

# Insights

SEPTEMBER  
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# IPI

## MONOPOLY

Property Trading Game from Parker Brothers

## PLAYING MONOPOLY WITH OUR CHILDREN'S EDUCATION

Much has been made in the press about the federal government's recent antitrust lawsuit claiming that Microsoft has conspired to create a monopoly. However, if government officials truly want to end an insidious monopoly, they should look no further than their own public school system. Employing tens of thousands of teachers, bureaucrats, and administrators, spending billions of taxpayer dollars a year, and enjoying almost complete control of the market, the public school monopoly is one that even J.D. Rockefeller would envy. Unfortunately, the price of this monopoly is not merely inflated costs. The price Americans pay for the existence of the public school monopoly is the abysmal education of their children.

BY ERIC V. SCHLECHT

A monopoly is generally said to exist when a single entity (in this case the government) is the sole producer of a product for which there is no close substitute. More specifically, monopolies are said to exist when the following conditions prevail: there is a "single seller," no "close or reasonable substitutes" exist, the monopoly acts as the "price maker," and the monopoly has created a "barrier to entry."

Since roughly ninety percent of American children attend public schools, the government has probably come as close as one can get to being the "single seller" of education in a free country.

While private schools do exist—and one could

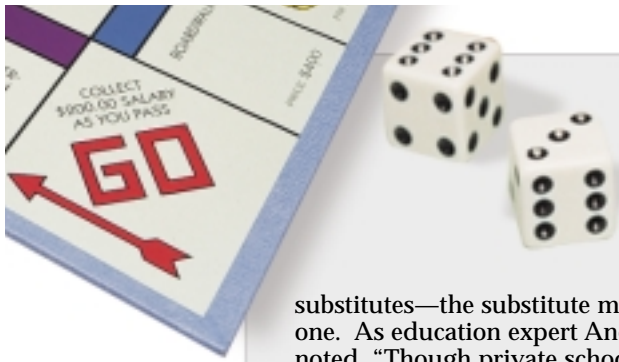


**INSIDE:**  
Education  
Accountability-  
for Whom?



**ALSO:**  
Protecting Intellectual  
Property





## PLAYING MONOPOLY WITH OUR CHILDREN'S EDUCATION

therefore claim education does not meet the monopoly requirement of having no substitutes—the substitute must be a “reasonable” one. As education expert Andrew Coulson has noted, “Though private schooling exists in most industrialized countries, there is only limited competition at the primary and secondary levels. The comparatively heavy burden of tuition, when compared to the ‘free’ status of tax-supported schools, greatly limits the clientele for private education.” Because the average family most likely cannot afford private schooling for their children, it is fair to conclude that no “reasonable” alternative exists and the condition for monopoly has been met.

According to the definition, the monopoly must also be the “price setter.” Since public education is paid for by state, local, and federal taxes, and since these governments set the level of taxation, clearly government is the “price setter” in public school education.

Finally, and perhaps most importantly, for the conditions of a monopoly to exist the monopoly must block the entry of competitors into the market. This is where government’s allies in the education monopoly—the teacher unions—are most helpful. The unions spend millions of dollars fighting school choice initiatives. Meanwhile, as many politicians use their influence to block school choice in Congress and in state legislatures, the courts have done their part by issuing rulings, many of them suspect, against vouchers and other mechanisms that would allow for real competition in the education marketplace.

The deleterious effects of this education monopoly on primary and secondary education in this country have been staggering. When a monopoly exists, competition does not. Without competition, a provider of goods need not concern itself with offering a worthy good at a reasonable price. The incentive for innovation, product improvement, and customer satisfaction does not exist. As economist Eric A. Hanushek points out, the fundamental problem with an education monopoly is that “. . . there aren’t any incentives to increase student performance. Nobody’s career is really dependent upon the children doing well. Pay, hiring, and every-

thing else is essentially independent of how well somebody does teaching and how well the school does at increasing student performance.”

In a rare moment of candor, the late American Federation of Teachers President Albert Shanker, admitted the failure of the public education monopoly. Said Shanker, “(i)t’s time to admit that public education operates like a planned economy, a bureaucratic system in which everybody’s role is spelled out in advance and there are few incentives for innovation and productivity. It’s no surprise that our school system doesn’t improve: It more resembles the communist economy than our own market economy.”

Without any incentive to produce results, the public school monopoly has transformed from a once envied institution to an unmitigated failure. Consider: American 12<sup>th</sup> graders rank 16<sup>th</sup> out of 21

industrialized countries in science and 19<sup>th</sup> out of 21 nations in math. Since 1983, over 10 million American students have reached the 12<sup>th</sup> grade without the ability to read at a basic level and over 20 million have become seniors in high school unable to perform basic math. Of the 29 nations of the Organization for Economic Cooperation and Development, only Mexico had a lower high school graduation rate, with America graduating less than three-quarters of its students. At the Third International Science and Mathematics Study, American students were outperformed by students from every country but Cyprus and South Africa. Finally, in 1995, 80 percent of American universities offered remedial courses and nearly 30 percent of first-time college freshmen enrolled in at least one of these courses. Clearly this is a system that does not work.

The dismal performance of our public schools cannot be blamed on a lack of expenditures, however. While academic performance in this country was plummeting, average per-pupil spending in public schools grew 212 percent from 1960 to 1995 in inflation-adjusted dollars and the average salary of public school teachers rose 45 percent in real dollars.

The evidence clearly suggests that the public education monopoly has been an absolute failure, and that simply throwing more money at the problem has not helped. Yet, many Americans are

*"Reform will not come as long as those who have no competition continue to receive resources without ever having to be fully accountable for them—or for the products of our public schools. As long as raising salaries and rehabilitating buildings are the highest items on their agenda, the reality is that they have not focused enough on children."*

**Former Rep. Floyd Flake  
(D-NY)**



reluctant to suggest significant reform because the practitioners of education in this country are viewed in a very sympathetic light. To disagree with the teachers unions and the education bureaucrats is to be blacklisted as indifferent to the future of America's youth. Those who advocate reform, rather than more spending, are accused of caring not for the children—but only for their own economic benefit. Yet what parent would not hesitate to question the qualifications of a doctor who claimed he could heal an ailing child with leeches? The doctor clearly means well, (he sincerely wants to help the child) yet his methods are clearly outdated and invalid.

While study after study illustrates the steady decline in education throughout the country, the monopolists continue to oppose significant reform and call for more public funding. In fact, recent newspaper articles have reported that the National Education Association (NEA) has raised membership dues by five dollars a person in order to raise more funds to fight school choice initiatives throughout the country. One can hardly blame them—the last thing a monopoly wants is competition—and that's exactly what school choice would represent.

The fact is, competition leads to better education—in both private and public schools. A recent study of Ohio schools published by The Buckeye Institute for Public Policy Solutions found that “(i)ncreasing private school enrollment in low-spending districts by 25 percent would increase public school performance on the 9<sup>th</sup> grade proficiency exam by 4.1 percent, while increasing spending per student in these same districts would have no significant effect.” The advantages of competition in elementary and secondary education have been found in both secular and parochial private schools.

For instance, an examination of American public and private schools by Richard Vedder of the Center for the Study of American Business found that:

- Average per pupil costs of private schools in America are drastically lower than those for public schools and most evidence demonstrates higher performance levels in private institutions.
- Private school teachers earn about one-third less than their public school counterparts, yet report they are more satisfied with their jobs and their student's performances.
- Since 1991 private school enrollments have risen faster than those of public schools.

A similar study of private Catholic schools discovered that:

- African-American and Hispanic students in large cities often have the most to gain from private schooling, particularly Catholic schooling.

- Catholic schooling raises graduation rates by 14 percentage points for whites and 13 percentage points for African-Americans.
- Urban minorities attending Catholic secondary schools experience a 26 percent point increase in the probability of graduating.

No wonder a wide array of school choice programs are very popular. For instance, a September 1999 Gallup poll found that:

- 79% of public school parents favor allowing tax credits to recover partial tuition costs;
- 63% of public school parents favor tax credits to recover full tuition costs;
- 60% of public school parents favor full tuition vouchers; and
- 59% of public school parents favor partial tuition vouchers.

The success of competition has not been lost on many public school teachers. Earl W. Jackson of the Samaritan Project recently noted that in some cities, as many as 40 percent of public school teachers send their children to private schools. Similarly, President Clinton, Vice President Gore, and a significant number of parents in Congress send their children to private schools. A recent Heritage Foundation report found that 40 percent of the House of Representatives who have school age children send their children to private schools, while almost half (49 percent) of the Senators with school age children do the same. And yet, Washington and the unions continue to oppose school choice and education reform. Apparently they're willing to impose the public school system on everyone's children but their own.

The lead witness in the government's case against Microsoft admits that Microsoft's supposed monopoly has not had a deleterious effect on the consumer, but the same cannot be said of the public school monopoly currently imposed on the American public by its own government. America's children are being forced to play a game of monopoly they cannot win. We should end that game immediately. [TPI](#)

*Eric V. Schlecht is Director of Congressional Relations for the National Taxpayers Union ([www.ntu.org](http://www.ntu.org)).*



*"We have to help our state affiliates defeat vouchers and other ballot initiatives and to overcome the legislative crises that would undermine public education."*

**Bob Chase,**  
**President of the National Education Association**





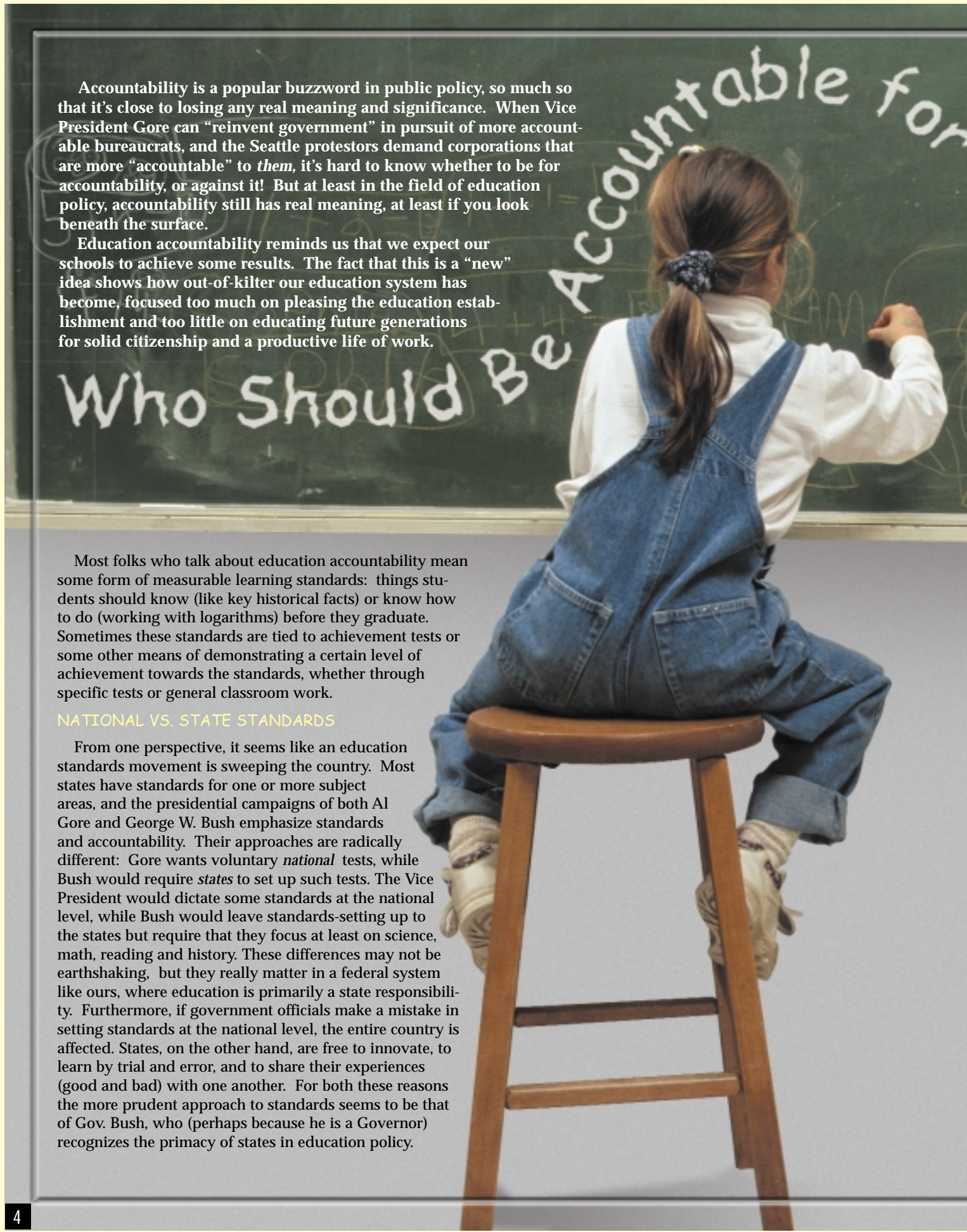
Accountability is a popular buzzword in public policy, so much so that it's close to losing any real meaning and significance. When Vice President Gore can "reinvent government" in pursuit of more accountable bureaucrats, and the Seattle protestors demand corporations that are more "accountable" to *them*, it's hard to know whether to be for accountability, or against it! But at least in the field of education policy, accountability still has real meaning, at least if you look beneath the surface.

Education accountability reminds us that we expect our schools to achieve some results. The fact that this is a "new" idea shows how out-of-kilter our education system has become, focused too much on pleasing the education establishment and too little on educating future generations for solid citizenship and a productive life of work.

Most folks who talk about education accountability mean some form of measurable learning standards: things students should know (like key historical facts) or know how to do (working with logarithms) before they graduate. Sometimes these standards are tied to achievement tests or some other means of demonstrating a certain level of achievement towards the standards, whether through specific tests or general classroom work.

#### NATIONAL VS. STATE STANDARDS

From one perspective, it seems like an education standards movement is sweeping the country. Most states have standards for one or more subject areas, and the presidential campaigns of both Al Gore and George W. Bush emphasize standards and accountability. Their approaches are radically different: Gore wants voluntary *national* tests, while Bush would require *states* to set up such tests. The Vice President would dictate some standards at the national level, while Bush would leave standards-setting up to the states but require that they focus at least on science, math, reading and history. These differences may not be earthshaking, but they really matter in a federal system like ours, where education is primarily a state responsibility. Furthermore, if government officials make a mistake in setting standards at the national level, the entire country is affected. States, on the other hand, are free to innovate, to learn by trial and error, and to share their experiences (good and bad) with one another. For both these reasons the more prudent approach to standards seems to be that of Gov. Bush, who (perhaps because he is a Governor) recognizes the primacy of states in education policy.







# Our Children's Education?

BY GEORGE A. PIELER

## WILL STANDARDS MAKE A DIFFERENCE ?

Whether standards are set at the federal or state level, can they really make a difference? So far clear-cut success stories are rare. In its excellent survey, *The State of State Standards*, the Thomas B. Fordham Foundation cited Virginia for its excellent history standards, Massachusetts for English, Texas for geography, and New Jersey for science. But Fordham also found no state deserved better than a “B” for overall standards-setting, and most deserved below-average marks.

We can do better, but it’s not clear that major federal intervention would be a big plus. Former National Endowment for the Humanities Chairman Lynne Cheney, in her contribution to the Fordham report, reminds us that efforts to formulate national history standards collapsed in a miasma of political correctness, interest-group pandering, and rewriting history (as Cheney notes, under the proposed history standards “George Washington... appeared only fleetingly, and Paul Revere, Robert E. Lee, and Thomas Edison not at all.”). Cheney concludes that standards are properly a state responsibility, although good ones should be shared as models for action in other states.

That makes sense and it meshes well with another idea for education accountability: loosening regulatory restraints in return for real achievement gains. That’s the principle behind the “Straight A’s” approach congressional Republicans are promoting. “Straight A’s” would reduce red tape for states that in effect, contract with the federal government to deliver academic gains for their students. While this idea has been set aside for now due to election year politicking, it’s an innovative approach that is sure to resurface in the next Congress.

At the national level, even the most innovative approaches to education standards are subject to the criticism that risk turning the federal government into a kind of national school board. Is there any way to avoid that risk, boost student achievement, and respect the constitutional division of powers between the states and the federal government?

There may be, if we remember that the accountability that really matters is accountability to the student, and to his or her parents.

## ULTIMATE ACCOUNTABILITY

American families are the ones who have the right to expect and demand excellence from their schools, in effect setting high standards by becoming savvy consumers of educational services. No set of standards imposed top-down by the states, or by Washington, D.C., can really have an impact without active, well-informed parents. We will always need credible benchmarks of educational success, curriculum, and civic responsibility. But, the most important thing we can do to boost educational standards in America is to let parents and students have more say in how, where, and what they learn. In short, the road to higher educational standards leads directly toward giving parents and students greater freedom of choice in education. If we stick with the one-size-fits-all old government-school monopoly, the goal of improving educational achievement will be difficult to reach indeed. [IPI](#)

*George Pieler is Director of The IPI Center for Education Freedom.*



# PROTECTING INTELLECTUAL PROPERTY- "A NO BRAINER"

Concern regarding intellectual property has come into the headlines lately with the recent court ruling against Napster. Napster is a website that prides itself in providing "free" downloading of copyright protected music. An individual can log on, download their favorite CD and never have to darken the door of a music store again. Sound too good to be true—well it is true, but illegal.

But if you are not one of the thousands of users of Napster, what does this have to do with you? Plenty! If you work or invest in any industry that relies on patents, copyrights, or trade secrets your very livelihood is dependent on the adequate protection of intellectual property. For example technology, publishing, pharmaceuticals, movies, the television industry, and even plays and concerts all rely heavily on intellectual property protection.

Also, if you care about owning your own home, own car, owning anything for that matter, you should be concerned with the arguments being made to support the attacks on intellectual property.

To better illustrate the point, imagine that we began to treat physical property—say your house—the way Napster treated intellectual property. For example, what a great idea to help with family vacation expenses if travelers visiting your town could just barge into your living room, hunker down on the sofa, flip the channels on your television, and plunder the left-over food from the fridge. Why not act this way?

The reason why not is because we, as the United States, have always valued property—real or intellectual. We understand that owners of original ideas must be able to profit from those ideas. Without this ability, our advances in medicine and technology would come to a screeching halt.

The digital age has brought a new level of attacks against the stealing of intellectual property, but concern over its protection has been around for generations. Among the first laws enacted by the First Congress in 1790 were the foundations of the current copyright laws. The Constitution authorizes protection of intellectual property as a way to "promote the progress of science and useful arts...to authors and inventors the exclusive right to their

respective writings and discoveries." The reasoning was more pragmatic than ideological. The Founders understood that protection provides the incentive for both companies and individuals to continue creating and inventing, and then to invest in commercializing the invention.


Do not be mistaken—one reason that the United States leads the world in technology, pharmaceuticals, and entertainment is that we have a system of laws that protect our right—a Constitutionally given right—to our own property, whether physical or intellectual.

Consider the issue in this way—what happens if we do not value property? Companies and individuals would cease innovating because the profit motive would be removed. Book publishers, movie producers, and recording artists would end efforts to produce entertainment, as they no longer could make a living, or any money, from their ventures.

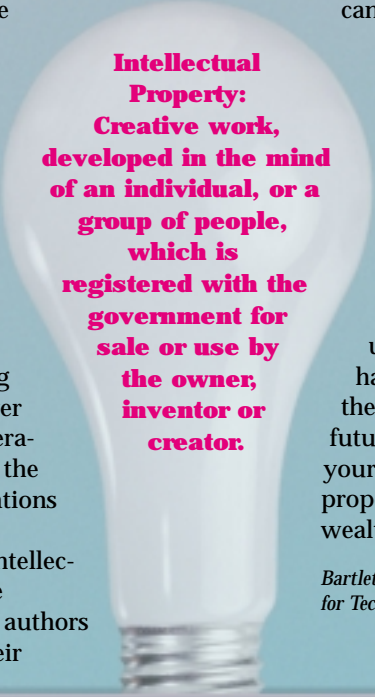
Even worse, just imagine what may happen to the consumer. First, consumers will no longer be able to buy a range of products from computers to magazines, medication to music. Being realistic, the people of the U.S. will not want to let disease run unchecked and have people dying in the streets. Somehow pharmaceuticals will need to be produced, somehow research into the solutions to

cancer, AIDS, and heart disease will have to continue. Oh, has it been mentioned that our very national defense rests on the back of intellectual property protection?

How will these advances be funded? Straight from the federal coffers. How are those coffers filled? Tax dollars from your pocket.

Some think that they are pulling a fast one—getting mountains of popular music for free. In reality they just have not finished the computation of the real cost to them, the country, and our future. The bottom line: Really do act in your own interests, help protect intellectual property so you can benefit from greater wealth, health and entertainment. 

*Bartlett Cleland is the Director of The IPI Center for Technology Freedom.*



**Intellectual Property:**  
Creative work, developed in the mind of an individual, or a group of people, which is registered with the government for sale or use by the owner, inventor or creator.



# IMPACT



## IPI Gets Dallas Community Thinking Tech

The IPI Center for Technology Freedom continues in its mission to keep you informed and to stimulate your thinking on technology and public policy. In August, the Center hosted a Dallas luncheon on “New Ideas for the Information Economy” with guest speakers IPI founder and House Majority Leader **Dick Armey**, host of TechCentralStation.com and co-author of *Dow 36,000* **James K. Glassman**, and Chief Economist and Senior Vice President of the Dallas Federal Reserve Bank **W. Michael Cox**.

The speakers informed a large audience about the dramatic degree to which the information economy is transforming our world, and challenged them to champion private, industry solutions, rather than government regulation and control.

Mr. Armey, Mr. Glassman, Mr. Cox and IPI Center for Technology Freedom Director Bartlett Cleland also participated in a private media briefing following the luncheon

where members of the Dallas print and radio media asked questions about technology and the community. These pre- and post-event interviews were read and heard around the country.



*IPI founder, Congressman Dick Armey encourages the audience.*



*Bartlett Cleland, Congressman Armey and James Glassman respond to questions at the press conference.*



*Bo Pilgrim, James Von Ehr and Vance Miller learn how technology policies affect their business and the economy.*

*Luncheon speakers: James Glassman, Michael Cox and Congressman Armey.*



## George Pieler to Head-up IPI's New Education Efforts

IPI is proud to introduce its newest team member, George Pieler. Mr. Pieler will direct IPI's new education effort, The IPI Center for Education Freedom.

Mr. Pieler joins IPI with extensive experience in education policy. He served in the Department of Education during the Reagan and Bush administrations and in 1993, co-founded The Washington Scholarship Fund. This program enables needy families in Washington, DC to send their children to private elementary and secondary schools.

He is currently a representative for the National Tax Limitation Committee and has previously served on the tax staff of the Senate Finance Committee under then Ranking Member Robert J. Dole, and later as Deputy Counsel in Mr. Dole's term as Majority Leader.

Originally from Chicago, Illinois and a graduate of both Princeton University and Columbia Law School, Mr. Pieler is committed to education reform and will be a strong influence in the policy debates.



### A New Look

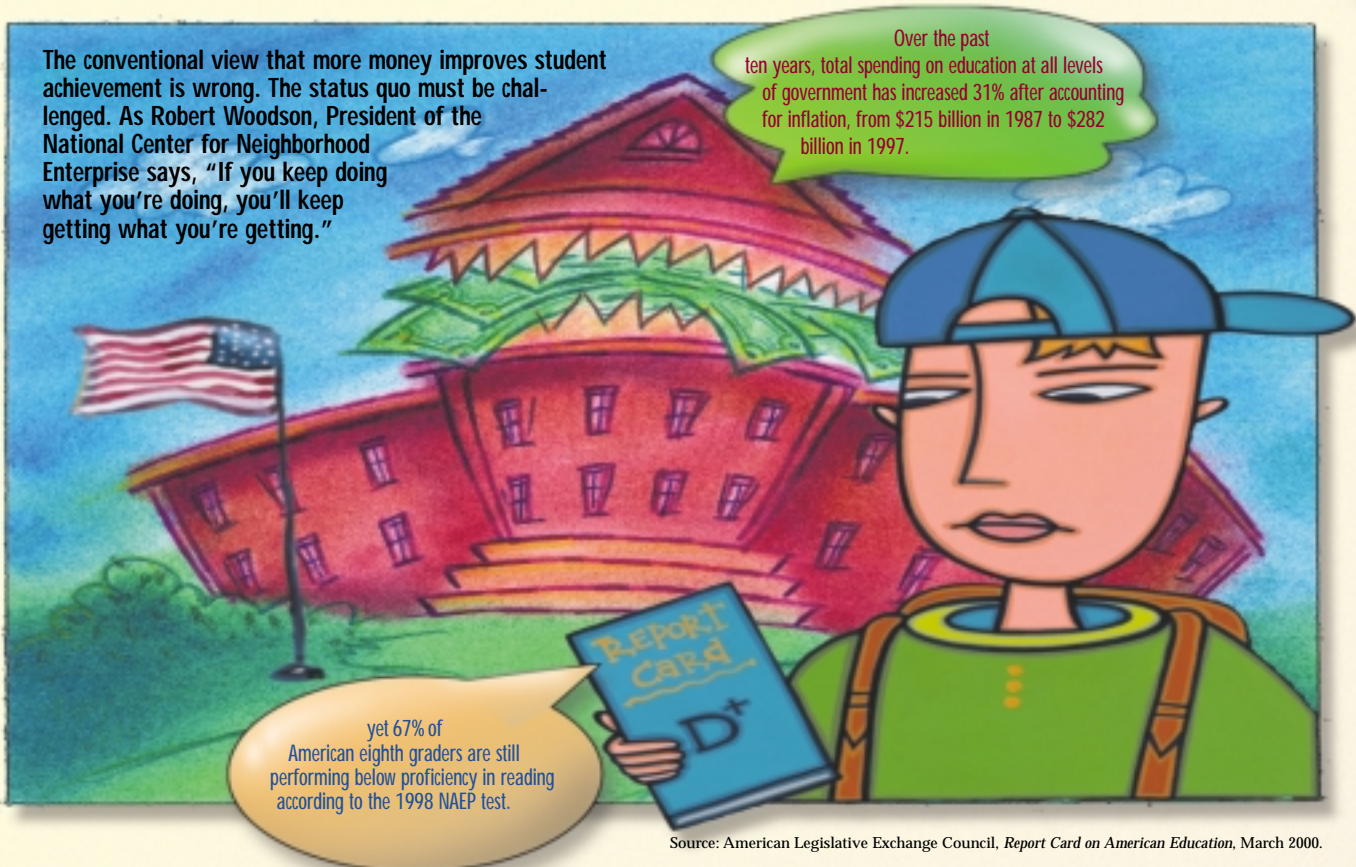
Somehow the year 2000 seemed like a good time for a fresh start, so after thirteen years, we've given IPI's logo and graphical identity a facelift. The new logo is clearer and more colorful, and is much better suited to the new digital world than our old logo, which didn't display well on computer screens. So when you see our much more colorful and vibrant logo, it's still us.



The conventional view that more money improves student achievement is wrong. The status quo must be challenged. As Robert Woodson, President of the National Center for Neighborhood Enterprise says, "If you keep doing what you're doing, you'll keep getting what you're getting."

Over the past ten years, total spending on education at all levels of government has increased 31% after accounting for inflation, from \$215 billion in 1987 to \$282 billion in 1997.

yet 67% of American eighth graders are still performing below proficiency in reading according to the 1998 NAEP test.




Source: American Legislative Exchange Council, *Report Card on American Education*, March 2000.

## Education Surges to Forefront of National Agenda and IPI is There

Education reform, school quality, and new market-based innovations in delivering educational services have been vital issues for some time, but the public policy debate over education is reaching a new crescendo in this election year. Both Gov. Bush and Vice President Gore have elevated education to the status of a national issue, ballot initiatives on school choice will be voted on this election day, the Supreme Court is reviewing the constitutionality of state-funded voucher programs, and new approaches like home schooling, charter schools, and web-based learning are growing as never before.

It's an exciting time, and IPI believes education in America may be the most critical public policy challenge of the 21<sup>st</sup> century, interfacing as it does with American culture, competitiveness, workforce readiness, technological innovation, and sound citizenship. That's why we are proud to announce our newest undertaking, the *IPI Center for Education Freedom*, which will examine major issues in education reform from the standpoint of enhancing the freedom of parents and students, promoting innovation, and advancing the cause of true learning and sound curricula. The Center will have a decisive national presence, but will put a special emphasis on the state of education reform in the state of Texas.

This fall the IPI Center for Education Reform will issue its first reports: An overview of the state of play in the education debate and the issues that will matter most in the future, and an examination of the results government schools are achieving with the resources we, as a society, are devoting to them. IPI will pay close attention to what is going on in Congress and among the states (as well as in the judiciary, possibly the most powerful player in education today), but it will give equal weight to what entrepreneurs, business leaders, civic activists, and families are doing on their own to make American education the best in the world. We hope this issue of *Insights* gives you a good idea of much, much more to come. 

## IPI Insights

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