

## The Statehouse and the Schoolhouse



*“...schooling has aspects of both a private good, generating direct benefits for those who consume it, and a public good, with broader social benefits that are not captured by the individual.”*

In a private market economy like ours, public policy debate often revolves around the proper role of government in economic affairs. Contemporary discussions of education policy turn this debate on its head. Taking significant government involvement as given, the central question concerns the proper role of the private sector. There is a range of possible answers. At one end of the spectrum is the current dominant model in which government decides the quantity and quality of the education to be delivered. At the other end is full privatization, in which parents choose from an array of competing private schools. Between these extremes lies the possibility for government to purchase educational services on the public's behalf from private enterprises, as is highlighted in our cover story about some school districts in our region that have tried this approach. In this case, government sets educational standards but leaves decisions on how to meet those standards to the privately run schools.

Notably, even proponents of privatization advocate a substantial amount of public funding for private education. Let me suggest two likely reasons for this. One is that the benefits of schooling accrue to a considerable degree to the individual receiving the schooling, and our interest in fairness makes us want to ensure broad access to those benefits. The other and perhaps more important motivation for public funding is that the education of a person benefits society at large. That is, schooling has aspects of both a *private good*, generating direct benefits for those who consume it, and a *public good*, with broader social benefits that are not captured by the individual.

When an individual's consumption of a good produces public benefits, society has an interest in how much the individual consumes. If society's interest were mainly the quantity of education chosen by individual families, then an effective public policy response could be to give families direct subsidies for purchasing competitive private educational ser-

vices. The United States has responded in just this way to the widely held belief that individual home ownership benefits society. The government provides various subsidies to encourage home ownership while staying out of the business of building and selling homes. But the standard approach to education is different. Government tends to be directly involved in supply decisions. In education, government sets standards for the *quantity* of education — for example, lengths of school days and years — but also for the *kind* of education by mandating minimum curriculum requirements.

The key to understanding this approach is to note that education, like other services, comes in different varieties. If the public benefits of education depend on the type of education children receive, then the public sector's involvement in schooling is likely to be more active than simply providing subsidies. Opinions on this dimension of the education policy debate vary widely. Proponents of greater reliance on private decisionmaking would likely argue that private incentives are well aligned with the public benefits of education. Under this view, public funding may be useful to induce some to acquire a greater quantity of schooling, but there is no need to limit private choices regarding the characteristics of education. Those who favor maintaining constraints on private choices would argue, in contrast, that society has an interest in particular characteristics of a person's schooling. The trends discussed in our cover story definitely suggest that the “middle ground” in this debate has shifted in the direction of giving the schoolhouse more autonomy from the statehouse.



**Al Broaddus**

President,  
Federal Reserve Bank of Richmond