# Education and Nevada's State Budget: Reality and Duty

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Educators' responses to Nevada's current budget problems disregard important realities. Cuts called for by Gov. Jim Gibbons reflect them and are in the public interest.

First, let's put education spending in perspective. When my parents were born, before the Great Depression, the average American family spent one-fourth of its income for the most basic of necessities: food. Today, we spend less than one-tenth of our income on food, and we get a much more nutritious and varied diet. Half our food budget is spent eating out, with all its amenities, while folks of that generation had very little such luxury.

Manufacturing? A twin-bed mattress and box spring in 1929 cost the average-wage worker 161 hours, but today it is less than 24 hours, and the bed is more comfortable.

Communications? In 1915, a three-minute long-distance telephone call cost 90 hours of average work; today it's less than two minutes of work, and you can make the call nearly anywhere.

Transportation? Today, a typical new automobile costs a worker about 80% as many hours as it did 50 years ago, and today's car is much safer, more fuel efficient, less polluting and has much better amenities and value.

These examples show that in the world of economic competition, technological progress and business innovation continuously drive down costs and improve service, quality and consumer choice. So, over time, each competitive sector of our economy takes a lower percentage of our total resources while providing increased value. This progress allows the economy to create whole new industries, products and services that begin as luxuries and eventually come to be near necessities – like the personal computer on which I wrote these words.

There are three broad exceptions to the rule of decreasing real costs and increasing value, and all three are thoroughly involved with government, the non-competitive sector. They are: basic government itself, including public safety, roads, streets, sewers, etc.; medical and health care; and education. I will address education here.

Education has benefited significantly from technical progress, especially in information and communications, but the practical extent of innovation in education has been much more limited than is the case for other sectors. Spending on education as a fraction of our total resources has increased in real terms over time (as it has for general government and health care), but product and value improvement have been limited at best.

At the primary and secondary level -- where public schools are an unaccountable monopoly run for the benefit of teacher unions and bureaucrats -- U.S. education has declined, as indicated by student achievement in our schools compared to other countries.

American higher education has fared better, remaining the standard of the world and continuing to attract students from all over the globe, because it operates in a much more competitive milieu than our K-12 schools. We should not be complacent, however,

because the real cost of higher education, both in terms of state subsidies and out-of-pocket cost to students and their families, continues to rise. And, frankly, the quality of some of what we provide is at least suspect, and our continued competitive position is not assured.

Some people argue that education's "cost disease", as economists call it, is due completely to slow technical progress. Others claim that education is a "superior good" (one that people voluntarily buy more of as they become wealthier), and therefore the entirety of its cost increases and slow improvement can be excused. These claims overstate the roles of slow technical progress and superior-good effects.[1]

If we educators were doing our jobs as well as we should, the rate of unit-cost decline and service improvement might be slow relative to the rest of the economy due to slow technical progress. The rate of decline of education's share of the economy might be even slower due to adding superior goods effects on top of that. But we would still be achieving the continuing real cost reductions and value growth that means we're adding to net human well-being, to economic growth and to the public interest, instead of being a drag on them by being bloated and ineffective.

The upshot of all this is that declining real costs and increasing value delivery over time are the fact and standard in the real world of market competition. And they should also be the standard for education.

So, when people blithely assume that education is entitled to growth in funding at rates faster than the growth of the economy, they show they don't understand – and perhaps don't even care about – the central facts, nor what is in the public interest. We have no legitimate claim on increases above the rate of growth of the economy.

The whine that education has always been under-funded simply isn't true, no matter how many times, how earnestly or how passionately self-interested providers say it. Such whines and predictions of disaster if education wish lists are cut do not change the fact that we have no legitimate claims on growth in education funding above the growth rate of the economy. Instead, we have a responsibility to do better than we have been doing.

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[1] Not all competitive sectors have benefited in equal measure from technical progress, but all have cut their real costs and increased value delivered to consumers. There has not been much technical progress in baking bread, but it now costs less than 30% the number of work-hours to purchase that it cost 90 years ago. So, claims that education just hasn't been as fortunate as manufacturing of calculators, TVs and cell phones, and therefore that there's no problem of insufficient innovation in education are simply false. The fact is that we have not made innovation that we could and should have made because education has not faced the full competitive imperative that attends sectors that do not have government subsidy and the political allocation of resources as a shield against the need for change and progress to satisfy their customers and provide value to society.

Similarly, while education is indeed a superior good, quantity demanded has been greatly increased by public subsidy – again, a problem created by the political allocation of resources instead of consumer choice in a market context. In Nevada, undergraduate education is subsidized to the tune of about 75% or more. But there's no reason to believe that three-fourths of its benefit accrues to society as a whole and only one-fourth privately to the student. So, there's every reason to believe that the increased fraction of the economy education has claimed reflects inappropriate subsidy, not its superior-good status.

If those points won't move educators, maybe enlightened self-interest will do the trick. So, they should consider the following.

Rapid technical progress in information and communications sectors has driven business innovation in many sectors in recent decades and has been a highly disruptive force devastating old business models and their incumbent firms and institutions. Just ask folks in the newspaper business, the Post Office, local telephone service providers, and many others. In each case, new services and methods of service delivery have allowed customers to bypass incumbent providers, many of which subsequently collapsed.

My own view – and I do not claim to be unusually prescient or particularly expert on this matter – is that these same technological developments and resulting business innovations have great potential to bring the same upheaval and bypass in coming decades to educational institutions at all levels. We have already seen the thin edge of this wedge with distance-education technologies we are hesitantly deploying, in the rise of for-profit colleges, in certification alternatives to traditional undergraduate degrees, etc.

If this view is at all close to the reality coming at us, all the whining and rhetoric in the world, all the demands for protection from bypass, all the pleading for more funding, and all the protest demonstrations that can be mounted will not save us from being consigned to the ash heap of history where state socialism already has justly been cast.

So, what we should do is to embrace our current budget challenges as a needed discontinuity in our history, and therefore an opportunity to begin out of necessity to do the things we should have been doing all along to reorient our efforts, change operational models, lower costs and improve our product. We need to shed the barnacles that have accumulated on the hull of our ship of enterprise, and become the most efficient, fiercest competitors in the arena – the bypass alternative to less astute, less innovative and less aggressive higher education institutions. We should not waste time pining away for how it used to be.

Gov. Gibbons has, quite properly and reasonably in every way, directed educators to submit budgets that meet the declining state revenues due to our state's current deep economic contraction. In doing so, he recognizes that we should not be a privileged class that is exempted from the pain being experienced by Nevada families and businesses, and more especially that we should not be allowed to increase everyone else's distress by adding to it with increased taxes.

In the past, he has proposed and supported significant increases for education. Now, he asks nothing more than that we submit budgets under dire circumstances that broadly move with our state's economy and the fortunes of all Nevadans. While we all regret the necessity to do so, we should do our duty and serve the real public interest by doing as requested.

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