

POLICY IDEAS N° 9

Market solutions to the education crisis

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*(With Introduction and Commentary by Tamanna Patel and Wan Saiful Wan Jan**)*

As Malaysia's children trail behind their global peers in education, what can we do to improve our own education system? Do we let the status-quo rule or should we search for alternatives that work for the benefit of all children?

Executive summary

The performance of Malaysian students in the PISA 2012 rankings once again left the nation wondering when copious amounts of public expenditure on education would translate to markedly improved results. Malaysian students showed some improvement in Mathematics moving up 17 points to 421, a two point decrease in Science at 420, and a 16 point decrease in Reading at 398. These results mean that not only do average Malaysian students perform well below the average OECD student, but they also fare worse than students in countries such as Thailand and Chile.

This paper, first published by the Cato Institute,^{***} looks at the failures of the government education system in the United States and argues that markets can provide better quality education through vouchers & choice, profit-making schools, entrepreneurial educationists and contracting out of certain services. The paper goes on to look at how and why lessons from this paper are relevant to the highly centralised Malaysian education system, and why education reform should focus on the child if the country aspires to move up in global education rankings.

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*** The Cato Institute is a public policy research organization — a think tank — dedicated to the principles of individual liberty, limited government, free markets and peace.

I. Introduction

In many countries around the world, delivery of primary and secondary education is seen mainly as the responsibility of the public sector. Malaysia is no exception. However, parents and students are increasingly worried about a public system that is perceived as not delivering the required quality. A system where extra classes and after-school tutoring have become almost as necessary as attending school, and that supposedly provides free education but has too many hidden costs.

A series of focus-group discussions organised by IDEAS in 2013¹ with parents from lower income households² found dissatisfaction with many aspects of the system including teacher quality and lack of facilities:

“There are four classes in the school that varies from the best class to the worst class. They give extra attention to the best class only. [The teachers] say even if we teach they are unable to learn. So they just ignore the weak students.” – Parent from Morib, Kuala Selangor

“If I am able to change [anything in the school], I will no longer let the students sit on the floor, they should sit on the chair[s].” – Parent from Tanjung Sepat, Kuala Selangor.

Parents who have the resources have set up groups to lobby for improvements in the system. Some have even taken to demonstrating

outside the offices of the Ministry of Education to seek improvement in the quality of education.³ Clearly there is demand to improve the quality of our education system.

Performance in international assessments such as the 2009 PISA serves to underline the need for improvement in Malaysia’s education system too. Out of 74 countries evaluated, Malaysia ranked 54th in reading, 57th in Mathematics, and 52nd in Science. This is not good enough for a country that spent approximately USD3000 per student in 2008, whereas countries such as Chile and Thailand spent an equal or lesser amount while gaining better student outcomes.⁴

Parents from countries such as Nigeria to India and China are turning to private sector alternatives, and taking the matter into their own hands. In these countries, independent low-cost private schools are catering to many who hover around the poverty line. Parents pay a small fee or whatever they can afford to send their children to private schools owned and run by entrepreneurial community members.

Governments in other countries such as Chile, Sweden and the Netherlands have long chosen to infuse market principles in the delivery of their education. They have implemented education voucher systems where each student is allocated an annual amount, disbursed by the government through their education departments. This allows parents

to choose where they send their children, whether it is public schools, not-for-profit private schools or for-profit private schools. Of course the system has variations within each country but essentially both citizens and governments have realised that the public sector alone cannot efficiently and effectively educate entire populations.

At the heart of the creative alternatives that these countries are employing lie key principles of market economics: choice, autonomy and competition. Private sector alternatives have more flexibility in their operations as they are able to contract out certain services such as the maintenance of buildings or even administrative work so the school can focus on the task at hand – improve the quality of education they provide. Voucher systems and the proliferation of private sector alternatives provide parents of all socio-economic backgrounds with more choice. These lead to a competitive environment where public schools and various types of private schools vie for students.

As Malaysia’s children trail behind their global peers in education, what can we do to improve our own education system? Do we let the status-quo rule or should we search for alternatives that work for the benefit of all children?

With this in mind, IDEAS has chosen to reproduce with commentary a paper previously published by Cato Institute, authored by Myron Lieberman, during the Reagan

1 See Policy Ideas no. 4, Giving Voice to the Poor, February 2013, accessible from <http://ideas.org.my/?p=6509>

2 Defined as those earning below RM2000 for those living in urban/semi-urban areas, and below RM1500 for those from rural areas.

3 “Keep Education Out of Politics, Say Parents” Article in Free Malaysia Today (February 2013.) <<http://www.freemalaysiatoday.com/category/nation/2013/02/19/keep-education-out-of-politics-say-parents/>>. Last accessed on 29 October 2013.

4 Malaysian Education Blueprint 2012-2025, Executive Summary, page E-13

administration in the United States in 1986. The whole paper is presented in Section 2 below.

Although written many years ago, consider this: the paper puts forth an argument for the introduction of market principles to reform education. It suggested that a voucher system that can be used to pay for education at all school types, including for-profit private schools. This is because the profit-motive needs to exist to spur entrepreneurial educationists – the “edupreneurs” - to innovate and improve education. This will also push public schools to better themselves given that the government grants them the autonomy and resources to do so.

Malaysia is a much younger system than that of the USA. As we are in the midst of implementing the new Malaysia Education Blueprint, it is timely for us to reflect upon the experiences of other countries and gain insights on the advantages of choice, competition and involvement of private sector in the education system. The main implications of ideas contained in Myron Lieberman’s paper to Malaysia is presented in Section 3.

2. Market solutions to the education crisis

2.1 The illusion of educational reform

Despite the absence of meaningful educational reform, the illusion that reform is taking place is widespread among the public and the media. The most important fact here is that political and educational leaders

have a larger personal stake in the appearance of reform than in its actual existence. To the nation as a whole, the important question is whether educational improvement is taking place. To political and educational leaders, however, the question most important to their re-election or reappointment is whether the public believes improvement is taking place and perceives them as actively supporting reforms. As far as such leaders are concerned, it would be nice if reform became a reality, but their careers depend more upon appearances.

Consider how the appearance of reform overshadows the substance (or lack of substance) of it. One year after “A Nation At Risk”¹ was released, Secretary of Education Terrel Bell made the following comments: The Administration has taken a number of actions in response to the commission’s report. Some of them include:

- Submitting an education budget that would be the largest in history, if enacted, for the 1985 budget.
- Increasing state bloc grant funding by 52 percent and focusing the Department of Education’s discretionary funds on activities to promote excellence.
- Launching an initiative aimed at diminishing and ultimately eradicating adult illiteracy.
- Creating the Secondary School Recognition Program to recognize the nation’s outstanding high schools.

Despite the absence of meaningful educational reform, the illusion that reform is taking place is widespread among the public and the media.

1 “A Nation at Risk: The Imperative For Educational Reform” is a report launched in 1983 by president Ronald Reagan. It contains critical criticisms of the weaknesses in the American education system, and outlines various recommendations for improvement.

- Raising public awareness of the close relationship between discipline and learning.

When the commission issued its report, it hoped it would serve as a clarion call for improvement. Fortunately for our nation, that hope is rapidly becoming a reality. We are witnessing a tidal wave of reform, unprecedented in its breadth and support that promises to restore excellence as the hallmark of American education.¹

The largest education budget in history? The budget was submitted in an election year, was the largest by only the slimmest of margins, and was followed by substantial reductions in the FY 1986 education budget.

“Launching an initiative” to reduce illiteracy? In other words, the administration had no concrete progress to report.

“Raising public awareness of the close relationship between discipline and learning”? The Gallup Poll on education has shown that the public has considered the need for more discipline in the schools as the top educational priority for over 10 years.²

In short, there is a “tidal wave” of rhetoric but not of reform. It is hardly surprising, however, that Secretary Bell (and President Reagan) perceived a tidal wave of reform taking place. The Reagan

administration is acutely sensitive to the criticism that it is anti-education because of its cutbacks in federal aid to education. If educational reforms were being achieved despite reduced federal aid, the Reagan administration would stand to benefit politically.³

The administration has also exaggerated the anticipated benefits of its reform proposals. A case in point is the rhetoric surrounding its proposal to “voucherize” Title I funds,⁴ i.e. to allow the parents of disadvantaged children to use Title I funds for educational vouchers that can be applied to the costs of attending non-profit private schools.⁵ The idea is a good one and deserves support. Nevertheless, intense opposition to it by the public education establishment has forced the administration to claim more for the proposal than it would be likely to deliver. If and when the voucher proposal is enacted, the administration will have a large stake in persuading the public that the legislation has achieved beneficial results, whether or not there are any.

To be fair, the tendency to exaggerate characterizes the opponents as well as the proponents of educational vouchers. For example, the teacher unions have attacked the voucher proposal as a cruel hoax perpetrated on poor parents.⁶ According to the unions, the proposal is a hoax because the

vouchers would not be large enough to cover the costs of attending a private school. At the same time, however, the unions criticize the proposal for shifting needed funds away from public schools. Obviously, if the voucher is too small to allow students to attend private schools, it would also be too small to significantly affect the level of support for public education. Furthermore, the argument ignores the fact that any transfer of funds to private schools would be accompanied by a decrease in the number of pupils in public schools.

Public officials are not the only group creating the illusion of educational reform. Some of the most prestigious, and fallacious, reform reports were sponsored by major philanthropic foundations. These reports ignore the interest groups opposed to reforms. For example, “High School: A Report on Secondary Education in America”, a lavishly publicized reform report sponsored by the Carnegie Foundation for the Advancement of Teaching, makes only one reference to teacher unions; the reference is to a 1913 study sponsored by the NEA.⁷ Similarly, High School says nothing about the governance structure of education, teacher tenure, or the other structural obstacles to reform.

2.2 “Family choice” policies

To its credit the Reagan administration is reducing federal

1 New York Times, April 28, 1984, p. 4.

2 Stanley M. Elam, *A Decade of Gallup Polls of Attitudes Toward Education, 1969-1978* (Bloomington, Ind.: PhiDelta Kappa, 1978), and subsequent September issues of the Phi Delta Kappan.

3 See also Lieberman, pp. 14-15, 164-65.

4 Title I of the Elementary and Secondary Education Act (ESEA) of 1965 provides additional funding to states and school districts with high concentration of low-income and disadvantaged students, in order to close the education gap.

5 The reference is to the Equity and Choice Act of 1985, sponsored by Secretary of Education William J. Bennett and introduced by Sen. Orrin G. Hatch.

6 See, for example, Mary H. Futrell, “Vouchers: The Hoax Is Transparent,” *Education Week*, January 8, 1986, p. 14

7 Ernest L. Boyer, *High School: A Report on Secondary Education in America* (New York: Harper & Row, 1983).

Family-choice measures would be a step in the right direction because private schools are not subject to several obstacles that block public school reform.

regulation of public education. Its major policy initiatives, however, are education vouchers and education tax credits. These policies are commonly referred to as “family choice” measures because they are intended to strengthen the ability of families to enroll their children in the non-profit private schools of their choice.

Family-choice measures would be a step in the right direction because private schools are not subject to several obstacles that block public school reform. On both instructional and non-instructional matters, their governing bodies can act more quickly and decisively. They are not subject to tenure and teacher bargaining laws. They can make decisions on instructional matters unimpeded by state textbook commissions and state restrictions and mandates. In many states, private schools do not have to employ state-certified teachers. Although many do so, their legal freedom to ignore certification requirements constitutes a major advantage in utilizing personnel effectively. Furthermore, private schools can enforce rules of student conduct that cannot be imposed in public schools. In short, the administration appears headed in a direction that can achieve basic reform.

Family-choice proposals, however, may fail to generate constructive change for a long time, perhaps decades. At the federal level, education tax credits will be difficult to implement in view of the federal deficit. At the same time, the administration’s voucher proposals have encountered massive

resistance in Congress, first in 1983 and again in 1986. The opposition has forced the administration to drop its efforts to get such legislation enacted at this time. Commenting on the administration’s decision to “wait until next year,” when a drastically revised bill might be introduced, a leading opponent of the proposal commented, “I hope we get a vote. We’ll crush them, we’ll drive a stake through their hearts.”¹

Even if the administration’s proposals did become law, difficult problems would remain. First, there might well be a shortage of private schools willing or able to enroll a large influx of new students. Private schools would be understandably reluctant to add teachers and facilities for students who might be eliminated at the next session of Congress. Second, education vouchers may cover a student’s tuition, or most of it, but parents would still face other expenses that would weaken their ability to use the vouchers. Third, the lengthy amount of time that would be required to enact the family-choice legislation, draft and approve the implementing regulations, identify schools willing and able to enroll the students, get the information out to parents, operate the program long enough to allow meaningful evaluations of it, and factor the evaluations into the legislative process – all in the face of guerrilla warfare by the opponents of the legislation – means that educational reform through federal family-choice measures could not happen any time soon. By the same token, state legislation on family choice, even if enacted in the near future,

¹ Bruce Hunter, as quoted in *Education Week*, April 2, 1986, p. 12.

would not necessarily bring about any dramatic changes for a long time to come.

In at least one respect, the opponents of family-choice measures are probably right: once enacted, family-choice programs would likely expand. Nevertheless, immediate large-scale transfers to private schools are unlikely. Parents who in opinion polls or questionnaires express an intention to transfer their children to private schools may change their minds when faced with such realities as the additional expense and time required to send their children to private schools.

Family-choice proposals, especially vouchers, can vary on several critical issues: the amount of the voucher, pupil eligibility, school eligibility, treatment of pupils who move in or out of the state or school district, the regulation of voucher schools, and tax treatment of supplemental expenditures. Therefore, it is difficult to generalize confidently about the consequences of voucher plans. The political, educational, and financial consequences of the plans may differ, and objections to one plan may not necessarily apply to others. However, a major weakness of the administration's plan and of virtually all proposed state legislation on the subject is the fact that the proposed vouchers could not be used in profit-making schools. This omission is unjustified, at least insofar as the rationale for vouchers is family choice; the arguments used to justify family choice are just as applicable to profit-making schools as to non-profit schools.

In addition, the appeal to the virtues of competition by non-profit schools is misplaced. Most non-profit schools are denominational.¹ To the extent that pupils enroll in them for denominational reasons, there is no "competition"; public schools are not expected to compete with private schools in indoctrinating religious views. In fact, parents who enrol their children in school for religious reasons may view school performance in nonreligious subjects as irrelevant to their choice of school.² This has always been the position of Amish parents, who have a long history of opposition to public schools.³ In practice, however, even decisions to enroll children in religious schools are often influenced by perceptions of school effectiveness in teaching nonreligious subjects and in inculcating good habits of work and citizenship. For this reason, comparisons of public and private school performance are very important.

In fact, these comparisons present a mixed picture when the students being compared are equal in scholastic aptitude, socioeconomic background, and other relevant factors. Overall, the data suggest a modest aggregate superiority of private over public schools. Probably the reasons for the superiority are more controversial than its existence, which is not present in all grades and subjects. The most likely reason is the greater decision-making freedom of private schools, i.e., the fact that private schools can adopt policies and practices that are legally prohibited or too costly politically to adopt in

public schools.

For example, a private school can demand the right to search lockers or purses at any time as a condition of admission; public schools cannot. Thus, to the extent that private schools achieve better discipline and more effective avoidance of drugs, the reason may be their greater freedom to take protective action. Insofar as public schools cannot legally adopt the practices that account for private-school superiority, competition between public and private schools cannot improve public school performance.

Certainly, there is little reason to believe that teachers in private schools possess more expertise than teachers in public schools; for that matter, not a single important educational practice or innovation has originated in U.S. private schools in the past several decades.

Of course, the reasons pupils learn more in private schools (if they do) may be unimportant to parents. Whatever the reasons, many parents will enroll their children in private schools as long as they believe the latter have a margin of superiority. This is understandable and rational, but policymakers cannot be as indifferent as parents to the basis for any private-school superiority. Depending upon what it is, the policy implications may be to eliminate the restrictions in public schools rather than foster enrollments in private schools.

Furthermore, some non-profit schools have no interest in expanding their enrollments. Their exclusivity is their stock in trade;

1 This is not a reference to Mission Schools in Malaysia, it is simply the case in the American Education system.

2 Ibid.

3 See Albert M. Keim, ed., *Compulsory Education and the Amish* (Boston: Beacon Press. 1975).

expansion would undermine it. On this issue, religious as well as status considerations may be decisive. The Amish schools are not interested in enrolling non-Amish pupils; on the contrary, the Amish established their own schools so that Amish children would not have to associate with non-Amish children. The Amish schools are successful in achieving the objectives of the Amish community, but they do not and are not intended to generate improvements in other schools. The point is not to denigrate Amish schools in any way; it is that the “competition” envisaged by family-choice advocates does not necessarily lead to increased enrollments in non-profit schools or widespread incorporation of better practices in public schools.

To the extent that private schools cannot or will not expand, and the public schools cannot incorporate the operative features of private schools, their coexistence cannot be regarded as “competition,” let alone as competition that leads ultimately to better education in the public schools.

2.3 Profit-making schools

Fortunately, family-choice measures are not the only way that competition can be introduced into public education. One alternative is to encourage profit-making private schools; another is to encourage school districts to contract out instructional as well as non-instructional services to private contractors, preferably profit-making ones.

Before discussing these alternatives, it may be useful to consider what

is likely to be the most common objection to each, namely, that entrepreneurs would exploit children to maximize profits. This objection will be discussed in terms of profit-making schools, but the analysis is equally applicable to profit-making contractors.

One can easily visualize how profit-making schools might exploit their pupils: Incompetent teachers might be hired because they are inexpensive. Charges for textbooks and supplies might be padded. Meals in the school cafeteria could be of low quality. Grades and test scores might be inflated to foster the illusion of academic achievement and thereby encourage enrollments. Children with special needs might be ignored to cut costs. Huckster-type¹ advertising campaigns might be waged to recruit students, not only criticizing public schools unfairly but raising unrealistic hopes and expectations.

Before considering the exploitation argument directly, an assumption implicit in it must first be challenged. The assumption is that pupils in public schools are not exploited for profit by public school teachers. Unfortunately, they are. For example, public school teachers have gone on strike for higher salaries hundreds of times in recent years.² In these strikes, teachers have frequently done the following: made records inaccessible so that substitutes could not teach effectively; told pupils not to attend school if their teachers were on strike, thus encouraging them to violate the compulsory-attendance laws; refused to give credit for student work performed during

a strike; used children on picket lines; encouraged children to lead student walkouts and student efforts to disrupt and discredit school operations; discussed actual or threatened strikes in classes, where it was not relevant to the curriculum, in order to gain student and parental support; and created fears among students that their opposition to a teacher strike or even their refusal to support it could lead to reprisals against the students.

Such conduct is nothing if not exploitation of students for profit, but it is hardly the only way public school teachers profit at their students' expense. Public school teachers frequently tutor their own pupils for pay without regard to the conflicts of interest inherent in such tutoring.³ They sometimes use their teaching positions to recruit students for summer camps operated for profit. High school athletics provides many examples of exploitation of students for the welfare of their coaches; in some cases, colleges were virtually forced to employ a high school coach in order to recruit an outstanding high school athlete.

Above and beyond all this, the most glaring and harmful examples of exploitation of public school students are the laws that ostensibly serve pupil interests but actually promote teacher or teacher-union interests. For example, teacher unions support the minimum-wage laws at least in part to protect the job market for teachers. In addition, the tremendous overemphasis on remaining in school, diplomas and degrees, excessive educational

¹ A “Huckster” is someone who sells or advertises something in an aggressive, dishonest or annoying way.

² America has seen many teacher strikes in the country's history.

³ This is a common practice that is prevalent in Malaysian system as well.

requirements to work at certain jobs, teacher licensing, and the legalization of teacher dismissals (even of competent or outstanding teachers) for failure to pay union dues suggest that public education has some exploitation problems of its own.

The point is not to characterize public school teachers as unduly self-seeking. As a group, they are no more self-seeking than any other group. The point is simply that exploitation of pupils for profit does occur in public education. In some ways, such exploitation is more difficult to remedy in public education precisely because it goes on beneath a veneer of serving children.

One need not believe that private-school leaders are superior in this regard; no doubt many of them likewise support many policies purportedly for the welfare of children but actually for their own welfare. Regardless, the restrictions on private schools originate more in the self-interest of public school teachers and administrators than out of any demonstrable relationship to the welfare of children. In any event, the problems of exploitation arise regardless of whether schools are public, private and non-profit, or private and profit-making.

For that matter, children are served by doctors, dentists, and a host of other profit-making professionals. Although these professionals can and occasionally do take advantage of children, no one proposes that only publicly funded professionals serve them. Why should entrepreneurial schools

be more of a threat to children than entrepreneurial doctors and dentists? Considered objectively, it is only a historical accident that teachers but not doctors or dentists are normally paid from public funds. Indeed, as E. G. West has pointed out, there was a time in the United States when education was virtually universal, but paid for privately.¹

In any case, the states can and do regulate private schools, non-profit and profit-making alike. The states can establish teacher-certification standards, spell out the curriculum, adopt health and safety requirements, and otherwise protect pupils against exploitation in schools, public or private, profit-making or non-profit. Needless to say, this is not to argue for more regulation or any particular regulation but merely to point out that profit-making schools do not pose any novel educational or regulatory issues. What is needed, however, is not so much regulation as objective feedback about how schools and pupils are doing. At present, education is overregulated and usable feedback is not provided to parents and policymakers. Avoidance of this misplaced emphasis on regulation would be highly desirable for both public and private schools.

2.4 The advantages of entrepreneurial schools

On motivational grounds alone, administrators and teachers who could share directly in the profits of better schools are more likely to promote pupil achievement and welfare than those who do not, whether in public or non-profit private schools. Granted,

the non-profit private sector has more flexibility than the public sector to compensate management for superior performance. Nevertheless, the incentive system in the non-profit sector is basically similar to that in the public sector. In any event, the absence of profit incentives must be regarded as a major reason for the failure of non-profit schools to develop a superior technology of education, despite their much greater freedom to do so. Non-profit managers are not accustomed to thinking entrepreneurially, that is, to visualizing the profit-making possibilities in the school situation.

One must also consider the advantages of looking upon education as a market. Profit-making schools would be less inhibited by problems of scale. Denominational schools, realizing that their market share is limited, tend to be unwilling to develop or invest in technology that requires a larger market share to be feasible.

Furthermore, the nature and context of public discussion of education would change significantly as profit-making schools played a more prominent role in education. Conceptually, denominational schools do not compete on the basis of their ability to teach secular subjects and skills more effectively. Practically, they cannot ignore the issue, but heavy emphasis upon it is risky. If denominational schools compete on secular criteria, they are abandoning their unique advantage. Furthermore, they run the risk of losing in the competition, a risk that is avoidable to the extent that their appeal is religious.

¹ E. G. West, *The Economics of Education Tax Credits* (Washington: Heritage Foundation, 1981), pp. 12-13.

Also, denominational criticism of public schools may generate intra-denominational problems. For example, Catholic parishes that operate parochial schools are likely to have parishioners who are parents or teachers of public school pupils. Under these circumstances, criticism of public schools tends to be understated and low-key.

In contrast, managers of profit-making schools would not operate under such inhibitions. They could advertise: “We teach reading and writing and arithmetic--and teach it better.” Perhaps they might be willing to provide a money-back guarantee. In any case, they would openly and explicitly assert claims of superiority on secular criteria and generate comparisons of results and reasons for differences on the basis of these criteria. In some subjects and dimensions of behavior, comparison shoppers might find it difficult to compare schools, but that would be less of a problem than the existing near absence of comparisons.

In some cases, profit-making schools could provide prompt confirmation of their superiority. For instance, they could insist upon appropriate student conduct and advertise the fact. Consequently, their customers would expect discipline as part of their educational purchase from the outset. This option is equally available to non-profit and profit-making schools. The importance of such “social technology” – school rules governing student speech, dress, and conduct, and incentives that foster student effort and achievement – should not be underestimated; utilization of the most effective social technology may be the most effective route to

significant educational improvement, at least in the short run. As suggested earlier, the greater effectiveness of private schools may be due not to greater expertise but to greater legal freedom to adopt the most effective social technology.

Although competition based on social technology is important, the failure to develop or to use major breakthroughs in educational hardware – breakthroughs that reduce the labor-intensive nature of education – remains a critical issue. Experience with support services as well as experience outside of education strongly suggest that progress in this area is likely to come from the profit-making sector if it is to come at all.

ServiceMaster, an Illinois corporation providing maintenance, custodial, and energy services to both the public and private sectors, may be cited as a model. Its clients include approximately one of every seven hospitals in the United States, and it is currently expanding its penetration of education markets: schools, school districts, and colleges. Not surprisingly, the company’s technological capability in its area of service far exceeds that of any hospital or school district. That is, its ability to prevent maintenance problems and resolve the ones that arise depends partly upon a database, backup technology, and training program that no single employer, public or private, could hope to match.

Significantly, the company could not have developed its superior technology if its markets had been limited by geography, political structure, or religious denomination. Larger markets do not ensure technological innovation, but

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they are certainly conducive to it. Educationally speaking, however, even schools of the same denomination cannot be regarded as necessarily a single market. Frequently, denominational schools are administratively fragmented despite their religious unity. Partly for this reason, they are not a promising source of instructional technology.

Although the ServiceMaster example has to do with contracting out rather than with profit-making schools, the relevant principles are applicable to both. The labor-intensive nature of education is unlikely to be reduced unless education is treated as a huge market, justifying large-scale R & D efforts to develop a profit-making educational technology. To date, the improvements in educational hardware, such as computers and copying machines, have originated in profit-making firms that sell to both educational and non-educational markets. By comparison, the educational innovations that have originated in education itself are not very impressive, to say the least.

One major obstacle to a large-scale increase in profit-making schools is the high cost of real estate in metropolitan areas. Paradoxically, real estate costs are typically not factored into the official per-pupil costs of public education. Obviously, the omission conceals the real cost of public education and hence tends to foster support for public over private schools.

The greatest threat to the potential of profit-making schools is that they may be denied opportunities to compete for students. The most immediate example is the Reagan administration's proposed

Equity and Choice Act of 1985. As proposed by the administration, the act would have allowed educational vouchers to be used only in non-profit schools. Whether the exclusion of profit-making schools was deliberate or inadvertent, it reflects a major failure to utilize competition to improve education. Indeed, profit-making schools and contractors could probably implement the avowed purposes of the act more quickly and effectively than non-profit schools.

Be that as it may, surely it would not be a mistake to provide profit-making schools an opportunity to compete for disadvantaged students. For that matter, parents should be allowed to redeem the vouchers for home schooling under certain circumstances. This option might sometimes be desirable from a governmental as well as a parental point of view.

2.5 Contracting-out educational services

Instead of employing teachers to provide instruction, school boards might contract with private profit-making companies to provide it. Such an approach would not provide individual parents with consumer choice, but it could have several advantages over family-choice measures where profit-making schools were not feasible. In any event, contracting out and family choice could coexist.

Contracting out in education is not new. Many school districts already contract out transportation, food service, testing, data processing, printing, legal services, labor negotiations, and a host of other services. That is, instead of hiring employees who work under the

direction of school management, school boards frequently employ independent contractors to perform certain services. The reasons vary but usually relate to the greater efficiency of contracting out.

Furthermore, contracting out often saves school authorities an impressive amount of time and energy. For example, suppose a school district contracts out maintenance and custodial services. The district no longer has to recruit, employ, train, and supervise the employees who perform these services. It may not have to purchase maintenance supplies or perform repairs. At both the administrative and board levels, the savings in time can be substantial. Contractors can be especially helpful to school boards, which typically lack sufficient time for their policymaking and evaluation functions.

For various reasons, however, school boards have not routinely contracted out instructional services, even when the rationale for doing so was clearly present. For example, high schools that lack adequate physics teachers do not usually seek out contractors to provide physics instruction; instead, they offer watered-down physics courses taught by teachers with little competence in the subject.

Contracting out instruction would have the tremendous advantage of bypassing most of the regulatory apparatus that inhibits improvements in public education. Private contractors would not necessarily be subject to the textbook restrictions, tenure laws, or state bargaining laws and would not have to be given excessive retirement benefits or a host of other statutory benefits

that escalate costs without any corresponding increase in productivity. Moreover, contracting out instruction would not require any drastic change in the governance structure of public education. School boards would still be in place, as would most of the legislation that inhibits their effectiveness. Contracting out would not repeal this legislation; it would bypass it.

Indeed, it can reasonably be argued that school boards ought to contract out instruction routinely, not as an extraordinary measure. The very act of employing a teacher tends to tilt the administration in favor of the teacher. Principals, personnel directors, and superintendents do not like to admit that they have employed or retained incompetent teachers. It would be more efficient for the administration – and beneficial to the students – to assign the hiring of teachers to a contractor and to devote more board time to policy issues and evaluation of the contractor's services. Certainly, it would often be easier not to rehire a contractor than to dismiss tenured board employees.

Family-choice legislation can be enacted in a way that does not, on its face, seek to strengthen private at the expense of public education. As a matter of fact, Minnesota legislation eventually upheld by the U.S. Supreme Court¹ provided tax deductions for the expenses of both public and non-public education. Of course, the impact of the legislation was to strengthen private schools, since the tax deductions were much more substantial for pupils attending private schools. This

pattern is likely to continue. Thus, even when family-choice legislation applies to both public and private schools, it will typically be opposed by the entire public-education establishment.

This need not be the case with legislation (if any be needed) to enable school boards to utilize independent contractors instead of employees to perform various services. No school board need be required to contract out; it would simply be a management option. Many boards and administrators might welcome the option, not only as a means of securing high-quality instructional services at low cost but as a way to strengthen their hand in dealing with both teacher and non-teacher unions.

Most school boards bemoan the large amounts of time they devote to housekeeping and administrative duties. But they have no choice as long as fixing a leaking toilet must be placed on a board agenda and the action taken must be approved by the board. In other words, contracting out may have advantages that not only avoid the regulatory apparatus but actually should be utilized regardless of the apparatus. As school boards and administrators become more aware of the advantages of contracting out, they may become more receptive to privatization policies that are not based upon a family-choice rationale.²

For that matter, one can expect some groups of teachers to defect from union ranks on the issue of privatization. Suppose, for example, that a school board were to

contract with a teacher corporation for instructional services. The parties might agree on a fee that was somewhat less than the overall cost of conventional operations. The teachers, having an entrepreneurial interest in increased productivity, would certainly want to avoid union rules against flexibility in assignment; if they were the managers instead of the managed, the union-negotiated restrictions upon management would not likely be so attractive to them.

Furthermore, it would be extremely difficult for a teacher union to oppose contracting out to teacher corporations. To do so would clearly position the union against the interests of teachers. Note also that contracting out instruction could drastically upgrade the professional status of teachers. They would no longer be able to blame their problems on management. They would have clients – clients who could be lost, or who could provide a springboard to greater financial and professional success.

Needless to say, more extensive use of contracting out in public education entails some risks that do not characterize family-choice proposals. One is the danger of graft and corruption in awarding service contracts. Perhaps because of the larger number of citizens directly involved and the importance and duration of their involvement, corruption would be more difficult in education than in, say, city governments, but the danger is there regardless. Of course, whatever the magnitude of the danger, it underscores the advantages of resolving educational

1 Mueller v. Allen, 77 L. Ed. 721 (1983).

2 The author is currently working on a book devoted to various efforts to contract out both instructional and non-instructional services.

It is difficult to imagine sustainable reform taking place in Malaysia if our system remains top-heavy.

issues through the economic instead of the political system.

2.6 Using competition to improve education

Why has the Reagan administration emphasized privatization through non-profit schools and virtually ignored privatization through profit-making schools and contracting out? The answer lies partly in the fact that the administration's educational activists are intellectually and politically oriented to non-profit schools. These activists view the strengthening of non-profit schools as "the" answer, without regard to the concrete circumstances under which competition must operate in order to generate widespread consumer benefits.

At the same time, the administration's opposition to federal spending for public education has drastically reduced the chances that public school leaders will play an active role in the administration. Of course, many of these leaders supported or at least voted for the Reagan-Bush ticket, as did many of the teachers. It is likely, however, that most did so for non-educational reasons. It would have been difficult to achieve leadership positions in teacher unions or school-board or school-administrator organizations on a platform of strengthening private schools and reducing federal aid to public education.

Under the circumstances, therefore, it is not surprising that the programmatic thrust of the Reagan administration in educational reform should be "competition that benefits non-profit private schools but not "competition" that strengthens public or profit-making

private schools. Needless to say, strengthening non-profit schools would hardly impress most citizens as an adequate educational program. The administration's solution to this problem has been simply to assert that as a result of "competition," aid to non-profit schools will improve public schools also. In any event, to achieve the potential benefits of competition in education, every means by which competition for profit can be brought to bear upon the educational process must be explored.

3. Commentary – Implications for Malaysia

3.1 Be wary of the "illusion of reform"

Lieberman provides a very good explanation about the "illusion of reform", and how groups with vested interest would be inclined to create this illusion. They have invested so much into their so called "reform initiatives", that they simply cannot afford for the public to think that they have failed. The investment could be financial (i.e. taxpayers money) or political (i.e. their reputation). Either way, the investment creates what Lieberman called as "the tendency to exaggerate".

There are many ways to create this illusion. The easiest tactic is by organising snazzy events to make announcements about reform. The public could easily misunderstand these events, thinking that they are actually the reform itself, when in reality it is just a publicity stunt. All the public has received is just that – a snazzy expensive event. As Lieberman puts it, "there is a tidal wave of rhetoric but not of reform".

It is also easy to create the illusion of reform in an environment where the media is not free. The media plays a very big role in influencing public perception. Government-controlled media could broadcast interviews with carefully selected “experts” to create a certain illusion, or they could highlight a success story of one school when in reality Malaysia has more than 10,000 schools. In an environment where not many media platforms can have nationwide access, the illusion can be easily created. What is worse, in a country that is unhealthily partisan like Malaysia, a different narrative could be labelled as “pro-opposition” to stop its spread. All these perpetuate the illusion of reform.

It is very important for the public to be wary about the possibility of this illusion. Hence we propose a degree of constant scepticism when dealing with the various reform initiatives announced by policy-makers and politicians. The best way to assess reform is by looking at our own experience and not rely on what is said by others.

3.2 Autonomy and devolution of powers are important for reform

In discussing the advantages of private schools, Lieberman states that “private schools are not subject to several obstacles that block public school reform”. He goes on to describe how private schools have the autonomy in many areas, giving the school management the ability to act faster if improvements are needed in curriculum, staffing, and discipline. Even though Lieberman was discussing this in the context of America, his ideas are relevant to Malaysia.

It is autonomy that makes private schools different from government schools. Lieberman states that “not a single important educational practice or innovation has originated in U.S. private schools in the past several decades.” This implies we cannot claim that private school teachers are superior to those in government schools. They may be of equal quality, thus enabling even those in government schools to be innovative. The distinguishing factor is the ability of teachers and management of private schools to make decisions based on their direct observations of the children, and their relative independence from a central authority.

It is difficult to imagine sustainable reform taking place in Malaysia if our system remains top-heavy. When UNESCO reviewed our education system, they found that “with approximately 8,000 staff in the MOE, Malaysia has arguably one of the largest central education administrations in the world, relative to the number of students.” Additionally, a quick comparison between the ratio of students to MOE staff in Malaysia, Japan and South Korea, both countries which fare better than Malaysia in student outcomes, has UNESCO concluding this about the Malaysian system: “giving more authority and capacity to lower levels of administration, closer to where learning occurs, can in theory support the move to better learning outcomes skills and knowledge that are necessary to create a knowledge-based economy.”

If we continue with the heavily centralised policy-making and decision-making process, the expected reform may never come

to fruition. Policy-makers must understand that to encourage innovation and to introduce market-based reforms, devolution of powers and the provision of autonomy are a pre-requisite.

3.3 Focus of reform must be on the child

The vast majority of policies in Malaysia assumes that education, especially schools, should be delivered by the public sector. The prevalent presumption is that private schools exploit children for money. In Section 2.3 Lieberman makes it clear that this presumption is wrong. As he puts it, “children are served by doctors, dentists, and a host of other profit-making professionals” without any raised eyebrows. So why is there hostility towards private schools among our policy-makers?

Lieberman provides a good answer when he says that “the restrictions on private schools originate more in the self-interest of public school teachers and administrators than out of any demonstrable relationship to the welfare of children.” This is what happens when the politicians are put in charge of our education system. They prioritise the group that matters to them – the voting school teachers and administrators – while children who cannot vote actually take second place. Otherwise, how do we explain the preference to transfer underperforming teachers rather than sack them, and the continuous issuance of bonus unrelated to student performance?

Attention must be shifted from teachers and administrators to students. A key pillar of the market is that providers exist to serve

customers (i.e. the students), not to serve themselves (i.e. the teachers and administrators).

Therefore the debate about whether schools should be run by the government or by the private sector is superfluous. What really matters is how students can be best served. And it is usually the case that “administrators and teachers who could share directly in the profits of better schools are more likely to promote pupil achievement and welfare than those who do not.” This is normal human instinct. Thus, reforms should be geared towards allowing that sharing so that teachers and administrators are more motivated in their jobs.

If evidence shows that private schools are better able to deliver improved educational experience, then efforts should be geared towards ensuring greater and more affordable access. The real challenge for policy-makers is how to guarantee equitable access and there are many ways to provide this guarantee. But there needs to be a sea change first before it becomes worthwhile discussing access. Our policy-makers must leap out of the trap of thinking that schools must be run by the government. They must open up to the possibility of paying the private sector to deliver schooling. Then only can we discuss how to ensure equitable access to private schools, be it through the voucher system, the creation of low-

cost private schools, the formation of true trust schools (unlike the unsustainable *faux* Trust Schools in Malaysia today), and many more. Lieberman himself proposes another creative way to utilise market principles, namely by contracting out. But none of this can happen if our policy-makers are trapped in their distrust of the private sector.

About the author

Myron Lieberman is a professor of education at the University of Pennsylvania, and author of *Beyond Public Education*.

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