

Specific Challenges of Decentralization with Price Control: Early Lessons from New Orleans

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April 28, 2014

According to some of its key officials, the New Orleans (NOLA) school system aims to leverage “entrepreneurship” in a “highly regulated market;” a setting that aims to inform and motivate entrepreneurship without market-driven price signals, or the potential for profits to attract investors. Like hoping to drive to a destination without directions or fuel, it may be hope triumphing over experience. In case you missed [my first NOLA blog](#), the post-Katrina NOLA school system is replacing traditional public schools with chartered public schools. Through new school start-ups and traditional-to-charter conversions, charter enrollment has reached 91% of public school enrollment.

In a system of mostly independent schools (NOLA: 91% charter), who/what [process] determines that additional [or fewer] seats are needed? In a traditional setting, it is the school district (central planners) through analysis of homebuilding and demographic studies. But if a school system aims to rely on entrepreneurship, then what signals entrepreneurs of the need for additional system capacity? Who/what [process] determines the location for a new school?

We know from the era of regulated, price controlled airline travel that a high fixed price yields wasteful, massive excess capacity. And we know from extensive, nationwide chartered public school experience that waitlists don't resolve themselves. There is only so much supply available at government-set per pupil payments, plus whatever charity-financing charter school operators can secure. Increased demand doesn't change that. Because NOLA is not a fast-growing area, that problem of fostering adequate total capacity in a system of independent schools may only manifest itself on a small scale; in specific growing neighborhoods, or in the vicinity of especially

popular schools. That may preclude attention to a potentially more important problem, namely problems orchestrating independent school provision of the optimal mix of schooling options; as pedagogically and thematically diverse as the engagement factors of a diverse student population.

It's one thing to regulate entrepreneurship. It is another to demand it, or recruit it. There are only two ways to orchestrate (determine) an industry's capacity and it's product differentiation: a.) free enterprise-driven market entry regulated by price change and profit-loss; b.) centralized, public official choice of what, how, and where, and by whom. NOLA is targeted to be a hybrid; has to be to be within the law, but it has to be recognized that for all but true public goods ([schooling is a merit good](#)), option b.) has never performed above dismal. Commitment to a.) does not preclude extensive subsidy of customers, from the public purse, and/or by charity, but it does require a dynamic price system and profit-loss to correctly orchestrate the provision of schooling options.

Indeed, NOLA officials have expressed concern about services for special needs children, again handicapped by the pervasive, devastating one-dimensional school quality and student ability fallacy. They ask, "Are all schools serving students in special education effectively?" The bigger question is 'should they'. The missing price system would signal which special needs schooling options are most urgently needed, while simultaneously providing the economic motivation and wherewithal to heed the price signal. Florida, among others, recognized the impossibility of specifying the prices of special needs services when they price-decontrolled the McKay special needs voucher program, which unleashed significant growth in school slot availability and usage.

Of course every school SYSTEM needs to serve all children, but making each school attempt to do it, is not wise. Laws that make it difficult to do otherwise could still stand some serious debate. The NOLA system is an example of the implied commitment to a system of comprehensive schools, which foregoes many of the potential benefits of school choice, namely bigger differences in schools' instructional approaches.