Policy Analysis

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Reclaiming Our Schools
Increasing Parental Control of Education through the Universal Education Credit

by Darcy Ann Olsen and Matthew J. Brouillette

Executive Summary

Demand for alternatives to state-run schools has swelled over the past decade, as witnessed by rising poll numbers favoring increased choice and by the creation of new charter schools, voucher programs, education tax credits, home-schools, and private scholarship funds. Despite mounting demand, however, such alternatives reach relatively few students. Charters and vouchers, for instance, serve only 2 percent of school children nationwide.

Government policy, for the most part, continues to impede the expansion of independent schools. Most families who seek independent education must pay tuition for an independent school while simultaneously paying taxes for state schools they do not use. The universal education credit is one way to ease the financial discrimination against families seeking independent educations for their children.

Like traditional education tax credits, the universal education credit lets parents deduct a portion of schooling costs from their state tax bill. Unlike traditional credits, however, the universal education credit has been uniquely designed to assist families with limited or no tax liability. Under this plan, any parent, individual taxpayer, or business would receive a dollar-for-dollar reduction in tax liability for money spent on tuition. The credit can be taken for up to one-half of the per pupil expenditure in the public school system, and taxpayers may take the credit for more than one child as long as the combination of credits does not exceed their tax liability. A large company, for example, could pay $1,000 tuition for each of 1,000 students and receive a $1 million tax credit provided the credit did not exceed the company's tax liability.

Why would an individual or business pay for a child's education? Given the choice of paying taxes for general services or directing some of those taxes to scholarships, many people will prefer to assist students. That has been the case in Arizona, where a new tax credit has raised roughly $14 million for scholarships.

Among other benefits, the universal education credit can (1) give parents more control over their children's educations by empowering the parents to select and pay for their children's schools; (2) reduce the financial penalty borne by parents seeking independent schools for their children; (3) generate competition among schools, spurring improvements in both independent and government schools; and (4) raise scholarship funds for students in need.

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Introduction

If educational freedom were placed on a continuum, at one end of the spectrum would be government monopoly over the provision, regulation, content, and funding of education; at the other end would be the separation of school and state, where educators and schools cater to parents and children as customers in an open market for education services.

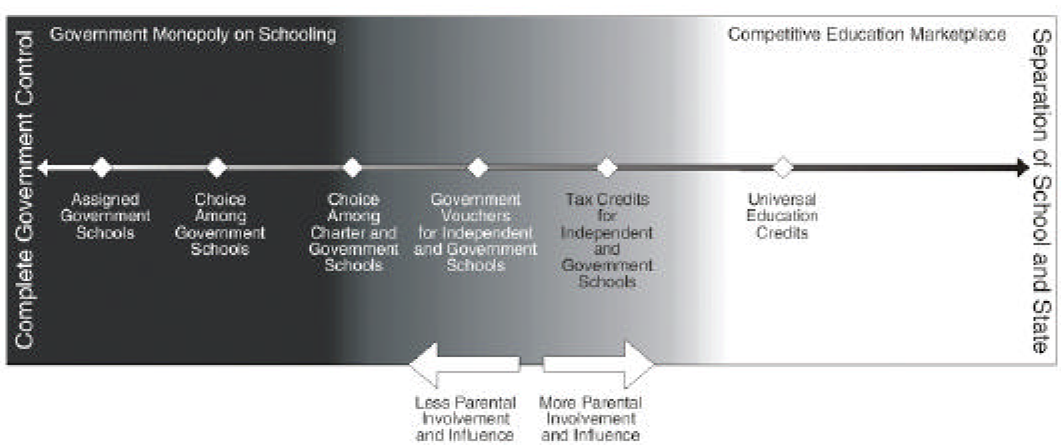
As legislatures permit more options and alternatives to government schools, families have more freedom to control their children's education. A wealth of polling data over time and the tremendous increase in alternative schooling indicate that the American public would like to move further in that direction.[1]

Although many states have been taking steps to enhance educational freedom, no state has yet relinquished its monopoly over kindergarten through 12th-grade education. None of the current choice programs, including intradistrict and interdistrict plans, charter schools, government-funded vouchers, and traditional education tax credits, separates schools fully from state control. For instance, public school choice, which includes intradistrict and interdistrict plans and charter schools, operates strictly within the confines of the government monopoly. Education tax credits and government-funded vouchers, which make possible choice between government and independent schools, give parents a greater choice of schools, yet the state largely retains control over education financing and services. And none of those choice programs is available to all families.

A better educational choice plan would be one that is universally available and puts parents in charge of paying for and selecting education services for their children. At the same time, such a plan would end the state's current financial discrimination against families who choose independent schools. One way that can be accomplished is through a universal education credit.[2]

Under a universal education credit plan, any taxpayer (including parents, individual taxpayers, and businesses) would receive a dollar-for-dollar reduction in tax liability for money spent on tuition. The credit can be taken for up to one-half of the per pupil expenditure in the public school system, and taxpayers may take the credit for more than one child as long as the combination of credits does not exceed their tax liability. For example, relatives of a student could pay that student's tuition and receive a proportional

Figure 1
Continuum of Educational Freedom



credit against their tax liability. Similarly, a business could establish scholarships for several students and receive a credit against its applicable tax liability.

Consider how the universal education credit would have helped the Pettipas family of Michigan.[3] Roger and Kay Pettipas wanted to enroll their son Rory in a gifted and talented program run by a government school in a neighboring district—their assigned school simply didn't have the facilities to challenge Rory, who is particularly bright. However, the school board refused to allow public funds to follow Rory to a different school. For Rory to attend the neighboring public school, the Pettipases had to come up with $1,800 for tuition. In the end, private donors helped the family so Rory could attend the school. If the universal education credit had been available, Rory's parents could have taken an $1,800 credit against their state income tax liability and easily sent Rory to the school of their choice.[4]

This analysis explains how the universal education credit differs from other educational choice reforms, including vouchers; shows how the credit works with real families; explains how state legislators can tailor the credit; and discusses some of the concerns and the promises surrounding universal credits. Polls conducted by Phi Delta Kappa/Gallup, the Polling Company/Global Strategy Group, and the *Detroit Free Press*/Ferris State University show that 2 of 3 voters favor education tax credits.[5] State legislators should meet parents' demands for more educational freedom by adopting universal education credits.

Public School Choice

Public school choice lets parents choose the public school their child will attend. Traditionally, the state has assigned children to a particular school on the basis of where they live. Public school choice, which includes intradistrict choice, interdistrict choice, and charter schools, is the beginning of a breaking away from the assignment system. Most states have passed legislation that permits some form of public school choice.

With intradistrict choice, school assignment is not restricted to a particular school within the school district in which a child resides. Instead, families may choose from among all public schools in the district. Some districts have always allowed intradistrict choice, while others have strictly adhered to the school assignment zones.

Interdistrict choice typically allows families to send their children to any public school in the state, or a region therein, so long as (1) the receiving district agrees to accept nonresident students[6] and (2) the receiving district's schools have space available. Thirty-two states have voluntary or mandatory interdistrict choice.[7]

Charter schools are a new kind of public school that have been aptly described as government schools "operating in a private school environment." Like regular public schools, charter schools are taxpayer financed and cannot be selective in their admissions policies. Charter schools, however, operate more autonomously than do regular public schools; typically, charter schools are free of direct administrative control by the government and are subject to fewer regulations. This means they have more discretion in choosing the content, curriculum, hours of operation, and staff than do typical public schools. In addition, the amount of government funding charter schools receive is based on the number of students they attract. If a school does not attract students, it does not receive funding. Minnesota passed the nation's first charter school legislation in 1991; by 2000, 36 states and the District of Columbia had adopted charter school laws.[8] Roughly 2 percent of public schools are now charter schools, and they serve approximately 1 percent of all students.[9]

As Figure 1 shows, interdistrict and intradistrict choice and charter schools are small moves toward greater educational freedom. All three plans deserve praise for stepping away from the traditional, rigid assignment system—giving parents the ability to choose from a pool of government schools is an improvement over no

Public school choice operates within the government monopoly and does little to empower parents or bring about a competitive marketplace for education services.

choice at all. But praise for interdistrict and intradistrict choice and charter schools stops there.

Under those plans, the government continues to own (excepting charter schools), regulate, and finance schools; parents exercise the freedom to choose from among only those government schools. If a parent is dissatisfied with the government's offerings and instead would like to choose an alternative school, he still must pay taxes for a system he doesn't use while simultaneously paying to educate his child independently. Because neither the interdistrict plan nor the intradistrict plan changes the financial, regulatory, operational, or ownership structure of the state system, neither eases the government's monopoly over schooling. And despite the fact that the government's reins on charter schools are more relaxed than usual, government still has the power to grant and revoke the charters, determines the conditions of the schools' operations, and controls the schools' funding. Public school choice operates within the confines of the government monopoly and does little to empower parents in the education process or bring about a competitive marketplace for education services.

Public and Private School Choice

Similar to public school choice plans, government-funded vouchers and traditional education tax credit plans let parents break away from the assignment system. But vouchers and tax credits go further than do public school choice plans by giving parents the ability to choose from both government and independent schools. Under the state-run monopoly, the most significant barrier to choosing alternatives to government schools is tuition—since all taxpaying parents must pay for government schools through their taxes, those parents who seek alternatives to government schools must essentially pay twice for education. Vouchers and tax credits work to offset, either in whole or in part, that financial penalty.

Vouchers

Vouchers are simply government coupons or checks that the government dispenses to parents so they can purchase education services. For instance, Pell grants, which can be used to pay for college, are a type of voucher for higher education. The United States has five government-funded voucher programs for elementary and secondary education, located in Vermont, Maine, Milwaukee, Cleveland, and Florida.[10] Each of the programs gives a select group of parents a voucher they can use to purchase private education services.

Vermont and Maine have the longest-standing programs, adopted, respectively, in 1869 and 1954. In both states, parents who live in districts without public schools are reimbursed for the cost of sending their children to an independent secular or public school.[11] During the 1998–99 school year, roughly 400 students in Vermont and 5,300 students in Maine attended independent schools under those plans.[12]

The Milwaukee Parental Choice Program was enacted in 1989, and the Cleveland Pilot Project Scholarship Program was adopted in 1995. In both programs, the government gives vouchers to a select number of parents, who may use the voucher to pay tuition at independent secular and parochial schools. During the 1999–2000 school year, approximately 8,000 students in Milwaukee used vouchers worth roughly $5,000 to attend 91 independent K–12 schools, and 3,500 students in Cleveland used vouchers worth up to $2,250 to attend 59 independent K–8 schools.[13]

Most recently, in 1999, Florida adopted the A+ Plan for Education. Under this plan, the state grades public schools on a traditional A–F scale based on standardized test scores. Students who attend a school that earns a grade of F any two years in a four-year period will be provided with vouchers worth up to $4,000 to attend an independent secular, religious, or public school.[14]

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ment system and public school choice programs, as indicated on the continuum of educational freedom. The clearest advance is that vouchers give some parents the ability to choose from a larger pool of schools, including independent schools. In addition, because vouchers turn parents into education customers, schools may be more responsive to parents' demands, knowing that, if they are not, parents can withdraw their children—and their money—at any time. Nonetheless, these voucher programs have left the government monopoly on schooling virtually unscathed and have fallen far short of establishing a competitive education marketplace that would benefit all children.

First, in each instance, the government restricts participation to a handful of families. In Maine and Vermont, the program is available only to families residing in areas without public schools; in Milwaukee, no more than 15 percent of children in the district can participate;[15] in Cleveland, the program is restricted to about 5 percent of children in grades 3 through 8;[16] and in Florida, the program is available only to students in failing schools, and, to date, only 134 families are eligible.[17] All told, these programs serve roughly 25,000 students, or less than 1 percent of students nationwide.[18]

Second, in each instance, the financing of education is still controlled by the state. Although parents can shop around with their vouchers, the state still determines what education services can and cannot be purchased. For instance, in Maine and Vermont, parents cannot use their vouchers to pay tuition at independent religious schools.

Third, in each instance, the government determines what and how education services must be provided. For example, in Milwaukee, participating independent schools must select on a random basis the students attending their schools, and a school cannot require students to participate in any religious activity at that school.[19] In Florida, participating schools are prohibited from collecting additional tuition and are barred from requiring students to participate in any religious activity.[20] Such regulatory requirements limit the type of education services available to families.

Traditional Tax Credits

Similar to vouchers, traditional education tax credits are designed to offset some of the expenses parents incur when sending their children to an alternative government school or a nongovernment school. A tax credit is a dollar-for-dollar reduction in taxes owed. For example, if a taxpayer owed $2,000 in taxes and had a tuition tax credit of $1,500, his tax bill would be reduced by the amount of the credit; therefore, he would pay a tax of $500. Tax credits often are applied against state or federal income taxes, but they can be applied against a combination or variety of other taxes. At present, four states—Arizona, Iowa, Minnesota, and Illinois—have K–12 education tax credits.[21] Textbook costs, transportation, extracurricular fees, and tuition expenses typically are creditable under these programs.

In 1997 Arizona adopted legislation that allows taxpayers to contribute up to $500 to a "tuition organization," which distributes scholarships to students to attend independent schools, and to take the same amount off their tax bill.[22] Arizona currently has 31 scholarship organizations, or "clearinghouses"; some of them distribute scholarships on the basis of income, while others let donors earmark funds for particular children.[23] A curious provision in the law lets taxpayers name a child to receive their donation but does not allow them to name their own child. In 1999, more than 30,000 people contributed almost $14 million to 31 clearinghouses, which helped nearly 7,000 low-income students attend independent schools (Table 1).[24]

Also, since 1998 Iowa has offered parents a tax credit up to $250 on the first $1,000 of tuition expenses at independent schools. There is no income ceiling, and acceptable education expenses include extracurricular activities in public schools.[25]

In 1997 Minnesota adopted the state's first education tax credit. Families with

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Table 1
Individual Donations to Tuition Clearinghouses in Arizona, 1999

Clearinghouse	Number of Individual Donations	Amount Donated
Arizona Adventist Scholarships Inc.	371	$163,563
Arizona Christian School Tuition Organization	6,173	2,816,791
Arizona Episcopal Schools Foundation	754	320,081
Arizona Independent Schools Scholarship Foundation	750	329,710
Arizona Native Scholastic and Enrichment Resources	38	12,605
Arizona Private Education Scholarship Fund	424	95,120
Arizona Scholarship Fund	793	362,930
Arizona School Choice Trust	1,085	590,189
Brophy Community Foundation	1,534	617,374
Catholic Tuition Organization of the Diocese of Phoenix	11,060	4,672,380
Catholic Tuition Organization of the Diocese of Tucson	3,198	1,198,551
Chedar Scholarship Organization Inc.	623	257,025
Christian Scholarship Fund of Arizona	20	8,350
Educare Scholarship Fund	204	88,373
Florence Englehardt/Pappas Foundation	55	22,893
Foundation for Montessori Scholarships	16	6,100
HELP	592	252,951
Institute for Better Education	603	260,593
Jewish Community Day School Scholarship Fund	818	371,332
Lutheran Education Foundation	836	355,733
Maranatha Christian Co-Op Tuition Fund	14	6,025
Montessori School Tuition Organization	92	43,400
Northern Arizona Christian School Scholarship Fund	370	125,897
Patagonia Scholarship Fund	35	14,147
Prescott Christian School Scholarship Foundation	320	137,000
Schools With Heart Foundation	177	74,230
School Tuition Association of Yuma	221	91,350
Southern Arizona Foundation for Education	367	162,082
TesseracT Tuition Organization	280	133,015
VVBC Christian Education Fund	27	12,600
Walter T. Beamis Scholarship Foundation	25	4,221
Total	31,875	$13,706,611

Source: Figures from the Arizona Department of Revenue, August 28, 2000.

incomes up to $33,500 can claim a maximum tax credit of $1,000 per student or $2,000 per family for a range of education expenses including textbooks, transportation, computer hardware, education software, summer camps, and summer school.[26] The credit, however, cannot be used for tuition. The credit is refundable, which means that families who don't pay taxes can still receive it. In addition, Minnesota permits families to take a tax deduction for school expenses ranging from $1,625 per child to $2,500 per child, depending on the child's year in school. Deductible expenses include tuition, textbooks, transportation, and summer camps.[27]

The most recent credit comes from Illinois, where in 1999 the state adopted legislation that allows parents to reduce their income tax by 25 percent of whatever they spend for their children's tuition, books, and lab fees, up to $500 per family. The credit is equally available for expenses incurred at public, independent, and religious schools.[28]

Traditional education tax credits, as indicated on the continuum of educational freedom, deserve praise for increasing parents' ability to bypass the government assignment system and monopoly by making alternative schooling more affordable. In addition, because tax credits, like vouchers, turn parents into education customers, schools may be more responsive to parents' demands for particular services.

Nonetheless, traditional tax credits have still left the government monopoly on schooling virtually unscathed and have fallen far short of establishing a competitive education marketplace that would benefit all children. Traditional education tax credits are worth too little to offset tuition at independent schools; parents still face a severe financial penalty for choosing alternatives to government schools. Another major drawback of traditional tax credits is that they cannot help some low- and average-income families whose state tax liabilities are relatively small. A better tax credit plan would be a universal one, providing all families with an opportunity to choose alternatives to the government system and thereby opening the education marketplace to competition from nonstate schools. One way that could be accomplished would be by making tuition payments refundable for those with a tax liability that is less than their education expenditures. That, however, would essentially create vouchers for low-income families and would carry the same shortcomings as do vouchers.[29] Another way to bring out the benefits of tax credits for all families would be through a universal education credit.

The Universal Education Credit

Although many states have been taking steps to enhance educational freedom, no state has yet relinquished its monopoly over K–12 education. None of the current choice programs, including intradistrict and interdistrict plans, charter schools, government-funded vouchers, and traditional tax credits, separates schools from state control. At best, those programs enlarge the choice of schools available to parents. Yet, excepting vouchers and tax credits, the available schools are still financed and regulated by the state. And although the voucher and tax credit programs allow parents to choose nonstate schools, current programs are available in only nine states and are restricted to select families. A better educational choice plan would (1) be widely available, (2) end the state's financial discrimination against families who choose independent schools, and (3) put parents in charge of paying for and selecting education services for their children. One way those goals could be accomplished is through a universal education credit.

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tax liability. Under the plan, any taxpayer (including parents, individual taxpayers, and businesses) would receive a dollar-for-dollar reduction in tax liability for money spent on tuition. The credit can be taken for up to one-half of the per pupil expenditure in the public school system, and taxpayers may take the credit for more than one student as long as the combination of credits does not exceed their tax liability. A large company, for example, could pay $1,000 tuition for each of 1,000 students and receive a $1 million tax credit (provided the credit does not exceed the company's liability).

Naturally, each state can tailor the credit to its particular needs. For instance, a state without an income tax, such as New Hampshire, might design the credit to apply against the property tax. Some states, such as those with budget surpluses, might choose to implement the credit immediately, while others might phase it in over a period of several years.[30] Some states might consider making the credit applicable to a variety of education-related expenses, such as tutoring services, school supplies, school uniforms, on-line courses, and supplementary education services. Traditional education tax credits have been structured this way to give families the widest possible latitude to select the education services their children need. Although each state will develop its own version of the credit, there are some general guidelines that every state should consider adopting.

Because any taxpayer can earmark his applicable tax liability for scholarships, scholarship pools should be large enough to accommodate families who are not able to directly take advantage of the credit.

First, parents, individual taxpayers, and businesses should receive a dollar-for-dollar reduction in their tax liability for money spent on tuition up to one-half the per pupil expenditure in the public school system.[31] For instance, in the 1996–97 school year New York State's per pupil expenditure was $8,525. Thus, the maximum per child credit allowed in New York would have been $4,262.[32] Limiting the credit to half the per pupil expenditure in the public school system is practical: the average independent school tuition is half the amount of the average per pupil expenditure in public schools.[33]

Second, the credit should be limited by the taxpayer's tax liability. According to the Tax Foundation, the median state and local tax liability for one- and two-income families is, respectively, $5,470 and $8,996.[34] Because any taxpayer can earmark his applicable tax liability for student scholarships, scholarship pools should be large enough to accommodate families who are not able to directly take advantage of the credit.

Arizona's experience with tuition tax credits suggests this would be the case. In 1999 more than 30,000 individual taxpayers used Arizona's tax credit provision to direct nearly $14 million toward student scholarships (Table 1). Arizona's program is limited to a $500 credit and may not be used by businesses or by parents for their own children. A larger universal education credit that could be used by parents and businesses would likely generate even larger pools of scholarship funds. Since individuals and businesses have to pay taxes anyway, there is no additional cost to them. Individuals could gain a sense of personal satisfaction, and businesses could see this as an opportunity to improve their image and standing in the community. But whether that assistance stems from generosity of spirit or from a desire for better public relations, the results will be the same: the credit will raise scholarship funds for needy students.[35]

Because the universal education credit would allow taxpayers to direct their total tax liability toward tuition, analysts have expressed concerns that tuition clearinghouses could be "flooded" with excess funds.[36] Many taxpayers, after all, will undoubtedly prefer to earmark their taxes for tuition rather than send them to the state for general services. If that occurs, clearinghouses could potentially receive money in excess of scholarship demand. This administrative concern should be addressed by requiring tuition clearinghouses to return to the state any money not claimed by a student by the start of the school year. States could limit the amount of tax liability that could be directed toward scholarships, but this is not recommended. It would be difficult to estimate demand for scholarships, and a limit that is set too low could create a situation in which demand for scholarships exceeds supply. Since one of the greatest strengths of universal education credits is their potential to assist families through scholarships, it is recommended that states do not limit the credit in this way.

Critics have also raised the concern that too many donations could “dry up” state coffers of needed revenue. However, the universal education credit has been structured to ensure against that. The credit is limited to half of the per pupil expenditure in the public school system, so the total amount spent on scholarships could not exceed 50 percent of what the state currently spends on public education.[37] For each child who leaves the public school system to attend an independent school or another public school, the state retains half of what it would have otherwise spent on that student. Because the maximum credit per child never exceeds 50 percent of government per pupil expenditures, each child who chooses an alternative school essentially leaves the state-run schools with more money per remaining pupil.[38]

State legislatures and education departments would develop administrative procedures for implementing the universal education credit. Such procedures could include the following provisions: (1) giving individuals and businesses the option of making one annual payment to scholarship organizations or clearinghouses (like those found in Arizona), which would match scholarships with needy students. This removes from individuals and businesses the time-consuming tasks of sending checks to multiple students at multiple schools; (2) modifying individual and business tax forms to provide a convenient way for taxpayers to claim the universal education credit; and (3) providing for a standard receipt to be issued by schools that will track tuition payments to each identified student, thereby ensuring that the payer can claim the proper credit and that excess funds are returned to the state.

How Would the Universal Education Credit Help Families?

Naturally, parents are eager to understand how the universal education credit would affect them personally, and policymakers want to understand how the credit could accommodate families of various means. The following examples show how the credit could work for different families on the basis of the national average per pupil spending of $7,000 and therefore of a maximum credit amount of $3,500.[39]

1. Kristina Nelson is a single mother of two children, and her income lies below the federal poverty level. A resident of Seattle, Kristina wants to take her children out of the local public school and enroll them in the neighborhood Catholic school. Because Kristina has little income to spare, she seeks tuition assistance from a scholarship fund established by Paper Products International, a large paper manufacturer. The fund pays the entire tuition for both children, $3,000 per child, and the company takes a $6,000 credit against its tax liability.[40] The program has cost Paper Products International only the promotional and administrative expenses it chose to incur and has enhanced the company’s standing in the community. Most important, the credit has raised scholarship funds that enabled Kristina to send her children to a school of her choosing.
2. Dave Poderski of Illinois is the grandfather of three young children. His son and daughter-in-law would like to send their children to an independent school but have found the local schools are beyond their means. Grandpa Poderski offers to use the education tax credit to help send his three grandchildren to an indepen-

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dent school at which tuition is $3,000 per child. Grandpa Poderski's tax liability is $7,500, so he directs $2,500 toward each grandchild's tuition. Poderski's son and daughter-in-law meet the remaining $1,500 balance through a combination of monthly cash payments and a small discount offered by the school.

3. Eric Getty, a wealthy real estate developer living in Cape Cod, pays $15,000 a year to send his only child to the prestigious Cranberry Academy. Getty can claim a tax credit of $3,500, the maximum credit amount any taxpayer, or combination of taxpayers, may claim for any particular student. With the credit, it costs Getty $11,500 instead of $15,000 to send his child to the Cranberry Academy.

Strengths of the Universal Education Credit

The availability of universal education credits would begin to ease the state's monopoly over K–12 schooling and give parents more control over their children's education. By letting parents select and pay for their children's education, the universal education credit promises parents more freedom to choose new schools or to continue patronizing their current schools and ensures higher educational quality by creating a competitive marketplace for education.

Fairness

The universal education credit reduces the financial penalty borne by parents seeking alternatives to state-run schools. By lessening the bias against independent education, the credit makes the government more neutral with regard to how parents educate their children.

Educational Quality

When parents shop for services in the education marketplace, schools seek to attract students by improving their services. This competitive marketplace for education services will introduce into both the state and independent education systems incentives for higher educational quality, tailored student services, and greater cost efficiency.

The credit has a positive effect on the revenues available for public school students. Because the maximum credit never exceeds 50 percent of government per pupil expenditures, each student who chooses an alternative school essentially leaves the state-run schools with more money per remaining pupil. That revenue can be used to hire more teachers, reduce class sizes, increase teacher pay, implement other reforms, or cut taxes.

Access for Children in Low-Income Families

There is a strong likelihood that individuals and businesses would apply a portion of their tax liability to fund scholarships for low-income families. Thousands of individuals have done this in Arizona, and businesses already provide millions of dollars for scholarships for poor children.[41] However, there is no guarantee that enough scholarships will be available for every needy child. In such cases, independent schools could use tuition fees from other students to subsidize a certain number of needy children. Such aid is common: about 81 percent of Catholic elementary schools and 97 percent of Catholic secondary schools provide some form of tuition assistance to students.[42] Even if the credit does not raise enough scholarship money for every needy child, the credit will still improve access and give parents and children more educational opportunities than does the present system.

Greater Parental Financial Responsibility

The universal education credit makes it easier for parents to take financial responsibility for their children's educations. As the responsibility for education begins shifting from the state back to parents, the state's monopoly over education should loosen. This brings to mind the adage "He who pays the piper calls the tune." The more parents foot the bill for their children's education, the more power they will have to choose their children's schools and, in turn, to choose the type of curriculum, content, and environment that is best for their child. Increasing parental responsibility should also make parents more vigilant education consumers. As education scholar Andrew Coulson noted: "What we pay for, we pay attention to. What we get for free, we feel free to ignore. . . . Writing a monthly check for several hundred dollars does a lot to focus a person's attention on the quality and value of the services he or she is receiving."[43] Greater parental vigilance should help improve the quality of education services and put pressure on education providers to keep costs reasonable.

Government Less Likely to Impose New Regulations

The credit would provide independent schools with greater protection from new government regulations than would vouchers. Because vouchers transfer public funds to independent schools, legislators feel compelled to oversee and regulate the use of those "public funds," and thereby vouchers often invite new regulation of private schools. Credits, however, simply allow parents to direct their own money to a school of choice or allow taxpayers to direct their money toward scholarships. When Judge Thomas Appleton of the Sangamon County Circuit Court dismissed a lawsuit claiming Illinois's tax credit violated the Illinois Constitution, he explained:

> Money is not public until it belongs to the state. That the state allows a taxpayer to keep more of his money does not make it the state's. . . . If Plaintiff's argument were taken to its logical conclusion, the total income of every taxpayer is public money because the State could theoretically impose a 100 percent tax rate so as to increase government services.[44]

Because parents pay tuition with their own money rather than public funds, legislators should have no more incentive to regulate independent schools than they do currently. Although the government retains the ability to tighten its reins on credits, for instance, by restricting their amount or use, history suggests that legislatures are unlikely to pursue that course of action. To date, both the Iowa and the Minnesota legislatures have expanded the amount and acceptable uses of the tax credit, and none of the states has reduced the credit amount or eligible uses.[45] It is possible, however, that, if increasing numbers of children started attending independent schools, whether using the credit or not, the government would feel compelled to increase oversight in this arena.

Criticisms of the Universal Education Credit

Certainly, the universal education credit falls short of the ideal education system—a free market for education services wherein parents assume financial responsibility for their children's education and government has little role in owning, operating, or financing education. In addition, the universal education credit has other limitations.

Constitutional Questions

Constitutional requirements for the provision and financing of education vary greatly by state. Whether tax credits are constitutional in a given state depends on both the state's constitutional language and judicial interpretation. Some state constitutions might need to be amended before a universal education credit could be adopted. Thus far, state courts have upheld the constitutionality of tuition tax credits in Arizona, Illinois, and Iowa.[46] At the federal level, the U.S. Supreme Court has upheld the constitutionality of education tax deductions and declined to hear tuition tax credit cases.[47] Because tax credits have been found consti-

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It is time to drag America's 19th-century education system into the 21st century, where decentralization, parental responsibility, and flexibility can create unprecedented opportunities for learning.

tutional, it is widely assumed that, if the U.S. Supreme Court were to take a tuition tax credit case, tuition tax credits would be found constitutional.

Social Engineering

Nobel laureate Milton Friedman has raised the concern that tax credits encourage social engineering. In a recent interview with *School Reform News*, Friedman expressed his reservations:

> I have some doubts about tuition tax credits for the following reasons. I believe—most people believe—that taxation should be a method of raising funds to finance government spending. It should not be a tool for social engineering. Now how can I, who object to using taxes for social engineering for all sorts of purposes, argue that you ought to use it for this particular piece of social engineering because I'm in favor of it. So, on that ground, I'm very hesitant about tuition tax credits.[48]

Friedman has raised an important criticism of education credits. A better system would simply cut taxes across the board for all taxpayers and let parents seek education services without government mandates. Yet government has shown little interest in pursuing this course of action. It is also true, however, that adopting a universal education credit would have the primary effect of reducing the government's current bias against independent education services. Consequently, the credit makes the state *more* neutral about the types of education services people select for their children.

Timing of Tuition Payments

Many schools require that tuition payments be received by September, but the tax credit would not be available to parents until the end of tax season, roughly six months later. Many parents would find it difficult to pay tuition (or other fees) up front. One way to work around this would be for schools to make special loan arrangements through which families could pay tuition on an installment plan.

State Control

Although the universal education credit could potentially replace the government's monopoly over K–12 schooling with a competitive marketplace for education services, the government retains the ability to interfere with education decisions by changing the rules surrounding tax credits. For instance, a legislature could vote to reduce the credit amount or to make the credit applicable only at particular schools. This has not been the case to date, but it remains a possibility.

Conclusion

America's education system is failing. It is failing to provide parents with choices in education services and, consequently, failing to provide children with the educations they deserve. Since 1970 disturbing trends in American education have been well documented: per pupil expenditures have doubled, class sizes have shrunk, and teachers' salaries have grown; yet, despite those infusions of spending and the adoption of countless other reforms, student achievement has stagnated and even declined.

In economic terms, paying more for less is simply a bad deal. But in human terms, the government's monopoly of K–12 education is inexcusable, as it stands like an educational Berlin Wall between students and opportunity. It is time to drag America's 19th-century education system—characterized by government centralization, rigid political planning, and declining student achievement—into the 21st century, where decentralization, parental responsibility, and flexibility can create unprecedented opportunities for learning. Adopting a universal education credit is the first step toward that horizon.

Notes

1. For polling data, see George A. Clowes, "Education and Choice: What Does America Think?" *School Reform News* 4, no. 3 (March 2000): 6–7; National Center for Education Statistics, *Digest of Education Statistics 1999* (Washington: Government Printing Office, March 2000), p. 30; and Separation of School & State Alliance, "Survey Shows One Fourth of Americans Want to End Public Schooling," Press release, August 31, 2000, www.sepschool.org/OtherDocs/nr19981030.html. The demand for more options in education is also evidenced by the growth of alternative schooling. For instance, in 1991 Minnesota became the first state to open a charter school; by 2000, 36 states, Puerto Rico, and Washington, D.C., all had laws allowing for charter schools. Since 1989 Milwaukee, Cleveland, and Florida have adopted publicly funded voucher programs, and Minnesota, Arizona, Iowa, and Illinois have adopted tuition tax credits. At the same time, a growing number of organizations are privately funding scholarship programs. For example, as of 1999 the Children's Scholarship Fund awarded approximately $160 million in scholarships, helping to send 40,000 children to private schools. In homeschooling, the Home School Legal Defense Association estimates that the number of children receiving an education at home has been increasing at an annual rate of 15 percent since 1990; as of the 1997–98 school year, HSLDA estimates that there were approximately 1.5 million homeschoolers.

2. This study builds on the universal tuition tax credit work of Joseph P. Overton, senior vice president of the Mackinac Center for Public Policy, Midland, Michigan.

3. For details on the Pettipas case, see Matthew J. Brouillette, "School Choice in Michigan: A Primer for Freedom in Education," Mackinac Center for Public Policy, Midland, Michigan, July 1999, p. 33.

4. That assumes the family income was $36,000 and their state income tax liability was $2,160. The authors did not ask the Pettipas family to disclose their actual income. Instead, they used an income figure that is roughly the median family income in the United States. The state income tax liability figure is based on a state income tax of 5 percent. The average top income tax rate among the states is 6.7 percent. Figure derived by Stephen Slivinski, fiscal policy analyst at the Cato Institute, from the *State Tax Handbook 2000* (Chicago: Commerce Clearing House, 1999).

5. See www.educationreport.org/article.asp?ID= 1566; and www.worldnetdaily.com/bluesky_excomm/20000724_xex_governors_de.shtml.

6. Eighteen states require districts to accept nonresident students if space is available.

7. See Todd Ziebarth, "Choice of Schools: State Actions," Education Commission of the States Clearinghouse Notes, August 9, 2000, pp. 2–3.

8. For comprehensive information on charter schools, see U.S. Department of Education, "The State of Charter Schools 2000: Fourth-Year Report," January 2000, www.ed.gov/pubs/charter4thyear/.

9. National Center for Education Statistics, *Digest of Education Statistics 1999*, Table 90, p. 97; Center for Education Reform, "Charter School Ranks Swell: Schools and Attendance above Former Projections," Center for Education Reform, Washington, August 2000, CER News Alert, www.edreform.com/press/000817cs.htm.

10. In 1993 Puerto Rico enacted a pilot voucher program that enabled parents with annual incomes of less than $18,000 to receive vouchers for up to $1,500 toward tuition at the public, private, or parochial school of their choice. In 1994 the Puerto Rican Supreme Court ruled the pilot voucher program unconstitutional. The program continues to operate, but students can move only to other public schools, which means the voucher program has essentially become the equivalent of a public school open enrollment program. Education Commission of the States, "Vouchers, Tax Credits and Tax Deductions, 1999," Policy brief, 1999, pp. 4–5, www.ecs.org. For general information on voucher and tax credit initiatives in each of the 50 states, see Nina Shokraii Rees, *School Choice 2000: What's Happening in the States?* (Washington: Heritage Foundation, 2000), www.heritage.org/schools/.

11. In June 1999 the Vermont Supreme Court ruled that districts couldn't pay tuition for children attending private parochial schools. In two separate cases decided in April and May 1999, respectively, the Maine Supreme Judicial Court and the U.S. Court of Appeals for the 1st Circuit ruled that the inclusion of religious schools in Maine's program would violate the Constitution's establishment clause. In October 1999 the U.S. Supreme Court declined to review both Maine cases, letting stand the lower courts' rulings that the program is unconstitutional. Education Commission of the States, pp. 5–6.

12. Rees, pp. 167, 71.

13. Ibid., pp. 181, 129.

14. Ibid., p. 35.

15. In addition, students qualify only if their family

income is not greater than 1.75 times the poverty level. Education Commission of the States, p. 5.

16. Rees, p. 130.

17. Ibid., p. 35.

18. An estimated 53,539,000 students were enrolled in elementary and secondary schools in 1999. National Center for Education Statistics, *Digest of Education Statistics 1999*, Table 3, p. 12.

19. See *Jackson v. Benson,* 218 Wis. 2d 835, *; 578 N.W.2d 602, **; 1998 Wisc. LEXIS 70.

20. Education Commission of the States, p. 2.

21. In 1987 Iowa adopted a small tax credit for education expenses, which was revised in 1998. Minnesota has had education tax deductions since 1955, and the state adopted its first education tax credit in 1997. Arizona adopted education tax credits in 1997, and Illinois adopted its program in 1999. See ibid., pp. 1–3.

22. Arizona law also offers taxpayers a credit of up to $200 for money given to government schools to support extracurricular expenses such as athletic equipment, band uniforms, and lab fees. Those credits are not available to businesses.

23. Karina Bland, "Mom's Prayers Answered with Tuition for School," *Arizona Republic,* online ed., April 9, 2000.

24. Fritz S. Steiger, "Voice for Choice," Fact sheet, Children First CEO America, July 25, 2000, www.childrenfirstamerica.org/avfc/july.html; and authors' correspondence with Georganna Meyer, chief economist, Office of Economic Research and Analysis, Arizona Department of Revenue, November 3, 2000.

25. As early as 1987, Iowa allowed some deductions for education expenses. Education Commission of the States, p. 3.

26. The maximum credit per child is reduced for families earning more than $33,500 and up to $37,500. No credit is allowed for education-related expenses for claimants with incomes greater than $37,500.

27. As early as 1955, Minnesota allowed parents to claim a tax deduction for some school expenses. That original tax deduction program was challenged in court, and, in 1983, the U.S. Supreme Court ruled the program constitutional. Education Commission of the States, p. 3. For more information on the tax deduction, see www.educ.state.mn.us/tax/dedsh.html.

28. Education Commission of the States, p. 2.

29. See, for instance, Joseph L. Bast, David Harmer, and Douglas Dewey, "Vouchers and Educational Freedom: A Debate," Cato Institute Policy Analysis no. 269, March 12, 1997, www.cato.org/pubs/pas/pa-269es.html; Andrew J. Coulson, *Market Education: The Unknown History* (London: Transaction, 1999), pp. 323–34; and Ronald Trowbridge, "Devil's Deal," *National Review*, September 15, 1997, pp. 56–60.

30. For instance, the Mackinac Center for Public Policy recommends that Michigan phase in a similar credit over a 9-year period, the Virginia Institute for Public Policy recommends that Virginia phase in a credit over a 3-year period, and the Sutherland Institute recommends that Utah phase in a credit over a 30-year period. See Patrick L. Anderson et al., "The Universal Tuition Tax Credit: A Proposal to Advance Parental Choice in Education," Mackinac Center for Public Policy Report, November 1997; Carlisle Moody and Jerry Ellig, "The Universal Tuition Tax Credit: Achieving Excellence in Education without a Tax Increase," Virginia Institute for Public Policy Report no. 4, September 1999; and David F. Salisbury et al., "The Universal Tuition Tax Credit: Advancing Excellence through Parental Choice and Empowerment," Sutherland Institute Policy Study, October 1999.

31. Alternatively, the credit could be linked to district expenditures.

32. National Center for Education Statistics, *Digest of Education Statistics 1999*, Table 172, p. 191. On the basis of data provided by the National Education Association, the Public Policy Institute of New York State estimates that New York's per student spending rose to $9,812 during the 1998–99 school year. See www.ppinys.org/jtf99/table43.htm.

33. Those figures are $3,116 versus $6,653 during the 1993–94 school year (the most recent year for which national private school data are available). See National Center for Education Statistics, *Digest of Education Statistics 1995* (Washington: Government Printing Office, 1995), Tables 60 and 163. It is unlikely that the spending ratio has changed since those data were collected. More recent figures on Catholic schools reflect a similar trend. Actual per pupil costs in Catholic elementary and secondary schools are, respectively, $2,823 and $5,466, and the 1998–99 total public expenditure per pupil in fall enrollment was $7,316. See Dale McDonald, *United States Catholic Elementary and Secondary School Statistics 1999–2000: Synopsis of the Annual Statistical Report on Schools, Enrollment and Staffing* (Washington: National Catholic Educational Association,

2000), p. 6, http://ncea.org/PubPol/databank.htm; and National Center for Education Statistics, *Digest of Education Statistics 1999*, Table 170, p. 187.

34. Those figures are for 1998. See Claire Hintz, "The Tax Burden of the Median American Family," Tax Foundation Special Report no. 96, March 2000, www.taxfoundation.org/prmedianfamily. html.

35. This is not to suggest that low-income families are not willing to pay for their children's educations. There is evidence that even families with very limited means can provide for their children's education. For instance, parents of more than 1.2 million children applied to the Children's Scholarship Fund for a partial scholarship for private school. The program pays from 25 up to a maximum of 75 percent of tuition. The average family contributes $1,100 toward their children's education, from an average household income of $20,663. This suggests that the ability of parents to pay for their own children's education depends not only on income but also on attitude. Of course the educational ideal is for all parents to be able to provide for their own children. Douglas Dewey, vice president of the Children's Scholarship Fund, points out that, if we design a policy that expects an entire class of people cannot or will not pay even a small amount for their children's education, we abandon even the possibility of achieving the ideal.

36. Darcy Ann Olsen, Personal correspondence with William A. Niskanen, chairman, Cato Institute.

37. The only time this would not be the case would be if every single pupil left the public school system using the universal education credit and all families who currently pay for independent schools were simultaneously using the credit. That is an unlikely scenario.

38. States will likely need to make intragovernmental fund transfers depending on what combination of taxes is currently used to fund education and what combination of taxes the credit applies against. Overall, however, for each student who takes advantage of the credit to leave the government system for an independent school, the state still retains at least half of what it would have otherwise spent on that student.

39. Spending varies considerably across states, but the 1998–99 total expenditure per pupil in fall enrollment was $7,316. National Center for Education Statistics, *Digest of Education Statistics 1999*, Table 170, p. 187.

40. Current figures show the average per pupil tuition at Catholic elementary schools is $1,787; the corresponding figure for Catholic secondary schools is $4,100. Tuition accounts for approximately 63 percent of actual per pupil costs, which are $2,823 and $5,466, respectively. See McDonald, p. 6.

41. Jacques Steinberg, "Nation's Wealthy, Seeing a Void, Take Steps to Aid Public Schools," *New York Times*, September 23, 1999; and Martha Groves, "3,750 Get Grants for Private Schools," *Los Angeles Times*, April 22, 1999.

42. See McDonald, p. 6.

43. Coulson, p. 332.

44. *Toney et al. v. Bower et al.*, 99 MR 413, IL 1, 3, 7th jc (2000).

45. Rees, pp. 60, 90.

46. Arizona's tax credit was challenged in court, and in January 1999 the Arizona Supreme Court ruled that the law does not violate state and federal constitutional prohibitions against government aid to religion. That decision was appealed to the U.S. Supreme Court, which declined to review the case in October 1999, thus letting stand the Arizona Supreme Court's ruling that the program is constitutional. Education Commission of the States, p. 2. In Illinois, the Franklin County Circuit Court and the Sangamon County Circuit Court dismissed lawsuits in 1998 and 1999, respectively, attacking the constitutionality of the credit, holding that the law is constitutional. See Clowes, "Education and Choice: What Does America Think?" p. 4. Iowa's initial tax credit program was challenged in court, and in 1992 a U.S. district court judge ruled that tax deductions and credits for parents who send their children to private and parochial schools do not violate the Constitution's ban on government establishment of religion. Education Commission of the States, p. 3. Minnesota's original tax deduction program was challenged in court, and in 1983 the U.S. Supreme Court ruled the program constitutional. Ibid.

47. Ibid.

48. Quoted in George A. Clowes, "The Only Solution Is Competition," *School Reform News* 2, no. 10 (December 1998).

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