School Finance in Texas
New Solutions to Old Problems

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INTRODUCTION

There is widespread dissatisfaction with the funding of Texas schools. Some think it is on average inadequate, as increasing number of districts reach the maximum statutory limit ($1.50 per $100 of valuation) for property taxation. A large number of people find the "Robin Hood" system fatally flawed, and disaffection with it is growing. And many Texans share the national concern that our schools are getting relatively little in the way of improved academic performance for substantial increased expenditures on education.

In short, these are difficult times for policymakers and government officials who are involved with state finances and with education. Yet creative solutions to problems often come out of adversity - solutions not possible in ordinary times. As Plato said more than 2,400 years ago, "necessity is the mother of invention." The fiscal environment might permit a move to an improved method of financing education that combines court-mandated concerns for educational equity with a desire for greater efficiency and accountability in the delivery of education services. This study first evaluates perceptions about the Texas system of educational finance by putting them in a historical and geographic perspective, then offers an alternative funding option that the state might wish to consider as it wrestles with these issues.

TEXAS EDUCATIONAL FINANCE IN HISTORICAL AND GEOGRAPHIC PERSPECTIVE

In evaluating the general adequacy of Texas funding of primary and secondary education, it is useful to put things in perspective, looking at how spending levels have changed over time, and at how Texas compares with other areas, particularly other American states.

Putting the Sides Together

As a starting point, Table 1 looks at changes over time in spending on public schools in Texas. From 1968 to 2001, total spending in current dollars increased nearly 20 fold, and on a per pupil basis, current outlays (roughly what is called "maintenance and operations" or "M and O" in the lingo of Texas educational finance) increased 12 fold. On a per capita basis (per Texan), spending in nominal terms rose more than 10 times.

Table 1.

Changes in Public School Spending in Texas, 1968-2001

Year	Total Expenditures+	Current Outlays+	Spending Per Pupil	Rank (of 50 states)	Spending Per Capita
1968	$ 1,738	$ 1,408	$ 581	43	$ 155
1975	2,698	2,244	894	43	224
1981	6,136	5,109	1,955	39	428
1986	11,943	10,043	3,384	26	730
1991	15,380	13,444	4,238	40	905
1996	21,958	19,330	5,593	32	1,168
2001	33,415	26,793	6,979	29	1,602

+In millions of dollars. Source: *Statistical Abstract of the United States,* various years.

The extraordinary growth in the gross expenditure numbers in part reflects population and enrollment growth (which is taken into account in the spending per pupil and spending per capita measures). Also, there was general price inflation during this one-third of a century, with consumer prices more than quadrupling. Accordingly, it is appropriate to convert numbers into dollars of constant purchasing power.

Table 2 converts all dollar numbers to dollars of 2002 purchasing power using the most used price index, the Consumer Price Index (CPI-U). Even correcting for inflation, real total public education spending nearly quintupled from 1968 to 2001. From 1975 to 2001, that is a compounded annual rate of real spending increase of 5.3 percent a year. Moreover, for technical reasons beyond the scope of this paper, there is nearly unanimous agreement among economists that the CPI overstates inflation, meaning that the true growth in spending in inflation-adjusted terms was actually *greater* than 5.3 percent annually, probably in excess of six percent.[1]

Table 2.

Inflation-Adjusted Increases in Texas Education Spending, 1968-2001

Year	Total Expenditures+	Current Outlays+	Spending Per Pupil	Spending Per Capita
1968	$ 7,940.1	$ 6,432.5	$2,654.31	$ 708.12
1975	9,021.8	7,503.6	2,989.42	749.03
1981	12,143.7	10,111.2	3,869.14	847.05
1986	19,603.5	16,484.8	5,554.58	1,198.24
1991	20,314.7	17,757.5	5,597.77	1,195.37
1996	25,176.8	22,163.6	6,412.88	1,339.22
2001	33,943.3	27,216.6	7,089.34	1,627.33

+ In millions of 2002 dollars. Source: 2003 *Economic Report of the President; Statistical Abstract of the U.S.*

Putting the Sides Together

Correcting for population or enrollment growth, the increases in spending are still impressive. In 2001, real spending per pupil or per capita was more than double what it was in 1975. That implies a growth rate approaching three percent a year in real spending per pupil or per capita. If "adequacy" of educational spending is partly a reflection of current spending related to that in the past, it would be hard to argue that Texas currently is "inadequately" financing its public schools.[2]

Even so, it might be argued that funding is "inadequate" if one or the other of two conditions were present. If it can be demonstrated that there have been marked qualitative improvements in education (as demonstrated, for example, by materially improved academic performance), it could be argued that incremental education funds are a good "investment," improving the skill levels of Texas youth. In that case, spending could be perceived as "inadequate," since still greater spending might materially improve learning and potential earnings capacity of current students even more than has occurred. Second, incomes are rising over time, and with increased affluence Texans may *want* to spend more on their schools. If Texas's spending on schools is increasing markedly less than is the case in other states, or if the financial burden of schools on Texans is falling, that might be considered evidence supporting the second proposition.

Regarding student academic achievement, there is some evidence of modest improvement in the 1990s, with test scores in Texas often rising, and rising more than the national average. For example, on the National Assessment of Educational Progress (NAEP) tests in mathematics administered at the eighth grade level, the average score in Texas rose 17 points, from 258 to 275, from 1990 to 2000, greater than the national increase of 12 points (from 262 to 274). Texas went from slightly below to slightly above the national average.[3] One would suspect that then Governor, and now President, George W. Bush would attribute the improvement to changes in accountability standards more than increased spending.

Some other educational performance data, however, are less impressive. For example, the average score by college bound high school seniors on the verbal portion of the Scholastic Aptitude Test (SAT) fell slightly in Texas from 1987-88 to 2000-01, and was 11 points below the national average in 1987-88 but 13 points below in 2000-01. Scores rose somewhat in Texas on the math part of the SAT, but by less than the national average. Nationally, the composite SAT score rose 14 points, but by only 8 points in Texas. In 2000-01, the average composite score in Texas, 992, was a healthy 28 points below the national average.[4]

Summarizing all of the evidence, it is probably fair to say that the typical Texas student today is learning modestly more than in 1990. Looking longer term, however, consistent state data are less readily available, but given national trends showing no improvement and most likely some decline in the period 1960 to 1990, it is unlikely that the Texan student in 2003 on average is learning meaningfully more than her or his parents did in, say, 1970. Thus, the notion that further added spending on education should improve learning finds at best very weak support from the historical data. Moreover, more detailed

scientific research on the spending-learning relationship shows that educational resources generally have only a very weak impact on student achievement.[5]

As to the educational effort Texas is making relative to other states or even relative to the incomes of Texans, the evidence again suggests that the Lone Star State is supporting schools rather well financially. As Table 1 indicates, a generation ago, spending per pupil in Texas was in the bottom one-third of states. As late as 1975, only seven states spent less per pupil than Texas. By 2001, however, over 20 states spent less per pupil than the Lone Star State, and Texas's per pupil spending was within $300 of that of the median (typical) state.[6] While spending per pupil was 4.1 percent below the national median and nearly 8.7 percent below the national mean, spending *per capita* was markedly *above* those indicators (e.g., 15 percent above the national mean).

How could spending per pupil be below the average, but spending per person be markedly above it? The answer is simple: *a far larger percent of the population of Texas attends public school than the national average*. In 2000, well over 19 of every 100 Texans attended public school, compared with fewer than 17 for the nation as a whole – and less than 15 in rival Sun Belt state Florida. Even California, a magnet to large numbers of young immigrant children, had a lower proportion of its population in school than did Texas.

Because Texas has a relatively high ratio of school children to population, its expenditures for public education as a proportion of the state's income are markedly above the national average and that of other large states. In 2001 Texans paid nearly $55 of every $1000 of personal income in public school spending, compared with a national average of $45 and figures in other populous states ranging from $39 in Florida to $49 in New York.

In short, Texas spends a far larger part of its income on its public schools than do most states, and despite having very large enrollments in relation to its population base, it still manages to spend an amount fairly close to the national norm per pupil. Its spending has risen markedly over time, far more than educational achievement levels. If we measured spending by "dollars of constant purchasing power spent per unit of knowledge acquired by each student," we would find the ratio rising, which could be interpreted as a move towards more adequate funding – or, more conventionally, as a move in the direction of less efficiency in the use of taxpayer funds.[7] Clearly, however, the case that the level of spending on schools is "inadequate" in Texas is very weak indeed.

SCHOOL FINANCIAL NEEDS, THE BUDGET CRISIS AND ECONOMIC GROWTH

Texans have been told that they have a budget problem. Some have taken this information, plus their perceptions of the need for educational funding, to advocate new taxation at the state level, usually a state income tax. The evidence above does not support the view that large increases in education spending are an obvious imperative, and, indeed, likely would not have dramatic effects on student performance. Given that

per pupil spending has been rising far faster than per pupil learning, there even is a respectable argument to *reduce* funding to raise productivity (learning per dollar). Yet there is another compelling reason to restrain spending – it is highly desirable to retain a relatively low tax environment and to avoid a state income tax at all costs.

There is an oft-observed negative relationship between taxation and economic growth – and a still stronger relationship between income taxation and economic growth. Resources migrate out of states with income taxes to the nine states, including Texas, without them. The institution of an income tax would lead to a significant decline in the growth of personal income in Texas, which, in turn, reduces the standard of living of the citizenry.[8]

In the long run, implementation of an income tax may even erode the ability of states to fund schools. The Sun Belt state most similar to Texas is probably California – both are populous states with vast areas, differing climates, a vibrant high tech community, and important tourist attractions. California has one of the most progressive income taxes in the nation, and led the way in promoting "school equity."[9] By contrast, Texas has no income tax.

Over time, spending for schools has risen faster in Texas, with its significantly higher rate of economic growth, than in California. As a consequence, by 2001, Texans spent about 18 percent more per person on public school than Californians, and even spent more per capita. High taxation sapped the ability of California to generate substantial income growth – and thus its school spending has lagged behind states like Texas. More importantly, a glance of the descriptive statistics on academic achievement of students in the non-income tax states relative to the rest of the nation shows no evidence that the non-income tax states have lower student learning. If anything, the evidence leans slightly in the opposite direction. For example, six of nine non-income tax states had students score higher on the composite SAT test in 2000 than the national average, some substantially higher, while *no* non-income tax state scored dramatically below that average. While not definitive proof, it would appear from that that the notion that "we need an income tax to help our children's education" is without any foundation.

EDUCATIONAL SPENDING AND EQUITY: A STUDENT-CENTERED APPROACH

The facts above suggest that a massive increase in the magnitude of state funding is not needed. Texas is not a low spending state on schools. Yet there is another dimension of educational funding, relating more to the distribution of funds rather than their overall magnitude. Texas, prodded by the courts, has moved aggressively to try to equalize funding between school districts.[10] Well over 100 relatively prosperous districts are "taxed" under the Robin Hood formula, with property tax monies redistributed to poorer districts. This has caused a great deal of dissension. Owners of property in affluent districts are resentful over the fact that part of their tax payments do not go for funding their own local schools. Others may argue that Robin Hood has not solved all the

problems of inequity arising from educational disadvantages from differential socioeconomic status.

A student-centered, market-based alternative to Robin Hood exists – a "progressive" voucher scheme. First suggested by former Clinton Administration Labor Department Secretary Robert Reich, a progressive voucher would work in the following fashion.[11] Monies now distributed to school districts would instead be distributed to students (and their parents), with the proviso that the funds can only be used for educational purposes.[12] Public schools would charge tuition fees for their services. The public school tuition fees initially would approximately equal per pupil state and local government funding for current expenditure (M and O), but ultimately could be adjusted upwards or downwards. Private schools likewise would charge tuition as they do now. Parents would direct the expenditure of funds. Local school district property taxes would be abolished, replaced with a statewide property tax assessed to raise revenues equal to what current statewide school tax revenues are based on current local property tax rates, which vary over the more than 1,000 school districts in the Lone Star State. If such a statewide property tax were perceived as unconstitutional, the voucher program could be devised to replace only state-provided grants to school districts, leaving local funding intact (with or without the Robin Hood provisions).

An issue is whether, given Blaine amendments to the Texas Constitution, funds could be used to attend schools with a religious orientation. The federal constitutional issue has been clearly resolved by the United States Supreme Court in *Zelman v. Simmons-Harris* in favor of vouchers. Whether state "Blaine" amendments such as exist in Texas meet *federal* constitutional muster is yet to be definitively determined. Putting the legal issues aside, ideally voucher use at religious schools should be permitted, to maximize choice for participants.[13] However, the exclusion of religious schools is not an insurmountable problem. Perhaps statutory language could be adopted that would allow such funding pending court action to the contrary. A second issue is whether funds could be used to support home schooling, including payments to vendors providing distance-learning services. In this author's judgment, such payments would be highly appropriate, both on equity grounds and on the basis that evidence suggests that home-schooled children on average perform well academically.

One might argue that nothing is more "equitable" than giving every student in the state a voucher for the same amount. However, it will be argued by some that children from lower income families need more assistance, to counteract the negative out-of-school effects of living in a low income environment. In support of this perspective, an additional element of equity could be introduced by varying the size of the voucher (scholarship) given to students. The size of the voucher would vary inversely with family income. Suppose, for illustration purposes, that the voucher encompasses both state and local funding. Suppose further that current non-federally finance spending per pupil for M and O equals $6,500 for all students, with the average being $5,000 for students in grades K-8, $7,000 for high school students, and $8,000 for those in special education.

Putting the Sides Together

The size of each student scholarship would be determined by completing a very simple form. Households with adjusted gross income less than $25,000 would receive the maximum voucher, with an additional $2,500 income exemption for each dependent claimed on their federal income tax form. Thus a typical family of four would receive a full voucher if its income were $35,000 or less. The voucher would be reduced by one-half of one percent of full value for each $1,000 (or fraction thereof) of income in excess of the excluded amount. Thus, for a family of four, the voucher would be reduced to zero at $235,000 in income. A family of four with $75,000 income, for example, would have $35,000 of income excluded from the base used to calculate the voucher reduction, leaving $40,000, meaning a 20 percent reduction in the voucher from full value. Thus low income persons would receive a full voucher, middle income persons a voucher that would equal most of current state and local government subsidies to the schools, and very high income persons would receive little or no voucher.

Take a family with $50,000 in adjusted gross income and two children in school, one in sixth grade and one in tenth grade. The family's voucher would be reduced by 7.5 percent of full value under the formula ($50,000 income minus $25,000 basic exemption minus $10,000 dependency allowance equals $15,000, with a reduction of one-half of one percent for each $1,000). If a full elementary school voucher were $5,000 and high school voucher $7,000, the family would receive a total of $4,625 for the elementary student and $6,475 for the high school student, for a total of $11,100. It would then use these funds to pay tuition charges at any acceptable school.

Obviously, the formula can be adjusted any way desired. It might be desirable, for example, to raise the threshold beyond which voucher amounts are reduced. It might be desirable to phase out the voucher faster (or slower) as income rises. Perhaps a voucher exceeding 100 percent of average per pupil current spending might be desirable for low income families, allowing them to buy "enrichment" programs for their children, such as weekend or summer programs at a commercial firm such as Sylvan Learning Centers.

The progressive voucher concept is based on two fundamental premises. First, education is first and foremost a parental responsibility, and parents should be empowered to make educational decisions for their children with minimal interference from the state. Second, while the state has a role to play to assure that the poor and disadvantaged have full educational access, there is nothing that requires that all expenditures on education be government-financed.

Special education needs vary dramatically from student to student, so giving every student a voucher equal to the average cost of educating special ed students would lead to inadequate amounts for some students and excessive amount for others. Thus it is likely with respect to special education that the amount of the voucher would have to vary according to the needs of individuals involved.

ADVANTAGES OF THE "PROGRESSIVE VOUCHER" APPROACH

In a market economy, economists often speak of consumer sovereignty. The "customer is always right." Our economic system works because producers cannot survive unless they try to satisfy customers (thus increasing revenues), while increasing productivity by cutting costs (thus increasing profits). The market provides incentives to offer high quality services in an efficient manner. The system is based on market-determined prices, choice, and competition. None of these elements plays a major role, however, in contemporary Texas public education. This proposal would change that.

A basic assumption involved in giving state subsidies to the consumers of educational services rather than to the producers is that the consumer has the ability to make wise schooling decisions. It is presumed that parents wish the best for their children, and that they will accordingly choose schools for their children that advance the interests of the child. Put bluntly, no one wants to help a child more than his or her parents – the parents are interested in the welfare of the child, not the welfare of the institution providing education for the child. Whereas school officials often are trying to maximize the welfare of themselves and fellow employees, parents are more likely to focus their interest on the welfare of their children.[14]

By empowering parents, the voucher approach introduces increased competition into the school setting. There is considerable evidence that competition improves learning, not only by moving students away from low performing schools, but by increasing performance levels in those schools.[15] Where used, vouchers have made for more satisfied customers.[16] The learning of minority students using vouchers has shown improvement, lowering the differences between the "haves" and the "have-nots" – the intellectual origins of most attempts to introduce "equity" into education.[17] By introducing market-based incentives, a voucher approach should lead to greater efficiency and reverse the trend towards falling educational productivity.[18] Districts that do poorly face the loss of revenues – those who do well, face prosperity and enhanced demand for their services. The system introduces a non-bureaucratic but highly effective form of accountability.

Moreover, the proposal deals with several specific problems facing Texas. By putting some of the burden of educational costs on parents (especially in affluent households), the proposal should ease the state's budget problem. While the amount of savings varies with the funding formula used, savings in excess of one billion dollars annually can be easily attained. The inter-school district equity debates largely become irrelevant, ending urban, suburban and rural schools fighting over the appropriate funding formula. Property tax burdens are equalized state-wide, at least with respect to school district M and O. Students in poorer areas are given the means to access alternative schools, while residents in wealthier school districts see their property taxes capped, typically at below current levels.

PROBLEMS WITH PROGRESSIVE VOUCHERS

There are a few transitional problems. The vouchers need to be carefully structured to avoid federal income tax liability for recipients, and perhaps some federal legislation explicitly excluding the program from taxation would have to be passed. Some students currently receiving no state assistance would obtain a windfall – namely students currently attending private schools. While to this author that improves horizontal equity (treating citizens in similar economic circumstance the same), it poses added expense to the state. However, that expense should be more than offset by the reduction in costs to the state associated with reduced support for high income students. Moreover, this problem could be further reduced by prohibiting students currently in private schools from participating in the voucher scheme for some time period, a move that reduces expenditures but raises some equity concerns.

Another problem that might exist is that there might be an inability for private schools in some areas to fully meet the demands of students for admission, although in time it would be expected new schools would arise to meet student needs.[19] Some public schools might face sharp decline in financial support, necessitating transfer of staff to other schools or, possibly, even layoffs. If this happens, however, it is because the public schools are not attracting students – they are perceived to be inferior to other schools. Why *shouldn't* such schools and their employees face adverse consequences?

Many rural areas are relatively lightly populated, and it is not plausible to contemplate a variety of schools competing for such students. While true, the situation under a voucher system regarding school competition would be no worse than under the current arrangements. Moreover, the alternative of distance-learning based home schooling suggests that even relative isolated schools will have some financial incentives to keep their students happy.

Private schools have fared well precisely because they are community-centered, making their own decisions free of inefficient bureaucratic constraints imposed in district central offices, in Austin, or in Washington.[20] It is important, therefore, that state education authorities be prohibited from imposing new regulations and constraints on private schools – teacher certification rules, class size regulations, minimum salary requirements, etc.[21]

Organized special interest groups would fiercely fight a proposal such as suggested above. They would argue that vouchers "will destroy public schools." They would argue that educational deficiencies are best met by increasing funding to public schools, despite a mountain of scholarly evidence showing little relation between spending and student learning. They would argue that public schools bring together people from all walks of life, and that public schools promote "democratization."

Most of these arguments are specious. If vouchers destroy public schools, it would only be because parents do not wish to send their kids to public schools. The notion that promoting private education is "elitist" does not square with evidence that enrollment in

existing private schools is rather diverse in terms of demographic attributes. Indeed, one could argue that under the current system that disadvantaged students are forced into non-diverse educational ghettos (inter city schools), and that a progressive scholarship approach would likely lead to more of these students attending other schools, both public and private, promoting educational (and arguably ethnic and racial) diversity.

CONCLUSIONS

Texas has greatly expanded its financial commitment to public education over the years. Texans devote a larger proportion of their income to public education than is true in a typical state. Spending per pupil is modestly below the national average, which is not surprising given the fact that the burden of education is far higher in Texas than the typical state because of an unusually large school aged population. Also, per capita income in Texas is below the national average as well. While student performance in Texas may have improved somewhat in the 1990s, there is little evidence that increased spending on schools has much impact on student learning. Certainly, large increases in state funding for public education financed out of new taxes would not achieve significant positive educational results, but would retard the growth of incomes, output, population and jobs in Texas. This is particularly true if an income tax were imposed.

While Texas schools meet standards of adequacy, there is widespread dissatisfaction with the Robin Hood system of achieving equity. An alternative approach that would have several advantages over the current approach would be to attempt to achieve equity at the student, not school district level, by giving scholarships (vouchers) to students. To enhance equity and also contain the costs to the state, scholarships could vary inversely with the incomes of the families of recipients. Public schools would then charge tuition, but scholarship holders could choose between private or public school options. There is considerable national evidence to believe this would increase both student performance and reduce the gaps between groups in the population. Moreover, if structured appropriately, it could save significant amounts of tax dollars. An economic downturn gives incentives to "reinvent" government by considering new paradigms. Nowhere is that more needed than in public education.

ENDNOTES

[1] See Michael J. Boskin, Ellen R. Dulberger, Robert J. Gordon, Zvi Griliches, and Dale W. Jorgenson, "Consumer Prices, the Consumer Price Index, and the Cost of Living," *Journal of Economic Perspectives,* Winter 1998. See also David E. Lebow and Jeremy B. Rudd, "Measurement Error in the Consumer Price Index: Where Do We Stand?" *Journal of Economic Literature,* March 2003, and three papers in a special symposium on the Consumer Price Index in the Winter 2003 issue of the *Journal of Economic Perspectives.* Lebow and Rudd estimate current overstatement of inflation to be about 0.9 percentage points per year, but suggest that the true figure based on a confidence interval may be between 0.3 and 1.4 points.

[2] Some states have tried to determine what "adequate" educational funding is, typically by hiring consultants who look at average spending levels in successful school districts, and defining adequacy accordingly. This approach can be attacked on numerous grounds. First, it assumes that the current system

of educational delivery is acceptable, maybe even optimal. The evidence on falling educational productivity makes that an extremely dubious assumption. Second, it presumes that incremental educational resources have positive learning effects, which is hotly debatable and generally rejected by the most respected academic researchers. Third, this approach usually fails to adequately control for out-of-school influences on learning (e.g., parental involvement). Fourth, the "experts" doing the assessments of adequacy are often closely tied to the educational establishment or to special interest groups, such as teacher unions, so their objectivity might be questioned.

[3] See National Center for Educational Statistics, *Digest of Educational Statistics, 2001* (Washington, D.C.: Government Printing Office, 2002), chapter 2 for more detailed test score data.

[4] Some caution is needed here, however, as the proportion of Texas high school seniors taking the test was somewhat higher than the national average, biasing the Texas scores downward relative to the national average.

[5] The scholar with the best command of the literature is Eric Hanushek. See Eric Hanushek, ed., *The Economics of Schooling and School Quality* (London: Edgar Elger, 2003), 2 vols., especially volume two on *Efficiency, Competition and Policy.* See also his "Assessing the Effects of School Resources on Student Performance: An Update, *Educational Evaluation and Policy Analysis*, September 1997, or his "The Failure of Input-based Schooling Policies," *Economic Journal*, February 2003.

[6] Median spending of the 50 states of $7,278; Texas's spending was $6,979. The mean spending for the nation as a whole was $7,640. The mean exceeded the median because of extremely high spending in several highly populated eastern states, such as New York and New Jersey.

[7] If it is approximately true that the average Texas student is learning about the same amount as his parents did in, say, 1970, but that the cost of educating the student has doubled after allowing for inflation, than "learning per dollar" today is about 50 percent of what it was in 1970.

[8] I have elaborated on this point in a series of studies for the Texas Public Policy Foundation. See "Taxing Texans" for more information on the deleterious effects of income taxes, see also my *Taxes and Economic Growth* (Cederburg, WI: Taxpayers Network, Inc, September 2001), and my *Migration and Economic Growth*, also for the same organization, published in March 2003.

[9] The modern move to equalize spending between school districts was pioneered by the *Serano v. Priest* lawsuit in California more than 30 years ago (1971).

[10] Whether the school equalization efforts in Texas or elsewhere make good public policy is extremely debatable. For a good article demonstrating some of the unintended negative consequences of school equity policies, see Caroline Hoxby, "All School Finance Equalizations Are Not Created Equal," *Quarterly Journal of Economics*, November 2001.

[11] See Robert B. Reich, "The Case for Progressive Vouchers," *Wall Street Journal*, September 6, 2000.

[12] There are a variety of ways that can assure that scholarship funds provided individuals in fact go for school costs. One way would be to create Individual Education Accounts (IEAs) for each individual student. Deductions from the account for educational purposes can only be made to vendors (mostly schools but perhaps also the providers of educational materials) that are state approved. State approval, however, would be liberally granted to bona fide schools and organizations involved in providing educational services.

[13] The evidence of superior performance in faith-based schools is another argument for permitting students to select religious schools, and adds ammunition for those wishing to test the constitutionality of the Blaine amendment to the Texas Constitution. See James S. Coleman, Thomas Hoffer, and Sally Kilgore, *High*

School Achievement: Public and Private Schools Compared (New York: Basic Books, 1982), and Paul E. Peterson and Herbert J. Walberg, "Catholic Schools Excel," *Social Reform News*, July 2002.

[14] This is not to deny, however, that some parents are abusive to their children, and that most school officials genuinely want to improve the education of their charges. Still, parents are more likely to put greater emphasis on maximizing the welfare of their children than strangers, and also have a better sense of the values that they want inculcated into their children.

[15] On the benefits of school competition, probably Caroline Hoxby has done the best work. See her "Does Competition Among Public Schools Benefit Students and Taxpayers?" *American Economic Review*, December 2000.

[16] On the benefits of vouchers, the work of Paul E. Peterson and associates is particularly outstanding. Peterson and his Harvard colleagues have evaluated voucher experiments in Milwaukee, Cleveland, Washington, D.C. (privately funded), and other cities. See Paul E. Peterson and William G. Howell, *The Education Gap: Vouchers and Urban Schools* (Washington, D.C.: Brookings Institution Press, 2002), or Paul E. Peterson, William G. Howell, Patrick J. Wolf, and David E. Campbell, "School Vouchers and Academic Performance: Results from Three Randomized Field Trials," *Journal of Policy Analysis and Measurement*, Spring 2002.

[17] See Paul E. Peterson and William G. Howell, "Voucher Programs and the Effect of Ethnicity on Test Scores," in *Bridging the Achievement Gap* (Washington, D.C.: Brookings Institution Press, 2003), and Paul E. Peterson and Jay P. Greene, "Vouchers and Central-City Schools," in Christopher Foreman, Jr., ed., *The African American Predicament* (Washington, D.C.: Brookings Institution Press, 1999).

[18] Hoxby and Hanushek have extensively examined the impact of competition on school productivity. See Hoxby, "Does Competition Among Public Schools Benefit Students and Taxpayers?" *American Economic Review,* December 2000. On the productivity collapse more generally, see Eric Hanushek, "The Productivity Collapse in Schools," in William J. Fowler, Jr., ed., *Developments in School Finance, 1996* (Washington, D.C.: National Center for Educational Statistics, 1997). For a discussion of how market-based competition can promote educational efficiency and improved productivity, see Richard Vedder, *Can Teachers Own Their Own Schools*? (Oakland, CA: Independent Institute, 2000).

[19] Even in this circumstance, however, students are no worse off than at present – they still have the option of attending existing public schools. Moreover, private schools would in the short run probably raise tuition rates to capitalize on rising demand, which, in turn, would stimulate the formation of new private schools.

[20] The work of the late James Coleman and associates cited above is particularly good here. See also John Chubb and Terry Moe, *Politics, Markets, and America's Schools* (Washington, D.C.: Brookings Institution, 1990).

[21] It is this fear that causes libertarians to be divided on the issue of school vouchers. Some, most notably Milton Friedman, who invented the concept in the 1950s, feel that the good of vouchers far outweigh any potential problems with state regulation of private schools, but other libertarians sharply disagree.