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Source: *Journal of Education Finance*, FALL 2012, Vol. 38, No. 2 (FALL 2012), pp. 170-176

Published by: University of Illinois Press

Stable URL: https://www.jstor.org/stable/23353972

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The story goes that tuition voucher schools and charter schools are creatures of the spirit of capitalism[1] and that public funding of them will increase competition, making all schools more efficient and academically better, especially public schools. For that theory to work it is hypothesized that parents as "rational people will make choices as to the education of their children in perfect markets."[2] In the realm of economics, this reasoning is called the "rational expectations hypothesis" or the "efficient markets hypothesis."

The "efficient markets" notion applied to schools via parental choice means that parents will, in their wisdom, utilize public money to send their children to private schools and that *ipso facto* the education level of the nation rises commensurate with the level and intensity of competition among parents in choosing private, clerical and/or corporate charter schools. For the education level to rise requires, of course, that parents will make rational decisions relative to quality education. Essential to the concept is that parents have the knowledge necessary to make informed educational choices. In a perfect market, information is presumed to "flow like water–faster than water,"[3] and it is necessary that those things irrelevant to quality education, or even detrimental to it, are not present in parental decision making. If parental choice is not based on quality education and instead the school choices are rooted in race, religion, wealth, ethnicity, etc., then you will have "imperfect competition." Imperfect competition would result in the overall decline in the quality of education.

In the economic marketplace, "rational expectations," serve as the engine to improve the economy. At bottom, these expectations of individuals and corporations foster efficiency, production costs fall and profits increase. Improvement of educational quality via a scheme of parental choice, however, is much more complex. If the state seeks to drive its economic progress by means of the wisdom of parental choice, it must be sure that the parental choices add to some worthwhile store of knowledge for the next generation. That education in which public money is invested must be calibrated to the end of producing productive knowledge, the "training of intellect" and is designed to "stimulate the mind of the individual to improve his present condition, and [that it] aids him in devising ways and means to do so."[4]

Thus, the basic voucher and charter school theory is that the nation will improve its standard of living by having parents use public tax money to make choices of schools based on their own information, knowledge, and perceptions of educational reality. It assumes that parents know what constitutes quality education, and that they have rational expectations as to the quality of science programs, mathematics, reading, political thought, literature, and all the liberal arts.

However, unfortunately, experience indicates that parental choices are ensnared and limited by the parents' own limited experiences, level of learning, ignorance, biases, and mythology on which they depend to make educational choices for their children and is, thus, in most cases, highly suspect.[5] Such problems with rational choices are recognized by a school of economics known as "behavioral economics" that attempts to enter into the economic equation the actual motivations of individuals in the marketplace.

Parental choice is drawn into question by behavioral economic thought that reveals that standard economic theory relies on the misconception that individuals have well informed rational preferences in exercising choices. Yet, in fact, preferences may not be rational nor reasonable, but rather may be based on prior beliefs that influence the processing of the information on which choices rely. Information that is consistent with parental prior beliefs is deemed by them to be relevant to their choices and the information that is inconsistent with their prior beliefs is "ignored, discounted or forgotten." Such fictions weigh heavily in skewing choices away from rationality.

Behaviorists also argue that the summation of individual choices, in totality, cannot be relied upon to ensure the progress of mankind and the enhancement of the public good. The aggregate does not necessarily produce rationality; rather, it is more likely to result in inefficiency and inequality.[6] The behaviorists maintain that forces, riding the rationale of the grail of competition, tend to warp the public good causing both inefficiency and inequality. Put simply, the public good is more than the sum of individual preferences and choices. The public good is beyond the exercise of self-interests. It is a great misunderstanding, indeed, a fallacy, to assume that people acting individually in their own self-interest can achieve the public good.[7] We have known this since it was explained to us by Rousseau in 1758, as a cornerstone of democratic thought, that "personal interest is always in inverse ratio" to the common interest.[8] Thus, a system where parents take public money and indulge their self-interests is highly problematic for the education policy of a state or nation.

Joseph E. Stiglitz helps clarify why the "rational markets" theory is not likely to work efficiently in the marketplace of educational choice. Stiglitz was co-recipient of the Nobel Prize for Economic Science, 2001; formerly Chief Economist at the World Bank; Chairman of President Clinton's Council of Economic Advisors; and now Professor of Finance and Economics at Columbia University. Stiglitz documents in *The Price of Inequality*, 2012,[9] how the theory of rational markets has produced an unequal and inefficient condition that is pervasive in the United States and cannot be easily remedied. He maintains that external political influences on government tend to cause ever increasing economic inefficiency and inequality. In the realm of education, inefficiency and inequality are exacerbated by rampant government stimulated exertion of self-interests via tuition vouchers and/or charter school mechanisms.

Stiglitz, in keeping with the reasoning of Muhammad Yunus, another Nobel Prize Laureate, avers that most inequality is not an unguided phenomenon; rather, Yunus says that "American inequality didn't just happen. It was created." Further, Stiglitz argues that while market forces help contribute to inequality, it is actually anti-egalitarian government policies that shape those "market forces." "Much of the inequality that exists today is a result of government policy steered by the self-interest of private factions."

Stiglitz's primary contribution to economics was explaining why unregulated markets cannot be trusted to advance the economic and social interests of peoples and nations. His thesis is that regulation by governments is necessary because of "market imperfections" are created by "asymmetric information." As expressed in his writings, it is a truism that markets are neither rational nor moral and are, in their freestanding state, economic manifestations of the selfish gene, exhibit a Hobbesian self-interest, and are, in the end, engines of predatory selection.

Stiglitz's theory of "asymmetric information" and its effects on competition has pierced, with very large holes, the prevailing economic assumptions of Adam Smith, Hayek, Samuelson, and, of course, Milton Friedman. With regard to Friedman, Stiglitz renders Friedman's parental choice and voucher stuff nonsensical because parents are generally poorly informed about the quality of schools and, worse, parents normally exercise a school choice based on information that has little or nothing to do with quality schooling. Rather, parental decisions regarding schools are usually based on racial bias, religious intolerance, ignorance, convenience, and a host of other perceptions unrelated to education. Thus, parental information is generally, by nature, imperfect and asymmetric. In his textbook, *Economics of the Public Sector*, he provides detail as to how "imperfect information" affects and, in many instances, negates the perceived benefits of competition in the marketplace. He indicates that this is particularly true in medical services and education. Asymmetrics of information are obvious in medicine where the patients are largely in the dark when they buy a "doctor's knowledge and/or information." Patients cannot "effectively assess and evaluate a doctor's advice."[10] Because of such consumer uncertainty, governments require doctors to be licensed and drugs to be regulated. These constraints in medicine are required of medical doctors whether they practice with public or private hospitals.[11]

Similar problems of quality and consumer protection exist in education. In education, as in medicine, imperfect information decreases and distorts the "effective degree of competition."[12] With education, the conditions of the marketplace do not exist. Parents are all, to a greater or lesser degree, ill informed about the qualifications of teachers, their expertise, certifications, and are usually poorly informed about the subject matter conveyed and the teaching techniques required. That is why states require public school teachers to follow strict and complex educational processes to be certified. Such, however, is not normally required of private voucher schools or charter schools.[13] Therefore, parental choice and market competition in the realm of education, as in medicine, is uniquely suspect, and in the case of tuition vouchers and charter schools, is normally reduced to a condition of state subsidized legal segregation.

Concerning Friedman and his choice argument, Stiglitz recalls that he tried to explain in long discussions with Friedman the importance of the externalities of "asymmetric information" and the doubts that it cast upon rational choice and how it mitigates Friedman's beloved and unregulated free market theory. Stiglitz remembers that "Friedman couldn't or wouldn't grasp" the concept. He says that Friedman, of course, "couldn't refute them – (rather) (h)e simply *knew*" that the economic research on "information imperfections" had to be wrong.

In spite of Stiglitz's decimation of Friedman's choice theory, conservative politicians, parental choice advocates, parochial school champions, and for-profit charter school investors advance the quest for public funding under the guise of free market dogma, competition, and choice in order to advance their own largely unrelated special interests. The rubric of market efficiencies serves as their cover. Stiglitz clearly exposes a principal sophism in such parental choice fabrications in that parental choice contributes to the wide disparities in wealth and income in the United States and to some degree leads to degradation of the social fabric and contributes to economic inefficiencies that will eventually lower the standard of living of the nation.

Therefore, parental choice, in most instances, may have nothing to do with education, but rather merely reflects educationally irrelevant beliefs causing educational market distortion. Such beliefs are usually *a priori* biases based on race, gender, ethnicity, wealth, social status, and, of course, religion. Vouchers are supposed to work because Friedman and other conservative economists assume that parents and their progeny are, in fact, "selfish, rational people interacting in a perfect" educational market. It is true in most circumstances that they are selfish, but they are not necessarily rational, in that they have no substantive idea as to what constitutes a good school. Parents' choices are dominated by what Fox calls "noise". Justin Fox, in his book, *The Myth of the Rational Market*, explains that "noise" in information muddles and misshapes choices of consumers. Without government intervention, markets are not rational; rather, they are to a great degree irrational or at least imperfect. This is true in both the microeconomic sense and the macroeconomic sense of the entire marketplace.[14]

With regard to parental choice this obscures rational preferences by parents in their choices of schools. That "noise" in parental choice is misapprehended information based on innate self interest, influenced by the aforementioned discriminatory impulses. The main "noise" that vouchers create in the marketplace, as Walzer says, is the "guarantee that children go to school with other children whose parents...were very much like their own."[15] The choice of like-minded parents with similar ideologies and biases is a far distance from parents who make school choices based on curriculum content, school environment and teacher quality.

Government funding of vouchers and charter schools would, if widespread, contribute to social disunity and inequality. The Wall Street desire to make significant privatization incursions into the areas of public goods, human needs, health, education and welfare, and to correspondingly avoid government regulation is a strong *laissez faire* profit motivation. To deregulate these normally governmental functions leaves Wall Street in the enviable position of near total discretion in raising "transaction costs" that assure profit maximization. Stiglitz observes how Enron is the banner child for such unbridled deregulation. CNBC's "Squawk Box" each morning trumpets that government regulation is bad for business. Stiglitz points out that the private business sector even believes that "Regulations that prevent child labor are bad for business." Stiglitz in emphasizing his point is on target. Historically, as we saw in the mid-19th Century, the principal opposition to child labor laws and compulsory school attendance was led by businesses, prelates and parents.

Stiglitz further views the consequences of vouchers by pointing to the federal and state higher education funding dilemma. One of his central thrusts has to do with the everlasting problem of the wealthy private sector controlling government and using regulation and deregulation to its economic advantage. The phenomenon is natural in that the Hobbesian self-interest applies to primary and secondary education and to the higher education student loan debacle. The federal government in 1971, in attempting to enhance the college going rate and at the same time aid private religious institutions, moved to provide federal aid via a tuition voucher system named after Claiborne Pell, a Senator from Rhode Island.[16] The voucher system placed few meaningful regulatory limits on institutions that received the money. Private institutions voraciously consumed the Pell voucher money and correspondingly and methodically raised tuition with the result that Pell vouchers actually stimulated increases in tuition. As tuitions rose, students continued to suffer a financial burden gap. The federal government then later, at the behest of the banks who are always desirous of loaning money when there is no risk, lobbied Congress and achieved two crucial regulatory concessions. First, the federal government subsidized the interest on the loans, and, importantly, by law assured the banks that students who were unable to repay their loans could not escape their debt obligation to the banks by means of personal bankruptcy.

The result has been that the student loan non-regulation coupled with the assurances for banks was so lucrative that private for-profit entrepreneurs entered the market and began to take advantage of students with bogus educational programs aimed at making money with sham education. The deregulation had yet another effect; the Congress did not see fit to require states to maintain their tax effort for education and, as a result, state funding for higher education has declined dramatically during the past several years, shifting the burden to the student whose total debt now exceeds the total credit card debt in the United States. Stiglitz succinctly addresses the higher education funding fiasco and points out that the voucher/loan system fashioned by private, private for-profit schools and banks "eviscerates any incentives for banks, and the for-profit schools that they work with, to provide an education that will yield a return. Even if the education is worthless, the borrower is still on the hook." Stiglitz has extensive endnotes to support his assertions. Second, he says that this deregulation, "a conspiracy between the for-profit schools (many owned by Wall Street firms) and the for-profit banks, the students are never warned . . . the reality is 'Dissatisfaction is almost guaranteed...'" Stiglitz says that effectively the for-profits, in concert with Wall Street financiers, tell the victims "We exploit your dreams; we don't deliver on our promise." Third, to add to the problem, the government's lack of regulation of these transactions is almost wholly financed by taxpayer money. The result is that in this non-regulated U.S. higher education voucher/loan system, the students and taxpayers are misused, deluded and beguiled while the private sector, private and private for-profit institutions, in concert with banks and the Wall Street investors reap huge fiscal rewards.

Today institutions of higher education, public and private, remain largely segregated by race, religion and economic condition. White colleges and universities remain primarily white, Black institutions remain primarily black, and denominational institutions remain even more religiously identifiable. Such segregation is sanctified with tons of federal and state money in the forms of tuition vouchers, tax credits and government subsidized loans. The Obama administration has been largely foreclosed from remedying the situation for fear of offending powerful political forces representing the investors and private institutions. The higher education voucher/loan dilemma portends a probable scenario for the future of tuition vouchers and charter schools at the primary and secondary levels.

Stiglitz quotes Alexis de Tocqueville who said that the main element of the "peculiar genius of American society" is "self-interest properly understood." The last two words, "properly understood," are the key, says Stiglitz. According to Stiglitz, everyone possesses self-interest in the "narrow sense." This "narrow sense" with regard to educational choice is usually exercised for reasons other than educational quality, the chief reasons being race, religion, economic and social status, and similarity with persons with comparable information, biases and prejudices. But Stiglitz interprets Tocqueville's "properly understood" to mean a much broader and more desirable and moral objective, that of "appreciating" and paying attention to everyone else's self-interest. In other words, the common welfare is, in fact, "a precondition for one's own ultimate well being."[17] Such commonality in the advancement of the public good is lost by the narrow self-interest. School tuition vouchers and charter schools are the operational models for implementation of the "narrow self-interest." It is easy to recognize, but difficult to justify.

Endnotes

1.Liah Greenfeld, *The Spirit of Capitalism: Nationalism and Economic Growth* (Cambridge, MA: Harvard University Press, 2001).
2. Justin Fox, *The Myth of the Rational Market: A History of Risk, Reward, and Delusion on Wall Street*, (New York: Harper Business, 2001), p. 178.
3. Fox, *op. cit.*, p. 182
4. See: Greenfeld, *op. cit.* p. 355, quoting W.H. Campbell, Rutgers University.
5. See: Kern Alexander and M. David Alexander, *American Public School Law, 8th Edition*, (Belmont, Calif.: Wadsworth/Cengage, 2012), pp. 284-327 and pp. 337-394.
6. Fox, *op cit*, pp. 191-196.
7. Joseph E. Stiglitz, *Whither Socialism* (Cambridge, MA: MIT Press, 1996), p. 179.
8. Jean-Jacques Rousseau, *A Discourse on Political Economy (1758), in The Social Contract and Discourses*, translation by G.D.H. Cole, (London: J.M. Dent & Sons, 1973), p. 133.
9. Joseph Stiglitz, *The Price of Inequality* (New York, NY: W.W.Norton & Company, 2012)
10. Joseph E. Stiglitz, *Economics of the Public Sector*, Third Edition (New York: W.W. Norton & Company, 2000), p. 309.
11. Ibid.
12. Ibid., p. 434.
13. Ibid., p. 435.
14. Fox, *op. cit.*, p. 200-201.
15. Michael Walzer, *Spheres of Justice* (New York: Basic Books, 1983), p. 218.
16. See also: *The Economics and Financing of Higher Education in the United States*, Joint Economic Committee, Congress of the United States, 91st Congress, 1st Session, 1969.
17. Stiglitz, *op. cit., The Price of Inequality,* p. 288.