vouchers. Surely such discrepancy between state action and voters’ wishes is one measure of the imperfection in the political process (although, as we shall see, it is wrong to assert that all states have shown no enthusiasm for vouchers). Krashinsky himself recognises some of the reasons for distortions in the democratic machinery: taxpayers are widely dispersed and the transaction costs of organising them politically are enormous compared with those involved in organising special interest groups such as teacher organisations. It is always possible

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however that public debate, such as that being conducted here, has a chance of reducing the information gap. If it succeeds the political equilibrium will alter.

As previously explained, positive economics, which attempts to understand the world as it is, uses facts to test hypotheses. We have already appealed to evidence with respect to numerous propositions so far. Consider now some facts associated with the struggle for vouchers that happen to go in the opposite direction from those expected from Krashinsky’s view of the world. In 1985 four state governors, two Republican, Alexander (Tenn.) and Janklow (S.D.) and two Democrats, Perpich (Minn.) and Lamm (Colo.) openly advocated educational vouchers as a means of educational reform. Three out of the four introduced Bills into the 1985 Sessions of their Legislatures. In California a new initiative is being submitted in this year under the title of “The California Schools Voucher Act”. Some element of the voucher system, meanwhile, actually exists in parts of Connecticut and Maine. And of course the Department of Education is now introducing its own voucher plan.

Vouchers in principle and practice can appear under disguised forms. Any government arrangement that makes it easier for parents to purchase private education has voucher-like results. The practice, for instance, in many countries outside the U.S. of subsidising private schools in proportion to enrolment has economic consequences that are in the same direction. Consider, for instance, an educational voucher worth $2000. This would allow a family to purchase up to $2000 worth of education at the (inspected) private school of its choice. The revenue of such a school would therefore be a positive and constant function of enrolment. Compare this with a general system of public funding of private schools. Suppose the funding is on the basis of $2000 per student. The decision of a family to choose one particular school over another will trigger off a mechanism that will direct $2000 to the chosen school in the same way as would a voucher of that value. In both cases the school’s revenue is a positive and constant function of enrolment.

9 Similarly a tax credit could be designed to have the same result provided that, in the case of persons who paid no income tax, the tax credit were to be ‘refundable’ as is the case with the recent
Public funding of private schools occurs in most other countries in the developed world and no longer provokes widespread controversy. In Canada it is to be found in Quebec, Manitoba, Saskatchewan, British Columbia and Alberta. Coming from Toronto, Professor Krashinsky will be aware that Ontario citizens have the option of directing their tax contributions to a separate (Catholic) school system. In none of these other parts of the world therefore does there seem to be the kind of inhibition in contracting for the production of public benefits from education outside the public System, a fact that challenges both the generality of Krashinsky’s central theory and his statement (p. 1) that “neither have educational vouchers been adopted in other countries”.

IV. Legal Barriers

Often in the U.S. the main barriers to voucher systems (and their variants) are legal rather than political. Thus in the early 1970s while there was a strong political willingness to introduce vouchers in states in the north east, the opposition came from the Courts (see for instance, Nyquist 1973). And this brings me to the special circumstances surrounding current attempt of the Department of Education to launch a special voucher system of its own. According to Secretary Bennett, this attempt has been provoked by the Supreme Court’s decision on July 1985 in *Aguilar v. Felton*. That ruling struck down a New York program that sent public school teachers into private and parochial schools to provide Chapter 1 remedial services to educationally handicapped and low income children. The decision was based on the application of judicial criteria previously laid down in *Lemon v. Kurtzman* (1972) and especially upon the charge of what the Court calls “excessive entanglement” between Church and State.

Packwood/-Moynihan proposal. Alternatively the credit could relate to all taxes paid, including indirect taxes.

It is interesting to note that the *Aguilar* decision was based on a bare majority vote. The extent of the minority’s intensity of feeling against the above arguments in *Aguilar* is revealed in the words of Chief Justice Burger, one of four dissenters:

I share Justice White’s concern that the Court’s obsession with the criteria identified in *Lemon v. Kurtzman* has led to results that are contrary to the long-range interests of the country.” … Our responsibility is not to apply tidy formulas by rote; our duty is to determine whether the statute or practice at issue is a step toward establishing a state religion. Federal programs designed to prevent a generation of children from growing up without being able to read effectively are not remotely steps in that direction... The notion that denying these services to students in religious schools is a neutral act to protect us from an Established Church has no support in logic, experience, or history. Rather than showing the neutrality the Court boasts of it exhibits nothing less than hostility toward religion and the children who attend church—sponsored schools.

Another dissenter, Justice O’Connor, described the *Aguilar* judgement as “tragic”. More than 20,000 New York City schoolchildren would be deprived of a “meaningful chance at success in life.” These were the children who were located in cities “where it is not economically or logistically feasible to provide public facilities for remedial education adjacent to the parochial school.” And on the central doctrine upon which *Aguilar* was decided, O’Connor objected: “I disagree with the Court’s analysis of entanglement and I question the utility of entanglement as a separate Establishment Clause standard in most cases.

According to Krashinsky, two of the most important and unique external benefits from a publicly supplied education consist of (a) a reduction of poverty and (b) the promotion of equality of opportunity. Yet the Department of Education’s current voucher proposal is aimed at these very same objectives, objectives which, in the form of remedial education, can no longer be accomplished by the previous means, for many children following the *Aguilar* decision. Those who still oppose the new
federal voucher proposal do so presumably for doctrinaire reasons. Certainly it is very difficult for them to claim that they are on the side of the poor.

Positive economics, to repeat, recognises that governments operate to redistribute income as well as to promote efficiency. And we have seen that redistribution is not always based on any clear criterion such as the moral desire to protect the poor, but is partly the consequence of political lobbying by special interest groups whose concentrated benefits from that activity outweigh the costs of organization. The Department of Education bid to re-establish educational aid to some of the poorest of the poor through the spread of the voucher plan, in fact, already faces stiff opposition from the educational establishment and its allies in Congress. Teachers’ unions and public officials from big cities, including New York have already been quick to denounce the plan saying it would undermine public education. Their objective, therefore, appears to be, not the pursuit of those ends of education that Krashinsky outlines, but to protect by all devices one particular means (the public school system) that is alleged to attain them. This may be good politics (for the participants mentioned), but in the context of Krashinsky’s assumed social goals the Department’s current voucher plan could hardly be described as bad economics.

V. Conclusion

Much of Professor Krashinsky’s critique has a legitimate basis or beginning in theoretical economics. In my opinion, however, he needs to develop his reasoning still further and to take into account the numerous additional variables that I have outlined. It is wrong to attribute to all economist students of the voucher system the view that “the transaction costs associated with public production are so much larger than those associated with contracting through the market place that one is safe to assume that the latter are essentially zero”. Modern economists acknowledge that transaction costs involved with most institutions are positive. The appropriate search is for the institution with the least cost for a given output. What is required in the final judgement is an appeal to systematic evidence. And the evidence should

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include empirical findings on conventional as well as on transaction costs. Since other economists have attempted such evidence it is erroneous for Krashinsky to claim (p. 15) that there is merely a “conviction” that government is “inevitably” costly and inefficient. Several systematic empirical studies have reported that public supply of a variety of goods and services is dearer than private supply. Works by myself (L981) and Sonstelie (1982) has shown that this is also true with respect to public education. Such work cannot be brushed off by arguing that voucher advocacy is “one part of a reaction against big and, supposedly inefficient government” (p. 17, my italics).

If Krashinsky objects to available systematic empirical studies of relative costs he should produce his own. Otherwise his position is inconclusive, as is his statement (p. 16) that the transaction costs involved in using markets “can be” more significant than those that occur when production takes place within the public sector.

Finally, the major empirical weakness in Krashinsky’s essay is his failure to give evidence supporting his implicit claim that public schools are actually and efficiently producing the “subtle” public benefits that he is so concerned about. In the absence of such evidence he may well be chasing a will of the whisp.

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