

The Charter School Paradox

How public-sector-only choice can increase costs, reduce educational diversity, and undermine competition, and how those unintended consequences can be avoided

Adam B. Schaeffer
Cato Institute
August 28, 2012

Based on research conducted by Richard Buddin in
“The Impact of Charter Schools on Public and Private School Enrollments,”
Policy Analysis #707, Cato Institute, August 28, 2012

Adam Schaeffer is a policy analyst with Cato's Center for Educational Freedom. He has conducted extensive research on state school-choice policy, politics, and public opinion (with a focus on vouchers and education tax credits), as well as public K–12 financial transparency and early childhood policy. Schaeffer earned his PhD in American politics and political behavior from the University of Virginia.

Richard Buddin is an education policy expert and a former senior economist at the RAND Corporation. He has published over a dozen articles evaluating the various dimensions of charter school performance and has several publications that assess teacher effectiveness using value-added research methods.

Summary of the Findings and Implications

Introduction

How can charter schools spend less money on average than regular public schools and yet cost taxpayers more overall at the state level? How can charter schools increase educational options and diversity in the public school system and yet decrease options and diversity in education overall? And how can some charter schools outperform regular public schools on average and yet decrease achievement overall?²

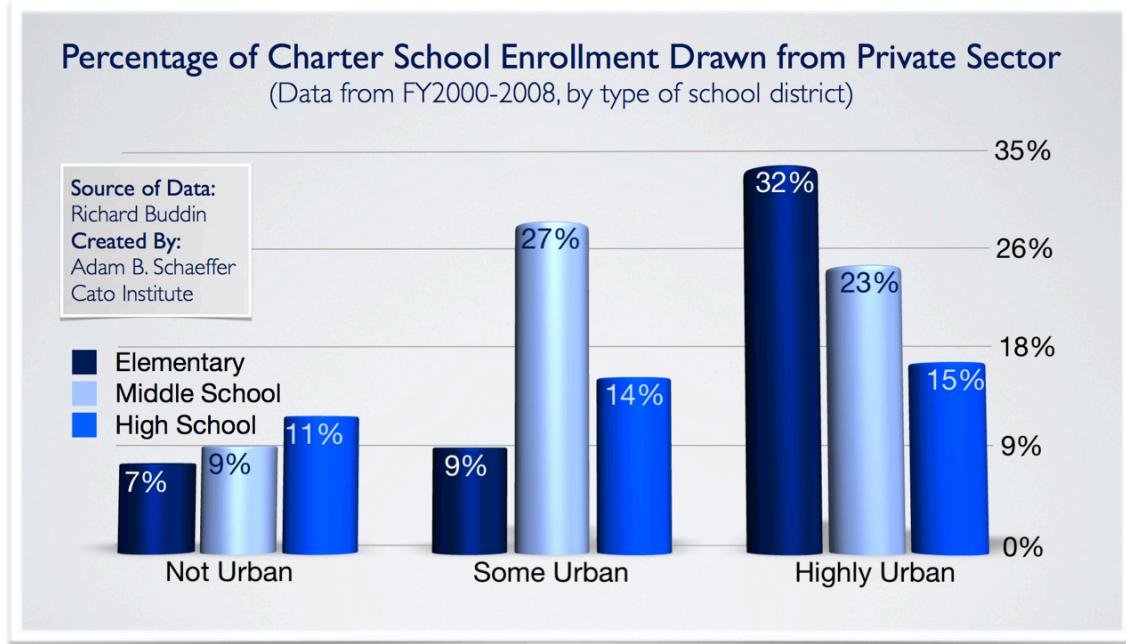
I call these outcomes the Charter School Paradox, but it is only a paradox if we take a very narrow view of the effects of charter schools. When we expand our perspective to include their effects on private education, we find that these seeming contradictions are really the unintended consequences of inadequate, public-sector-only reform. On average, charter schools may marginally improve the *public* education system, but in the process they are *wreaking havoc on private* education. Charter schools take a significant portion of their students from private schools, causing a drop in private enrollment, driving some schools entirely out of business, and thereby raising public costs while potentially diminishing competition and diversity in our education system overall.

Charter Schools and Private School Students, the Research

The Cato Institute Center for Educational Freedom commissioned Richard Buddin,³ adjunct senior economist with the RAND Corporation, to answer a vital question for the first time. Where do public charter schools get their students, from traditional public schools or private schools?⁴

Buddin found that charters serving primary students in highly urban districts take *almost one third of their students from private schools, on average*. Urban charters draw nearly one quarter of their middle school students and over 15 percent of their high school students from the private sector. Even in non-urban districts, charters pull between 7 and 11 percent of all their students from private schools.

Figure 1



² Charter school performance is mixed. [See](#) literature review in Richard Buddin, “The Impact of Charter Schools on Public and Private School Enrollments,” Cato Institute Policy Analysis no. 707, August 28, 2012; [see](#) Andrew Coulson, “The Other Lottery: Are Philanthropists Backing the Best Charter Schools?,” Cato Institute Policy Analysis no. 677, June 6, 2011.

³ [See](#) literature review in Richard Buddin, “The Impact of Charter Schools on Public and Private School Enrollments,” Cato Institute Policy Analysis no. 707, August 28, 2012

⁴ Buddin’s work expands on two studies regarding the enrollment impacts of charter schools in Michigan.

Questions and Conclusions

Most research on charter schools centers on academic performance relative to traditional public schools. Little thought has been given to broader questions about the education market as a *whole* in the United States. Buddin's findings thus require reformers to grapple with some serious new questions. Below are what I consider to be the most important of those questions and the best answers we have at this point based on our research.

- 1) What is the impact on overall competition and achievement if charter schools are driving private schools out of business?**
 - Although charter schools increase competition within the government school system, it seems likely that they decrease competition from the private sector in some areas. The private market is in turn vital for innovation and as competition for the government sector. More research needs to be conducted to determine whether or not there is a net increase in competition and achievement when considering these substantial, if unintended, consequences of charter schools for the private education market.
- 2) What is the true cost of expanding public charter schools when the formerly private school students are properly counted as a new expenditure?**
 - Based on Buddin's numbers, the direct public cost of charter students who migrated from private schools is about \$1.8 billion a year. Since the most recent data available for the analysis are from 2008, that figure is likely much higher today.
 - Moreover, state governments typically spend more per charter school student than they do for students in regular schools, adding to the total cost at the state level. Local governments, however, usually spend far less or nothing at all on charter school students. The cost, in other words, is borne by state governments and the total costs or savings across both levels requires a detailed state-by-state analysis.
- 3) Is there any way to mitigate these negative, unintended consequences of charter school reform?**
 - Thankfully, yes; by enacting good private school choice reform, such as education tax credit programs. This will prevent the erosion of private educational options while driving greater competition across the board.
- 4) Is there any way to avoid the Charter School Paradox without private choice reform?**
 - Unfortunately, that seems unlikely. If the heavy burden of government school taxes continues to weigh down families struggling to pay out of pocket for private education, then charter schools will continue to cannibalize the private sector, increase public costs, and decrease options and competition. Communities must open up all educational options to families if there is to be real and sustainable improvement in education overall.

Anecdote and conjecture about the impact of charter schools now has rigorous empirical support; *public charter schools are seriously damaging the private education market, adding to the taxpayer burden, and undermining private options for families and healthy competition in the education sector.*

If we do not take seriously these unintended consequences, the problems will likely continue to grow. Policy researchers, reform advocates, and politicians must get serious about private education choice policy, for the promise of charter school reform cannot be realized without a healthy and vigorous private education marketplace.

Implications for Educational Diversity and Competition

The existing U.S. private education market is small and specialized, serving just under 11 percent of all students. That is because the government provides a “free” public education that costs at least \$13,000 per year.⁵ Private schools must convince parents to pay significant sums out of pocket instead of utilizing free public schools, which are paid for in part with their own tax dollars and further subsidized by taxpayers without children. Even charter public schools begin with a direct subsidy of more than \$9,000 per student—an enormous competitive advantage over the private sector.

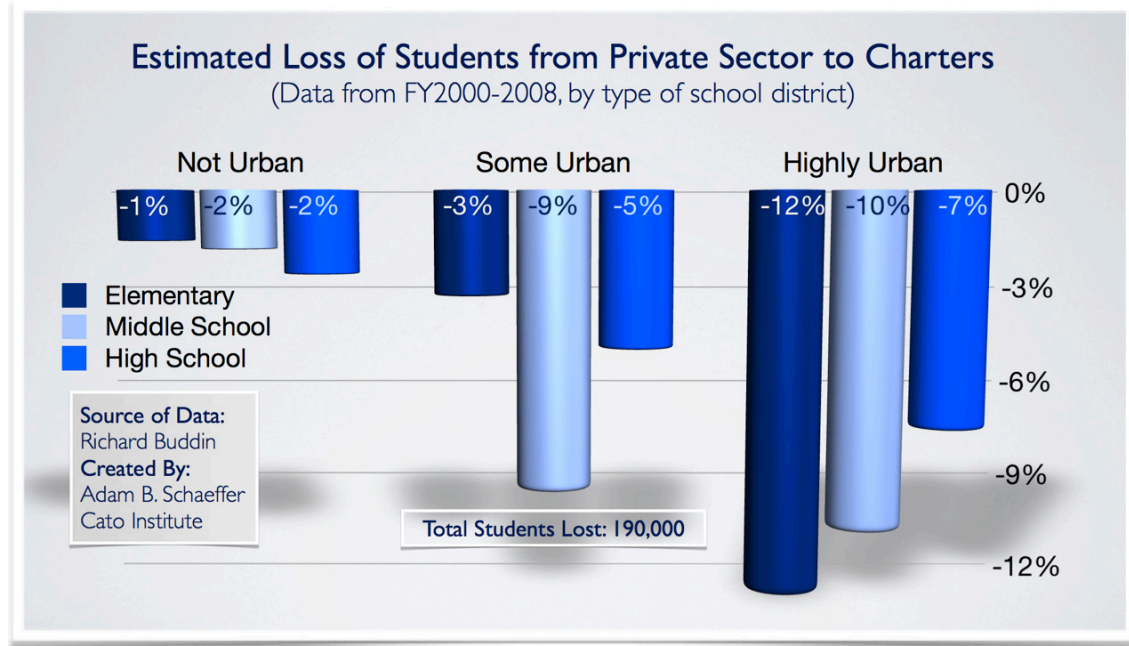
Most private educational options are therefore religious, since public schools (including charter schools) cannot compete in the provision of religious education because of constitutional restrictions. Beyond religious education, however, private schools are able to offer a wider range of curricula and school environments than is possible even among charter schools.

Charter schools must be approved by a government-empowered chartering authority, which means parents may choose only among those options deemed appropriate by that authority rather than among the full range of options that can develop in a free market. Therefore, as the private education market shrinks it is replaced by the *necessarily* less diverse offerings of charter schools.

Beyond educational diversity, the Charter School Paradox holds grave implications for competition and overall achievement in education. Research on the competitive effects of charter schools on the performance of traditional public schools has produced mixed conclusions, with the balance of evidence leaning toward a modest positive effect. The research on private school choice, in contrast, is more robust, finding that vouchers and education tax credit programs have a decidedly positive impact on the performance of students in public schools.⁶

Our findings on the enrollment impact of charter schools may provide an important part of the explanation of this difference: if charter schools are sapping the private education sector, then they may be *decreasing competitive pressures in the education market overall*, even as they *increase options and competition marginally within the public sector*.

Figure 2



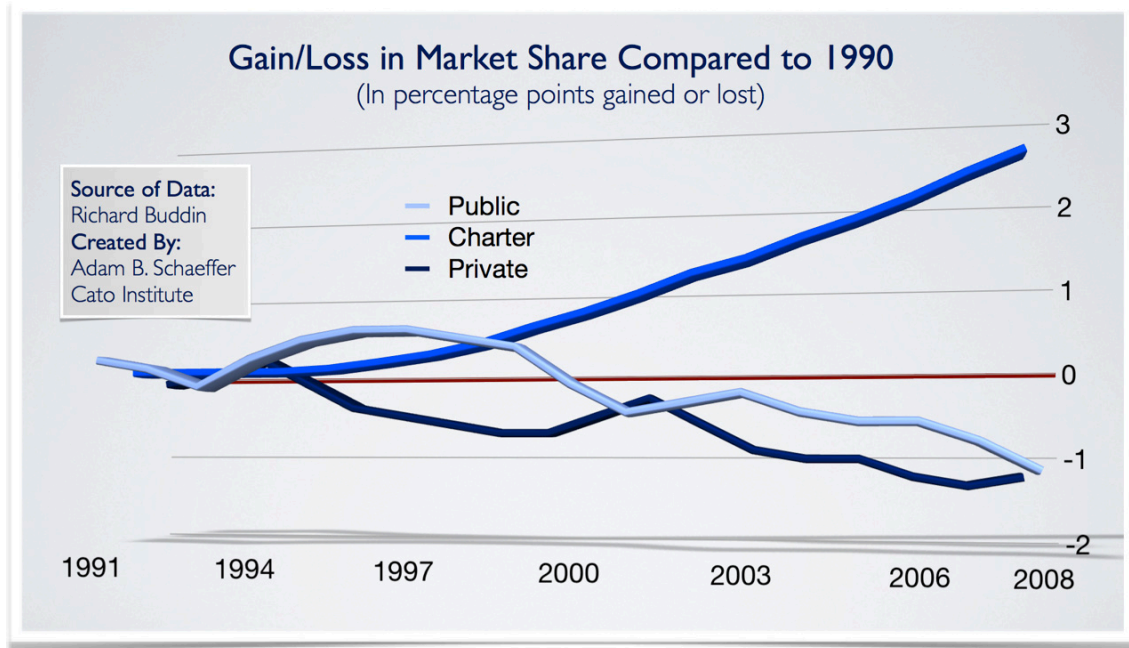
⁵ See National Center for Education Statistics, Digest of Education Statistics 2011, table 191.

⁶ For competitive effects from charter schools, see Ron Zimmer et al., “Charter Schools in Eight States Effects on Achievement, Attainment, Integration, and Competition,” RAND Corporation, 2009. For competitive effects from private school choice, see David Figlio and Cassandra M.D. Hart, “Competitive Effects of Means-Tested School Vouchers,” Northwestern University, January 2012.

Furthermore, the mixed academic performance of charter schools overall, compared with the evidence of generally superior results in the private sector, suggest that the shift of students out of the private sector into public charters may significantly reduce the academic achievement of students overall.⁷

In order to illustrate the gravity of the charter school impact on the private education market, consider their effect on the largest private education provider—Catholic schools. According to the most recent report on the state of Catholic education,⁸ enrollment declined about 11 percent from 2002 to 2007 and an additional 12 percent from 2007 to 2012. The estimates in our report suggest that around 80,000 Catholic students have transferred into charter schools, representing about 27 percent of the total decline in Catholic enrollment between 2002 and 2007.

Figure 3



The data for our analysis run from fiscal year 1990 to 2008, ending just as many large, urban Catholic school systems began a significant series of school closures that continue today. Catholic and many other private schools had been struggling with falling enrollment and financial difficulties, driven in significant part by new competition from heavily subsidized government charter schools.⁹ Private schools also faced additional difficulties more recently, as the economy continued to drag and put increasing pressure on the finances of families and increasing demands for tuition aid from private schools.

Given these facts, it seems likely that our current estimate of the charter impact on enrollment is extremely conservative. Data from the 2008-2012 period should provide a clearer picture of how charter schools have affected private school enrollments and overall competition and diversity in the education market. As it stands, however, it seems clear that government charter schools explain a substantial part of the private sector’s enrollment decline over the last decade.

⁷ See Buddin, “The Impact of Charter Schools on Public and Private School Enrollments,” Cato Institute Policy Analysis no. 707, August 28, 2012; and see Andrew Coulson, “The Other Lottery: Are Philanthropists Backing the Best Charter Schools?,” Policy Analysis no. 677, June 6, 2011.

⁸ For more, see Dale McDonald, “United States Catholic Elementary and Secondary Schools 2011-2012: The Annual Statistical Report on Schools, Enrollment and Staffing,” 2012.

⁹ See Foundations and Donors Interested in Catholic Activities, “As New School Year Approaches Catholic Donors Continue to See Empty Seats, Rising Costs and Charters Taking A Toll On Parochial Schools,” July 23, 2010

Implications for Taxpayers

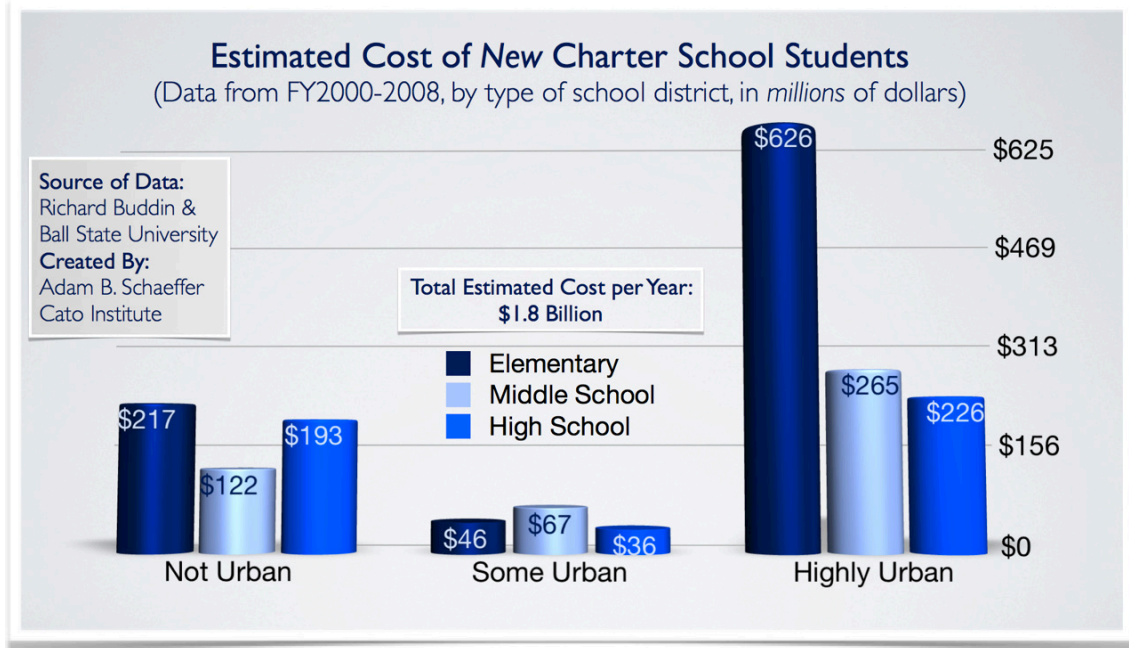
Assessments of the financial impact of private school choice programs typically include the costs of voucher or credit-supported students who would have attended private schools even in the absence of those vouchers or credits (eligible *existing* private school students or kindergarten/first-grade students new to the education system). In order to determine the full fiscal impact of the program, the full cost to the state from these students must be subtracted from any savings gained from students transferring from public to private school.

Our research highlights the need for more rigorous scoring of the financial impact from charter schools, similar to what is standard practice in assessing private school choice programs. We estimate that charter schools took approximately 190,000 students from private schools between 2000 and 2008. These students required an additional \$1.8 billion in annual public expenditures.¹⁰

In weighing the magnitude of that impact it is important to keep in mind that charter schools still accounted for less than 2.5 percent of total K–12 enrollment in 2008. Given the accelerating growth of charter enrollment over time, the total additional tax burden of charter schools is likely substantially higher today and is likely to be very great indeed 5 or 10 years from now.

That impact will be felt particularly strongly at the state level, from which virtually all charter school spending is derived. Policy actors should thus carefully examine these financial trade-offs when considering reform proposals, tallying both the additional burden per student in state funding, the cost of students new to the public system, and the potential savings at the local level.

Figure 4



¹⁰ Based on the average cost per student in charters for FY 06–07, as [calculated](#) in Meagan Batdorff et al., “Charter School Funding: Inequity Persists,” Ball State University, May 2010.

Solution to the Charter School Paradox

Education tax credits can avoid the charter-only reform trap by lightening the burden on families who choose private education options for their children. Education tax credits reduce the amount a taxpayer owes the government for each dollar he spends on his own child's education or on scholarships for other children who need them. For instance, if a business or individual owed the state \$4,000 in taxes and spent \$3,000 on education expenses, they would pay only \$1,000 in taxes.

Donation tax credits have been the most popular credit policy in recent years. In these programs, any charitable organization can file to become a Scholarship-Granting Organization (SGO). These SGOs receive tax credited donations from businesses or individuals and then give scholarships to children to attend private school. An alternative policy, the "personal-use" education tax credit, can be claimed by parents for their own child's education expenses.¹¹

Tax credits for donations to scholarship organizations can help support school choice for lower-income families, and personal-use credits can help middle-class families. In this system, families are empowered to take direct financial control over their child's education, and no taxpayer is compelled to support educational environments which conflict with their judgment or conscience. Schools are therefore directly and immediately accountable to both taxpayers and parents.

Education tax credits can help reduce the unfair advantage that all public schools enjoy—thousands of dollars per child in compelled taxpayer support—and level the playing field for all education providers. The "government option" in education should never be subsidized to the point where private provision of the service becomes untenable for all but the wealthiest and most specialized purposes.¹²

Since the private education marketplace is markedly more efficient, this need not mean a tax-credit benefit equal to the per-child spending in government charter schools (\$9,000). The evidence from states with robust education tax credit programs indicates that even a few thousand dollars per child is sufficient to help level the competitive environment. And while the cost of living varies considerably across the country, an average tax credit benefit around half of what charter schools receive in government funds (\$4,500) seems a reasonable benchmark for revitalizing competition between the public and private sector. That, of course, is only an average and scholarship values can vary based on family need.

Charter schools undeniably offer a major improvement in education to many children. But it is now also clear that charter schools also diminish many high quality and highly efficient private educational options. We must ensure, as we work to expand choice and competition in education, that we do not take one step forward and two steps back. Charter schools will continue to cannibalize the private sector, increase costs, and decrease options and competition if the heavy burden of government school taxes continues to weigh down families struggling to pay out of pocket for private education.

However, if we implement good *private* school choice reform, such as education tax credit programs, then we can continue to expand all options for families and drive greater competition in education services. There are robust, successful and growing education tax credit programs in Georgia, Pennsylvania, Arizona, and Florida (and credit programs in seven additional states) that allow tens of thousands of children to choose freely among public and private schools. These programs hold the key to expanding families' options across the entire education spectrum.

¹¹ For legislative guidelines, see Adam B. Schaeffer, "Legislative Guidelines for Education Tax Credits," <http://wac.0873.edgecastcdn.net/800873/blog/wp-content/uploads/Legislative-Guidelines-for-Education-Tax-Credits-2012-02-07.pdf>. For model legislation see Schaeffer, "The Education Investment Tax Credit," <http://www.cato.org/pdfs/model-tax-credit-legislation-schaeffer-cato.pdf>.

¹² A "government option" in healthcare has been proposed as a way to spur greater competition in the healthcare market. Critics rightly noted that such government-sponsored plans have the unfair advantage of direct government subsidies, which would put private providers at such a great disadvantage that we could expect most or all private providers to go out of business.