

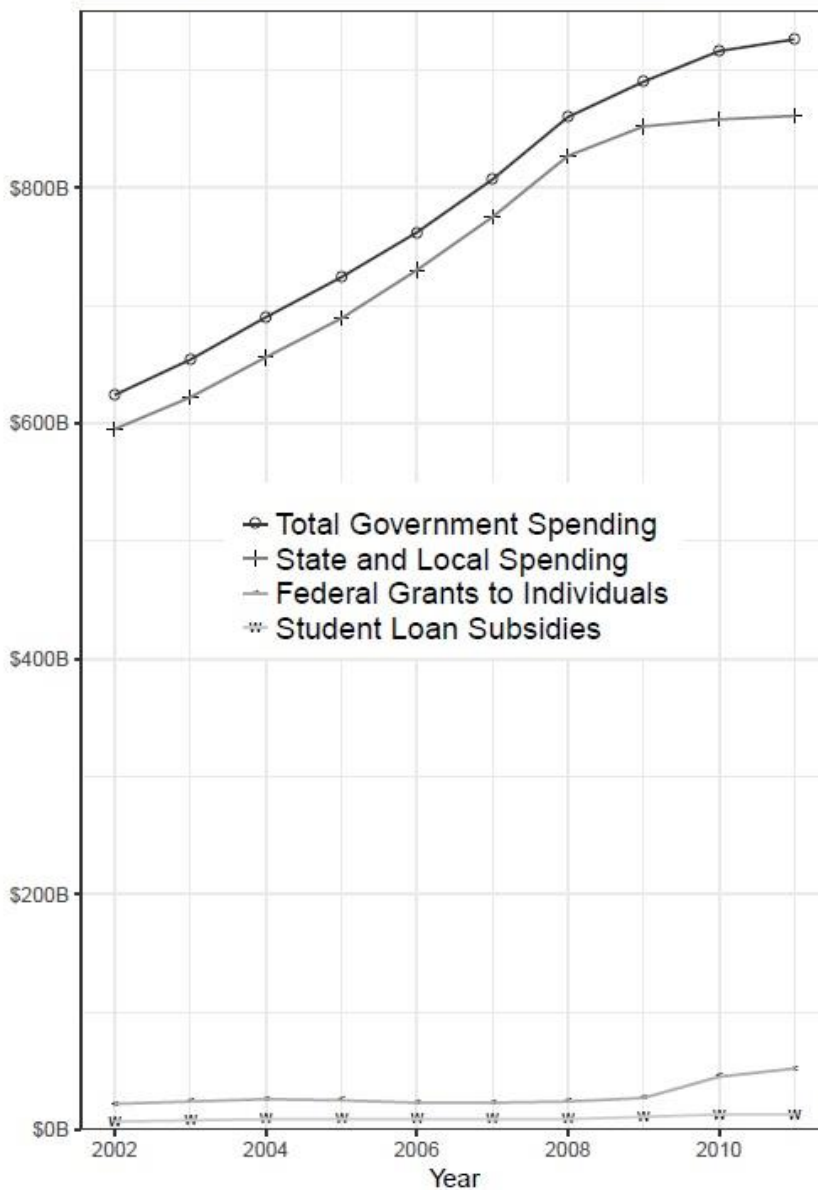
Prof. Bryan Caplan  
bcaplan@gmu.edu  
<http://www.bcaplan.com>  
Econ 496/895

## Week 12: The White Elephant in the Room: We Need Lots Less Education

---

- I. The Status Quo
  - A. All governments support education.
    - 1. Democracies and dictatorships support different *kinds* of education, but spend at comparable levels.
    - 2. Industrial policy is usually contentious, but not in this case.
  - B. Support is massive. The U.S. case:

Figure 7.1: Total U.S. Government Education Spending



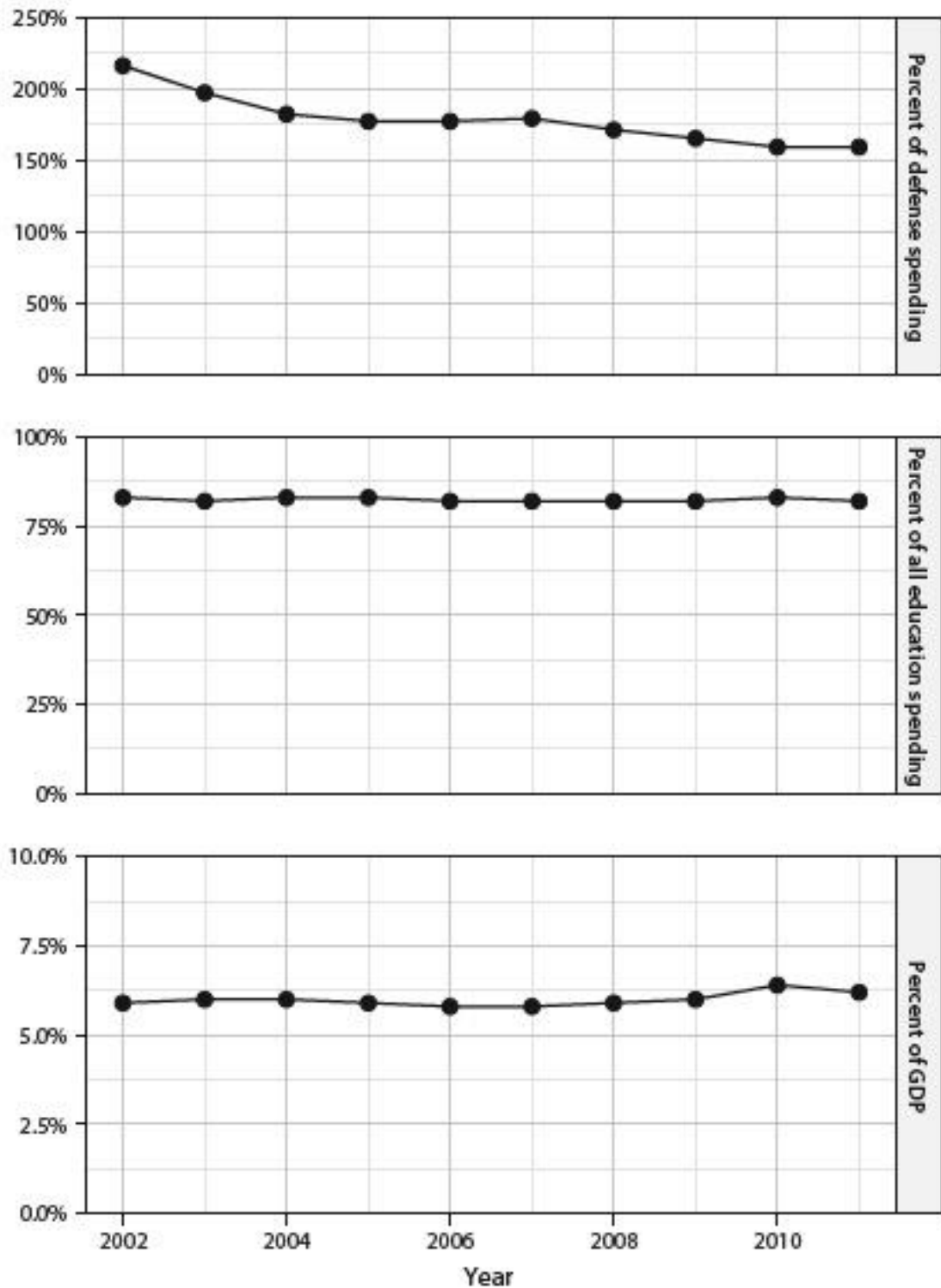


Figure 7.2: Total U.S. Government Education Spending in Perspective  
 Sources: Figure 7.1, and Office of Management and Budget 2014, pp. 57–58.

C. These pro-education policies are extremely popular.

1. In a major international study, clear majorities in *every* country favor bigger education budgets.
  2. There is no known country where a majority favors lower spending.
  - D. The U.S. is typical:
    1. In the GSS, 74% favor more, 21% the status quo, 5% cuts.
    2. There is only a slight partisan difference: 60% of self-identified “strong Republicans” favor more; only 12% favor cuts.
    3. Both Bushes wanted to be “the education president.”
- II. Arguments for the Status Quo
- A. Populist arguments:
    1. “We need to invest in people!”
    2. “Nothing is more important than education!”
    3. “Government has to make sure even the poorest children receive a good education!”
  - B. Replies:
    1. How worthwhile are these “investments”? And why not rely on the free market?
    2. Food’s more important – and we rely on markets for that.
    3. Means-tested vouchers can cheaply handle this problem. And contrary to populists, cost is important.
  - C. Superior arguments:
    1. Irrationality: students systematically underrate education’s payoff – or are too myopic to care.
    2. Credit market imperfections: Due to lack of collateral, many students’ credit ratings are too poor to capitalize on socially profitable investments.
    3. Externalities: Students selfishly ignore positive externalities of education.
  - D. But all three arguments cut both ways:
    1. Irrationality: Students could systematically overrate their completion probability, or myopically focus on parental and peer approval.
    2. Credit market imperfections: Due to heavy government subsidies, many students undertake educational investments with low or negative social returns.
    3. Externalities: Students selfishly ignore negative externalities of education – especially from signaling!
  - E. What to do? Compare education’s social return to the standard market return.
  - F. If my social return estimates are even roughly correct, we currently have too much education.
    1. The bigger question – should government subsidize education at all – is much harder to answer with available data. (Imagine re-doing all my work in a society with no government support, then comparing the estimated social return to the market interest rate).
- III. Cutting Education: Why, Where, How

- A. Why not spend better, instead of spending less? Because identifying waste is *much* easier than pinpointing worthwhile investments.
    - 1. There's no reason to presume the best way to reallocate money we save on education is on other kinds of education.
    - 2. The toenail fungus analogy.
  - B. Cutting fat from the K-12 curriculum.
    - 1. Reduce useless course requirements.
    - 2. Raise standards so most students abandon useless subjects.
    - 3. Discontinue useless subjects. (Remember how little adults remember!)
  - C. Cutting fat from college curriculum.
    - 1. Shut down impractical departments at public schools.
    - 2. Make impractical departments at private schools ineligible for grants and loans.
  - D. Guiding principle: Instead of debating usefulness of marginal subjects, cut the blatant fat without delay.
  - E. Won't students find other ways to signal? Sure, but not all signals are equally wasteful from a social point of view. Apprenticeships and other on-the-job training combine signaling with production and training.
  - F. Cutting subsidies for tuition.
    - 1. Raise tuition for public colleges.
    - 2. Cut subsidies; turn grants into loans.
    - 3. Charge borrowers market interest rates.
    - 4. Impose some tuition for high school.
  - G. Basic point: If the problem is social return < market return, this means there's currently too much education. Raising the cost of education narrows the gap between social and market returns.
  - H. *Can* attendance radically fall? Absolutely. Many pro-education researchers measure the sensitivity of school attendance to cost. We can use their estimates, but reverse the desired direction of behavioral change.
    - 1. The hidden wonder of high tuition and student debt.
  - I. Are these reforms "draconian"? Or is the status quo "profligate"?
  - J. What about raising completion rates? Even relatively big completion boosts imply absolutely low social returns.
  - K. Social justice arguments for the status quo suffer from a Fallacy of Composition.
    - 1. Main result of education subsidies is not equality but credential inflation.
    - 2. Subsidies raise the correlation between education and employability, enhancing the stigma against the less-educated.
    - 3. Don't forget the opportunity costs of social justice.
- IV. What I Really Think
- A. Political philosophy sets moral presumptions.
    - 1. These presumptions can be overcome with sufficient evidence, but we lack compelling evidence about the effects of radical changes.

- B. I still favor a radical education reform: separation of school and state.
  - C. Why? Because I have a strong libertarian moral presumption. When in doubt, I think we should leave strangers alone, not support the status quo. And taxing people is a prime example of *not* leaving them alone.
    - 1. Favorite exception: Vouchers for poor children.
    - 2. But: Private charity seemed to do a tolerable job in earlier periods.
  - D. Why be so extreme? Full separation *transparently* keeps government away from an industry where it's squandered trillions of dollars.
    - 1. Compare to the argument for separation of church and state.
  - E. Disagree? That's OK, because it's not integral to my argument.
  - F. Why not tax education?
    - 1. Throwing out the baby with the bathwater.
    - 2. Agency problems.
    - 3. Diverse moral presumptions against it.
- V. The False Savior of Online Education
- A. Signaling ≠ "education bubble." Nothing about the signaling model suggests fragility. Instead, signaling implies that education is *stable waste*.
  - B. Online education fans often emphasize its pedagogical advantages. So why isn't it doing to the education system what downloads did to record companies?
  - C. Answer: Because students primarily want signals, not human capital!
  - D. Why can't online education provide better signals? The catch-22 of conformity signaling.
    - 1. Note: *Offline* testing has been available for decades. Online education enthusiasts shouldn't predict an online testing revolution until they can explain why there wasn't already an offline revolution.
  - E. The failure of new tech to "creatively destroy" the status quo goes back many decades. Why didn't the VCR disemploy 99% of lecturers?
  - F. Credit where credit is due: Online education provides some great niche edutainment.
- VI. The Politics of Social Desirability Bias
- A. If I'm right, every country on Earth is wrong. Isn't this arrogant to the point of absurdity?
  - B. No. See *The Myth of the Rational Voter*. Political irrationality is free for the average citizen – and politicians pander to the average citizen.
  - C. But why is overrating education so popular to begin with? Social Desirability Bias. People gravitate toward saying – and thinking – whatever "sounds good." Examples:
    - 1. "There's no such thing as a stupid child."
    - 2. "We *will* win the War on Terror."
    - 3. "Am I fat?"
    - 4. "In a modern society, every child needs the best possible education."
    - 5. "Education is the most important investment we make in our children's future."

6. "We have to make sure that everyone who might benefit from college attends."
  7. "There's no trade-off. The more we spend on education, the richer we'll be."
- D. "Socially desirable" claims *can* be true. But we're inclined to believe them whether they're true or not.
- E. How can SDB explain the global dominance of pro-education sentiment?
1. Human universals. Salt, sugar, fat – and education.
  2. Identifying fallacies is itself socially undesirable – and the Fallacy of Composition has great appeal to the human mind.
  3. Global elite culture. Western elites fell in love with education in the 19<sup>th</sup> century – and non-Western elites borrowed many of their ideas in the 20<sup>th</sup>.
- F. What's so bad about SDB? It leads to popular support for wasteful and counterproductive policies – like wasting hundreds of billions on wasteful education every year.