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A New Direction for Education Reform

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The following is based on Mr. Reed's speech delivered on May 22, 2001, in Boise, Idaho, at a Hillsdale College seminar on "Education in America: Schools and Strategies that Work."

Reforms intended to improve the quality of American education fall into three categories: those dealing with rules, those involving resources, and those concerned with incentives.

Rules-based reforms include such measures as extending school days and the school year, changing teacher certification and school accreditation requirements, imposing national and state testing, and enacting stricter dress codes. Research has shown that these reforms bring about only marginal improvements. More drastic municipal or state takeovers of failing schools or districts and regulatory schemes such as Outcome-Based Education and Goals 2000 are showing the same disappointing results.

Resource-based reforms involve new textbooks, wiring schools for Internet access, renovating or building new facilities, reducing class sizes, and other measures that require greater financial expenditures. Scholars have studied the

relationship between per-student spending and achievement test scores since the publication of *Equality of Educational Opportunity* (a.k.a. "The Coleman Report") in 1966. Sociologist James Coleman, its author, concluded then that per-pupil spending does not have a significant impact on student achievement scores. Economist Erik Hanushek and others have subsequently replicated Coleman's study and even extended it beyond U.S. borders. The finding of over 30 years of research is clear: More money does not equal better education. There are schools, states, and countries that spend a great deal of money per pupil with poor results, while others spend much less and do much better.

A recent story out of Kansas City, Missouri, illustrates the truth of this as well as any. In 1985, a federal judge directed the school district in that city to devise a "money-is-no-object" educational plan to improve the achievement of black students and encourage desegregation. As a result, Kansas City taxpayers ended up spending more money per pupil annually, on a cost-of-living adjusted basis, than taxpayers in any of the country's 280 largest school districts. They paid for 15 new schools, an Olympic-sized swimming pool with an underwater viewing room,

television and animation studios, a 25-acre wildlife sanctuary, a zoo, a robotics lab, field trips to Mexico and Senegal, and higher teacher salaries. The student-to-teacher ratio was the lowest of any major school district in the nation at 13-to-1. By the time the experiment ended in 1997, costs had mounted to nearly \$2 billion. Yet test scores did not rise, and there was even less student integration than before the spending spree. In May of last year, the Missouri Board of Education officially removed accreditation status from the district for failing to meet even one of 11 performance standards!

In short, we have all but exhausted the rules- and resource-based approaches to education reform, with little to show for our time and money. This leaves us with the incentives-based approach. Merit pay for teachers is one form this can take, but parental choice remains its centerpiece.

Drawbacks to Vouchers

WHEN NOBEL Laureate Milton Friedman first advanced the concept of full educational choice nearly half a century ago, his strategy centered on the idea of vouchers — direct payments from the government to individuals, in the form of checks or redeemable coupons, to enable them to purchase education in the open market. I find it useful to compare this to another well-known type of voucher program: food stamps. When Congress started the latter in the 1960s, it could have set up government grocery stores and required the poor to get their food there. But in the interests of lower costs, higher quality, and allowing recipients the benefit of choice, it created food stamps instead. There are valid moral and economic arguments against food stamps and the subsidy they represent, but let's face it: they beat Soviet-style supermarkets hands down. The same goes for vouchers as opposed to assigned public schools.

Voucher programs are in place in Milwaukee, Cleveland, certain rural communities in Vermont, and in a very limited way in Florida. Parental satisfaction is high and studies are beginning to show that the programs are yielding improvements in student performance. Yet the future of vouchers is cloudy and uncertain. For one thing, legal and constitutional challenges are numerous. For another, the opposition has largely succeeded in stigmatizing vouchers to the point where even supporters of the idea, like President Bush, are afraid to mention it. And for a third, many private schools that

would be eligible for vouchers don't want to touch them for fear of the attached strings. What is more, no voucher initiative has ever secured much more than 30 percent of any popular vote, even as polls show strong majority support for the general concept of educational choice.

In this light, I believe there is a superior option — an option that represents better policy and at the same time is more politically viable. That option is tax credits.

A Better Option: Tax Credits

TAX CREDITS would provide parents with tax relief linked to expenses incurred when they select a private school or an alternative public school. Unlike a tax deduction, which is merely a reduction in taxable income, a tax credit is usually a dollar-for-dollar reduction in taxes owed. It is typically applied against only state and/or federal income taxes, but property tax credits have been proposed as well. Tax credits might be allowed for any or all out-of-pocket educational expenses, though tuition is the most common expense allowed in practice.

The virtue of tax credits is that, unlike vouchers, they do not transfer money from the states, either to schools or to taxpayers. Therefore they carry less threat of government regulation of private schools and less risk of entanglement between church and state. Because vouchers are funded out of the pool of taxpayer funds, some citizens will always want government to regulate how, when, and where they can be used, and legislators and bureaucrats will always be more than happy to oblige. Because of the threat of regulation, some private schools will be leery of vouchers, but over time it will become difficult for them to pass up the opportunity to make schooling less expensive for their students' parents. Finally, because government shackles do follow government shekels, the initial benefit of vouchers — competition between schools — will diminish, because regulation will tend to bring about a return of homogenous mediocrity.

Tax credits avoid all these problems, because they don't represent a claim by anyone on someone else's wallet. No one will get the credit unless he pays tuition or taxes. A credit on someone's taxes represents his own money, period. As education researcher Andrew Coulson writes: "Since all the money involved in these [tax credit] programs is privately and voluntarily spent, issues of church-state entanglement and necessary

public oversight of public spending are rendered moot. Because of the greater resistance to regulation that follows from the absence of state funding under tax-credit programs, those programs do a better job [than vouchers] . . .” Tax credits are superior to vouchers, according to Coulson, because they more effectively ensure the conditions that have historically produced educational excellence: parental choice, direct parental financial responsibility, freedom for educators, competition among schools, financial incentives for educators, and universal access to the education marketplace.

Here’s another way to look at the difference: Vouchers are food stamps for education, a mechanism for redistributing wealth. Tax credits are an accounting device that permits people to keep at least some of their own money that they would otherwise pay for the government-assigned school they are not using. Moreover, if the credit allowed is a modest one — half, for example, of what the government spends per pupil in the public system — then an actual savings for the public system and for all taxpayers is generated every time a child migrates from a public to a private school. Thus it will be impossible for opponents to argue honestly that the tax credit is “draining” funds from the public system.

Political Viability

SOME CHOICE activists prefer vouchers to tax credits because we should not use the tax system as a social engineering tool. But a tax credit for education is fundamentally different from a tax credit for solar panels or electric cars. Unlike solar panels and electric cars, education — and the taxes to pay for it — are mandatory. A tax credit designed to change behavior is just not the same as a tax credit that refunds some of what government charges you for something you don’t want to use. And most people are naturally more sympathetic to tax credits because they are more familiar with them — and with their kissing cousin, tax deductions — having already used them year after year.

When a voucher plan was on the ballot in Michigan in November 2000, yard signs popped up all over the state declaring “No Vouchers!” It’s hard to imagine a similar proliferation of “No Tax Credits!” signs, had that been the choice before voters. Even liberal Democrats support tax credits for preschool and for higher education. It is not surprising, then, that of all

the statewide ballot initiatives for educational choice in the past 30 years, the one that holds the record for securing the greatest percentage of the popular vote is the 1998 Colorado tax credit initiative (about 41 percent). It was poorly crafted, underfunded, and it came out way too late for its proponents to have enough time to inform the public. But it still beat by a good margin the highest popular vote percentage that any voucher plan has ever won.

Admittedly, any tax credit adds a complication (a line or two) to our tax forms, and thereby takes us a step farther from a less complicated flat tax. As a staunch advocate of the latter, I confess to a small strategic compromise here. But taking a broader perspective, tax credits are the best mechanism we’re likely to be able to get for letting people exercise choice in the use of their education dollars while restraining government intrusion.

Nuts and Bolts

UNDER A traditional tax credit plan, only a parent who pays private educational expenses and has a tax liability greater than the amount of the allowable credit will qualify. The problem with this approach is that low-income parents who can’t afford a private school, or who have little or no tax liability, are left out. This deficiency could be partially remedied by making the credit refundable. But that would effectively “voucherize” the tax credit insofar as low-income parents are concerned, and introduce some of the drawbacks to vouchers mentioned above.

A third model for tax credits — one that includes low-income parents while avoiding “voucherization” — was pioneered in Michigan in 1996 by the Mackinac Center and is being replicated in several states nationwide. Called the “Universal Tuition Tax Credit,” it would allow any taxpayer — individual or corporate, parent or grandparent, neighbor or friend — to contribute to the education of any elementary or secondary schoolchild and to qualify for a dollar-for-dollar credit against certain taxes owed. The maximum credit would be equal to half of what the government spends per pupil in the public schools, which is more than enough to cover educational expenses at 90 percent or more of

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The Stakes Are High

Larry P. Arnn
President, Hillsdale College

My position on vouchers is clear. I support them and I oppose them. I always have.

I support vouchers because the people in charge of public schools today confuse education with social engineering. The curriculum at Hillsdale Academy, our K-12 model school, was designed by teachers in our Education Department. Their guiding idea was common sense, as it has been tested and proved in the history of education and of our country. The Academy has a ratio of eleven teachers to one non-teacher, and its headmaster talks regularly with his students' parents. He insists, in fact, on involving parents in their children's education. These things are as they should be. Parents and teachers should run education. Engineers, as engineers, are as incapable of teaching children as parents and teachers are incapable of building bridges.

In contrast, public schools today, which enjoy the liberty that comes with monopoly to spend our tax monies any way they please, choose to spend them on as many non-teachers as teachers. Why do they do that? What do all these non-teachers do? In the best case, they do nothing. In the worst, they treat education like engineering: they draw up plans and devise new ways of teaching, leaving common sense behind.

What did it mean when President Clinton set a goal that every child should read by the fourth grade? Shouldn't kids be reading in the first grade? That's how it used to be, and we know how to do it. But in public education today we have a top-down rule of so-called experts, as if teaching children is like building bridges. We don't need that in education. In fact, if you hire a lot of people to figure out how to teach reading, they'll sure enough devise a new method, like "whole language," to replace the tried-and-true. As a result a lot of kids won't learn to read. And the response won't be to go back to what worked, but to apply the new method more stringently, to lengthen the school year, to cancel music programs, etc.

Teachers unions, one of the three or four most powerful forces in our politics today, enjoy support among their members because they protect teachers from the heavy bureaucracy under

which they suffer. At the same time, those running the unions are closely aligned with that bureaucracy, and strongly support the status quo that teachers despise. It's a clever arrangement.

These experts and these unions are unaccountable, yet they are in charge of the education of the great majority of our kids. That's why I'm for vouchers. But I'm also against them.

I'm against vouchers because the regulatory system of government we live under today, unlike the limited government of the Constitution, increasingly treats private things as public. Consider the extent to which it controls how we dispose of our land and run our businesses. It's only a short step from that to controlling how we raise and educate our children.

I know of three kinds of demands that are currently being levied on colleges and universities as a result of their financial entanglement with government. The first is stupid. It requires a lot of unnecessary paperwork that wastes valuable time and money. The second is evil. It requires counting students and faculty by race. The third is destructive of the conditions of free citizenship. It requires that "global and multicultural perspectives" (as opposed to Hillsdale College's emphasis on Western Civilization) become the focus of curricula. The government is organized to manage private primary and secondary schools the same way. Hillsdale Academy would be wary of accepting vouchers for the same reason that Hillsdale College students refuse to accept federal grants and loans. So I'm against vouchers, as well as for them.

Larry Reed's idea of tax credits is an improvement on vouchers. It's not perfect, as I'm sure he agrees, because it doesn't return public schools to local jurisdiction, return primary control of schools to parents, and relieve teachers of administrative oppression and union manipulation. But I'm more for tax credits than I am for vouchers, and less against them.

In *The Abolition of Man*, C.S. Lewis points out the consequence of trying to use education to remake society: human beings don't reform, they disappear, along with their freedom. That's what's at stake in the fight over education. We must do what we can to curb the power of the engineers in the short term. Ultimately we must overturn them. ▲

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