STATE EDUCATION: HAVE ECONOMISTS MADE A CASE?

Jack High

Introduction

In 1662 economist William Petty argued that education should be a "Publick Charge." Looking at 17th-century Britain, Petty (1899, p. 27) saw entirely too many preachers, lawyers, and doctors to suit him. Were government to control education, he said, it could reduce the number of parishes by half, it could cut the number of lawyers by an astounding 99 percent ("I cannot conceive how there should remain above one hundredth part of what now are . . ."), and it could extinguish that "infinite swarm of vain pretenders unto, and abusers of [medicine]." The state, by deciding how many should be educated for each profession, could eliminate waste and further economic progress.

Petty's general attitude (if not his disdain for particular professions) was typical of early economists, who felt that society would improve in various ways if the state would take an active hand in education (see Johnson 1964). It was not until Adam Smith's *Wealth of Nations*, which appeared in 1776, that economists changed their uncritical approval of state education and began to look on it as an activity with drawbacks as well as benefits.

Once Smith had convincingly demonstrated that, as a general rule, natural liberty and decentralized decision making would promote society's interests better than government direction, education had to be justified as an exception to this rule. Why would governmental

Cato Journal, Vol. 5, No. 1 (Spring/Summer 1985).

The author is Assistant Professor of Economics and Executive Director of the Center for the Study of Market Processes at George Mason University. He is indebted to Tyler Cowen, Dan Klein, George Smith, E. G. West, and an anonymous referee for helpful comments, and to the Fred C. Koch Foundation for financial support.

bureaucracy produce better education than freedom of educational choice and the discipline of market competition?

Economists have provided various answers to this question, but the question itself has profoundly influenced the way economists have analyzed state education. Since Smith the presumption has been that free choice and market competition are preferable to coercion and government decree. Exceptions to this presumption must be explicitly stated and argued.

The thesis of this paper is that in the 200 years since Smith, economists have not made a compelling case for excepting education from free choice and market competition. Indeed, there are cogent reasons, many of which have been advanced by the same economists who favor some state involvement in education, for leaving education to the voluntary choices of the marketplace.

Although the arguments offered here are placed in the context of an intellectual exchange that extends back 200 years, the conclusions of this paper have a relevance for modern debate and policy, in that the economic dispute over proper government policy toward education continues to the present (see Friedman 1955; Vaizey 1962; West 1965, 1976; Friedman and Friedman 1980). These conclusions also bear on the historical debate sparked by Bailyn (1960), Katz (1968, 1971), and other revisionist historians.[1]

Also, during the last two decades, criticism of public schools has been harsh, and it has come from many points along the political spectrum. Most of the reform measures, however, have merely advocated changes in the operation or finance of public schools, often with the plea that more tax money be pumped into the system. (President Reagan's call for merit pay for teachers is an example.) The analysis in this paper implies that reform should aim at eliminating tax funds for, and removing state control over, education. Despite the relevance of the paper's thesis for current problems in education, the focus here is directed on the general arguments that economists have advanced in favor of government involvement in the education market.

Classifying the Arguments

Economists' arguments favoring state education fall into two broad categories—ethical and economic.[2] Ethical arguments maintain that

[1]George Smith (1981) documents a number of similarities between advocates of voluntary education and the revisionist historians.

[2]Modern economics tries to expunge any ethical content from its theories, to deal with "positive" rather than "normative" propositions. By and large this was not true of the classical economists. Ethical considerations therefore constitute a large part of economists' arguments on government education.

state education can foster desirable moral traits among the populace; economic arguments maintain that state education increases efficiency or output. Within the ethical category, economists have argued that public education will improve the moral standards of the poor, foster values essential to a good society, reduce crime, and bring about social equality. Within the economic category, economists have claimed that public education will increase productivity and internalize external benefits. This last argument is especially prominent in modern economics.

These categories are not mutually exclusive (promoting proper values, for example, can increase economic production), and some of the arguments do not fit neatly into one category or the other. Nevertheless, this two-category classification does systematize the long list of arguments that economists have made over the course of two centuries, and it captures the main concerns of those who have favored state intervention in the education market.

Improving Morality of the Poor

Public education is often claimed to improve the lot of the poor. Some economists have felt that government education can help the poor by improving their morals.[3] Adam Smith (1937, p. 735) advanced this argument. He thought that industrial society, through the division of labor, encouraged a "drowsy stupidity, which . . . seems to benumb the understanding of almost all the inferior ranks of people." To remedy this mental torpor, Smith (p. 737) thought government could "encourage, and can even impose upon almost the whole body of society, the necessity of acquiring the most essential parts of education."

Thomas Malthus (1872, pp. 437–40), Nassau Senior (see Blitz 1971, p. 43), and Alfred Marshall (1920, p. 180) expressed similar views. All thought that poor parents generally do not have the foresight and strength of character to adequately provide for their children's education. They recommended compulsory education and government finance as a remedy.

A notable argument for state education along these lines was advanced by John Stuart Mill. Although Mill generally favored free choice and market competition, he thought that the consumer could not competently judge education. Wrote Mill (1973, pp. 953–54), "The uncultivated cannot be competent judges of education. Edu-

[3]"Government education" here does not mean simply the direct government supply of education. Rather, it means any government involvement in the financing, consumption, or provision of education.

cation, therefore, is one of those things which it is admissible in principle that a government should provide for the people."

This idea finds modern expression in the work of John Vaizey. According to Vaizey (1962, pp. 28, 32), "Many studies have shown that parents make choices that are ill-informed and not in the children's own interests," and state education "can in a substantial degree be regarded as an intervention to save the individual from the family." (See also Benson 1968, p. 161.)

Despite its long standing among economists, the argument that state education can morally improve the poor has several weaknesses. A patronizing attitude runs through the arguments. The poor are variously described as stupid, profligate, weak, and uncultured. The wealthier and governing classes are assumed to possess none of these faults. On the contrary the virtues of the rich qualify them as models and teachers of the poor.

If we add paternalism to this patronizing attitude, state education follows as a matter of course. Forcing the poor to learn values that they would not learn voluntarily seems a mark of beneficence. To someone who does not see the rich and powerful as morally superior to the poor, however, compulsion appears otherwise. State education is a means by which the upper classes control the lower ones. The use of public education to exercise social control over the poor has been one of the main themes of American revisionist historians (see, for example, Katz 1971).

Depriving people of their right to choice because they are incompetent is a practice that can be applied to almost any activity, including religion. Herbert Spencer (1888, p. 367) pointed this out: "A stock argument for the state-teaching of religion has been that the masses cannot distinguish false religion from true." He also thought it "strange that so judicious a writer [as Mill] should feel satisfied with such a worn-out excuse. This alleged incompetency on the part of the people has been the reason assigned for all state-interferences whatever."[4]

The authoritarianism of instilling values in the poor through state education has been pointed out by E. G. West (1964). Government financing of education in Britain grew out of Jeremy Bentham's fond-

[4]The elder Mill had, several years before his son declared the uncultured to be unfit for judging education, ridiculed the English clergy for claiming that laymen were unfit judges of religion and therefore ought not to be permitted to read the Bible. James Mill pointed to the beneficial effects of allowing each man freedom to judge religious issues for himself. It seems ironic that John Stuart Mill, who was such a strong defender of religious freedom, would oppose educational freedom. (See Lively and Reese 1978).

ness for controlling the environment of the child. The intention was benevolent, says West, but the reality was authoritarian.

West (1965, p. 211) also points to an inconsistency in the incompetent consumer argument. If members of a democracy are incompetent to judge education, how can they be competent to judge the representatives who will determine the education?

Instilling Values Essential to a Good Society

Besides arguing that it would benefit the poor, economists have maintained that state education should instill values that are essential to the existence of a good society. This argument, too, was advanced by Smith. In addition to believing that the division of labor induces a drowsy stupidity in workers (as noted above), he also believed that repeating routine tasks fosters cowardice. Stupidity combined with cowardice means that workers, who constitute most of the population, are unwilling and unable to defend their country in time of war. To prevent the intellectual and moral decay of industrial society, Smith (1937, pp. 736–40) thought the government should pass compulsory education laws and help finance education. This argument was later endorsed by both Malthus and Say (Malthus 1872, p. 441; Say 1964, p. 435).

Economists have been particularly concerned that state education teach values necessary for the smooth functioning of democracy. John Stuart Mill thought workers should be denied the vote unless they have a minimum of education (see Garforth 1980, p. 120). More recently, Charles Rowley and Alan Peacock (1975, pp. 127–28) have argued that state finance through vouchers is required to teach the common values necessary for democracy. Voluntary education, they believe, would result in values too diverse for democracy to work. Charles Benson (1968, p. 35) lists schooling's contribution to democracy as one of the "important, possibly overriding, benefits of school services" and G. U. Papi (1966, p. 8) writes, "If private enterprise alone were responsible for this service [that is, education] society would run the risk of receiving a kind of education not in line with national interests." Garms, Guthrie, and Pierce (1978, pp. 47–49) express similar ideas.

The arguments that state education should promote values essential to a good society can be interpreted two ways. First, without government education, proper values cannot develop and spread. Therefore, a good society is impossible without government education. Second, purely voluntary education could create and teach values that foster a good society, but government support of education can improve on voluntary means. These two interpretations are both plausible readings of the arguments, but each has sufficiently different implications that it is useful to consider them separately.

If it is accepted that voluntary teaching of values cannot produce a good society but that government teaching can, government should have ultimate authority over the dissemination of ideas. Government should not only encourage proper values, it should also discourage wrong ones. If voluntary education produces values too diverse for the functioning of good society, or if it teaches values so inimical to the national interests that a good society is not possible, the state should use its coercive power to impose uniformity and oppose heresy (see Spencer 1888, p. 365).

To those who value a free society, this argument has ominous implications. The authority of the state to oppose the voluntary exchange of ideas compromises freedom of religion. Henry Sidgwick (1891, pp. 557–60), who clearly saw this conflict between church and state, thought that government should have the power to control religion. Government would not have to exercise this power as long as church teaching did not conflict with government. If these values were to conflict, though, it would then be proper for government to suppress religious teaching.

The same remarks apply to the press. If newspapers and periodicals produce values too diverse for society to function, and government has the responsibility to see that values are sufficiently uniform, government must have the power to impose uniformity.

If voluntary education is able by itself to create a good society, the power of the state need not be so great. The state can limit itself to the subsidiary role of fostering the voluntary exchange of values. In this case, however, state education runs the danger of obstructing an educational system that if left alone, could produce a good society. As a subsidiary institution, state education may harm as well as help.[5]

Economists have expressed a great deal of concern about the harm that government can inflict on private education. Adam Smith opposed complete government financing of education, because it would dilute the incentive for good teaching. The greatest danger of state education, however, is its ability to establish tyranny.

J. B. Say expressed concern about this danger. In his writing (1964, p. 434), he pointed to the French universities under Napoleon that taught "opinions calculated to perpetuate the political slavery of their country." Mill sounded the most serious alarm about the potential for despotism. "A general State education," he wrote (1956, p. 129),

[5]See West (1970, p. 89).

"is a mere contrivance for moulding people to be exactly like one another . . . . in proportion as it is efficient and successful, it establishes a despotism over the mind, leading by natural tendency to one over the body."

If voluntary schooling alone can institute the values required of a good society, government education should not be a dominant force in education. The inefficiency of public schools, and especially the danger of government dominance over values, precludes consideration of any major role for state education. Of course, this still leaves room for state education to play a modest role. A voucher system, it may be argued, could be effective in helping to produce common values without running any great danger of gross inefficiency or government dominance.

Even this is doubtful, though, for modest government intervention in voluntary education leads toward government dominance. It would be naive to think that the state would not use such power as it had to secure more power. State teachers will preach the virtues of state education and the vices of private education. Public educators will extol the achievements of public education in self-serving histories (see Bailyn 1960, pp. 8–9). State school officials will try to expand the influence of public schools and restrict that of private schools. The attempt to outlaw private schools in Oregon is a striking example of this kind of restriction (see *Pierce v. the Society of the Sisters* in Reutter and Hamilton 1970, p. 501). The enormous growth of American public schools since their modest beginnings demonstrates how successfully government education can crowd out private education. A system that started with the modest financing of education has grown into an enormous system that compels attendance, licenses teachers, dictates curriculum, and dominates supply.

Even if a large degree of state control over education is never achieved, government schools secure their resources by force. If we endorse public schools, or public finance, or compulsory school-attendance laws, we also endorse the use of coercion to disseminate social values. Without state education, competition of ideas uses resources secured solely by consent. Also, if moderate amounts of state schooling improve social values, why not moderate amounts of state activity in other mediums that spread ideas? If we should have state-supported schools, we should also have state supported newspapers and churches.

Doubt is also cast on the value of moderate government schooling if we consider what "common values" it is supposed to promote (Rowley and Peacock 1975), or what it is supposed to contribute toward "political democracy" (Benson 1968) or toward the "national interest" (Papi 1966).

In modern liberal societies, people hold widely divergent views on religion, morals, politics, esthetics, and many other subjects. A liberal society permits, even encourages, diverse opinions and values. Common values are reduced to a minimum, and they consist of a respect for other people and their property. It is difficult to see how a system that coerces people and takes property by threat of force could improve on a system that honors property and requires the consent of the educated.

Furthermore, in both Britain and the United States, political democracy was established without public education and in the face of harsh opposition from governments. Agitation for freedom did not come from men educated in public schools. The Levellers, John Locke, Adam Smith, George Mason, and Thomas Jefferson were able to disseminate values that led to political democracy because their education was not in line with so-called national interests—that is, the interests of the established government.

Reducing Crime, Achieving Greater Social Equality

Two other ethical arguments favoring state education deserve brief treatment. One is that government involvement can reduce crime, the other is that it can reduce inequality.

Thomas Malthus was one of the early classical economists who advocated state education to reduce crime. Malthus felt it is the duty of government to provide for the instruction of its people. He thought it a disgrace that the education of the poor had been left to voluntary Sunday schools, and he believed that a proper education, financed by government, would reduce crime by improving morals. This idea finds modern expression in the Robbins report, which listed a "healthier and less crime-prone population" among the benefits of education (quoted in West 1965, p. 32). (See also Lott 1984, pp. 22–24, for other economists who have believed that public education reduces crime.)

Some economists, however, have doubted the ability of state schooling to improve morals or reduce crime. Say (1964, pp. 437–38) thought "The only important science not susceptible of being taught at the public charge, is that of moral philosophy." Say believed moral principles were best taught through voluntary social intercourse. Herbert Spencer (1888, p. 383) concurred: "Did much knowledge and piercing intelligence suffice to make men good, then Bacon should have been honest and Napoleon just."[6]

[6]For a discussion of Francis Bacon's character, see Buckle (1863, pp. 50–55).

More recently, some economists have suggested that public schooling may promote crime. Edwin West (1965, p. 36) has pointed out that when Britain raised the compulsory school-attendance age from 14 to 15, crime committed by 15-year olds increased markedly. Although West claims only that these statistics cast doubt on the assertion that education reduces crime, they can easily be interpreted as showing a link between increased government education and increased crime. In a recent doctoral dissertation, John Lott (1984, pp. 115–36) has found a strong correlation between changes in the percentage of students in public schools and changes in the juvenile crime rate. Lott's study attributes this to the better instruction of private schools. Instruction that is more valuable to students makes it more costly to commit crimes for which the penalty is expulsion from school.

Reducing social inequality has been given as a reason for state education by Henry Sidgwick, James Meade, and Charles Benson. Sidgwick (1891, pp. 152–53) thought public expenditure would transfer wealth from the richer to the poorer; on the assumption that a given sum of money gives more utility to a poor man than to a rich one, this transfer would increase social utility. For utilitarians, a maximum of social utility was a primary goal of public policy. Meade's reasoning is similar to Sidgwick's, except that he does not believe social utility can be measured. Meade (1976, pp. 195–99), thinks the heavier tax burden on the wealthy is an efficient way to transfer wealth.

Social equality finds its most important justification in the work of Benson, for whom social equality is the main justification for the government to supply education. Government-operated schools increase equality by increasing social mobility. According to Benson (1968, p. 59), "The justification for public *operation* of the schools rests, then, on the contribution of the public school system to preserving social mobility."

This objective will not be attained if the government runs schools only for the poor. If the poor were to attend public schools, and everyone else went to private schools, public schools would fall into disrepute. However, according to Benson (1968, p. 60), "With predominantly *one type* of education in the United States, no student need feel he is handicapped with respect to advancement in income and status by the fact that he is attending, (or has attended) the type of school called public. . . . This, we believe, is the primary case for public operation."

The arguments for social equality have several weaknesses. For Sidgwick and Meade, social equality means equality of income. Sidgwick advocated equality because a given sum of money transferred from a wealthy man to a poor man increased the utility of the poor man by more than it decreased the utility of the wealthy one. Since Sidgwick's time, economists have abandoned their belief in measurable utility and consequently, have given up making interpersonal utility comparisons.

Meade does not attempt to justify income equality. He simply assumes it is desirable and focuses on the most efficient way to achieve it. Because Meade does not present an argument, it is not useful to criticize the pursuit of income equality by coercive transfer. (On the impracticability and injustice of income equality, see Nozick 1974, pp. 160–64.)

Social equality to Benson means equality of education. By having government operate all the schools, he wants to eliminate differences in income that are attributable to differences in the quality of schooling. Equality of education, however, does not logically entail government-run schools. The same result could be achieved by imposing a uniform curriculum in all schools, by compelling everyone to complete the curriculum, and by subsidizing those who could not afford to pay. Any school that offered better courses than others, or that taught the standard curriculum better than others, could be closed down. This would achieve the same educational equality through regulation that Benson would achieve by government operation.

Government-administered schools are not only unnecessary to achieve educational equality but also are insufficient. Some government schools are better than others. Schools in wealthier suburban areas are usually better, and have better reputations, then inner-city schools. To achieve educational equality, all government schools would have to conform to uniform standard, too.[7]

The drawback to this is obvious. By requiring all schools, whether government or private, to be uniform, by removing the incentive for one school to improve faster than others, by penalizing those people who are able and willing to teach better than others, equality of education would prevent the most capable educators from exercising their talents. Achieving Benson's equality would subject every student in the United States to the worst schools and teaching available, and it would limit the pace of improvement to that of the slowest educators in the system.

Eugenia Toma has recently pointed out yet another drawback to uniformity. By requiring all schools to be uniform, government reduces competition among producers to supply the kinds of education con-

[7]See Friedman and Friedman (1980, p. 169); and West (1985, pp. 31–32).

sumers want. The result has been a greater monopoly control of education, with higher salaries and benefits accruing to public educators. The rhetoric for equality of educational opportunity has translated into monetary gains for public educators.[8]

Increasing Economic Production

The modern argument justifying public education as a means to increase economic productivity was first drawn by Sidgwick and Arthur C. Pigou. Sidgwick (1891, pp. 147–48) argued that the higher productivity afforded by more education could not be exploited by poor children, because their parents could not afford to pay for the education and could not secure loans, even though the increased productivity would more than repay such loans. Pigou added to the argument by noting that educational loans for poor children were difficult to obtain because capitalists, unable to own what they were investing in, could not adequately secure their loans. "Under a slave economy," observed Pigou (1920, p. 776), ". . . the case would be different." However, by taxing the rich and making the money available to the poor to invest in themselves, Pigou believed that output would be significantly expanded. Underinvestment in education owing to "transactions costs" has now become known as the "imperfect capital market" argument, and it is widely used to justify government loans to students.[9]

It is doubtful that a policy of taxing the rich and using the tax receipts for educating the poor would increase productivity. As Adam Smith pointed out, such a policy will decrease the incentive of the schools to educate efficiently (see Smith 1937, pp. 717–21). This inefficiency is increased when tax money supports a large and politically powerful state educational system. The government must observe how and to what extent it alters incentives if it wishes to employ capital more efficiently than the private market.

Loans made directly to students will probably have the least effect on the incentives of the schools. Direct loans from government, however, also alter incentives. The risk of loaning against increased future earnings is only partially attributable to the prohibition of slavery. Identifying those who will succeed is also risky. This risk is compounded by the difficulty of knowing which capital goods to tax. It is not enough to pass a general tax on property or capital goods. Capital must be diverted from particular investments that have a

[8]See Toma (1983).

[9]See Friedman (1955, pp. 139–42); Arrow (1968, p. 878); and Miller (1967, p. 200).

lower return and invested in particular people who will yield a higher return. Such diversion and investment requires a high degree of skill and judgment.[10] The market has a selection process that places these decisions in the hands of the most competent. This is perhaps the most important source of efficiency in a market.

Government officials are not tested by the competition of the market. Rising to positions of influence in the bureaucracy does not test a person's ability to successfully invest scarce capital. In competent hands, it may be possible to increase output, as Pigou (1920, p. 782) believed, but there is no reason to expect competent hands to capture the post.

No matter who succeeds in deciding who to tax or where to invest, public officials do not have the same financial incentive to be efficient that private investors have. Neither their careers nor their financial success depends on taxing and investing efficiently. The present system of financing state-run schools through local property taxes, as well as general state and federal tax funds, demonstrates how little incentive government educators have to tax efficiently. These taxes make no pretense of taking money only from less-productive investment projects.

The diminished incentive of public officials to be efficient also extends to the collection of loans. Less government incentive to collect loans increases the default rate. If the increased rate of default is not offset by a sufficiently high return on loans that are repaid, government financing will decrease output.

Finally, we draw attention to the moral implications of justifying government financing by imperfect capital markets. Pigou (1920, p. 776) noted that the absence of slavery in a market economy increases the risk of investing in education. If the rich could indenture the poor, or own them outright, risk would be reduced and output increased. Enslavement of the poor by the rich is repugnant because we value freedom above increased productivity. This same value scale would also prohibit the coercive transfer of resources to merely increase output. Combined with the difficulty of judging where to diminish investment and where to increase it, and with the attenuated incentive to tax and invest efficiently, the moral implications

[10]A knowledge of average returns does not indicate whether the government transfer increases or decreases efficiency. An average return of 10 percent on capital goods compared with an average return of 12 percent on educational investment can result from taxing capital goods projects that would have earned 14 percent. A knowledge of marginal returns—that is, returns on particular projects—is required to compare efficiencies.

of using force to increase production militate against government finance of education to increase output.

Internalizing External Benefits

The existence of external benefits is the main reason that modern economists favor government education. Like the other arguments examined here, though, this one has roots that extend back to Adam Smith and the classical economists.

Smith (1937, p. 768), in his praise of the Scottish school system, wrote: "The expense of the institutions for education and religious instruction, is likewise, no doubt, beneficial to the whole society, and may, therefore, without injustice, be defrayed by the general contribution of the whole society." However, Smith did not insist that everyone pay for education. His next sentence (p. 768) reads: "This expense, however, might, perhaps with equal propriety, and even with some advantage, be defrayed altogether by those who receive the immediate benefit of such education and instruction, or by the voluntary contribution of those who think they have occasion for either one or the other."

J. B. Say was more insistent on tax support of some kinds of education. According to Say (1964, p. 433), "[I]t is not every degree or class of knowledge, that yields a benefit to the individual, equivalent to that accruing to the public." Those who study the general laws of nature and who write good elementary treatises are not paid in proportion to the benefit they confer. Therefore, thought Say (pp. 328–29, 433–35), government should support schools and recompense authors of good textbooks.

John Stuart Mill (1973, p. 958) concurred that scientific research benefits the whole community and is therefore a service "for which it is *prima facie* reasonable that the community should collectively pay," but it was Henry Sidgwick who added substance to the argument. If scientific research benefits the general populace, asked Sidgwick (1891, p. 142), why do the people not voluntarily pay for it? His answer was that transaction costs are too high for voluntary exchange to occur. Government expenditure can circumvent these costs, thereby increasing general welfare.

Sidgwick also thought that educating the poor benefited the entire community by generally improving morals and intellect. He urged the state to finance both religious and secular teaching.

Milton Friedman (1955) has been the most influential modern economist to advocate government financing of education to secure external benefits. Friedman's argument runs as follows. An educated person possesses literacy and knowledge that make possible a stable, democratic society. We all benefit from this kind of society, but we do not pay the educated person for this benefit. The proper financial incentives to acquire education are therefore lacking, and too little education will be acquired.

For Friedman (1955, pp. 124–25), the external benefits of education justify laws that "require each child to receive a minimum amount of education of a specified kind." Government financing is also justified as "the only feasible means of enforcing the required minimum." (Friedman, however, later changed his mind about this after considering Edwin G. West's arguments against state education. (See West 1976, pp. 92–93.)

This general argument is widely accepted as economic justification for state-financed education. Benson (1968), Wiseman (1959), Rowley and Peacock (1975), Papi (1966), Garms (1978), Weisbrod (1964), and Cohn (1979) are among the modern economists who accept this argument.

The existence of external benefits does not justify the compulsory financing of education. As Edwin G. West (1965, p. 266) was first to point out, even though we may benefit from another person's education up to a point, we may not gain anything from the additional education that would be acquired through state financing. If people voluntarily acquire enough education to produce a stable and democratic society, any additional education that results from state financing will not benefit us in this way. Thus, according to West, even though the total external benefits of education are substantial, the marginal external benefits can be negligible.

Moreover, even if we were to benefit from the additional schooling of another person—that is, even if there were marginal external benefits—government financing would not necessarily be justified. Although we may benefit from the additional education of others, we may not benefit enough that we want to pay for it. If we have more important uses for our income, the external benefits are not Pareto relevant, and government financing is not justified.[11]

Most of the things we buy have marginal benefits, but we do not buy additional units (another car, for example) because we have more pressing uses for our income. By forcing us to pay for other people's education when we have more important uses for our income, government reduces rather than enhances the general welfare.

[11]For a classification of externalities, see Buchanan and Stubblebine (1962, pp. 371–84).

Granting that the marginal external benefits to education are substantial and Pareto relevant still does not justify government financing, because we can pay for those benefits voluntarily. The establishment of funds for research, scholarship, and teaching are examples of one person paying for the education of others to capture external benefits. If we do in fact benefit from the additional education of others, voluntary contributions enable us to capture these benefits without the necessity of government action. To justify government financing, we must explain why we do not pay for the education of others when it is worth the price to us.

The answer given by Henry Sidgwick was that transaction costs are too high for voluntary exchange. Government can increase welfare by taxing us and by paying for those things that we would pay for voluntarily if only the costs of making the exchange were not prohibitive.

This argument implicitly assumes that government officials do not have high costs of transacting at the same time that private persons do. It also assumes that government officials want to take from us in taxes only what we would voluntarily spend on education were transactions costs not so high. Neither of these assumptions is plausible.

This discussion of Pareto-relevant externalities illustrates the high costs of coercive transfer that aims at increasing the general welfare. To increase welfare through financing education, the government must determine how much each person would voluntarily spend on education were it not for high transactions costs. The government would have to avoid taxing those for whom marginal external benefits were not Pareto relevant, and it would have to tax all others in accordance with the value of the marginal external benefits. It would then have to enact laws, collect taxes, and dispense the funds properly. Economists who have argued that external benefits justify the government financing of education have not addressed the enormous information costs that would confront such a system. They have not explained in any detail how governments would assess, levy, and disperse taxes so as to identify and remove Pareto-relevant external effects. They have not even specified in any detail the extent of Pareto-relevant externalities. In consequence the existence of Pareto-relevant externalities is little more than assertion.

This discussion of transaction costs has assumed that government officials try to increase welfare by levying taxes according to the value of external benefits. This assumption, however, ignores the economic incentives created by taxation. Once educational revenue is obtained through taxes, those whose salaries and positions depend on educational expenditures have a financial incentive to increase taxes, regardless of whether those who are taxed benefit. Also, parents and students can gain financially by forcing others to defray a part of their educational expenses. Government financing of education creates a group whose interest lies, not in enhancing the general welfare, but in reducing it.[12]

The external benefits argument is also inconsistent with freedom of speech and religion. Books, newspapers, television, and radio contribute as much as—and perhaps more than—school to a stable and democratic society. If government should subsidize schools, it should by the same logic subsidize the press. The opportunities for a government-financed press to aggrandize the state are widely recognized, and freedom of the press is jealously guarded. Government-financed schools present similar opportunities for state propaganda, but the dangers are less appreciated.[13]

The external benefits argument of education can be applied directly to religion. Christian values, by condemning violence and teaching respect for others, help create a stable and peaceful society. These values benefit not only the person who holds them but his neighbors as well. Therefore, we could argue, the state should compel everyone to learn Christian values, and it should subsidize religion. If compulsory education and government financing of schools are justified by external effects, so are compulsory religion and subsidized churches. With the exception of Sidgwick (1891, p. 148), economists have not been consistent enough to apply their educational arguments to religion.

Summary and Conclusion

In the 200-year sweep of economic thought, economists have supported some state involvement in education, but have also been chary of the dangers of such involvement. Their concerns with morals and efficiency have led economists to recommend that the state compel, finance, and supply education, but these same concerns have also led them to advise against compulsion, finance, and supply.

The preponderant weight of economic opinion probably favors state finance and compulsion, but goes against direct government

[12]In general, government intrusion into the market will create as well as eliminate external effects. Government is a method of obtaining benefits that the recipient does not have to pay for. The costs of obtaining the benefits are therefore "external" to the recipient (see Kalt 1981, pp. 578–79.)

[13]For an example of state educators attempting to squelch the teachings of economists to protect special privileges, see Frederic Bastiat's "Declaration of War Against the Professors of Political Economy," in Bastiat (1964, pp. 294–300).

supply. This paper has tried to show that the arguments favoring any state activity in education are not compelling. It has argued that neither morals nor efficiency are likely to be improved by introducing compulsion into the education market.

The arguments presented here against state involvement can be separated into three main strands. First, it has been pointed out that governments have no special claim to enhancing social efficiency. They have no special expertise in solving the informational problems that create social inefficiency. Second, there are the perverse incentives created by government involvement. Government officials do not have private interests that correspond to those of the public. Their incentives will in fact lead to social inefficiency. Third, it has been shown that government involvement in education endangers the traditional values of a free society. The same logic that urges state education on society also encourages state religion and a state-run press.

Of course, there may be compelling arguments for state education other than those advanced by economists. Economists though have set forth a great many arguments, both moral and economic. By demonstrating that their arguments are neither logically compelling nor consistent with traditional American freedoms, this paper has gone some distance in showing that education is best left to the voluntary choices of the market.

References

Arrow, Kenneth. "Criteria for Social Investment." In *Readings in the Economics of Education*. Paris: UNESCO, 1968.

Bailyn, Bernard. *Education in the Forming of American Society*. New York: Vintage Books, 1960.

Bastiat, Frederic. *Selected Essays on Political Economy*. Princeton: D. Van Nostrand Co., 1964.

Benson, Charles. *The Economics of Public Education*. 2d ed. Boston: Houghton Mifflin Co., 1968.

Blitz, Rudolph C. "Education in the Writings of Malthus, Senior, McCulloch and John Stuart Mill." In *Readings in the Economics of Education*. Paris: UNESCO, 1971.

Buckle, Henry T. "Mill on Liberty." In *Essays*. New York: Appleton, 1863.

Buchanan, James, and Stubblebine, William Craig. "Externality." *Economica*, n.s. 29 (November 1962): 371–84.

Cohn, Elchanan. *The Economics of Education*. Cambridge, Mass.: Ballinger Publishing Co., 1979.

Friedman, Milton. "The Role of Government in Education." In *Economics and the Public Interest*. Edited by Robert A. Solo. New Brunswick, N.J.: Rutgers University Press, 1955.

Friedman, Milton, and Friedman, Rose. *Free to Choose.* New York: Harcourt Brace Jovanovich, 1980.

Garforth, Francis W. *Educative Democracy.* Oxford: Oxford University Press, 1980.

Garms, Walter; Guthrie, James; and Pierce, Walter. *The Economics and Politics of Public Education.* Englewood Cliffs, N.J.: Prentice Hall, 1978.

Johnson, E. A. J. "The Place of Learning, Science, Vocational Training, and 'Art' in Pre-Smithian Economic Thought." *Journal of Economic History* 24 (June 1964): 129–44.

Kalt, Joseph. "Public Goods and the Theory of Government." *Cato Journal* 1 (Fall 1981): 565–84.

Katz, Michael B. *The Irony of Early School Reform.* Boston: Beacon Press, 1968.

Katz, Michael B. *Class, Bureaucracy, and Schools.* New York: Praeger Publishers, 1971.

Lively, Jack, and Reese, John. *Utilitarian Logic and Politics.* Oxford: Oxford University Press, 1978.

Lott, John. "Alternative Explanations for Public Provision of Education." Unpublished doctoral dissertation, University of California at Los Angeles, 1984.

Malthus, Thomas R. *An Essay on the Principle of Population.* 7th ed. London: Reeves and Turner, 1872.

Marshall, Alfred. *Principles of Economics.* 8th ed. London: Macmillan and Co., 1920.

Meade, James. *The Just Economy.* London: George Allen and Unwin, 1976.

Mill, John Stuart. *On Liberty.* New York: The Bobbs-Merrill Co., 1956.

Mill, John Stuart. *Principles of Political Economy.* Clifton, N.J.: Augustus M. Kelley, 1973.

Miller, William. "Education as a Source of Economic Growth." *Journal of Economic Issues* 1 (December 1967): 280–96.

Nozick, Robert. *Anarchy, State and Utopia.* New York: Basic Books, 1974.

Papi, G. U. "General Problems of the Economics of Education." In *The Economics of Education.* Edited by E. A. G. Robinson and John Vaizey. London: Macmillan and Co., 1966.

Petty, William. *The Economic Writings of Sir William Petty.* Edited by Charles Hull. Cambridge: Cambridge University Press, 1899.

Pigou, Arthur C. *Economics of Welfare.* London: Macmillan and Co., 1920.

Reutter, E. Edmund, and Hamilton, Robert R. *The Law of Public Education.* Mineola, N.Y.: The Foundation Press, 1970.

Rothbard, Murray. "Total Reform: Nothing Less." In *Nonpublic School Aid.* Edited by Edwin G. West. Lexington, Mass.: D.C. Heath and Co., 1976.

Rowley, Charles, and Peacock, Alan. *Welfare Economics.* New York: John Wiley and Sons, 1975.

Say, Jean Baptiste. *A Treatise on Political Economy.* New York: Augustus M. Kelley, 1964.

Sidgwick, Henry. *The Elements of Politics.* London: Macmillan and Co., 1891.

Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations.* Modern Library ed. New York: Random House, 1937.

Smith, George. "The Voluntaryists: Prophets of Modern Revisionism." In *The Public School Monopoly*. Edited by Robert B. Everhart. Cambridge, Mass.: Ballinger Publishing Co., 1981.

Spencer, Herbert. *Social Statics*. New York: D. Appleton and Co., 1888.

Steuart, James. *Collected Works*. London: T. Cadell and W. Davies, 1805.

Toma, Eugenia. "Institutional Structures, Regulation, and Producer Gains in the Educational Industry." *Journal of Law and Economics* 26 (April 1983): 103–16.

Vaizey, John. *The Economics of Education*. London: Farber and Farber, 1962.

Weisbrod, Burton. *External Benefits of Public Education*. Princeton: Princeton University Press, 1964.

West, Edwin G. "Private vs. Public Education: A Classical Economic Dispute." *Journal of Political Economy* 72 (October 1964): 465–75.

West, Edwin G. *Education and the State*. London: Institute of Economic Affairs, 1965.

West, Edwin G. "Resources Allocation and Growth in Early Nineteenth-Century British Education." *Economic History Review*, 23 (April 1970): 68–95.

West, Edwin G. *Nonpublic School Aid*. Lexington, Mass.: D.C. Heath and Co., 1976.

West, Edwin G. "The Demise of 'Free' Education." *Challenge* (January–February 1985): 31–32.

Wiseman, Jack. "The Economics of Education." *Scottish Journal of Political Economy* 6 (February 1959): 48–58.