

Policy *Perspective*

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An Education Monopoly: *The Calculable Cost to Texas*

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Economists have long warned of the dangers of monopoly in markets. In fact, that monopoly in markets is damaging to consumer interests is widely known and accepted.

This knowledge inspired the Sherman Antitrust Act over 100 years ago as well as the creation of the Federal Trade Commission, both still at work today.

Those who studied economics principles in college will recall that there are four basics of monopolistic behavior that make it undesirable. First, monopolies price too high compared to competitive markets. Second, monopolies produce too little compared to competitive markets. Third, monopolies become slothful and wasteful in their operations since the competitive discipline that forces efficiency is nonexistent. Finally, monopolies that exist for any length of time usually enjoy some type of legal protection. The defense and extension of that legal protection takes many forms, such as lobbying and court proceedings, and is what economists call “rent-seeking.”

These costs and inefficiencies of market monopolies are obvious. As a result, objections to deregulating various industries such as natural gas, airlines, trucking, and even electricity have been overcome in recent decades because deregulation meant the elimination of mo-

nopolies. However, it seems few realize that government monopolies can be just as or even more costly.

There is no better example of a government monopoly than public (government) education. Some might disagree. After all, in Texas parents are perfectly free to send their children to any private school, and that includes home schooling. However, parents who choose private schooling are not exercising a choice quite so “freely” as those who stay with government schools.

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No one whose child attends a government school is charged tuition. Yet parents who opt for private schooling are still required to help pay for government schools through taxes, a bitter pill to swallow when a no-cost alternative is so easily available.

Government schools are monopolies in other ways. Though there have been efforts to provide for greater choice among government schools, these have been rather limited. For the most part, a child’s place of residence determines which government school that child attends. Parents have few options. Multiple government schools are not provided for the same area in the way



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that there are multiple gas stations, multiple grocery stores, or multiple restaurants. Parents exercise almost no choice in the teacher or curriculum.

Education is a service, just like computer repair or medical care. Therefore, it is just as subject to the laws of economics as any other sector of the economy. This means that if education is monopolized, consumers of education will suffer from high prices (high taxes), lower quality of service (too little student accomplishment and too few graduates), slothful productivity (lots of wasted money), and rent-seeking behavior (lobbying).

All of these behaviors are exhibited in the state's government school system. The United States (and Texas) spends more per student on education than virtually any nation on earth, so the price of education is high. Despite this, perhaps 65 percent (or fewer) of today's first graders will graduate from high school, based on past performance. Meanwhile, there are as many non-teacher employees in the schools as there are teachers. Finally, it is difficult to think of an industry that maintains more lobbyists — many at taxpayer expense — in Austin than does our public education system.

Costing out all the inefficiencies of the government education monopoly is difficult. In fact, it is impossible to do so with absolute accuracy. Nevertheless, it is worth exploring possible measures of inefficiency as a way of getting some idea of the cost. Here, the particular inefficiency explored is the education system's tendency to produce too little education. It does this by either incompletely educating children (i.e., providing a low-quality service) or by failing to educate all children. In 2002, about 83 percent of Texas high school seniors actually graduated. Combined with the fact that many students drop out prior to their senior year, it is generally acknowledged that only about 65 percent of students who start in our government schools graduate from them.

Not everyone agrees that dropouts are an example of the education system's inefficiency. Students drop out for many reasons often unrelated directly to anything within a specific school's power to change. This might be true, but it must be understood that dropping

out occurs today within the context of the existing system, one that is not particularly flexible to specific needs. In the relatively competitive higher education system, for example, courses are cost-effectively offered in the evenings to accommodate the needs of working students. Such accommodation is rare for students of working age in the government schools, and where it occurs there tends to be a good deal of taxpayer expense. Such lack of accommodation, while not directly attributable as a cause for the decision of a student to drop out, is nonetheless a significant contributing factor.

In addition, it should be noted that some state and national research finds a strong correlation between the efficiency of public schools and the likelihood a student will drop out. Students are less likely to drop out of school when schools demonstrate success in equipping them with fundamental literacy skills in grades 1 and 2.¹

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So, what can we say about the cost of educating children for a few years, only to have them drop out? Calculating the social costs of having children drop out of school is beyond the scope of this paper, and has been explored by others. Social costs are subject to a lot of subjective measurement and a good deal of error, too. Less subject to error,

though not free from error, is a look at all the spending on children who ultimately drop out and do not graduate by including this attrition cost as part of the cost of producing high school graduates.

The simplest way to think of the cost of educating a high school graduate is to add up the average per student expenditure from each year of a student's educational career. A more comprehensive cost estimate is to look at the cost of educating a whole class of students starting with the first grade and moving through the 12th, adding all the costs and averaging them according to the number of graduates. This takes into account the fact that many students dropped out and that, though they did not graduate, their attendance was part of the cost of the graduates produced by the system.

The calculation of costs just described sounds simple, but it really is not. There is a lot of movement across school districts, making student counts from year to year inaccurate for the purposes of the calculation.

New students move into the state. Children also fail a year but do not drop out. Ideally, the calculation above would take these issues fully into account. Inflation over the 12-year period also affects the calculation. Finally, the current cost comprehensively measured over the past 12 years and reduced to a single number should take account of the reality that money spent years ago could have accumulated additional value if invested.

The table below provides the calculation just described for seven school districts. Multiple factors have gone into this calculation:

- ◆ Data from the Texas Education Agency’s Academic Excellence Indicator System are used to calculate the 12-year cost of educating the graduating class of 2003 for each of the listed districts.
- ◆ Per student spending inclusive of bond payments for each district is used for this calculation.
- ◆ An adjustment to discount this cost to account for enrollment growth was made by adjusting according to the changes in total enrollment from year to year in each of the districts.
- ◆ In addition, the average per student expenditure in each district was adjusted to account for inflation. And the present value of money is taken into account since \$100 spent 12 years ago would be worth more than \$100 today even if there were no inflation, since that \$100 could have been invested to earn interest. A very conservative 2 percent discount rate is used to inflate the value of dollars spent in prior years.

The 12-year cost per graduate reported in the first column would accurately represent the cost of a single graduate in each district *if* there were no attrition in the number of students (dropouts). The second column more accurately represents the 12-year cost of a graduate because it takes account of the cost of educating many students for one to several years without them graduating, a “deadweight” cost since that expenditure was part of producing a graduating class, but was unnecessary since it did not directly contribute to the education of one of the graduates. The third column is the difference between the first two columns.

The third column shows that in Austin ISD \$41,541 in deadweight costs per 2003 graduate² accumulated over the 12-year matriculation period. In Edgewood ISD, where the graduation rate is quite low, the accumulation of deadweight costs per student amounted to \$121,604, almost three times the amount of Austin’s deadweight. However, these costs are expressed only on a per graduate basis so far. By multiplying by the number of 2003 graduates, the full magnitude of the deadweight cost involved in producing the graduating class of 2003 can be more fully appreciated. This is exhibited in the fourth column of the table.

Total accumulated deadweight costs apparently necessary to produce the graduating classes of 2003 for the seven districts in the table (figured by summing the fourth column) amount to almost \$1.4 billion in 2003 dollars and value. These districts represent less than 12 percent of the state’s total student population, so this

The Accumulated 12-year Cost of a High School Graduate in 2003 Dollars

School District	12-Year Cost per 2003 Graduate Not Accounting for Attrition	Actual 12-Year Cost per 2003 Graduate Given Attrition	Deadweight Loss per Graduate Due to Attrition	Total Deadweight Loss for All Graduates Due to Attrition	12-Year Cost per 2003 Graduate at 2003 Spending Levels
Austin	\$119,799	\$161,341	\$41,541	\$130,062,581	\$174,832
Dallas	\$104,164	\$170,954	\$66,790	\$349,733,631	\$193,095
Edgewood	\$136,263	\$257,867	\$121,604	\$51,403,076	\$257,527
Fort Worth	\$116,235	\$164,898	\$48,663	\$133,261,249	\$183,018
Houston	\$95,852	\$166,206	\$70,354	\$530,503,037	\$198,800
San Antonio	\$116,945	\$186,768	\$69,823	\$158,351,354	\$204,346
So. San Antonio	\$137,317	\$197,785	\$60,469	\$23,697,980	\$210,133

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number could be as much as eight times greater (\$11.2 billion) for the entire state.

These calculations could be made with greater precision, but the magnitude of the numbers would be similar. The cost of the government education system's monopoly for our economy is huge. The measure of that cost explored is only a fraction of the costs of this monopoly. Others are exploring the cost of inefficiency in other areas. For example, there is a good deal of evidence that a large proportion of students are ill-prepared to even read the textbooks they are assigned, making many textbook purchases wasteful, in addition to the child's not being properly prepared to go on with his or her education.

Many changes in our education system are needed. The most fundamental change, though — the one that could lead to a sea change in educational quality and lead to true responsiveness on the part of our educational system — would be to introduce competition. The lesson learned and applied through the deregulation of industries is that the deadweight loss produced by monopoly cannot be regulated or legislated out of existence. It can only be competed out of existence. The battle cry for true education reform should be, “Let our children go!”

About the Author — Byron Schlomach

Byron Schlomach, Ph.D., is chief economist at the Texas Public Policy Foundation. Prior to joining the Foundation, he served on the staff of the Texas Education Agency and as chief of staff to State Representative Kent Grusendorf, chairman of the House Committee on Public Education. Dr. Schlomach has also been a researcher in the Office of the Comptroller, where he studied transportation and education. He has taught economics at Texas A&M University, his alma mater, and at Austin Community College.



Notes

¹ Omar S. Lopex, “Determining the Education Pipeline,” Summer Legislative Policy Conference, Texas Public Policy Foundation, September 2002, <http://www.texaspolicy.com/pdf/2002-09-06-educationpipeline.pdf>; and Chris Patterson, *Testimony on Postsecondary Readiness*, Senate Committee of the Whole, May 10, 2004, <http://www.texaspolicy.com/pdf/2004-05-10-testimony-patterson-pp.pdf>.

² 2003 graduating rates were not available, so 2002 graduation rates were substituted as a proxy. This introduces error, but the intent of this exercise is only to get an idea of the magnitude of the costs involved rather than a precise measure.

Selected Words of Wisdom



“It is time to admit that public education operates like a planned economy. It's a bureaucratic system where everyone's role is spelled out in advance, and there are few incentives for innovation and productivity. It's not a surprise when a school system doesn't improve. It more resembles a communist economy than our own market economy.”

— *the late Al Shanker, former president of the American Federation of Teachers*

“[T]he Communist dictators have produced a brutal approximation of monopoly Capitalism, a system that has all the disadvantages of our own, with none of the palliatives which come to us from surviving competition and from the essential division of economic and political power which has so far made it possible for the humane traditions of the Western world to continue.”

— *John Dos Passos (1896–1970), American novelist, poet, playwright, painter*