

Why We Shouldn't Let Economists Play with Education

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Editor's Note

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I believe wholeheartedly in the life of the mind. What I'm cynical about is people. I'm cynical about students. The vast majority are philistines. - Bryan Caplan

Reading Bryan Caplan's *The Case Against Education* has put me in a bad mood. Imagine 400 pages written by a libertarian economist who's fed up with teaching 'philistines', and who goes to great lengths to 'signal' to us readers that he is *definitely* not one of these philistines. Caplan's a [self-described IQ realist \[https://edtechbooks.org/-azH\]](https://edtechbooks.org/-azH) - and as he says, "IQ

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realists tend to be smart” – who believes that “Contrary to critics, IQ tests are [not culturally biased](https://edtechbooks.org/-xL) [<https://edtechbooks.org/-xL>]; they fairly measure genuine group differences in intelligence.” If Caplan kept his self-aggrandizement and antipathy towards students away from prescriptions for the education system, I’d be less irritated. However, Caplan, a tenured economics professor, wants to *raise* tuition and defund public education in the United States. While he acknowledges the current reality – people need degrees to “get good jobs in the modern economy” – Caplan has a plan to change that:

... hefty budget cuts would bring credential inflation to its knees. The less affordable education is, the less students get; the less students get, the less workers need.

Caplan steers clear of outlining what such a transition would look like in the modern day United States, but I’m pretty sure it could drive the plot of a dystopian trilogy. While Caplan postures as a radical, speaking the truth no one else dare utter, he’s far from it. Defunding public institutions and shifting the cost directly to individuals has always been a centerpiece of the libertarian script in the U.S. At a minimum, Caplan hopes to “slightly tilt the policy scales by handing budget hawks a little extra intellectual heft.”

Caplan presents his economic agenda as a conclusion of his argument about education system’s inability to build ‘human capital’: the benefits of education mostly come from signaling

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pre-existing differences in ability, rather than from valuable learning that builds capacity for the workforce. “The case for the signaling model is strongest if students learn zero in school—and employers treat graduates like kings.” This part of Caplan’s argument – his challenge to human capital theory – is a significant departure from the script pushed by the OECD, World Bank, and mainstream economists: education increases our human capital, which increases our earnings (because we are more productive workers), and enriches the nation. I am not here to try to save human capital theory from Caplan. Human capital theory needs to be dismantled precisely because it encourages us to see education – and our lives – purely in economic terms, which primes us for libertarian economists like Caplan to come along and argue that the results don’t justify the spending.

Short of defunding the whole system, Caplan imagines a strong tracking program: “we should steer academically uninclined kids toward vocational education when they’re 12 or so. Teenage workers may not discover their ‘calling,’ but at least they’ll get used to gainful employment.” In the U.S., tracking and vocational education has historically reinforced middle class and white privilege. In an interview, Gretchen Simpsons challenges Caplan on this point:

GRETCHEN: We’re terribly unequal, but it can get worse. If we listen to you, it will. Shunting so-called weaker students into vocational ed excludes them from high-end jobs—especially kids from lower- and working-class families.

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BRYAN: I'm surprised to see a sociologist lose sight of social realities. Think about the vast American underclass. Most don't even finish high school. Does college really strike you as a viable path out of poverty for them?

GRETCHEN: It would be if they enjoyed the same advantages your kids do.

Perhaps it's not surprising to see Caplan's argument surface just as 'the vast American underclass' has managed to [push the door to higher education open a crack](https://edtechbooks.org/-fbH) [<https://edtechbooks.org/-fbH>]. Elsewhere, Caplan writes about the 'high-IQ misanthropy' that he believes he avoids because he criticizes the outright eugenicist conclusions of many IQ-realists. "If you marinate in your own misanthropy long enough, common decency fades away." However, Caplan's economic agenda and his push for tracking suggests that he has been marinating long enough. In the U.S. school system, Black, Native, & Latinix students are stereotyped as being academically uninclined; IQ realists who believe in 'group differences in intelligence' add a layer of scientific racism to this stereotype. As a libertarian, Caplan of course thinks that private institutions should not be bossed around by the government when it comes to civil rights. Thus, Caplan's argument to keep government spending out of education also means keeping civil rights legislation out of education. It would be uncharitable to read Caplan's libertarian argument as being historically naive about the debt owed to people who have been systematically excluded from the best the U.S. education system has to offer.

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To establish that school is a waste of time for everyone, Caplan rightly points out some educational malpractice that most people have sat through, but when Caplan's students look bored, it's not his fault. They are philistines. His instructional practice sounds like a caricature of what makes college an alienating place for many: "I go to class and talk to students about my exotic interests: everything from the market for marriage, to the economics of the Mafia, to the self-interested voter hypothesis. At the end of the semester, I test their knowledge." While it is hard to pass through the education system unscathed by such malpractice, there is also real change taking place. For every teacher content to put little thought into instruction, there growing movements of teachers who are actively doing better for their students. Much of this improved pedagogy explicitly centers students and their lived experience in a way that refuses to label them philistines just because their interests may be broader than what colleges have traditionally offered.

It is important to understand Caplan's economic agenda in the same way that he does: as lending heft to an established agenda of the 'budget hawks'. Caplan has worked in the Mercatus Center at George Mason University for nearly two decades, an institution which has been heavily bankrolled by the right-wing Koch brothers since the mid 1980s. In *Dark Money* [<https://edtechbooks.org/-toI>], Jane Mayer writes that a former professor at George Mason describes Mercatus as "a lobbying group disguised as a disinterested academic program." Ties to this deeper agenda don't make Caplan wrong, but they do help explain why when recognizing the flaws in the education system, Caplan chooses to defund education rather than try to make it better.

The best education is already free?

Caplan thinks that the ‘sheepskin effect’, the economic returns that come from sticking it out one more year to get a diploma (which used to be made of sheepskin) instead of dropping out, sets the lower bounds for how much of education is signaling. According to this logic, someone who completes 3 years of an engineering degree is almost as good – has almost as much human capital – as someone who sticks out the fourth year to receive the diploma. Yet, sticking out that extra year to receive the diploma adds more economic benefit in terms of earnings than what we would predict based on the economic return per year of a degree. So, if we know the difference in economic benefit between *almost* completing an engineering degree and then dropping out, in comparison to sticking it out for the diploma, then we can calculate how much is signaling.

The economist [Noah Smith \[https://edtechbooks.org/-YaE\]](https://edtechbooks.org/-YaE) argues that Caplan misunderstands the logic of signaling in his argument since it’s not very difficult to complete the last year of college if they have already made it that far, and thus sticking it out for a diploma can’t act as a signal because it’s not *costly*. According to signaling theory, employers do not have access to the same information that potential workers do about their productivity. Thus, workers who have this information about themselves look for a signal they can send employers to show that they are the real deal. If the signal were too easy, anyone could adopt it. While showing up on time to an interview gives employers information, it’s not a signal in the true sense because just about anyone can meet that criteria.

Caplan’s arguments in favor of signaling are mostly of interest

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because they reveal just how out of touch he is with the realities of most students. For example, Caplan argues that if diplomas weren't about signaling and really about human capital for learning, then "The best education in the world is already free. All complaints about elite colleges' impossible admissions and insane tuition are flatly mistaken. Fact: anyone can study at Princeton for free. While tuition is over \$45,000 a year, anyone can show up and start attending classes. No one will stop you. No one will challenge you. No one will make you feel unwelcome. "

This might be true if you present as a middle class white person of about the right age, but I'm not sure that Black or [Native](https://edtechbooks.org/-iYc) [https://edtechbooks.org/-iYc] peoples would feel equally empowered to show up in lectures. According to the [The Atlantic](https://edtechbooks.org/-ByV) [https://edtechbooks.org/-ByV], "it would be challenging for someone to go unnoticed" at Stanford, and Yale would consider such actions trespassing. But to hear Caplan's unrealistic premise out, it's not like the only difference between sitting in on classes and getting a diploma comes down to a credential that signals to future employers. Students might even feel that they aren't getting the full learning experience without conferencing with professors during office hours and receiving feedback on their work. They might need access to library materials, want to participate in sports and clubs, or simply feel like they were cheating to not pay for a lecture when their classmates are.

Caplan uses shallow analogies - funding the education system is like clinging to an ineffectual fungus cream, subsidizing education for the poor is like subsidizing diamond wedding rings - that should make us question his grasp of the serious

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consequences of his proposal to defund education and *raise* college tuition. If budget hawks are looking for intellectual heft, they had best look elsewhere.

Suppose I prove your toenail fungus cream doesn't work. I counsel, 'Stop wasting money on that worthless cream.' Would you demur, 'Not until we find a toenail fungus remedy that works'? No way. Finding a real remedy could be more trouble than it's worth. It might take forever. Continuing to waste money on quackery until a cure comes into your possession is folly. Saying, 'There must be a cure!' is childish and dogmatic. Maybe your toenails are a lost cause, and you should use the savings for a trip to Miami.

Imagine the government subsidized wedding rings for the poor. Anyone ready for marriage can go to any jewelry store in the country, knowing—whatever their income—they can buy a diamond ring. The snag: diamond rings are largely a signal of marital commitment. If diamonds were cheap as plastic, other gems would adorn our rings. They're valuable because they're costly. Once the government makes them affordable to all, then, diamond rings signal little or nothing. Doesn't this 'level the playing field'? Only for a heartbeat. ...Thanks to government subsidies, every suitor can afford a wedding ring, but so what? Society is

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functionally as unequal as ever. Subsidies don't just hurt the poor by fueling credential inflation. They reshape hiring and promotion to the poor's detriment.

But even by Caplan's own lights, education isn't *ineffective*. He acknowledges that literacy and numeracy are essential skills that schools do help build. And unless Caplan is the one person who applies expensive toe fungus cream in public, no one uses it to signal. Our intuitions about toe fungus cream might change if it helped us manage most of the major symptoms, and applying it acted as a 'signal' to get us access to spa we would very much like to go to. However, the analogy is most misleading when it comes to our sense of agency. As [Dr. Lee Skallerup Bassette \[https://edtechbooks.org/-BGK\]](https://edtechbooks.org/-BGK) points out in her brilliant review, "There is literally nothing I can do to fix the fungal cream. There is plenty I can do to fix education as a citizen."

There is something *dangerous* about a commitment to funding education, but it has nothing to do with reducing it's value by making it widely available. Rather as Noam Chomsky has argued, a commitment to funding education and social services is dangerous because it means promoting the value that we care about each other. If neoliberalism is 'lovelessness as policy' (Naomi Klein), then any challenge in the form of a social commitment to the least well off is the truly radical alternative to our current system. In an argument for publicly funding higher education, [Dr. Tressie McMillan Cottom \[https://edtechbooks.org/-xdVP\]](https://edtechbooks.org/-xdVP) argues, "It reintroduces the concept of public good to higher education discourse—a

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concept that fifty years of individuation, efficiency fetishes, and a rightward drift in politics have nearly pummeled out of higher education altogether. We no longer have a way to talk about public education as a collective good because even we defenders have adopted the language of competition.”

Caplan tries to counter arguments about spending more on education by arguing that the U.S. already spends more than enough, and contrary to popular impressions, more than it does on war. “The air force may not hold bake sales, but total education spending far surpasses total military spending. For the 2010-11 school year, education was 7.5% of the American economy, versus 4.7% for defense. Spending came to over \$1.1 trillion on education, and a bit over \$700 billion on defense. Schools overtook the military back in 1972 and sharply widened their lead after the Cold War.”

The data is a bit more complex than this. In terms of [military spending \[https://edtechbooks.org/-SvC\]](https://edtechbooks.org/-SvC), “the United States now has no official estimate of the cost of its wars” because many of the costs are not included in the already massive baseline budget. We need to add several trillions of dollars - perhaps more than 10 trillion - to really get a true sense of U.S. military spending since FY2001.

What about the spending on education? In terms of [federal discretionary spending \[https://edtechbooks.org/-hZcI\]](https://edtechbooks.org/-hZcI), the U.S. spends far more money on war than on education: 70 billion for education, 598.5 billion for the military (again, this is the baseline spending, not the full cost). When people rightly point out that the military doesn’t need to hold bake sales, we can imagine what the U.S. education system might look like if a few

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hundred billion dollars per year were directed towards improving the least well-funded schools or to measures to reduce poverty. If we add in the funding from state and local levels, the expenditure per public school student was \$12,509 in 2013-14 [<https://edtechbooks.org/-hqa>]. However, that average obscures the vast inequality in the U.S. According to *The Atlantic* [<https://edtechbooks.org/-BoRl>],

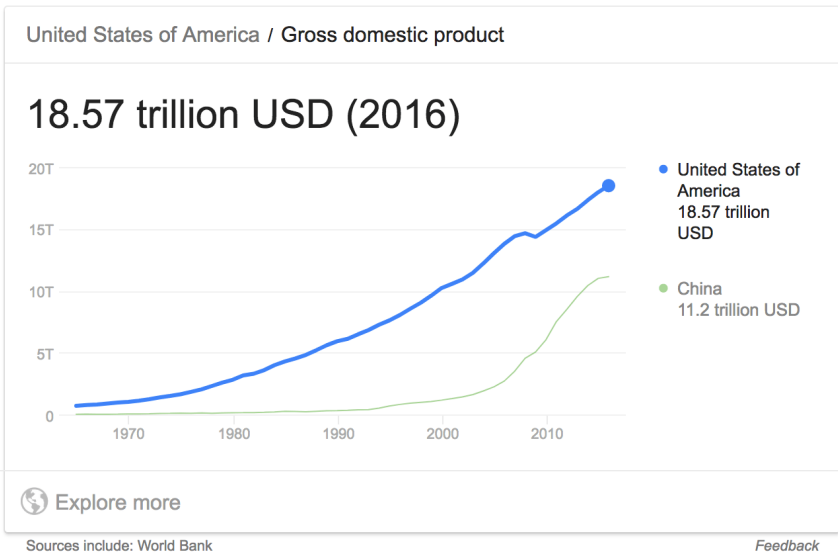
Nationally, high-poverty districts spend 15.6 percent less per student than low-poverty districts do, according to [U.S. Department of Education](https://edtechbooks.org/-Co) [<https://edtechbooks.org/-Co>]. Lower spending can irreparably damage a child's future, especially for kids from poor families. A 20 percent increase in per-pupil spending a year for poor children can lead to an additional year of completed education, 25 percent higher earnings, and a 20-percentage point reduction in the incidence of poverty in adulthood, according to a [paper](https://edtechbooks.org/-HuU) [<https://edtechbooks.org/-HuU>] from the National Bureau of Economic Research.

How much of education is signaling and why does it matter?

While there is no doubt that education pays returns to individuals, Caplan's argument centers on calculating the *social return* to funding an education system. From the perspective of human capital economists, education is the path to national

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prosperity because it creates a more productive workforce. As Caplan summarizes, “Human capital says education increases the size of the pie; signaling says education redistributes the pie.” Lest we think that there’s not much economic pie to go around, the U.S. GDP has increased nearly 10 fold over the last forty years.



[\[https://edtechbooks.org/-VKK\]](https://edtechbooks.org/-VKK)

How does Caplan arrive at his guess that education is 80% signaling? Caplan compares two rates of return: the “effect of a year of personal education on personal income” with the “effect of a year of national education on national income.” If education has a high selfish benefit for the individuals who can use it to signal their way to more income, but little social benefit, then Caplan argues that we should defund the system.

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At the global level, a typical year of personal education seems to raise personal income by 8-12%. A typical year of national education, in contrast, seems to raise national income by only 1-3%. While these ranges are compatible with a wide range of human capital signaling splits, signaling consistently overshadows human capital. If King Solomon had to announce a precise human capital/signaling split, 20/80 again sounds about right.

Caplan's calculation seems overly blunt. A more fine-grained analysis by [Baris Kaymak \[https://edtechbooks.org/-Fnc\]](https://edtechbooks.org/-Fnc) puts the proportion of signaling much lower.

Estimation results show that the signaling role of education is equal to 22% of the return to education estimated by OLS for workers with low ability. For workers of higher ability most of the uncertainty is resolved prior to employment, leaving a very small role for signaling, 1% of the OLS return, despite the slower employer learning on the job.

Human Capital

A lot of neoliberal curses come home to roost in Caplan's critique of human capital theory. Whenever well-intentioned progressives use human capital discourse to argue for 'future proofing' ([Keri Facer \[https://edtechbooks.org/-Zii\]](https://edtechbooks.org/-Zii)) students,

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they need to also consider what their argument implies if some of their core assumptions don't turn out to be true. Despite whatever Thomas Friedman says, we all know there is something wrong with the idea that income and compensation only reflect the skills and ability that we bring to a job. An argument against human capital theory is not an argument against education, but an argument about reducing the value of education to economic calculations. In [Rachel Cohen's](https://edtechbooks.org/-GL) [\[https://edtechbooks.org/-GL\]](https://edtechbooks.org/-GL) review of Caplan's book, she writes:

Education is still crucial for building citizenship, for maintaining democratic polities, for fostering human development. But it would be better if our government stopped looking at schools as *the* ticket to economic security, and stopped acting as though our ability to afford health insurance, housing, and food should depend on whether one is capable of obtaining a college degree.

In his analysis of rising inequality, Thomas Piketty points out the rising share of income - between 45% and 50% - that goes to the top decile (10%) of labour. The CEO of *Under Armor* makes in less than one day what the median worker in their company makes in a year (\$10,686). Does the CEO of *Under Armor* really have [378 times more](https://edtechbooks.org/-Vyu) [\[https://edtechbooks.org/-Vyu\]](https://edtechbooks.org/-Vyu) human capital than the median worker? Piketty rejects this explanation:

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One possible explanation of this is that the skills and productivity of these top managers rose suddenly in relation to those of other workers. Another explanation, which to me seems more plausible and turns out to be much more consistent with the evidence, is that these top managers by and large have the power to set their own remuneration, in some cases without limit and in many cases without any clear relation to their individual productivity, which in any case is very difficult to estimate in a large organization. (p. 24)

How would human capital theory put a value on vastly underpaid care labor that is essential to the functioning of the economy, or all of the *unpaid* work without which society would not function? In her conceptual critique of Becker's human capital theory, [Antonia Kupfer \[https://edtechbooks.org/-HgB\]](https://edtechbooks.org/-HgB) argues that schools do not simply produce human capital in a linear relation because unpaid work is "a precondition of education taking place." Most of the work that goes into getting a child ready to attend school and to support them throughout their educational careers is unpaid and not counted as productive uses of human capital: from giving birth, to feeding children, washing their clothes, and getting them to school, the feminized work that readies children for education is truly massive. Kupfer asks, "How could 'productivity' be measured in the increasing service sector such as care of elderly, counseling or management? In fact, productivity is highly culturally conceptualized and impacted."

According to Kupfer, the human capital "concept abolishes the

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difference between labour and capital by conceptualizing all people as capitalists through their capitalized work force.” The idea of human capital seems to democratize potential, when in fact financial capital is increasingly concentrated in the hands of a few people. Piketty outright rejects the idea of human capital because “human capital cannot be owned by another person or traded on a market (not permanently, at any rate)... In slave societies, of course, this is obviously not true.” (p. 46) If human capital theory was at some point during the mid 20th century kept in balance by a growing international commitment to human rights, [Maren Elfert \[https://edtechbooks.org/-HwS\]](https://edtechbooks.org/-HwS) argues that it has “come out of equilibrium when neoliberal conservative governments came into power in the late 1970s which put the human capital approach at the service of an excessive market ideology, under which profit considerations dominated.”

Consider the power relations between “the ones who pay” and put forth capital in the form of money and “the ones who are paid” who put forth ‘human capital’ in the form of skills, energy, and smiles. Capitalists are able to exert far more influence on the structure of labour conditions by replacing workers with machines, which serves to de-skill the labour force, while human capital is not able to wield a reciprocal power against the capitalists. [Dr. Tressie McMillan Cottom \[https://edtechbooks.org/-wDk\]](https://edtechbooks.org/-wDk) argues that “we have a labor market where the social contract between workers and the work on which college has previously relied has fundamentally changed and makes more workers vulnerable.” *The ones who are paid* face ceaseless precarity & pressure to upgrade their skills and manage their self-presentation. In large part, this pressure comes from the fact that journalists like Thomas

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Friedman act as a [mouthpiece for Capital](https://edtechbooks.org/-SNc) [https://edtechbooks.org/-SNc] by turning the musings of the CEOs he lunches with into prescriptions for national economic success.

The consulting firm [McKinsey](https://edtechbooks.org/-PHT) [https://edtechbooks.org/-PHT], using the kinds of methods developed by the pre-eminent human capital economist [Eric Hanushek](https://edtechbooks.org/-FLv) [https://edtechbooks.org/-FLv] to tie the GDP to levels of education, conceptualizes the so-called 'achievement gap' in purely economic terms. Social injustice becomes a drag on the GDP:

If the United States had in recent years closed the gap between its educational achievement levels and those of better-performing nations such as Finland and Korea, GDP in 2008 could have been \$1.3 trillion to \$2.3 trillion higher. This represents 9 to 16 percent of GDP.

If the gap between black and Latino student performance and white student performance had been similarly narrowed, GDP in 2008 would have been between \$310 billion and \$525 billion higher, or 2 to 4 percent of GDP. The magnitude of this impact will rise in the years ahead as demographic shifts result in blacks and Latinos becoming a larger proportion of the population and workforce.

According to the economist [Ha-Joon Chang](#)

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[\[https://edtechbooks.org/-SRY\]](https://edtechbooks.org/-SRY), McKinsey's logic doesn't fit the facts: "there is very little evidence to support the view that increased education leads to higher economic growth." "What really matters in the determination of national prosperity is not the educational levels of individuals but the nation's ability to organize individuals into enterprises with high productivity."⁷ Chang references '[Where has all the education gone? \[https://edtechbooks.org/-EgX\]](https://edtechbooks.org/-EgX)'

In 1960, Taiwan had a literacy rate of only 54 per cent, while the Philippines' was 72 per cent. Despite its lower education level, Taiwan has since then notched up one of the best economic growth performances in human history, while the Philippines has done rather poorly. In 1960, the Philippines had almost double the per capita income of Taiwan (\$200 vs. \$122), but today Taiwan's per capita income is around ten times that of the Philippines (\$18,000 vs. \$1,800). ...

The East Asian economies did not have unusually high educational achievement at the start of their economic miracles, while countries like the Philippines and Argentina did very poorly despite having significantly better-educated populations. At the other end of the spectrum, the experience of Sub-Saharan Africa also shows that investing more in education is no guarantee of better economic performance. Between 1980 and 2004, literacy rates in Sub-Saharan African countries rose quite substantially from 40 per cent to 61 per cent.

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Despite such rises, per capita income in the region actually fell by 0.3 per cent per year during this period. If education is so important for economic development, as most of us believe, something like this should not happen.

Having an abundance of intelligent, mechanically skilled, & literate people does not mean that there will be ‘productive’ work for them. Nor does it mean that their contributions will get counted as being ‘productive’ in the economic sense. While employers might complain they can’t find skilled employees, [the ‘skills gap’ is largely a myth \[https://edtechbooks.org/-fvM\]](https://edtechbooks.org/-fvM). Unfortunately, many who see themselves as advocates for a progressive education system that frees itself from standardized testing essentially make the same argument as Caplan: U.S. schools don’t teach any useful skills, and hence education should be vocationalized. In one recent example, [Ted Dintersmith \[https://edtechbooks.org/-Sbg\]](https://edtechbooks.org/-Sbg) argues that “our best path to leveling society’s playing field is to make the high school diploma meaningful. Let students take on real-work challenges, gaining the ability to contribute effectively to an organization or community. Ensure K-12 graduates have hireable skills.”

Such progressive advocates are largely ignorant of the [two different strands of progressive education \[https://edtechbooks.org/-LU\]](https://edtechbooks.org/-LU), one which argued for adapting kids to the economic order, and one which had more radical leanings. In *The New Republic* (1915, [republished in Curriculum Inquiry in 1977 \[https://edtechbooks.org/-WNG\]](https://edtechbooks.org/-WNG)), Dewey put his criticism this way:

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Apart from light on such specific questions, I am regretfully forced to the conclusion that the difference between us is not so much narrowly educational as it is profoundly political and social. The kind of vocational education in which I am interested is not one which will 'adapt' workers to the existing industrial regime; I am not sufficiently in love with the regime for that. It seems to me that the business of all who would not be educational time-servers is to resist every move in this direction, and to strive for a kind of vocational education which will first alter the existing industrial regime, and ultimately transform it. (p. 38-9)

Like so much of our lives under late capitalism, education has been subjected to an "excessive market ideology" for at least the last 50 years. Under human capital theory, "the role of the state could be *limited* to improving educational standards, expanding access to higher education, and creating flexible job markets that reward talent, ambition, and enterprise."⁸ Brown, Lauder, and Ashton, *The Global Auction*. If we want to get to the root causes of why the education system is broken and what can be done to fix it, we need to free ourselves from the ideology that makes Caplan's calculations all but inevitable.

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