Phi Delta Kappan

Too much self-interested choice?

Eric Hanushek
October 26, 2018

David Labaree makes a strong case, albeit one built on circumstantial evidence, that the American education system has gone off the rails. In particular, rampant competition in schools motivated by potential private economic gain has led to a neglect of the public interest component of schooling and increasing stratification.

This argument has its greatest appeal if schooling is purely a signaling or selection device instead of something that changes individual skills. The signaling model says that schools simply perform a sorting activity, arraying people on the basis of skills before entering schools. In its starkest form, since schools do not really add anything to individual skills, the schooling serves no social value in terms of economic outcomes. In such a case, we might hope that schools played a large "public role," socializing all students and developing more of a societal view of the culture and expectations of the nation. And, if some people found that they were placed into schools with specializations that they did not want, there would be no overall economic costs even if there was some redistribution across individuals.

But my reading of the evidence is that schools are not simple screening devices. While some relatively small part of their operations might do that, the vast majority of their work is changing the skills of people. These changed skills are valuable in the labor market, implying that incentives are created to make some specific schooling investments. Moreover, it is hardly surprising that many students respond by seeking occupations and industries that reward higher skills.

Labaree bemoans the fact that people are responding to the incentives, but economists are neither surprised nor upset by that. That response in general has people investing in skills and going into fields that match their talents and interests and that lead to a productive economy.

We should of course worry if we are systematically disadvantaging some through poor schools that reinforce existing economic disparities, but that is something different from worrying about individuals working too hard to make sound educational investments.

Moreover, there is little evidence that firms are making mistakes. While they may initially react to degree levels and the selectivity of schools attended as a rough indicator of the skills of individuals, there is evidence that they refine their initial guesses over time. The people who truly have the skills they were looking for get retained and promoted, while those who have less skills than initially hoped by the firm find that they are less successful over time.

It is the case that the returns to skills have increased over time, and this has increased the incentives for individuals to seek specialties that are demanded by the economy and to strive harder to get into better schools. Almost certainly this means a decline in some specializations that are less related to skills that are demand in the economy, although the relation of this to the public interest is harder to see.

Take, however, the position that in this more intensive search for economic gain we are, as Labaree suggests, seeing a movement away from the public interest. Is there a policy prescription? Is there an argument for an information campaign to convince people not to pursue things that they thought were in their self-interest? Should we put quotas on the number of people going into fields with large private returns? Should we increase taxes in order to subsidize people who want to go into fields that are in less demand in the economy? And, ultimately, in the move toward a world of “increased public interest,” who is given responsibility for deciding which fields should thrive and which should be reduced and for deciding which individuals should be allowed to pursue their own self-interest? The economist worries about the answers to these questions.

- Eric Hanushek

ERIC A. HANUSHEK is the Paul and Jean Hanna Senior Fellow at the Hoover Institution of Stanford University.