Merit pay is a basic principle of a competitive market economy. “To each according to his or her product” is the market’s guide. I support a competitive market economy, yet I do not believe that introducing merit pay into our present elementary- and secondary-school system will improve the quality of public education.

Someone must judge merit, determine who is meritorious and who not, and by how much the one is more meritorious than the other. In a competitive market economy consumers render that judgment—though, in a modern corporation, their judgment is somewhat diluted as it is translated into actual pay scales through the mediation of numerous intermediaries. Yet the bottom line is clear. A private enterprise operating without government subsidy cannot pay its employees unless it satisfies the consumers of its products. And the amount available to meet its expenses depends on how well it satisfies the consumers, on what merit they attribute to its products.

Every private school must satisfy its customers—parents paying tuition and benefactors who contribute funds to the school. Every private school now pays its teachers according to merit. If it did not, its “better” teachers would be hired away by its competitors and it would be left with the poorer ones. Its customers would sooner or later discover what is happening and desert it.

The situation is wholly different with a socialist enterprise like the public-school system or, for that matter, a private monopoly. The true customers of the public schools—parents and children—have come to exercise less and less influence over the schools as the schools have become more and more centralized and bureaucratic. When school districts were numerous and small, parents could exercise considerable influence. A superintendent or principal who misjudged the “merit” of teachers—in the eyes of consumers—would not have remained in those positions for long.

The situation has changed drastically in the past half century. The number of school districts declined from 130,000 to 16,000; classroom teachers, from 96 percent of the total instructional staff to 86 percent; the fraction of school funds coming from local government, from 83 percent to 43 percent. During the same period, population nearly doubled, cost per student multiplied more than fivefold, even after allowing for inflation, and the quality of education plummeted. Schools are now run by professional bureaucrats. Monopoly and uniformity have replaced competition and diversity. Consumers of schooling have little to say. Control by producers has replaced control by consumers.

The National Education Association—the largest teachers’ union—initially objected to merit pay. But if merit pay were introduced into our present socialist school system, unions would soon influence judgments of “merit,” sharing power with professional bureaucrats. That combination has brought schooling to its present deplorable state. Is giving unions and bureaucrats more power a way to halt the deterioration?
You cannot make a monopolistic supplier of a service pay much attention to its customers’ wants—especially when it does not even get its funds directly from its customers. The only solution is to break the monopoly, introduce competition and give the customers alternatives. A voucher system is such a solution. It would enable all parents to choose the schools their children attend—an opportunity currently limited to those of us in the upper-income classes who can afford to pay twice for our children’s schooling—once in taxes, once in tuition.

Under such a plan, parents would receive vouchers corresponding to all or part of the amount that the state or local community is committed to spending to provide public schooling for their children. These vouchers could be used only for schooling—in either public or private schools. The source of public funds would remain the same as it is now—the taxpayers. The key difference from the present system—and it is a crucial difference—is that parents, and not government bureaucrats, would decide what schools their children attend. In the process, they would also decide which schools get more funds and which less.

Vouchers would give teachers and administrators a strong incentive to meet the wants of their real customers—parents and students. Vouchers would make “merit pay” an effective instrument for improving the quality of schooling—without requiring either special legislation or additional funds.