On the Way to School

Why and How to Make a Market in Education

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And edited version of this paper was published in:
Freedom and School Choice in American Education,
Greg Forster and C. Bradley Thompson, eds.,
Palgrave Macmillan, June 2011.

What Do You Expect?

The purpose of this volume is to identify the optimal way of returning parental choice and market forces to the field of education. But before we can properly design any system we have to know what it is intended to accomplish. So: what do people want out of their schools?

Based on a review of survey and focus group research,[1] the public's aspirations can be distilled as follows:

- All children should have access to good schools,
- Schools should prepare children for success in private life, through a solid grounding in knowledge, skills, and values (specific expectations in these areas vary from family to family, though there is considerable overlap),
- Schools should explain the rights and duties of citizenship, to prepare children for participation in public life, and
- Schools should foster harmonious relations among the different ethnic, religious, and ideological groups within our society, or at the very least not breed tensions between them

It is worth noting that the above list captures the noblest goals of the 19th century "common school" reformers – authors of the present U.S. public school system. Americans still want the things that education reformers were promising them eight generations ago. Can policymakers finally deliver on those promises today?

Where, and how, to Look for Answers

Public schooling has not fallen so far short of its promises, for so long, by accident. A large part of the problem is that the common school reformers who designed the present system approached education policymaking in a naïve, unreliable, unsystematic way. That is not to say that they made no effort to study schooling in the U.S. and abroad. Horace Mann of Massachusetts, the first secretary of the first state board of education and leader of the movement, traveled all over Europe in the latter half of 1843, spending most of his time visiting schools.[2] But Mann had been appointed to the position six years earlier, and had long before settled on his education policy of choice: a system of schools operated by the state, free of charge, with state-appointed experts overseeing their content, teacher training, and administration. In 1837, a month after his appointment to the newly created state board of education, Mann wrote in his personal journal that:

> It is the first great movement towards an organized system of common education, which shall at once be thorough and universal. Every civilized State is as imperfectly organized, without a minister or secretary of instruction, as it would be without ministers or secretaries of State, Finance, War, or the Navy.[3]

When he eventually set out on his European education tour, he simply fit what he saw into the policy framework he had already chosen. To avoid the copious disappointments that his preferred policy has wrought, modern education reformers would do well to study and understand the relative merits of alternative school systems *before* actually choosing which sort to implement. Fortunately, there is a great wealth of evidence on widely varying approaches to education stretching back to ancient times and reaching all over the globe.

Regrettably, interest in that evidence has generally been tepid among U.S. policy analysts and policymakers. The central objection to foreign education research is that cultural and economic factors differ so widely across nations that there is no way to tell if a particular country's educational success is due wholly or even chiefly to its system of schooling. That is certainly true. But there are ways of using the international (and historical) evidence that not only overcome this hurdle, they actually turn it into an asset.

The key is to identify so-called "natural experiments" in which either the type of school system is held constant while the cultural and economic setting varies, or the setting is constant and the school systems vary. In the first category, we can compare the outcomes of similar systems across many different countries and time periods. In the second, we can compare different systems of education operating simultaneously within individual countries, as well observing what happened to educational outcomes when a given nation shifted from one approach to schooling to another.

If a particular approach to organizing and funding schools consistently works well across widely varying circumstances, and if it consistently outperforms other systems when operating in similar circumstances, we can be confident that this pattern of results is due to the system itself, and not simply an accident of circumstance. In fact, the greater the cultural and economic differences among the nations and historical periods studied, the more compelling any consistent pattern of results becomes.

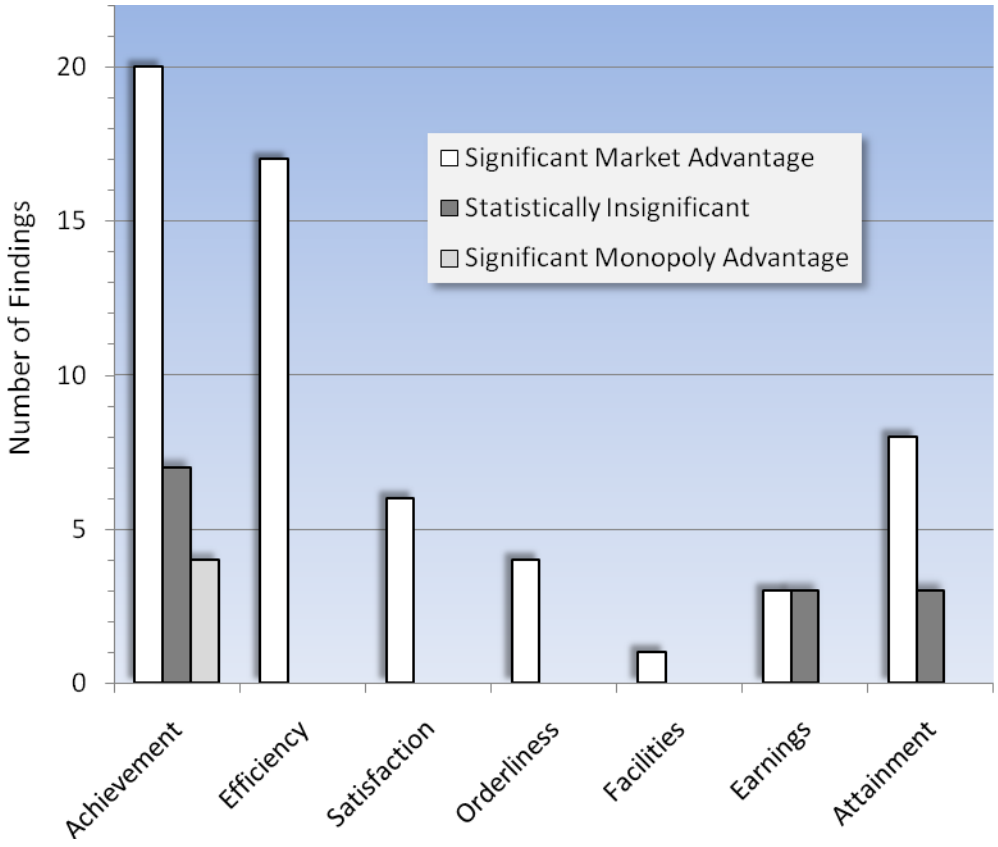
Natural experimentation is used to great effect in fields as diverse as epidemiology and cosmology.[4] By applying it to the historical evidence and international research on education, we can discover reliable answers to questions that are otherwise difficult to explore empirically.

The Right Tool for the Job

Applying the method described above to a broad swath of human history, from Classical Greece to modern America, led me to conclude in 1999 that free and competitive education markets have consistently done a better job of serving families and societies than have state-run school systems.[5] To test the first of these conclusions, I subsequently applied the same approach to a new data set: the modern econometric research comparing school systems in developing countries.[6] An updated version of that literature review, expanded to include relevant studies in rich as well as poor countries, appears in the *Journal of School Choice*.[7]

The recent evidence, it turns out, echoes the message of the historical precedents. Figure 1 tabulates the results of modern studies comparing market and monopoly provision of schooling across seven different outcomes: academic achievement, efficiency (measured as achievement per dollar spent per pupil), parental satisfaction, the orderliness of classrooms, the condition in which facilities are maintained, the subsequent earnings of graduates, and the highest level of schooling attained.

Figure 1. Market vs. Monopoly Schooling
Number of Significant and Insignificant Findings, Worldwide



Source: Andrew J. Coulson, "Comparing Public, Private and Market Schools: The International Evidence," *Journal of School Choice*, Vol. 3, No. 1, 2009.

As Figure 1 makes clear, the weight of evidence is overwhelming. But what characteristics define the education markets that so consistently outperform state monopoly provision of education? Those defining features can be summarized as follows:

- Choice for parents
- Direct financial responsibility for parents
- Freedom for educators to set curricula, methods, prices, and admissions policies
- Competition among schools for the opportunity to serve students
- The profit motive for at least some share of education providers

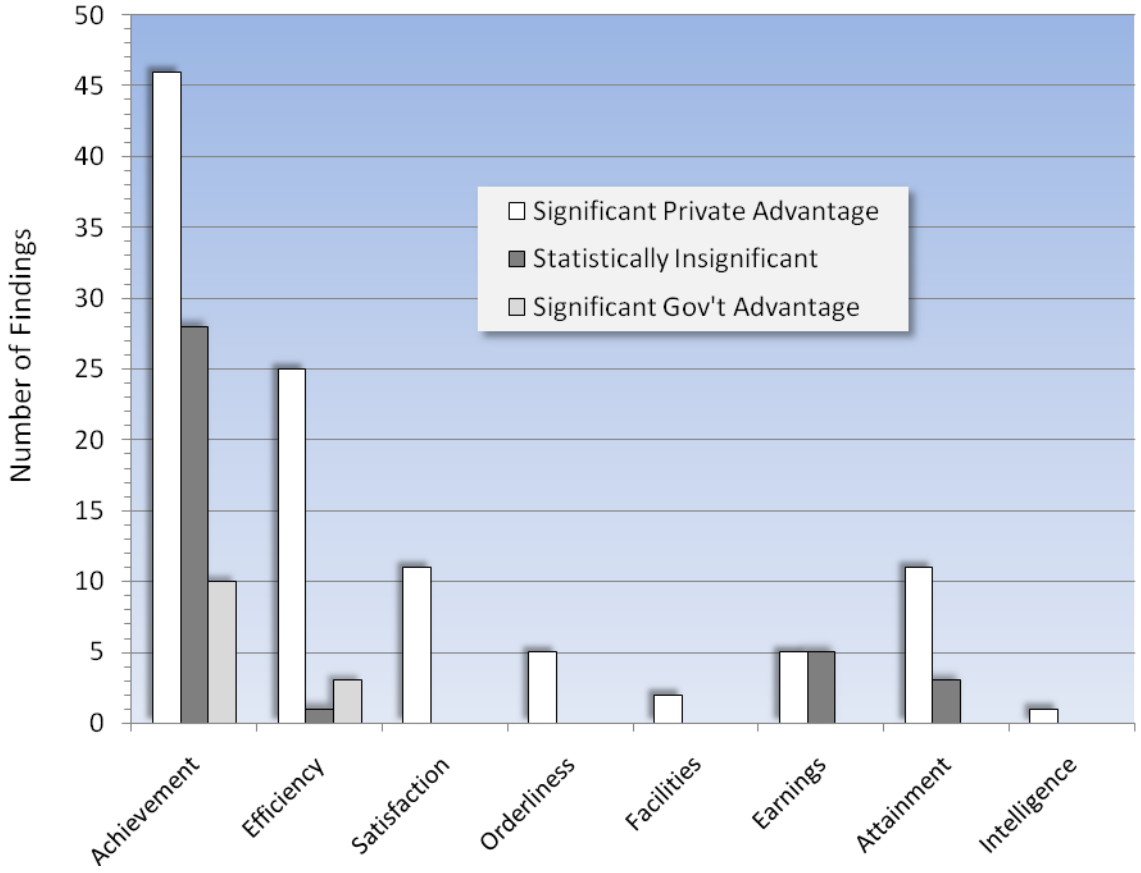
A key premise shared by Mann and the other common school reformers was that state-appointed experts would make better educational decisions for children than would those children's own parents. This premise has been repeatedly contradicted across time and around the world. From 19th century England to modern sub-Saharan slums, even the poorest, least schooled parents have frequently scrimped and saved to send their children to private schools when free or subsidized government schools were available. And the

schools chosen and paid for by these parents have consistently outperformed nearby government schools despite spending considerably less per pupil.[8]

The benefits of parental choice go beyond improved academics. Unfettered choice has proven to be the best means of satisfying families' varied (and sometimes incompatible) needs and priorities, allowing parents to obtain the sort of education they value without imposing their preferences on their neighbors. The record of public schooling in this area is bleak. By establishing an official curriculum that is offered for free, state school systems create conflict among parents of differing values and goals, pressuring them to either accept services that do not meet their needs or to wrest control of the system and impose their own preferences on their neighbors. Battles over sex education, instructional methods, school prayer, and the teaching of everything from the origin of the Republic to the origin of species have been the inevitable Balkanizing result.

Choice is of course meaningless unless parents have a variety of distinct options from which to choose. In order to create a vibrant and diverse marketplace, schools must have the freedom to choose their curricula, methods, and teachers as they deem best. The importance of this autonomy is well illustrated in the differing results one finds when comparing not market versus monopoly schooling but rather private versus government schooling, broadly construed. The findings charted in Figure 1 compare minimally regulated private schools that are funded at least in part by parents to government-run schools that do not face serious competition from a private school choice program. Figure 2 broadens the scope of the question, comparing all forms of private schools (whether state funded or parent funded, whether heavily regulated or lightly regulated) to all forms of government schools (almost always monopolies, but sometimes systems facing real competition from large-scale private school choice programs). Taken together, these charts demonstrate that it is the freest, least regulated private schools that enjoy the greatest margin of superiority over government school systems. The market vs. monopoly comparison favors markets by a ratio of 15 findings to 1, whereas the private vs. government comparison favors the private sector by only 8 to 1.

Figure 2. Private vs. Government Schooling
Number of Significant and Insignificant Findings, Worldwide



Source: Andrew J. Coulson, "Comparing Public, Private and Market Schools: The International Evidence," *Journal of School Choice*, Vol. 3, No. 1, 2009.

In addition to enjoying autonomy in their operations, private schools must also be able to set their own prices. Prices governed by supply and demand are an essential part of free markets. They simultaneously convey information about what consumers want and provide the incentive for producers to deliver it. High prices attract competitors who seek to profit by finding more efficient ways of delivering the sought-after service. This, in turn, drives the price down. If it had not been legal to sell the first CD players for $1,000 (roughly $2,000 in today's currency) it would never have been possible to justify or finance the research that turned them into $20 commodities.

Historically, the only school systems in which parental choice and school autonomy have long survived have been those in which parents directly shouldered some or all of the cost. Whoever has paid for schools has exerted pressure on them to conform to their desires and expectations – whether the payer has been an individual, a private sector organization, or a government. When individual parents pay for the services of a particular school, their demands only shape the behavior of that one school. Parents who want different things gravitate to different schools, preserving the diversity of educational options.

Under single payer government systems, by contrast, the effect is to burden all schools with a single set of regulatory constraints. Governments set rules on what is taught and who can teach, on acceptable admissions policies and forms of business organization, and on the fees that subsidized schools may charge (if any). Interest groups lobby for the exclusion of educational content in government-funded schools that they find objectionable, and employee organizations lobby for policies that serve their members, narrowing the sorts of services that can be offered and impeding market forces.

Parents seeking educational options foreclosed by such regulations might in principle turn to unsubsidized private schools, which tend to enjoy greater autonomy. The problem is that in jurisdictions that offer significant government funding for approved types of private schooling, the unsubsidized sector tends to be squeezed out of existence. In many parts of the developing world, where the government's capacity to provide schooling is limited, the private sector still accounts for a large share of enrollment – sometimes an outright majority. In the United States, where private schools are mostly unsubsidized but government schools are lavished with $12,000 per pupil annually, the private sector has been squeezed down to 10 percent of total enrollment. But in the Netherlands, where a national voucher program has been in operation for over 90 years, unsubsidized private schooling has been reduced to less than one percent of total enrollment. The pattern is similar across wealthy countries that offer subsidies to private schools – the unsubsidized sector gradually shrivels up.[9]

Some single payer education systems begin under a heavy regulatory pall. In Denmark and Sweden, for instance, the government imposed a core curriculum and rigidly controlled prices and admissions policies from the start. But even programs that initially had been relatively free have gradually succumb to extensive and intrusive government control.

The Dutch voucher-like system was enshrined in the constitution of 1917, guaranteeing funding on a per-pupil basis to both government-run and participating private schools. The program offers equal funding to schools in either sector, though the per pupil allocation is higher for special needs students and those from migrant and/or ethnic groups associated with lower academic achievement. This program has suffered a relentless regulatory ratchet effect over time.

Before the 1980s, private schools had complete control over their school buildings during the hours the school was open for business. Government officials subsequently gained the power to allocate "underutilized" private school space to other educational purposes of their choosing.[10] During the 1970s, laws were passed stipulating how decision-making power must be allocated within private schools among management, teachers, and parents.[11] A national Common Core Curriculum was introduced in 1986 and updated with additional subjects in the 1990s.[12] Students' subject matter options have subsequently narrowed. In the 1990s, pupils could choose their exam subjects during the latter high school years, but by the end of 2002 the state had begun imposing set subject combinations and associated tests.[13]

The Dutch state's control over the content of voucher-funded schools has recently extended beyond curriculum to pedagogical methods, with teachers increasingly being assigned the role of "supervision and encouragement" rather than a more traditional role of instructing and guiding the educational process.[14] Over time, the state has also increased regulatory barriers to the entry of new schools and to the perpetuation of

existing schools. "The current funding conditions are rather strict, and in recent years they have been changed to hinder the establishment of new schools,"[15] writes Benjamin Vermeulen of Vrije University. The minimum pupil counts required to create new schools (now two to three hundred or more, depending on grade level and other factors) have been increased over time, as have the counts necessary for an existing school to remain in operation. In fact, current rules make it extremely difficult to establish new schools in areas already served by unpopular schools that have open places, protecting those incumbent schools from competition.[16]

The results of these policy shifts can be seen in the statistics for the creation of new schools: 74 were created in 1990, 67 in 1991, 13 in 1993, and only 5 in 1994.[17] Over roughly the same period, well over a thousand small schools were forced to either merge with other schools or to close down entirely due to rising minimum enrollment figures laid down by the government.

One Dutch teacher, who emigrated to Canada in search of greater educational freedom, told British Columbian researchers:

> The way it went in Holland when the government totally funds the schools…. It seemed like all the time, well, the government started to dictate a little more of how the schools were run, and the people here quite remember that.[18]

It is critical to understand that this regulatory encroachment can be directly attributed to government funding. There is nothing in Dutch law that *requires* private schools to participate in its school choice program. It is perfectly legal to operate a privately-funded private school in the Netherlands, and these schools need not conform to most of the regulations applying to government-funded institutions. The same can be said of other countries with similar programs, including Chile, Canada (British Columbia), and India. We thus have a natural experiment in which the dependent variable is level of regulation, and the explanatory variable is level of government funding. The clear pattern that emerges from this experiment is that governments from vastly different countries all regulate their private schools in proportion to the level of government funding they receive.

When parents pay for their own children's education (referred to hereafter as "direct payment"), it also has an important impact on school efficiency. There is evidence from developing countries that private schools funded by parents are more efficient than those funded by the state, producing higher academic achievement per dollar spent. In India, private schools fully funded by the state are consistently found to underperform those funded by parents. In Indonesia, school efficiency was discovered to be positively correlated with the share of local funding, derived primarily from fees paid by parents.[19]

A final advantage of direct parent funding over tax funding is that it eliminates a perennial source of social conflict: compelling taxpayers to fund forms of education that may violate their convictions. During the 19th century, when U.S. public schools were overtly religious in character, Catholics objected to paying for schools that taught using the Protestant version of the Bible. To this day, conservatives and liberals, pedagogical progressives and traditionalists, do regular battle over the content and methods of the government schools for which they are all obliged to pay.

While injecting parental choice into state-funded school systems reduces the pressure on parents to educate their children in a certain way, it does nothing to alleviate the

compulsion of taxpayers. Under voucher programs, all taxpayers are compelled to pay for every legal type of schooling, regardless of their personal convictions. This proves to be every bit as socially divisive in practice. In the Netherlands, for example, many socially liberal Dutch citizens are uneasy with what they perceive to be the anti-Western, anti-modern slant of the nation's conservative Islamic voucher schools. But, under the Dutch system, they are compelled to pay for these schools. The result is a zero-sum game: either voucher funding is revoked for conservative Islamic schools, in which case law-abiding Muslim families have their options curtailed, or it is not, and the deeply held convictions of the taxpayers are trampled.

It is easy to see how comparable divisions could arise within the United States under a voucher program. Would schools teaching that homosexuality is morally abhorrent and refusing to enroll gay students be eligible for vouchers? What about schools teaching that homosexuality is natural and morally neutral, and welcoming the enrollment of openly gay students? Each type of school could be expected to draw the ire of Red or Blue Americans reluctant to fund them, and precipitate efforts to regulate them out of the voucher program. Whichever side lost such a battle would be much embittered. When education is paid for directly by parents, this Balkanizing situation is averted, because no one is compelled to pay for schooling they considered contrary to their values.

Amy Gutmann[20] and others have argued that official government school systems and the conflicts they generate are a necessary price that pluralistic democratic societies must pay if they are to maintain harmonious, civic-minded populations. Though this argument is presented as a piece of pure deductive reasoning, it is in fact an empirically testable hypothesis. More than that, it is a hypothesis that has been thoroughly tested and resoundingly disproven. When Patrick J. Wolf surveyed the extensive research in this field he found that freely chosen (usually, private) schools have superior civic outcomes to assigned public schools. Of 36 statistically significant findings, thirty-three favored the private or otherwise freely chosen schools (such as charter schools).[21]

When students were asked to identify their least-liked political group and then asked whether they would let members of that group exercise such rights as free speech and pursuit of public office, only a single finding showed public school students to be more politically tolerant. By contrast, 11 significant findings favored students in private or otherwise chosen schools, and nine showed no significant difference between the two. The notion that social combat over a single official school system is somehow therapeutic for free societies is not simply unsubstantiated, it is clearly contradicted by a wealth of empirical evidence.

The combination of parental choice, autonomy for educators, and direct payment of tuition by parents ensures some level of competition, but the vigor of that competition depends on both the total size of the market and the number of different providers to which each family has access. The market for curricula, services, and reference materials aimed at home-schoolers, for instance, is vast, diverse, and innovative because the potential customer base is international in scope. From textbooks, to software, to satellite television broadcasting, to live Web-based tutoring services, the options are seemingly limitless. By contrast, the diversity in, say, the Milwaukee voucher program is limited to the hundred or so schools that can be supported by the local student population. And

significant investment in research and development cannot be justified for a market that is capped in size at roughly 22,000 students (as is currently the case in Milwaukee).

Finally, the presence of for-profit education providers is essential for a genuine educational marketplace to arise. The importance of the profit motive is illustrated by the differing responses shown by non-profit and for-profit education providers in response to accumulating demand. Critics of educational privatization frequently point to waiting lists at popular private schools as a sign that a marketplace would fail to serve many students; that schools, rather than parents, would do the choosing. Certainly there is evidence of this phenomenon among the most prestigious private schools in the United States today. Institutions such as the traditionalist Philips Exeter Academy and the progressive Laboratory School at the University of Chicago, serve only about a thousand more students today than they did a century ago. This failure to significantly expand operations in the face of high demand can be explained by two factors: the absence of an incentive (profits) sufficient to overcome the risks of expansion, and considerable funding from alumni intended to perpetuate a tradition rather than to commercialize a popular service.

There is, however, a for profit sector in education, and it behaves in much the same way as any other for profit industry. The most popular providers grow dramatically, opening new locations and often buying out less popular competitors. The after-school tutoring sector is perhaps the most familiar example of for-profit education. In fifty years, the industry-leading Kumon chain expanded from one student in one school in one country to four million students in 26,000 schools in forty-five countries.[22]

It is worth nothing that some networks of non-profit schools, notably those run by religious organizations, have expanded without the lure of profits. Nevertheless, profits have proven to be the most effective and universally applicable force in disseminating popular educational services.

Ensuring Universal Access to the Education Marketplace

Markets are clearly the right tool for the job of mass education, but in nations whose people have both the means and the desire to ensure universal access to a large amount of high quality schooling, some form of third party financial assistance is called for. In the absence of a state-run school system it is possible that this financial assistance would be provided entirely voluntarily through private philanthropy. In 19th century England and the United States, before government entry into the education market displaced most private action, there was a vast philanthropic presence in education.[23] But those voluntary arrangements were less universal and often less responsive to families' demands than modern citizens would likely expect.[24] Could they be developed into something sufficiently systematic to satisfy the public's goals? That is certainly a worthy topic for scholarly debate, but for the foreseeable future there is no prospect that such a system would receive a serious hearing in the United States. After one-and-a-half centuries of state schooling, there is a presumption on the part of the American public that the state

must ensure that sufficient funding is available for every family to see to the education of its children. Ignoring that reality is a recipe for policy irrelevance.

This leaves us with the most challenging question in the field of education policy: is there any sort of financial assistance program that can ensure universal access to a free education marketplace without destroying the conditions necessary for that market to survive and thrive?

The evidence already presented certainly identifies policies that are *not* likely to meet that test. Systems in which the state pays all educational costs for all families completely eradicate direct parental financial responsibility – a lynchpin of the education market. But what of programs that provide financial assistance only when and to the extent it is necessary to ensure universal access to a quality education? It is possible to design both government voucher and tax credit programs in this way, and in the section that follows such programs are described, and their merits explored.

Vouchers or Tax Credits?

The most obvious way for the state to ensure universal access to the private education sector is for it to provide parents with "vouchers" – checks that can be used to pay tuition at government approved schools. An alternative approach is to offer k-12 education tax credits. The simplest sort of credit is one that parents can claim to offset their own educational expenditures. For every dollar parents spend on their children's education, up to some preset limit, they pay one fewer dollar in state or local taxes. This amounts to a targeted tax cut on families who assume financial responsibility for their own children's education.

Since lower-income families may owe little or nothing in taxes, the personal tax credit just described can be supplemented with credits for donations to non-profit scholarship organizations. Businesses or individual taxpayers make donations to scholarship organizations, and those organizations use the money to offer need-based tuition assistance.

The remainder of this chapter examines the extent to which tax credits and vouchers meet the criteria for creating vigorous education markets and fulfilling the public's educational goals.

PRESERVING SCHOOL AUTONOMY

Experience with k-12 education tax credits is limited to the United States, and reaches back not quite a decade. Voucher and voucher-like programs have a much longer and broader heritage: over 90 years in the Netherlands, over 25 in Chile, close to 20 in Sweden. What that history teaches, however, is that large scale state-funded school choice programs invariably bring with them pervasive state control, either immediately or gradually over time.

U.S. voucher programs have lighter regulatory burdens than their foreign counterparts, but it is important to note that the U.S. programs are either recent or extremely small, or both. It is natural to expect that programs targeted at only a tiny segment of the population, particularly those regarded as "experimental," would be under less regulatory pressure than those operating on a grand scale and intended to be permanent. This is particularly true of the various voucher programs narrowly targeted at

disabled students. Because of the profound learning differences among special needs students, and between those classified as disabled and those not so classified, and because programs targeted at this constituency are necessarily limited in size, pressure to regulate them is categorically lower than it is to regulate programs targeted at the general student population. Since there are no tax credit programs currently targeted at this special population, it is necessary to exclude them from consideration if we are to ascertain the relative susceptibility of vouchers and tax credits to regulation.

Even excluding such programs, all existing U.S. voucher programs explicitly restrict student eligibility to a small subset of the population. Milwaukee's vouchers, for example, are limited to low-income children comprising less than a quarter of one city's student population.[25] The voucher-like "tuitioning" programs of Maine and Vermont serve only students in towns too small to have their own state-run schools, and both programs enrolled fewer than 7,000 students after well over a century in operation.[26]

These programs also impose important constraints on participating schools that are not imposed on other private schools. In Milwaukee, participating schools must accept the voucher as full payment – a rigid price control. Participating schools forego any control over their own admissions policies, being obliged to accept voucher students via a random lottery. They may not require students to participate in devotional religious classes or activities, undermining one of the chief *raisons d'être* of parochial schools. In Maine and Vermont, religious schools are no longer permitted to participate, though they had been eligible to do so prior to the 1980s. In Maine, private schools serving predominantly state-funded students must follow state curriculum guidelines. Vermont private schools are treated as "municipal employers" if they serve state-funded pupils, and hence must abide by collective bargaining and other provisions of the state's Municipal Labor Relations Act. In both of Ohio's voucher programs – one for low-income students in Cleveland and one for students in repeatedly "failing" schools in other districts – parental co-payments are strictly limited. The Cleveland program also requires voucher applicants in grades k-3 to be admitted based on a random lottery if the school is oversubscribed, and regulates the length of the school day and year.[27]

Few of these regulations have been imposed on the nation's education tax credit school choice programs (currently operating in Arizona, Florida, Georgia, Illinois, Indiana, Iowa, Pennsylvania, and Rhode Island).[28] Table 1 depicts the additional regulatory burden imposed on private schools participating in tax credit and voucher programs (over and above regulations pertaining to all private schools in the given states). White cells indicate no regulations over-and-above those applying to all private schools, while progressively darker shades of grey indicate progressively more onerous regulations in each of eight categories: barriers to entry, methods and timing of delivery (e.g. school year length, virtual versus physical schools), staffing, price, religion, curriculum, testing, finances, and admissions. The stringency of particular regulations is also coded numerically, on a scale of one to six.[29]

Note that Table 1 does not include a column on individual benefit (voucher or tax credit) amount, because this affects only the number of families able to migrate to the private sector, and not the freedom of operation of participating private schools. The impact of individual benefit amount is discussed further below.

Table 1. Additional Regulation of Private Schools under U.S. Voucher and Tax Credit School Choice Programs, by Category
(excluding those serving only special needs students)

State	Program	Barriers T.E.	Deliv.	Staffing	Price	Religion	Curri.	Test.	Finan.	Admis.
Arizona	Indiv. Sch. Don.									
Arizona	Corp. Sch. Don.							2		
Florida	Corp. Sch. Don.							3	2	
Georgia	Sch. Don.	2								
Illinois	Personal Use									
Indiana	Sch. Don.	2	3	1			2	2		
Iowa	Sch. Don.									
Iowa	Personal Use					2			6	
PA	Corp. Sch. Don.									
RI	Sch. Don.									
Ohio	Cleveland Vchr	2		5	3			6		3
Colorado	Voucher	1						4	1	6
National	DC Voucher							4		
Florida	Voucher	2		2	6		2	4	1	6
Louisiana	Voucher	6						4	1	6
Maine	Voucher	2	2	5	6	6	4	4	1	6
Wisconsin	Milwaukee Vchr	4			6	3	2	2	2	6
Ohio	State Vchr				6			4		
Utah	Voucher		4					3	1	
Vermont	Voucher			2		6		4		6

Source: Andrew J. Coulson, "School Vouchers, Tax Credits, and Private School Regulation," forthcoming.

As can be observed from this table, tax credits appear to impose a noticeably lower regulatory burden on participating private schools than do vouchers. In a forthcoming paper employing multi-level regression to analyze this difference, I find it to be both statistically significant and large in magnitude. Furthermore, this finding is robust to an alternative OLS specification that controls for possible confounding factors such as program age, dollar values of benefits, and dominant political party in the given state.

What accounts for this difference in the regulatory burdens imposed by vouchers and credits? The explanation that seems most consistent with the observed evidence is that legislators feel less pressure or obligation to regulate the way private individuals spend their own money than they do to regulate government spending of taxpayers' dollars. No one is compelled to claim an education tax credit, whereas all taxpayers must pay for voucher programs. (For a discussion of how personal use tax credits affect the general taxpayer, see the Social Effects section, below.)

PRESERVING PARENTS' FINANCIAL RESPONSIBILITY AND CHOICE

To operate with greatest efficiency and responsiveness to consumers, schools must be paid for, as much as possible, directly by parents. Personal tax credit programs clearly have the advantage over vouchers in this regard, simply letting parents keep more of their own money to spend on their own children. This policy should thus be employed to its

fullest potential. But personal credits are of limited value to low-income families who pay little or nothing in taxes. For these families some form of third party financial assistance is necessary: either vouchers or scholarships funded by donation tax credits.

Even within this realm of third-party payment, there is reason to favor tax credits. As noted earlier in this chapter, single payer education systems have historically ushered in a homogenizing regulatory burden. When there is only one payer there is one set of rules imposed on all schools, and families seeking financial assistance have nowhere to turn if their needs and preferences cannot easily be served under that set of rules. By contrast, scholarship donation tax credits create a multi-payer system. While scholarship granting organizations (SGOs) may impose conditions on the schools that parents can choose – just as a government voucher authority – the *multiplicity* of SGOs renders any such conditions less burdensome on parents. Conditions imposed on school eligibility by one SGO do not apply to scholarships offered by other SGOs. This allows parents to shop around for the SGO whose restrictions seem to them the least intrusive and problematic – an option that does not and cannot exist under a single-payer voucher program. What's more, the empirical evidence accumulated to date reveals the restrictions imposed by scholarship tax credit programs to be few and far between – less confining than the government regulations imposed on voucher programs.

SOCIAL EFFECTS

In one respect, both vouchers and tax credits offer a major improvement over state school systems: they increase the range of educational options open to families, reducing pressure on parents to consume educational services to which they might object. This allows parents to obtain the sort of education they value for their own children without forcing them to impose their preferences on their neighbors, thereby eliminating one of the most persistent sources of social conflict in the history of schooling.

But there is another source of social conflict fomented by both state schooling and voucher programs which is largely avoided by tax credits: compelling all taxpayers to fund every type of state-approved schooling. As has already been pointed out in the case of the Netherlands, forcing taxpayers to fund schools that violate their convictions generates tensions between different ideological, religious, and ethnic groups. These are not only undesirable in and of themselves, they also provide an impetus for the imposition of regulations to eliminate contentious educational content.

Under properly designed tax credit programs, taxpayers either spend their money on their own children, or they can choose a scholarship granting organization to which to make donations. So long as SGOs are free to set standards for which schools they consider acceptable, taxpayers can opt to support only those that conform to their values. As noted in the preceding section, scholarship tax credits also serve to increase parental options when compared to single-payer education systems.

But what of the fact that personal use education tax credits, by virtue of lowering government revenue, place a relatively higher burden on other taxpayers (as compared to a scenario in which the government played no role in education)? Does this mean that all taxpayers are being forced to subsidize the educational choices made by the families claiming personal use credits?

To answer that question, consider an analogous situation: under the federal tax code, charitable donations to churches are tax deductible. Religious donors thus pay less in

taxes, other things being equal, than those who make no such donations. That means the general taxpayer must shoulder a larger portion of the cost of operating government than if charitable deductions did not exist. But neither the legal nor the common interpretation of these charitable deductions holds that they force general taxpayers to subsidize religion. Personal use tax credits no more compel general taxpayers to pay for someone else's education than charitable deductions compel general taxpayers to pay for someone else's religion. In both cases, general taxpayers are simply shouldering a larger portion of the operating costs of government, while those claiming credits or deductions are spending their *own* money on things of their choosing.

FINANCIAL SUFFICIENCY

Another common criticism raised against tax credit programs is that they would be incapable of providing sufficient financial assistance to ensure universal access to the education marketplace.[30] Certainly it is possible to design tax credit programs that suffer this shortcoming, and indeed most of the existing programs fall into that category. But the same criticism can be leveled at existing voucher programs, which, while having higher average per pupil benefit amounts, serve fewer students.

What really matters, from a policy standpoint, is how many additional families a program helps to gain access to the education marketplace, and what its prospects are for growth in that area. This is a function of several factors, including the average benefit size, average private school tuition, the number of participating families and the prospects for growth in that number. The program that will allow the most people to gain access to the education marketplace is not necessarily the one that has the biggest total dollar value (average benefit size multiplied by program enrollment), but the one that lowers the perceived cost of private schooling in a meaningful way for the most families. In that light, tax credit programs fare relatively well vis-à-vis vouchers. Vouchers average a much larger benefit amount, but a much smaller enrollment and a slower rate of growth in enrollment over time. The highest enrollment voucher program, Milwaukee's, reached an enrollment of roughly 20,000 students in 17 years, while the tax credit programs in Illinois and Iowa were enrolling hundreds of thousands in a fraction of that time (albeit with relatively tiny benefit sizes). The Florida voucher program is a leader in efficiency and growth rate, having reached 20,000 students in its first 7 years, and offering an average scholarship amount in the low thousands of dollars – sufficient to allow many families to attend private schools who would not otherwise have been able to afford it. Beginning in 2010, the cap on the total dollar value of credits that may be claimed is set to increase by 25 percent annually if donations in the previous year reached at least 90 percent of the cap in that year.

Moreover, the evidence suggests that the ideal policy should ensure universal access to the education marketplace while maintaining a maximum of direct financial responsibility for families, so maximizing the average dollar value of third-party benefits is not inherently desirable. Third party funding should be tailored to each family's needs, not universally set at a high, arbitrary value.

From a policy design standpoint, it is also easy to see how to create tax credit programs capable of ensuring universal access to the marketplace. By combining personal use tax credits with credits for donations to SGOs, the pool of financial resources being tapped would be ample.[31] Model bills combining these two forms of tax

credits have been proposed by the Mackinac Center for Public Policy in Michigan,[32] and by Adam Schaeffer of the Cato Institute.[33]

This comprehensive tax credit solution has in turn been criticized on the grounds that it ties funding to "the health of the economy and the generosity of the public."[34] As I have responded elsewhere,[35] the same can be said of all third-party payment systems operating in free societies, including vouchers and government school systems. While citizens must pay their taxes on pain of imprisonment, it is the citizenry that decides on the level of taxation it will bear. And in years of economic contraction, tax revenues are often reduced. Furthermore, it is difficult to imagine a scenario in which there was significant pent-up demand among parents for tax-credit-donation-funded scholarships, year after year, with taxpayers remaining indifferent and continuing to send their dollars into an unpopular government school system rather than into a scholarship organization of their choosing.

If voucher programs do have some theoretical advantage over tax credits in their ability to serve large numbers of students, as some voucher advocates claim, it has yet to manifest itself in the United States – the only nation to have tried both.

TAXING CONCERNS

Many supporters of school choice also advocate a flat tax structure with few if any credits or deductions, arguing that taxation should be used to raise revenue in a way that distorts taxpayer/consumer behavior as little as possible. This has led some school choice advocates to prefer vouchers over tax credits. Upon reflection, however, the desire to minimize behavior distortions induced by public policy actually favors credits.

In the typical case, the introduction of a tax credit for some specific purpose does skew taxpayer behavior, because the alternative is to simply let taxpayers decide how much, if anything, they will spend for that purpose. But education is not a typical case. In education, unlike virtually all other fields, the government *already operates the dominant service provider* and not only tells taxpayers how much they must spend on education, but pressures families into consuming its own services through its monopoly on the use of its education revenue (i.e., families pay zero tuition if they accept their assigned government schools, but must pay full tuition if they choose an independent school). Existing state schooling monopolies thus have a much more distorting effect on taxpayer behavior than any school choice program.

But while vouchers distort taxpayer behavior less than state school monopolies, they are still more problematic in this regard than are tax credit programs. Under personal use tax credits, families simply keep more of their own money to spend on their own children, and as Table 1 demonstrated, tax credit programs impose less intrusive regulation on private schools than do voucher programs, causing fewer distortions in the choices families make. Under properly designed scholarship donation tax credit programs – which allow SGOs to set conditions for the schools whose tuitions they will subsidize – taxpayers have real control over how their money is used. They can choose not to give money to SGOs that serve schools violating their convictions. Vouchers, by contrast, require all taxpayers to fund every type of schooling, which more severely distorts their behavior.

Even when SGOs are not permitted to set conditions on the schools that they will fund, they provide taxpayers with more latitude than do voucher programs. Under a

voucher program, taxpayers have no escape from bureaucratic bloat or mismanagement. If the government program becomes corrupt or inefficient, they have no alternative but to keep funding it. Under a scholarship donation tax credit program, taxpayers can shop around for the SGO they believe to be most efficiently run, and discontinue funding any that they worry may be corrupt. Therefore, anyone who wishes to minimize the extent to which education policy constrains and distorts taxpayer and parent behavior must prefer tax credits to both vouchers and state monopoly schooling.

Avoiding Pyrrhic Victories

A common belief among supporters of "school choice" is that any change in policy which moves in the direction of increased parental choice or competition between schools, however modestly, is desirable. In principle, there are two situations in which this belief would not hold true: dead-ends and Pyrrhic victories. A dead-end reform would be one that makes it more difficult to continue advancing toward educational freedom in future, and a Pyrrhic victory would be a reform that brings gains in the short term but that ultimately results in a worse education system than the one that preceded it.

In the Pyrrhic category, consider charter schooling. It is well known that charter schools not only draw students away from conventional public schools, but also from private schools. Moreover, some charters are created by the conversion of a private – even religious private – school to public charter status. In the short term, if the charter school law is initially fairly free, the net effect of this process may well be positive. Most families will have more educational options than they did before the inception of the program. But two things are likely to happen over time: more private schools will be forced by economic expediency to convert to charter status as the number of competing charter schools grows, and the charter law is very likely to accrete regulation as charters enroll a larger share of the total student population.

After all, the conventional U.S. public schools of the mid-to-late 1800s generally had more parental power and more autonomy than do typical charter schools today, but they have succumb to ever more extensive and more centralized regulation. If charter public schools follow the pattern set by conventional public schools, and if private schools continue to convert to charter status, what will be the end result? We could well see a heavily regulated state education monopoly that enjoys not a 90 percent market share, as it does now, but a 95 or even 99 percent market share. The end point would be worse than the situation we have today. While it is possible that charter schools will not accrete regulation like other public schools have as they begin to enroll a larger share of students, there is no reason to be hopeful in that regard.

The same Pyrrhic scenario applies to universal private school choice programs that impose curriculum and testing requirements on participating schools. The end result would be the assimilation of the existing independent school sector into the state-controlled sector, with little prospect for market dynamism.

The programs to avoid, then, would be those that impose market-killing regulations up front, or that have a very high probability of accumulating such regulations over time. The regulations that should cause market education advocates to walk away from the table should include mandatory government curricula or curriculum standards and the

imposition of a single official test suite. Rigid price controls and teacher licensure requirements should also be viewed with great caution, as should the imposition of random lottery admissions.

A discussion of the harm done by price controls can be found in any elementary macroeconomics text, and it is widely recognized that public school teacher certification requirements merely constrain the teaching labor pool without improving student achievement.[36]

Though often viewed as more benign, mandatory randomized school admissions policies also interfere with the operation of education markets. Specialization and the division of labor are core features of markets, responsible for the development of specialized expertise and the efficiency and innovation such expertise allows. Forcing schools to accept students at random cripples their ability tailor their services to particular audiences, inhibiting specialization and the division of labor within the education sector. Moreover, not even conventional public schools are required to accept student by random lottery. In practice, public schools do *not* accept all comers. Public school districts frequently place difficult-to-serve students in specialized schools either within their own system or in the private sector. In fact, public school districts place hundreds of thousands of students in the private sector every year.[37] Even in the case of students without special needs, schools in a given district need not accept any student outside their catchment area. What the public school system guarantees is thus that every child will be served *somewhere*, not that every school will (or will be able to) serve every child. Given that random lottery assignment is not even required of schools operated by the state, it would be hard to justify imposing it on private schools even if it were benign, but as it is in fact deleterious to the operation of successful education markets it must be avoided whenever possible.

What about dead-end policies? There is a clear risk that the public and policymakers will be unable to distinguish between tiny, constrained school choice programs, and genuine market reforms. When the weak choice programs fail to generate broad, dramatic improvements, truly effective market reforms could be mistakenly rejected along with them. Though the preceding sentences are written hypothetically, this process has already begun to unfold. Consider the disappointment with "markets in education" expressed by Sol Stern in regard to the crippled Milwaukee voucher program,[38] or Chester Finn's criticism of "faith in market forces" in regard to *charter schools* in Ohio.[39] While it is too soon to call Milwaukee's program a dead-end (it may continue its slow expansion and could eventually shed some of its market-killing regulations), that possibility cannot be dismissed.

The question for those who grasp the difference between genuine market locomotives, and the toy train policies with which they are often confused, is what to do about it. Two alternatives present themselves: stop passing policies that cannot produce real market results; or, be much, much clearer on the differences between the two. Explain to the public and policymakers that if they want market results, they must create markets, and that if they persist in passing hobbled, minute programs, they should set their expectations accordingly. The second option should certainly be pursued with vigor, whether or not the first is adopted.

Conclusion

The public is fairly clear and consistent on its ultimate educational goals. The evidence is unequivocal on the kinds of education systems that most effectively fulfill them. The truly difficult questions are those of implementation, but even these are fairly tractable upon reflection. Whether or not it is desirable, there is no prospect that a complete abolition of state involvement in schooling will be politically viable in the United States in the foreseeable future. The task for policy analysts is thus to determine which school choice system can ensure universal access to the education marketplace while preserving the essential conditions for that market to thrive and survive.

A review of international and historical experiences indicates that large-scale state-funded elementary and secondary schooling invariably precipitates intrusive state control over that schooling. A review of U.S. experiences reveals that education tax credit programs are consistently more lightly regulated than are voucher programs. Moreover, the odds that the current distribution of regulatory burdens would have arisen purely by accident are more than 16,000 to 1 against. Tax credit programs not only draw a lighter regulatory burden, they maximize direct financial responsibility for parents – a crucial factor in the success of education markets. For these reasons, the combination of personal and scholarship donation tax credits represents the best practical school choice policy proposed to date.

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[1] See Chapter One of: Andrew J. Coulson, *Market Education: The Unknown History*. New Brunswick, NJ: Transaction Books, 1999.

[2] Mary Peabody Mann, "Life of Horace Mann," Washington, DC: National Education Association of the United States, 1937, Chapter 5.

[3] Mann, p. 72.

[4] It is also far from a new concept. The pioneering work with this method was John Snow's discovery of the source of London's Cholera epidemics of the mid 19th century: John Snow, *On The Mode Of Communication Of Chole*ra (London: John Churchill, 1855). http://www.deltaomega.org/snowfin.pdf

[5] Coulson, 1999, Chapter 9.

[6] Andrew J. Coulson, "How Markets Affect Quality," *Educational Freedom in Urban America: Brown v. Board after Half a Century* (Washington, DC: Cato Institute, 2004), p. 265-364.

[7] Andrew J. Coulson, "Comparing Public, Private, and Market Schools: The International Evidence," *Journal of School Choice*, Vol. 3, No. 1, 2009.

[8] For the 19th century English experience, see: Edwin G. West, *Education and the State: A Study in Political Economy* (Indianapolis: Liberty Fund, 3rd ed. 1994). For the modern Third World evidence, see, for instance: James Tooley and Pauline Dixon, "'De facto' privatisation of education and the poor: implications of a study from sub-Saharan Africa and India," *Compare*, vol. 36, no. 4, pp. 443–462.

[9] Chile has maintained an unsubsidized private education sector whose enrollment has fluctuated between 6 and 10 percent of all students over the 26 year history of the nation's voucher-like program, but Chile is a relatively poor country that cannot afford to offer vouchers worth anywhere near the tuition at these unsubsidized schools. Were it able to do so, it seems likely that Chilean unsubsidized schools would suffer the same fate as those in wealthier nations such as the Netherlands.

[10] Estelle James, "Public Subsidies for Private and Public Education: The Dutch Case," in: Daniel C. Levy (ed.), *Private Education: Studies in Choice and Public Policy*. Oxford: Oxford University Press, 1986. p. 129.

[11] James, p. 123.

[12] 2004 Thesis in Foreign folder.

[13] Verhage, "Reference levels in School Mathematics Education in Europe: The Netherlands."

[14] Verhage, "Reference levels in School Mathematics Education in Europe: The Netherlands," p. 4.

[15] Benjamin P. Vermeulen, "Islamic Schools In The Netherlands," working paper, Vrije University, December 2003.

[16] See further discussion of these points in: Andrew J. Coulson, "Forging Consensus: Can the School Choice Community Come Together on an Explicit Goal and a Plan for Achieving It?" (Midland, MI: Mackinac Center for Public Policy, 2004).

[17] Geoffrey Walford, "Funding for Private Schools in England and the Netherlands. Can the Piper Call the Tune?" Occasional Paper No. 8, National Center for the Study of Privatization in Education, Teachers College, Columbia University, November 2000.

[18] Donald A. Erickson, "Choice and Private Schools: Dynamics of Supply and Demand," in: Daniel C. Levy (ed.), *Private Education: Studies in Choice and Public Policy*. Oxford: Oxford University Press, 1986. p. 105.

[19] Coulson, "How Market Affect Quality," 2004.

[20] Jack Crittenden, "Civic Education", *The Stanford Encyclopedia of Philosophy* (Fall 2010 Edition), Edward N. Zalta (ed.), forthcoming URL = http://plato.stanford.edu/archives/fall2010/entries/civic-education/.

[21] Patrick J. Wolf, "Civics Exam: Schools of Choice Boost Civic Values," *Education Next*, vol. 7 (2007), no. 3 (Summer), pp. 66–72. http://educationnext.org/files/ednext_20073_66.pdf

[22] Reuters News Service, "Kumon Ranks No. 1 in Tutoring by Entrepreneur Magazine's Annual 'Franchise 500,'" press release, January 14, 2008. http://www.reuters.com/article/pressRelease/idUS107596+14-Jan-2008+BW20080114

[23] E.G. West, *Education and the State*.

[24] A widely held view among religious charity schools in early 19th century England, for example, was that teaching reading to the poor would help to improve their morals, but teaching writing was unnecessary. There was some concern among the upper classes that if the lower classes could write they might use the skill to rail against the rigid classism of the times. Coulson, *Market Education*, p. 88.

[25] Until 2006, enrollment in the Milwaukee program was legislatively limited to 15 percent of the public school district's enrollment. In that year, the cap was changed to a fixed value of 22,500 students. See: School Choice Wisconsin, "MPCP Enrollment Cap," http://www.schoolchoicewi.org/issues/detail.cfm?id=10. Retrieved August 27, 2010.

[26] Coulson, "Forging Consensus," p. 22-23.

[27] For details on the Cleveland program, see: Coulson, "Forging Consensus," p. 15-23. For details on Ohio's "failing schools" program, see Chapter 3301-11 "Educational Choice Scholarship Program," of the Ohio Administrative Code. http://codes.ohio.gov/oac/3301-11

[28] The regulations imposed under the Florida, Pennsylvania, Arizona, and Illinois education tax credit programs are discussed in Coulson, "Forging Consensus," p. 31-34. Iowa's education tax credit legislation, passed in 2006, is described in "Senate File 2409" on the state legislature's website at: http://www.mvsto.org/pdfs/Senate%20File%202409.doc. Georgia's education tax credit, passed in 2008 as House Bill 1133, appears on the legislature's website at: http://www.legis.ga.gov/legis/2007_08/pdf/hb1133.pdf. Rhode Island's program, passed in 2006, appears on the legislature's website at: http://www.rilin.state.ri.us/BillText/BillText06/HouseText06/Article-024-SUB-A-as-amended.pdf

Minnesota has a tax deduction for private school tuition, but not a credit. It also has a credit for the cost of school supplies, but this cannot be used for tuition and hence does little to promote school choice. Therefore, Minnesota is not among the states that offers a k-12 school choice tax credit program. If Minnesota were included, it would only bolster the point made in the text, since both its deduction and its credit impose few restrictions on private schools (being similar in their regulatory makeup to the Iowa personal use credit program discussed in the text).

[29] For a detailed exposition of the regulation scale used here, please see Andrew J. Coulson, "School Vouchers, Tax Credits, and Private School Regulation," forthcoming.

[30] George Clowes, "Still No Consensus on School Choice," April 1, 2004. http://www.heartland.org/Article.cfm?artId=16914

[31] As I argued in: "Forging Consensus Comments by George Clowes and Jay Greene, with Responses from the Author," September, 2005. http://www.mackinac.org/article.aspx?ID=7336

[32] Patrick L. Anderson, Richard D. McLellan, Joseph P. Overton and Gary L. Wolfram, "The Universal Tuition Tax Credit: A Proposal to Advance Parental Choice in Education," white paper, 1997. http://www.mackinac.org/article.aspx?ID=362.
See also: Coulson, "Forging Consensus."

[33] Adam B. Schaeffer, "The Public Education Tax Credit," Cato Institute Policy Analysis no. 605, 2007. http://www.cato.org/pub_display.php?pub_id=8812

[34] Clowes, 2004.

[35] Coulson, "Forging Consensus Comments by George Clowes and Jay Greene, with Responses from the Author."

[36] Marie Gryphon, "Giving Kids the Chaff: How to Find and Keep the Teachers We Need," Cato Institute Policy Analysis no. 579, September 25, 2006. http://www.cato.org/pub_display.php?pub_id=6700

[37] Janet R. Beales and Thomas F. Bertonneau, "Do Private Schools Serve Difficult-to-Educate Students?," Mackinac Center for Public Policy, research report, October 1, 1997. See also: "Jay P. Greene and Greg Forster, "Effects of Funding Incentives on Special Educaiton Enrollment," Manhattan Institute Civic Report no. 32, December 2002.

[38] Sol Stern, "School Choice Isn't Enough," *City Journal*, vol. 18 (2008), no. 1. http://www.city-journal.org/2008/18_1_instructional_reform.html

[39] Chester Finn, "Charter schools need more than money," *Columbus Dispatch*, December 31, 2007. http://columbusdispatch.com/live/content/editorials/stories/2007/12/31/Frost-Brooks___ART_12-31-07_A8_FI8T71D.html?sid=101