

## Cato Institute Policy Analysis No. -1: An Analysis of the District of Columbia: Education Tax Credit Initiative

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### Executive Summary

On October 13, 1981, the District of Columbia Court of Appeals ordered the city's elections board to place an educational tax credit initiative on the November 3rd ballot. This action cleared the way for a referendum that could establish the first such program in any American city. For the first time in the twentieth century all families would be given the effective freedom to choose schools for their children. This is a privilege that has been enjoyed before only by those families that can afford to "pay twice" for schooling, once through their conventional tax payments, and once through the direct tuition charge at a private school.

One out of every seven students currently going to District schools goes to a private establishment. A tax credit would result in a larger proportion, and its benefits would reach all income and ethnic groups. Of course, some individuals the lowest income groups are already in private schools, especially in those that are religiously affiliated. Table 1 shows the number of students enrolled in nonpublic schools in the District of Columbia in 1981.

Table 1

### D.C. Nonpublic School Enrollment 1980-81

School Type	Numbers
<b>Catholic</b>	
Elementary	5,505
Secondary	3,618
<b>Other Parochial</b>	
Baptist	41
Episcopal	1,090
Greek Orthodox	20
Muslim	26
<b>Seventh Day Adventists</b>	

Elementary	70
Secondary	350
<b>General Private</b>	5,032
<b>Department of Human Services (Special Education)</b>	416
<b>Total D.C. Nonpublic Enrollment</b>	16,213

SOURCE: The Economic Communications Center of the Media Institute, Washington, D.C., 1981. Note: Total D.C. Public School Enrollment = 99,225 students.

The maximum tax credit under the District proposal is \$1,200. Since there are no official figures on the current tuition costs in private schools in the District, it is not possible to obtain a precise estimate of the number and types of schools that would become accessible to present-day public school pupils. Some idea, however, may be obtained from recent figures on average tuitions paid in private schools across the United States. This information is to be found in the Current Population Survey, a monthly sample survey of approximately 50,000 households conducted by the Bureau of the Census. In the October 1978 supplement to the survey there was a question on private school tuitions. Table 2 presents the answers. It shows the number of private school students and the different tuition levels paid.

<b>Table 2</b>									
<b>Tuition and Fees for Private School Students: Current Population Survey Sample, 1978</b>									
Yearly Tuition and Fees									
	less than \$200	\$200 to \$299	\$300 to \$399	\$400 to \$499	\$500 to \$749	\$750 to \$999	\$1000 to \$1499	\$1500 to \$1999	\$2000 or More
Students	1208	762	577	424	864	629	663	202	255

Source: Unpublished data, provided by Department of Commerce, Bureau of the Census.

The table suggests that the bulk of American school students in 1978 paid less than \$1,200 in tuition. If conditions in the District are similar, the proposed \$1,200 tax credit would enable families to gain access to most private schools, even if they were not prepared to pay extra amounts from their own incomes.

Insufficient space in existing independent schools need not be a barrier to families wishing to transfer; the promise of tax credits itself would encourage new schools to be set up fairly promptly to meet the demand. Meanwhile several existing schools could expand their capacity, by using mobile classrooms if necessary, or by opening "branch plant" schools.

### **Traditional Criticisms**

The Washington, D.C. plan is unique in its ability to meet traditional criticisms of education tax credits. The most common is that the consequent liberalization of choice will encourage further segregation by increasing the "white flight" movement. This argument, which has its own weaknesses in any case, can hardly stand up against the District proposal. According to table 35 in Digest of Education Statistics 1980, only 3.5 percent of the enrollment in District public elementary and secondary schools is white. In other words, if there was a white flight movement it must now be almost completed. The typical pupil taking advantage of the new tax credits to migrate to private schools will almost inevitably be nonwhite. Therefore, if substantial migration from public to private school ensues, the District tax credit scheme will predominantly serve the needs of blacks and other racial minorities.

Even if the District did not have an atypical population mix, the findings of the 1981 Coleman Report to the National Center for Education Statistics would be relevant. It concluded that tax credits, even in normal populations, would provide more educational benefit to minority groups than to whites. They would also particularly aid the education of

students from lower-income families because the credit would facilitate private school enrollment for students from lower-income families more than for students from higher-income families. Certainly the Coleman Report recognizes that there will be advantages to families already using the private system. But these, it believes, will be mainly in the form of financial rather than educational benefits. [\(1\)](#) The words of the Coleman Report are worth quoting:

The evidence indicates that facilitating the use of private schools (through policies of tax credits) would not increase segregation along racial or economic lines but would decrease it (though the evidence indicates that religious segregation would increase). Such policies would bring more blacks, Hispanics, and students from lower-income backgrounds into the private schools, thus reducing the between-sector segregation, and these students would be moving from a sector of high racial segregation to a sector of low racial segregation, as well as from a sector slightly higher in economic segregation to one slightly lower. [\(2\)](#)

It is also often charged that a tax credit will do nothing to help children of parents whose income is so low that they pay little or no income tax. This may be an understandable objection to some tax credit proposals, but it is not relevant to the District initiative. In fact, low-income children would be among the definite beneficiaries of this tax credit. Under the current system, without a tax credit, low-income parents have no choice but to send their children to the public schools. They cannot afford anything else. But under the proposal any taxpayer can pay all or part of the educational expenses of any child, whether related to him or not. Even corporations can get a tax credit if they pay a child's educational expenses. Corporations and middle-to-upper-income childless taxpayers might very well be motivated by charitable impulses to contribute funds for the education of lower-income children. But quite aside from charitable motives, there are very practical reasons to expect them to participate in the program. The schoolchildren of the District will grow up to be their neighbors, employees, customers, and coworkers. It is in their own interest that those people receive a good education. Thus we can expect that individuals and businesses will take advantage of the tax credit available for the educational expenses of unrelated students, thus giving low-income children for the first time a chance to choose alternatives to the public schools. This makes the District tax credit significantly different from some tax credit proposals.

### **Concern over Declining Quality of Public Schooling**

Recent official soundings of parental opinion on public education have disclosed considerable and growing dissatisfaction. According to the Gallup poll, parents' estimations of the public schools that their children attend have generally declined since 1974, the first year in which the question was asked. In 1974 almost two-thirds of the parents with public school children rated their community schools superior or above average. By 1979 the proportion giving the school high marks had dropped to less than half, and this trend has continued right up to today. In 1980 parents gave their public schools an average grade of C+. [\(3\)](#)

The Gallup poll asks respondents to cite what they believe to be the major problems facing the public schools in their community. And such polling has been conducted for twelve years. Responses to the questions in 1980 showed that discipline continued to be the major problem. The related problem of the use of dope or drugs ranked second. Poor curriculum also figured among the major concerns. Most respondents in 1980 expressed "only some confidence" in the people running educational institutions, slightly under one-third responded with a "great deal" of confidence, and about 12 percent said that they had "hardly any" confidence. [\(4\)](#)

With respect to the quality of education in the District of Columbia, it should be noted that in 1978-79 its public schools had an average student absentee rate of 16.2 percent. This was more than double the national rate of 6.5 percent. Presumably the situation will not be helped by the decision by school officials to cut nearly in half the number of District truant officers after this year. It is disturbing, meanwhile, to learn from law enforcement officials that truancy is directly related to juvenile crime. [\(5\)](#)

As another aspect of quality of schooling in the District of Columbia, it should be noted that in 1980 about half of the city's 21,000 first through third graders failed to master enough basic reading or math skills to be promoted to the second half of the curriculum. It is true that this has since been treated as an emergency, but it is interesting that the

schools superintendent has met the situation mainly by enlisting voluntary help from outside the officially salaried public school staff. The chief instrument has been an organization called "Operation Rescue." This consists almost entirely of about nine hundred volunteers who spend four hours each week tutoring or assisting teachers during school hours. The volunteers include retired teachers, city employees, homemakers, doctors, and lawyers. There had been some significant improvement by 1981, but even then more than 3,800 of the 21,000 students in grades 1 to 3 failed to meet the required standards. School officials have said that they expect similar difficulties among fourth to sixth graders. [\(6\)](#)

As one would expect, these problems in the primary grades worsen in high school. According to the Educational Testing Service, public school students in the District of Columbia scored 200 points below the national average on the Scholastic Aptitude Test (SAT) in 1980. The human tragedy this causes is epitomized by the class valedictorian of one District high school who was rejected by Georgetown University. Of course, many students never get even that far. In 1980 then District school superintendent Vincent Reed told a congressional committee that the District's dropout rate was "staggering." Observers at the time said that Reed declined to give a specific figure to avoid embarrassment to the District schools.

With a record like this, the burden of proof should be on those who oppose changes in the current system of school financing in the District.

### **Parental Anxieties**

Education personnel often suggest that such deficiencies in literacy have more to do with parental irresponsibility than with public school inefficiency. The current answers to Gallup poll questions, however, suggest a deep concern by parents of all income groups. Respondents in 1980 were asked to choose five areas out of thirteen that they considered to merit the greatest national attention in the next few years. The largest proportion, two-thirds, cited a "basic education (reading, writing, arithmetic)" among the five highest priorities. Other responses emphasized the need for "individualized education plans" and "expanded opportunities for gifted students." [\(7\)](#)

Judging by these surveys, the level of parental responsibility and concern would seem to be quite high. If parents are to be allowed more freedom in solving educational problems that are now officially admitted, it could come mainly by the much wider choice that tax credits will facilitate. Consider the strong parental requests for more "individualized education." This is surely a call for still more reforms beyond the already commendable action of the District public schools superintendent in enlisting private help through the voluntary service organized by his "Operation Rescue." His approach would be even more fruitful if the whole private sector of education was also allowed to make its contribution. Private schooling contains appreciable elements of voluntary (or charitable) activity. Naturally, however, the typical school cannot draw upon private subsidies enough to make its services completely tuition-free. By giving students access to a variety of private schools, the tax credit program will undoubtedly give the a greater chance of obtaining the "more individualized" education that significant numbers of parents say they are seeking.

Expressed in another way, the present-day Washington, D.C. public school system and the religiously affiliated private school system are similar in that they provide a service that is partly financed and partly charitable. The public school is financed out of compulsory taxes on citizens, while the private school depends on the contributions made from tuition fees. The charitable element that is now coupled with the District's public school system is the new volunteer service, "Operation Rescue." The charitable aspect of the religiously affiliated private school comes in the form of private subsidies out of religious collections. The simple innovation of education tax credits will thus unleash more contributions from the private sector.

Consider next the fact that discipline is the major concern among parents (as revealed by the 1980 Gallup poll). If policy makers are seriously concerned to conciliate parents on this score, it will be difficult for them to ignore one of the findings of the 1981 Coleman Report. It concluded that private schools provide a safer, more disciplined and more ordered environment than do public schools. "The evidence is strong that this premise is true. The greatest difference found in any aspect of school functioning between public and private schools was in the degree of discipline and order in the schools." [\(8\)](#)

It is fairly obvious that a school that engages the imagination of a child and motivates him to work harder and more consistently, will experience fewer discipline problems than others. The Coleman Report found that students in both Catholic and other private schools achieve more than students in public schools, even when family background factors are controlled for.

There is another probable source of parental discontent that would be more difficult for a Gallup poll to assess. This is the phenomenon of alienation from a growing bureaucracy in an increasingly-centralized system of schools. Where there are large numbers of boards, and where a parent is in an educational jurisdiction with say 100 voters, he at least has a one in a hundred chance of being the middle, or controlling, voter. And if "voice" is ineffective, "exit" is always possible since there will be a large number of neighboring school boards and districts to which he can move. But after such districts have been merged or "consolidated," to use the official expression, "voice" and "exit" are both considerably weakened. When an educational jurisdiction is increased from 100 to 10,000 voters, the individual has only one percent of his former chance of an effective "voice." Meanwhile, "exit" is much more difficult because he or she has a greater distance to travel to find another school jurisdiction.

The main advocates of consolidation in the recent past have been school administrators, who have argued that there are large economies to be gained from such widespread merger. Yet this has never been demonstrated. Meanwhile, school systems have grown larger as the number of local public school systems in the United States has shrunk. This process of consolidation has been quite dramatic (see figure 1). Such centralization in schooling has brought a reduction in the ability of parent-consumers to choose and to have an influence in educational outcomes. The powers of the producers -- the teachers and the administrators -- have meanwhile increased.

The District of Columbia ranks thirteenth among the sixty largest local public school systems in America. [\(9\)](#) Organized under a single consolidated system, it has a pupil enrollment of 132,600 about eighteen times more than the U.S. average of about 7,500 pupils.

As one might expect in such a system, there is a substantial amount of overhead in the District's school budget. In Vincent Reed's 1980 congressional testimony, he stated that 38 percent of the school district's budget went for administration. Members of the District's school board receive \$19,600 a year, almost three times as much as those in Montgomery County, the next most highly paid school board in the Washington area, and almost four times as much as those in Arlington County. And according to a study by the Prince Georges County Teachers Association, the District has 43 percent more administrators per student than the Baltimore school district and more than twice as many as Prince Georges County.

If the reasoning about parental alienation from large districts has any validity, the situation in the District is clearly one that would witness the most strenuous calls for radical changes by parents of all backgrounds. Accordingly, one would predict that the 1981 tax credit proposal should receive unusual support.

### **The Cost of the System: Positive or Negative?**

The average current cost per pupil in the public schools of Washington, D.C. is at present approximately \$3,000. The maximum value of the tax credit in the first year of operation of the proposed plan is \$1,200. If, on the unrealistic assumption that all users of the public system use their tax credits to transfer to independent schools and if the independent sector could cope with such an influx without injury or change to its financial structure of benefits per student, the federal and District governments would share in a gross gain from this transfer of \$180 million!

To estimate the net gain we would have to deduct the District government's cost of granting tax credits to the present (or customary) users of independent education. Currently these number about 16,000. Even if all these students cost the District government the full \$1,200 educational tax credit, or about \$19 million, there would be a net gain to the federal and District governments combined of just over \$160 million.

**Figure 1** - Number of local public school systems: United States, 1945-46 to 1977-78 {Bar Graph Omitted}

1945-46 -- 101,382

1953-54 -- 63,057

1961-62 -- 35,676  
 1969-70 -- 19,169  
 1977-78 -- 16,211

SOURCES: U.S. Department of Health, Education, and Welfare, National Center for Education Statistics, "Statistics of State School Systems"; and "Statistics of Public Elementary and Secondary Day Schools, Fall 1977."

Obviously, these are crude estimates based on unrealistic assumptions. But they do serve to focus on an important potential economy in the tax credits proposal. That economy is rooted in the fact that when an average student from the public system switches to becoming an average student in the independent system, he moves to a substantially less costly service. This being so, there is a large potential for taxpayer savings, at least when the degree of transfer exceeds a certain number. Estimating the size of this critical transfer number, beyond which net gains appear in the system, will be our next task. After that we shall discuss the question of the probable numbers of transfers to expect in practice.

For practical reasons we cannot expect the tax credit plan to be in operation before the academic year of 1982-83. Correct estimates, therefore, demand, as a basis, the expected per-pupil expenditure in public schooling in 1982-83. The reported current expenditure per pupil was \$2,841 for the year 1978-79. Allowing for an annual inflation rate of 10 percent, this figure becomes \$4,160 per head when we project it to the year 1982-83. We shall assume that the public school cost per head will be only \$4,000. (For reasons supporting this downward bias of estimate, see note 1 to table 4.)

To estimate the costs of granting the tax credits to the incumbent population in independent schools, we first need the figures of such students, and second an estimate of the amount of the available tax credits that they are likely to take up. Table 3 is based on an inquiry in 1981 concerning the fees charged by independent schools in the Washington area. It shows, for instance, that only \$500 of the available tax credit is expected to be used for elementary Catholic schooling while the full credit is expected to be used for secondary Catholic schooling. This means that the average tuition fees for elementary schooling have been found to be not greater than \$500 in the year in question. Similarly, the fees for secondary Catholic schooling have been found to be \$1,200 or more. The table shows that the estimated total costs in terms of tax credits taken up will be approximately fifteen and a half million dollars for the total number of students involved (just over 16,000).

In proceeding with our estimates of total gains and losses, we shall assume that the school populations in 1982-83 are similar to those in 1980-81. We shall employ rounded figures of sixteen thousand students in nonpublic schools and one hundred thousand in public schools.

We shall next undertake four experiments. First, an estimate will be made of the total costs when there are no transfers at all from the private to the Public sector. In the second, third, and fourth experiments, we shall assume that 8 percent, then 16 percent, then 24 percent, of the public school students transfer to the nonpublic sector.

<b>TABLE 3</b>			
<b>Washington D.C., Nonpublic School Enrollment 1980-81</b>			
	<b>Number of Students</b>	<b>Credit Tuition Estimate</b>	<b>Cost</b>
<b>CATHOLIC</b>			
Elementary	5,505	\$ 500	\$2,752,500
Secondary	3,618	1,200	4,341,600
<b>OTHER PAROCHIAL</b>			
Baptist	41	500	20,500
Episcopal	1,090	1,200	1,308,000
Greek Orthodox	20	500	10,000

Muslim	26	500	13,000
<b>SEVENTH DAY ADVENTISTS</b>			
Elementary	70	500	35,000
Secondary	350	1,200	420,000
<b>GENERAL PRIVATE</b>	5,032	1,200	6,038,400
<b>DEPARTMENT OF HUMAN SERVICES (SPECIAL EDUCATION)</b>			
	461	1,200	553,200
<b>TOTAL NONPUBLIC ENROLLMENT</b>	16,213	----- -----	\$15,492,200

SOURCE: The Economic Communications Center of the Media Institute, Washington, D.C., 1981. Note: Total Washington, D.C. Public School Enrollment = 99,225.

**TABLE 4**

**ESTIMATED EFFECTS OF THE WASHINGTON, D.C., EDUCATION TAX CREDIT ON PUBLIC BUDGETS IN 1982-83**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Current Situation</b>	16	100	0	15.5	0.0	-15.5	-15.5
<b>Projected Situations</b>	24	92	8	23.3	32.0	6.7	-1.2
	32	84	16	31.0	64.0	33.0	13.8
	40	76	24	38.8	96.0	57.2	28.4

Column (1) -- Nonpublic Students (thousands)

Column (2) -- Public Students (thousands)

Column (3) -- % Switch from Public to Private

Column (4) -- Tax Credit Cost (mil \$)

Column (5) -- Gross Savings to Public School System \* (mil \$)

Column (6) -- Federal Plus D.C. Public Budget Savings: column (5) minus column (4) (mil \$) Column (7) -- D.C. Public Budget Savings \*\*

\* The total current expenditure per pupil in the public schools of the District is assumed to be \$4,000 in 1982-83. This is the result of projecting the reported current expenditure of \$2,841 for 1978-79 and allowing for an annual inflation of 10 percent. Projected at this rate the figure actually becomes \$4,160 per head. But since for the 1983 part of the 1982-83 academic year the tax credit is scheduled to increase by \$120, the lower figure of \$4,000 per head should approximately compensate for this change.

\*\* The Washington, D.C. government contributes approximately 70 percent of the public expenditure per head (= \$4,000 in 1982-83). The federal government contributes the remaining 30 percent.

Table 4 shows the results of these experiments. It demonstrates that with an 8 percent transfer from the public sector, there will be a total savings to the government authorities as a whole of \$6.7 million. Since the federal government contributes 30 percent of the public expenditure on education, and since it will suffer none of the costs, it will receive all of the gains and more. In fact the total result for the District government is a loss of just over \$1 million. But it will be seen that when the transfers from the public schools to the independent schools exceed something a little over 8 percent, the District government will also begin to enjoy net gains.

In the third experiment, where it is assumed that there is a migration of 16 percent from the public school sector to the independent schools, the gain to the government authorities combined is \$33 million. The gain to the District authorities exclusively is nearly \$13.8 million.

We now reach the question of the probable degrees of switching between the public and private sectors. A nationwide poll on a federal tax credit proposal in 1981 is relevant here. The poll, conducted by Newsweek (April 20, 1981), found that 23 percent of parents with children in public schools said they would probably switch to private schools if Congress approved tuition tax credits of \$250 to \$500 a year. If we apply this degree of switching to the Washington situation, we reach a result which is close to that shown in the fourth row of our table 4. Here we assumed a 24 percent switch with a consequence of a \$28 million gain for the District government. It should be noticed, however, that the Newsweek Poll posed the possibility of tax credits worth only \$250 to \$500 a year. The District plan, in contrast, proposes much more generous tax credits of up to \$1,200 a year. In other words, had the Newsweek poll presented the general public with a proposal similar to that in Washington, the percentage of parents saying they would switch would presumably have been significantly above 23 percent.

To the economist the basic effect of the District tax credit plan will be to reduce the price of access to independent schools. Accordingly, the focus of interest is on the degree of response of demanders to the degree of effective price reduction, or, in other words, the "elasticity of demand." Elsewhere I have conducted research to discover this elasticity currently prevailing on average across the United States. [\(10\)](#) The finding was that when the price of independent schooling falls by 2 percent the demand for it increases by about 1 percent. This is an elasticity of demand of approximately 0.5.

Refer again to table 4. It will be seen that in over half the cases, the credit tuition estimate is \$500. This is an amount that falls far short of the maximum tax credit available \$1,200. In these cases, in effect, the price of access is reduced by 100 percent.

To obtain an estimate of the fall in price in the more expensive schools, we need some idea of how many students pay fees that are above \$1,200. According to the U.S. Department of Commerce's Current Population Survey, it would seem that not more than a quarter of the independent school population pay above \$1,200 (see table 2). Let us assume that this group pays, on average, \$1,600. The new availability of the tax credit would thus be equivalent to reducing the access price of the more expensive education by 75 percent.

Thus with three-quarters of the independent school population enjoying a fall in price of 100 percent and the remaining quarter enjoying a 75 percent drop, the weighted average for the whole community is a price reduction of about 94 percent. Recalling that our figure of elasticity indicated that a 1 percent increase in demand follows a 2 percent drop in price, this would mean that after the establishment of the District tax credit the independent school population would ultimately increase by about 47 percent. In terms of our table 4 this takes us closest to the second row, which shows that the federal government will gain \$6 million and the District government will lose just over \$1 million.

Taking all this evidence into account, therefore, it seems reasonable to conclude that at a minimum the District Tax credit system will cause the District government to break approximately even and for the federal government to enjoy significant windfall gains. In addition, there will be gains in utility to the families that change school, a fact that will be demonstrated by the very act of moving itself.

### **Qualifications and Transitional Problems**

The above analysis has envisaged some appreciable switching from public to private schools. For instance, we have shown that the Washington, D.C. government is likely to break even when just over 8 percent of public school students switch to nonpublic schools. But should this happen, the nonpublic school population will increase by 50 percent. Some will question whether the independent system could cope with such an increase, especially in the relatively short term. It should be pointed out that we have been making the reasonable assumption that entry into private schools is fairly open and that the scale of operations is such that the additional cost of another student is close to the average cost. Expansion will come by existing schools taking in marginal increases of student population and by new schools being set up.



Recent history shows that this is not unrealistic. Between 1965 and 1975, according to the Bureau of the Census, the number of students in private schools in the United States more than doubled from 615,548 to 1,443,000 -- and this is not taking into account the Catholic parochial school system. Robert Baldwin, executive director of Citizens for Educational Freedom, estimates that independent schools in the United States are currently being founded at a rate of about three a day, or one every seven hours!

The entry of a new independent school does not necessarily involve the erection of a brand new building. Very often suitable accommodations can be rented, and in a very short space of time. Indeed, with declining enrollment it is a common experience for empty public schools to be on the market. Similarly, recruitment of teachers would appear to be relatively easy. With declining enrollment, and considering the unionized teachers' practice of concentrating redundancies among the younger teachers, independent schools are at an advantage in hiring less costly and more active teachers.

It may be argued that the transfers could not be so effective as to yield revenue gains to governments as early as 1982-83, as table 4 projects. There is some merit in this observation. Certainly, some lags are to be expected, and especially in the registering of information among families. On the other hand, the revenue gains will not be confined to one year; they will continue and add up every year after 1982-83. What is required for the final estimate, therefore, is a summation of yearly benefits future discounted to present values. Clearly, because of this consideration the calculation of gains in table 4 is a significant understatement.

Consider next the rather substantial windfall gains that the federal government stands to make (see table 4, column 6). It would seem unfair that the efforts of the District government should bestow such advantages on a passive federal government. To resolve this problem there would seem to be ample room for negotiation between both levels of government. If we take the case in the second row of table 4, where the federal government gains nearly \$7 million at the same time that the District government loses about \$1 million, there would seem to be a strong incentive for the federal government to offer to share its gains. For instance, if the federal government offered the District half of its gains it would still be in the black by over \$3 million, while the District government would have a positive balance of about \$2 million. A federal government out to secure incentives by tax reduction could apparently have no better avenue to exploit. But it must grant some incentives to state governments to initiate plans similar to the District scheme.

There is another problem of interdependency between the federal and the District income taxes. Families will have to pay more federal tax to the extent that they use their District tax credit. (State taxes are deductible from taxes payable to the federal government.) Again it would seem that there would be room here for negotiation between the two governments. One arrangement would be for the federal government to treat the tuition tax credit as equivalent to state income tax, in which case the difficulty would be removed. It should be remembered too that there is a new bill being prepared by this session of Congress to establish federal education tax credits. Ways are obviously needed for dovetailing federal with other schemes.

Finally, consider the observation that after a short while public schools will begin to defend themselves by increasing their efficiency and lowering their costs. In this case the rate of migration from public to private systems will certainly be slowed down. Yet nothing will occur in this change to affect our overall conclusions. So long as efficiencies emerge, whether on the side of the private or of the public system, the ultimate result of our arithmetic remains intact: All governments and all consumers of education stand to make substantial gains.

## NOTES

[1.](#) National Opinion Research Center, Public and Private Schools, Draft Report (Chicago, Ill.: National Opinion Research Center, 1981).

[2.](#) Ibid., Summary of Major Findings, p. 10.

[3.](#) National Center for Educational Statistics, The Condition of Education, 1981 ed. (Washington, D.C.: National Center for Educational Statistics, 1981), p.8.

[4.](#) Ibid.

[5.](#) Judith Valente, "Schools to Cut Truant Officers by Nearly Half in Budget Move," Washington Post, September 17, 1981.

[6.](#) Ibid.

[7.](#) Condition of Education, p. 9.

[8.](#) Public and Private Schools, Summary of Major Findings, p. 4.

[9.](#) Digest of Education Statistics, 1980, p. 38.

[10.](#) Edwin G. West and Graham Corke, "The 1981 Tax Credit Plan: The Economic Consequences," forthcoming.