



Policy Perspective

Are Government Monopolies Inherently Inefficient?

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Key Points

- There is one proven way to dramatically improve public education: school choice for all. This will give schools incentives to do what is necessary to meet individual student needs.
- If Texans actually believe government-operated systems are inherently inefficient, then it follows that the Legislature should not continue to insist on protecting the education monopoly at the expense of children.
- Thousands of dedicated teachers go to work every day to serve the interests of students, yet they are not treated as professionals.

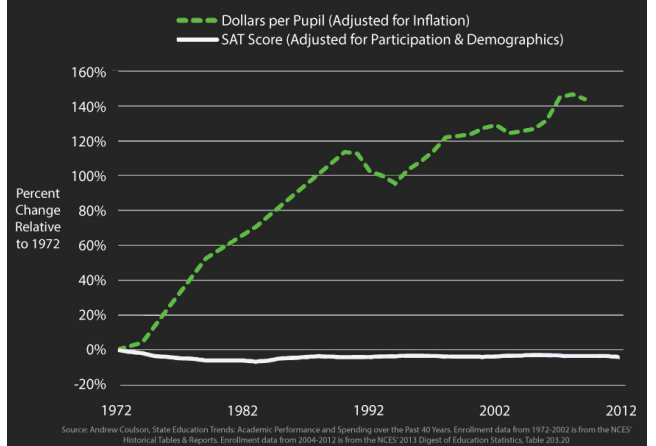
At two recent events, business leaders were asked: “If your enterprise were run by government, would it be more efficient and productive?”¹ In each case the audience’s response was laughter. Most Texans know that government is not predisposed to efficiency and productivity.

One of the most critical activities of the state is education. This is reflected by the fact that a large portion of the state budget is dedicated to education,² yet over the decades the system has evolved into a government-run monopoly. That was not always the case.³

In the early years of our state’s history, public and private schools operated side by side. The system was more like a charter school system than like today’s monopoly. The current system is obviously not operating as the Constitution intended. In the recent school finance ruling, the district judge declared that “all performance measures considered at trial, including STAAR tests, EOC exams, SATs, the ACTs, performance gaps, graduation rates, and dropout rates among others, demonstrated that Texas public schools are not accomplishing a general diffusion of knowledge...”⁴

Judge Dietz went on to indicate that the system is a “dismal” failure to “hundreds of thousands” of students.⁵ Although the District Court concluded that money was the solution,⁶ the Texas Supreme Court has consistently said the opposite.⁷ In fact, as Figure 1 illustrates, Texas has increased spending per student dramatically during the past 40 years, even after adjusting for inflation. Yet according to overwhelming evidence cited in the district court opinion, the system is still failing to meet the needs of Texas students.

Figure 1: Texas Education Trends: Spending & Achievement



If Texans actually believe government-operated systems are inherently inefficient, then it follows that the Legislature should not continue to insist on protecting the monopoly at the expense of children, teachers, and the economy. Polling indicates Texans strongly agree that additional choice in education would be good. For example, 87 percent of Texans believe that “better educational opportunities through school choice for all children would help reduce poverty.”⁸

Thousands of dedicated educators in Texas go to work every single day to serve the interests of Texas students. Most Texans—67 percent—believe paying teachers more would improve the quality of education,⁹ but few realize that the monopoly power held by school districts over the teacher labor market actually has the effect of depressing teacher pay.¹⁰

Figure 2 illustrates this point: Because school districts are the primary employers of teachers, they decrease both (1) the number of teachers hired, and (2) the amount teachers are paid. In Figure 2, this is the point where P_m and Q_m meet. With competition, both the number of teachers hired and the amount paid would increase to the point where the dotted lines meet.¹¹ Dedicated teachers are victims of the monopolistic structure of the system, as are children and taxpayers.

Teachers, unlike doctors, lawyers, and accountants, are not treated as professionals. Instead, they are treated like union labor. In fact, the labor laws in Chapter 21 of the Education Code look a lot like negotiated union contracts in other states. As a result, the very best teacher on campus is paid the same as the very worst if they have the same tenure and certifications. Teacher pay is significantly below what is earned in other professions.¹²

Other professionals can go into private practice. Teachers have less of an ability to do this primarily due to the way education is structured today. Doctors, lawyers, accountants, etc., can have ownership of their enterprises. Ownership is a powerful motivator, both financially and psychologically. No single factor compares in importance to the education of a child than the teacher. Texas must find better ways to reward teachers for their critical service to our youth.

As evidenced by student performance cited in the school finance case, Texas schools are not getting the job done. One important cause is poor resource allocations. According to most Texans, teachers should be paid more and are therefore undervalued by the system. For example: Texas teachers have an average salary of just under \$49,000, and they often leave the classroom to enter other professions. There is also an incentive to move into central administrative roles, where the average salary is more than \$90,000.¹³ Unfortunately, there is a higher monetary value on administration, despite the fact that student achievement, first and foremost, comes from teachers in the classroom.

“No government enterprise can ever... allocate factors or funds in a rational, welfare-maximizing manner, even when the desire is present to do so.”¹⁴ This is the case in Texas. Every Texan involved in public education would agree that students should be the focus of everything they do. But the system’s structure does not encourage the efficient allocation of resources to the classroom because the system is a government monopoly driven by political considerations. Here are the various characteristics of government monopolies:

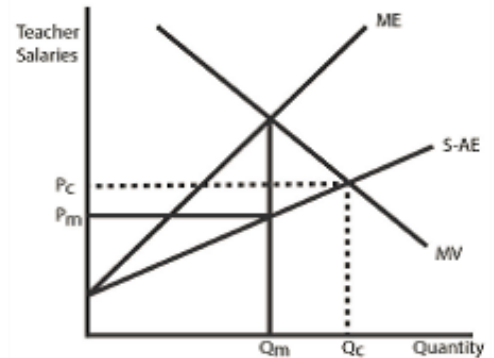
1. They don’t need to worry about loss of customers due to poor service or quality.¹⁵
2. They go all-out to erect barriers to entry to potential competitors.¹⁶
3. They misallocate resources by failing to supply services where they’re most needed.¹⁷
4. They need not worry that inefficiency may mean their demise.¹⁸
5. Their employees have no economic incentive to be efficient.¹⁹
6. Many employees are rewarded for political rather than productive skills.²⁰

Let’s examine these characteristics as they relate to public education.

Schools need not worry about loss of customers due to poor service or quality

Two facts cause this: (1) student attendance is required by law, and (2) school districts’ income is required by law. In other words, school districts have geographic areas over which they have taxing authority. All residents within that jurisdiction pay for those schools. In addition, parents within that jurisdiction must enroll their children in those schools or pay twice to enroll their child elsewhere. Unlike one’s ability to change grocery stores if unhappy with service, price, or quality, consumers are assigned to a school based on their address.

Figure 2: Monosponist Buyer



Source: Microeconomics, by Pindyck & Rubinfeld, 5th edition

The school establishment will erect barriers to entry

The education establishment has been united in opposing most forms of school choice in the past. When the Texas charter law was first enacted in 1995, most in the school community were opposed. In subsequent sessions, attempts to expand charters have been opposed by the school community. Private school choice has been unanimously opposed by the school community every time it has been proposed.

The school system misallocates resources by failing to target the greatest need

As proven at trial, many of the funding formulas are out of date by decades, causing the distribution of billions of dollars without relating allocations to needs.²¹ Year after year, parents complain that kids don't have textbooks until well into the school year. Although slowly improving, the school community is at least a decade behind the rest of the professional world in the use of technology. As Digital Learning Now, a non-profit which studies the use of technology in the classroom, stated in its annual Report Card: "When students walk into the classroom, antiquated policy restrictions on time and place should not hamper their ability to receive the best instruction and content that the 21st century can offer. While many students now experience the benefits of digital learning, countless others are still left behind."²² Additionally, as discussed above, teachers tend to be underappreciated. Far too many children (1 in 4) drop-out without completing high school.²³ According to TEA, 1,199 campuses serving 736,000 students are low-performing, and this number is only increasing over time.²⁴

Inefficiency will not lead to the demise of a public school

During the past 20 years, only four districts have been forced to consolidate due to chronic poor performance.²⁵ Many campuses and districts continue to perform poorly according to state standards. However, in fairness, standards are subjective; whereas some parents may be very satisfied with the results of those schools, others are not. That is another problem with the government's monopoly over education—parents have different values. When some bureaucrat or politician on high makes the determination of what is good or bad, some people will be satisfied and others unsatisfied. Whereas unhappy customers may take their dollars to another store, they do not have that freedom when it comes to education. A supermarket would go out of business if its customers were not satisfied, but schools continue to collect taxes year after year from both those who are happy with the schools and those who are not.

The current system provides employees no economic incentive to be efficient

Thank God for dedicated Texas teachers; otherwise the system would be a total disaster. Texas rewards the best teacher the same as the worst, as long as they've been teaching the same number of years. The State has attempted to enact various forms of performance pay through the years, and the few that have passed do not endure, proving that it's virtually impossible to impose a top-down performance-pay system in an effective manner.²⁶ Actually, the system is structured to discourage, rather than encourage, efficiency. Labor laws make it very difficult for management to remove poor-performing educators and almost impossible to remove marginal performers.²⁷ Although individuals within the system may try to produce greater efficiencies, inherent impediments frustrate their attempts.

Employees will be rewarded for political skills over productive skills

Few would disagree that political skill is the key to advancement in the world of public education. The way to the top is to impress superintendents and school board members. On average, superintendent tenure is only about four years in any one school district. In order to move up to a larger district, and therefore more pay, one must have remarkable political skill. Failure to focus on the political equation may also result in loss of job. Austin ISD's Meria Carstarphen is a prime example: She focused upon student results by changing some campuses into charters with significant success.²⁸ However, she failed the political test, and when a new school board was elected, it reversed her decisions and did not renew her contract.²⁹

Conclusion

In summary, education is one of the most important functions of state government. The future of our economy, quality of life, and individual freedom are all dependent upon an educated citizenry. Yet, we now entrust this critical function to an economic model which will never be as efficient or as productive as Texans deserve. This is true because it retains monopoly power over its customers. Markets force the effective allocation of resources much more efficiently than does the command model. This fact has been proven throughout the history of mankind.

There is only one proven way to dramatically improve public education—school choice for all. Only by allowing freedom of choice will schools have the proper incentives and tools to do what is necessary to satisfy their customer base. When we do so, teachers will be better paid and enjoy better working conditions, another 38,000 students will graduate from high school each year, the Texas economy will boom, and most importantly, Texas children will be better prepared to compete in the world economy. ★

NOTES

¹ This question was posed by the author to the Texas Taxpayers and Research Association annual 2014 meeting on October 29th, and at the Texas Public Policy Foundation's 2015 Policy Orientation on January 7th.

² Looking at total tax revenue, the TEA reports that Total Disbursements by local, state, and federal governments for all school districts on K-12 education was \$61.2 billion in the 2012-13 school year or about double that per biennium. According to the Legislative Budget Board, Fiscal Size-Up 2014-15, 37 percent—or \$74.3 billion—of all state appropriations are dedicated to Agencies of Education, including higher education, each biennium.

³ Grusendorf, Kent. *Texas Education: Original Intent of the Texas Constitution*. Texas Public Policy Foundation (July 2014).

⁴ *Texas Taxpayers et. al. v. Michael Williams*, Conclusion of Law 71.

⁵ *Ibid.* Executive Summary at page 3 & 5, Finding of Fact 94 n28, 102, 305, 322, 364, 1108.

⁶ *Ibid.* Conclusion of Law 71.

⁷ See West Orange Cove II, in which the Supreme Court stated:

...although the issues brought before us in *Edgewood I*, *Edgewood II*, and now *Edgewood III*, have all been limited to the financing of the public schools, as opposed to other aspects of their operation, money is not the only issue, nor is more money the only solution.... In *Edgewood I* we stated: "More money allocated under the present system would reduce some of the existing disparities between districts but would at best only postpone the reform that is necessary to make the system efficient." We are constrained by the arguments raised by the parties to address only issues of school finance. We have not been called upon to consider, for example, the improvements in education which could be realized by eliminating gross wastes in the bureaucratic administration of the system.

⁸ Baseline & Associates, Inc., *Texas Statewide Survey*, October 8-9. (Oct. 2014).

⁹ *Statewide Survey. UT Austin/Texas Tribune* (June 2014).

¹⁰ Barba, Michael and Ginn, Vance. *Teachers Win: A Case for School Choice*. Texas Public Policy Foundation (Sept. 2014).

¹¹ To learn more, see *Teachers Win: A Case for School Choice*.

¹² *Professional Employee Salary Report*. Texas Education Agency. (June 2014.)

¹³ The average Texas teacher salary is \$48,821, while average central administrative salaries sit at \$91,993. See *Texas Academic Performance Report: 2012-2013 State Performance*. Texas Education Agency (2012-2013).

¹⁴ Rothbard, Murray. *Power and Market*. Ludwig von Mises Institute (1970).

¹⁵ *Microeconomics: Inefficiencies of Monopolies*. Investopedia. Page accessed Feb. 26, 2015.

¹⁶ *Ibid.*

¹⁷ Rothbard, Murray. *Mises Daily: The Myth of Efficient Government Service*. Mises Institute (March 2004).

¹⁸ *Ibid.*

¹⁹ *Ibid.*

²⁰ Ibid.

²¹ The District Court agreed that the Cost of Education Index (CEI) was grossly out of date. See *Texas Taxpayers et. al. v. Michael Williams*, Finding of Fact 599, 40, 597-8.

²² *2013 Report Card*. Foundation for Excellence in Education (2013).

²³ *Texas Taxpayers et. al. v. Michael Williams*, Finding of Fact 205-7.

²⁴ Stutz, Terrence. *List of worst schools in Texas surges*. The Dallas Morning News (Dec. 2014).

²⁵ Smith, Morgan. *Texas School Closings Rare, But Should They Be?* The Texas Tribune (April 2012).

²⁶ *District Awards for Teacher Excellence Program: Final Evaluation Report*. Vanderbilt University, National Center on Performance Incentives (Dec. 2010).

²⁷ See the testimony by former Austin ISD superintendent Meria Carstarphen in the ongoing school finance trial, *Texas Taxpayers et. al. v. Michael Williams*. She stated that Chapter 21 labor laws add “anywhere from \$40,000 to \$80,000” to each teacher dismissal case.

²⁸ Melissa Taboada and Benjamin Wermund. *Austin’s schools chief rebounds from tough year*. Austin American Statesman (July 2013).

²⁹ Taboada, Melissa. *No contract extension for Austin schools chief Meria Carstarphen, for now*. Austin American Statesman (Dec. 2013).

About the Author



Kent Gusendorf is a senior fellow and director of the Center for Education Freedom at the Texas Public Policy Foundation.

The Honorable Kent Grusendorf was born near Abilene in Stanford, Texas; grew up in Waco and went to Arlington to attend college with only a band scholarship and \$90 in his pocket. He spent most of his professional life in Arlington as a businessman and successful entrepreneur. Three months after graduating from college he started his own business in the aerospace industry, and has been an independent businessman ever since. In 1986 he and friends started a bank, now known as Southwest Securities FS Bank, where he served as Chairman of the Board through much of the banking crisis of the 1990s.

He represented Arlington for 20 years, 1987-2007, in the Texas Legislature where his primary interest and focus was education. In his freshman term, due to his prior service on the State Board of Education, he was viewed as a leader on education issues. Through his appointments (by three governors and three House Speakers), to the House Public Education Committee and various Select Committees, he played a significant role in crafting legislative responses to the Edgewood I, Edgewood II, Edgewood III, Edgewood IV, and West Orange Cove school finance court decisions.

On the national level he was first appointed to the Southern Regional Education Board (SREB) by Governor Clements. He was reappointed to the SREB by Governors Bush and Perry and also served on the SREB's Executive Committee. Grusendorf also served a term as Chairman of the American Legislative Exchange Council (ALEC) Education Task Force. During his last two terms in the Texas Legislature he served as chairman of the House Public Education Committee. During his tenure in the Texas Legislature he carried education accountability/improvement initiatives for four governors: Clements, Richards, Bush, and Perry.

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