TEXAS PUBLIC POLICY FOUNDATION

PolicyPerspective

June 2016

Center for Education Freedom

Competition: For the Children

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Studies show that increasing school choice—defined as allowing students to attend a school other than the public school dictated by their zip code—results in higher test scores *for students remaining in traditional public schools* (Hoxby 2002) as well as better high school graduation rates (Wolf 2010). Thus, key benefits of school choice accrue to all students, rather than only those exercising choice. This should come as no surprise because school choice creates competition and competition naturally leads to greater efforts to improve outcomes and efficiencies in an effort to attract customers.

Key Points

- As the share of students able to choose their school rises, so too do test scores—in traditional public schools.
- Once more than 6 percent of students are enrolled in a choice program, test scores accelerate.
- A full school choice program would result in Texas students eventually achieving the levels of their counterparts in Korea and Japan in math.
- A comprehensive school choice plan would result in a larger Texas economy: 5 percent greater GDP after 30 years and 10 percent after 42.
- School choice increases graduation rates for students in a school choice program.

Research Shows Multiple Benefits from School Choice

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There is, however, another important benefit to school choice beyond a better education for children: it leads to greater economic growth due to a higher high school graduation rate and improved cognitive abilities among new entrants into the workforce.

Background

H-E-B is a Texas institution. Founded 110 years ago, the grocery chain has grown to more than $21 billion in revenue, 80,000 employees and close to 400 locations. H-E-B offers a wide range of competitively-priced products and services specifically tailored to local demand, doing such a good job that they've captured some 55 percent of Texas' grocery market. Importantly, H-E-B stores vary neighborhood-to-neighborhood, depending on local factors and competition.

But, imagine if the Texas Legislature passed a protectionist law granting H-E-B a monopoly. As Texas' sole provider of groceries, H-E-B might have $40 billion in sales, 160,000 employees and 1,000 stores—but, their prices would be high, quality low, and selection poor as consumers would have no choice but to shop there and H-E-B would have little reason to try to improve.

Texas spends some $61 billion to operate about 8,500 K-12 public schools (Texas Education Agency 2014) with 334,612 teachers (National Education Association 2015) serving more than 5 million students. But, unlike H-E-B, traditional public schools in Texas verge on monopoly control over the market, with about 86 percent of students attending traditional public schools in 2015 and the remaining 14 percent roughly split in thirds between home schooling, public charter schools, and private schools.

Most Texans likely agree that both a reliable supply of affordable groceries and universal high quality education are important. But the former benefits from free market competition while the latter remains, in effect, a government-enforced monopoly.

continued

How Competition Benefits Students, Improves Schools, and Supercharges the Economy

In 2015, according to the Texas Education Agency, 1,532 public schools were failing their students, up from 1,199 the year before and 892 in 2013 (*Dallas Morning News* 2015).

The traditional public school system, just like grocery store chains, responds positively to competition. Studies show that as more students opt for alternatives to public schools, the public school system reacts by improving educational quality, becoming more efficient, broadening choice, and being more customer-centric. This leads to better test scores and a higher graduation rate for *the students in traditional public schools* as those schools up their game to maintain market share (Hoxby 2002; Wolf 2010).

Critically, the benefits of competition to students enrolled at traditional public schools only realizes its full potential when there is a financial implication to losing students to public charter schools, inter-district transfers or private schools. Further, traditional schools see greater improvement in their performance when more than 6 percent of students receive public funds to underwrite their attendance in schools other than the local school they would otherwise be compelled to attend. This makes sense in the same way that H-E-B would not see a reason to improve if it received billions of dollars in subsidies from state taxpayers while a few wealthy shoppers shopped at Whole Foods and a small number of working poor got their groceries at church-run food banks.

A real life example of this is happening in Central Texas. The *Austin American-Statesman* reported on December 12 and December 15, 2015, that four local school districts (Austin, Georgetown, Hays, and Round Rock) have begun responding to competition from public charter schools (Austin American-Statesman 2015).

In the face of growing enrollments in local charter schools, the Austin Independent School District (AISD) launched an early college high school in 2011 as well as two single-gender schools, one for boys and one for girls, which began operations in the 2014-15 school year (Austin Independent School District 2013).

But, enrollments continued to decline, with AISD shrinking by 3,050 students over three years out of a student body of 83,688—a loss of 3.6 percent. In the meantime, greater-Austin charter school enrollment quadrupled over seven years to more than 14,000 students in 2014, or about 6 to 8 percent of regional public school enrollment—a level that should begin to generate competitive pressure on AISD to improve educational quality.[a]

To further try to stem the loss of students, AISD authorized $800,000 in marketing for billboards, bus ads, and other outreach efforts to increase student numbers in the face of rising competition from private and charter schools. Thus, competition forced AISD to react.

In the Round Rock ISD, with a student population of 46,560, the district leadership also started a marketing effort, "After realizing that hundreds of students had left the district for a high performing charter school…" Round Rock is improving its offering by starting a visual and performing arts academy as well as an early college high school. In addition, a world language academy, a second early college high school, and a health professions high school are in the works with Round Rock ISD's Superintendent Steve Flores noting, "I don't see charters as threats. I see them as an opportunity to get better, as an opportunity to create the best schools possible in Round Rock ISD." In other words, the reaction to competition was an improved educational offering in Round Rock ISD.

In response to charter competition, Hays ISD is offering more career and technical options along with dual college credit courses and has plans to create an early college high school similar to Round Rock's plans. Hays ISD spokesman Tim Savoy said, "We want to offer them (parents and students) more choices. We want to capture their interest. But we know the reality is there are more choices out there, and there will be more choices, and school districts have to look at the top to bottom and see what people want. School districts have to evaluate everything they do, even down to the bell schedule."

Meanwhile, the Georgetown ISD is looking into starting an in-district charter school while having already increased its academic offerings.

In 2015, about 4 percent of all Texas students attended public charter schools, were able to access inter-district transfers or were Public Education Grant (PEG) recipients. When these students exercised choice, they took a portion of the tax money that would otherwise go to their local school with

* Public school competition is a new development in the Austin metropolitan region, with a report on U.S. school choice in major cities using 50 measurements (Wohlstetter, Zeehandelaar, and Griffith 2015) ranking Austin 29th of 30 U.S. metros studied while Houston, with its more established charter school system, ranked 19th and Dallas, 25th where, incidentally, 40 percent of public schools are failing (Dallas Morning News 2015).

them. But, at only 4 percent market share, Texas' traditional public schools can largely ignore the competition, continuing to operate business as usual.

But, there is a concentration of charter school students within Texas' African-American community, who constitute 21 percent of all charter school students in Texas, almost double their share of the traditional public school enrollment, 12 percent (National Alliance for Public Charter Schools 2015). For instance, charter market share in Houston is about 17 percent (National Alliance for Public Charter Schools 2012). Many of these Houston charter schools are run by the Houston Independent School District, however, and therefore students attending those schools wouldn't necessarily trigger a loss of revenue to the traditional public school system.

So, some school districts in Texas that serve large portions of the African-American community may have seen more than 6 percent of their market share exercise the choice of attending competing schools, and, as a result, could experience a general improvement in test scores and graduation rates compared to the rest of the nation. This may be a contributing reason as to why Texas' African-American students enjoy the nation's highest high school graduation rate (84 percent) and better math and reading test scores (National Assessment of Educational Progress 2013) than the national average (National Center for Education Statistics 2015).

This isn't to say that charter schools and the likely beneficial effect they have on the overall public school system have been immune from criticism. Friends of Texas Public Schools, a 501(c)3 with a board of directors mostly composed of people who earn a living from the public school system, (especially in the construction arena—perhaps it's not a coincidence that charter schools receive no public funds for construction assistance and thus frequently repurpose existing buildings), helpfully notes in a headline on their website that, "Texas ISD's (Independent School Districts) Outperform Their Charter School Counterparts on State Ratings" and "7.41 percent of ISDs statewide and 18.23 percent of charter schools received an "Improvement Required" rating for 2013-14." **Figure 1** illustrates this data. Which, given that Texas' 70.7 percent of students in Texas charter schools are economically disadvantaged vs. 58.9 percent in traditional public schools, a difference of 11.8 percent, it stands to reason mathematically that 10.8 percent more charter schools rated as needing "Improvement Required."

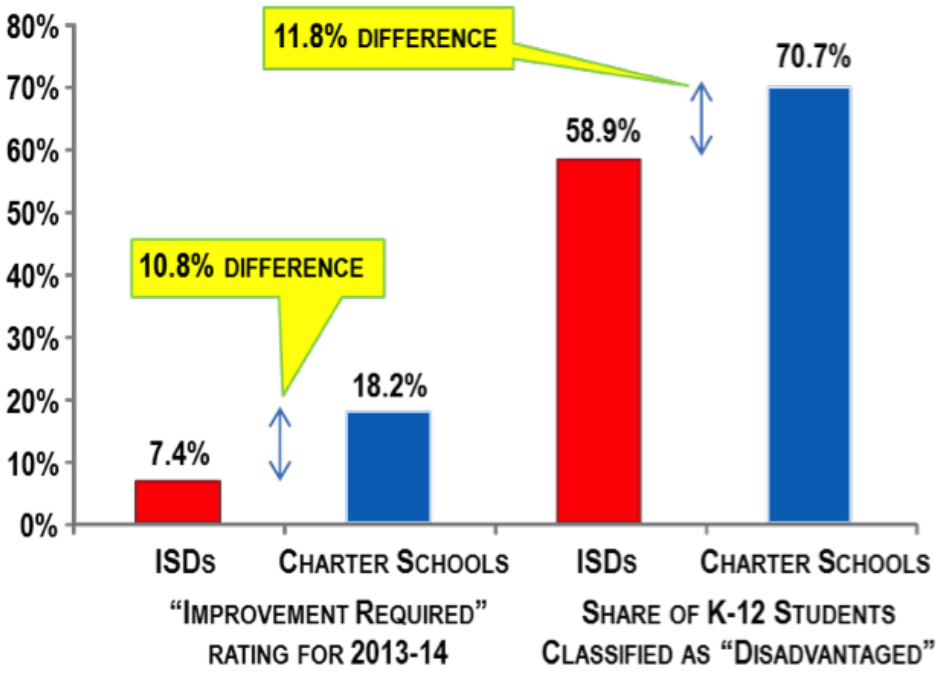

Figure 1—Texas charter schools serve a larger share of disadvantaged students than do traditional public schools.

Another common criticism of charter schools is that they are somehow leading to the "resegregation" of public schools. However, enrollment in urban area charter schools is in demographic alignment with the neighborhoods in which the students live (National Alliance for Public Charter Schools 2012).

In 2008, Texas reached its statutory limit of 215 charters granted by the State Board of Education (Texas Association of School Boards 2009), retrenching a few years later to 196. By 2013, about 100,000 children were on waiting lists to enroll in charter schools for which there was no room. However, a law passed in 2013 lifted the artificial cap on the number of public school charters, gradually ratcheting up from 215 to 305 by September 1, 2019 (Patrick 2012).

So, Texas has, in effect, a small scale and tentative model of school choice. Likely returning benefits in an improved educational outcome in the areas where traditional public schools most feel the effects of competition.

But, what if Texas were to embark on a purposeful 20-year effort to fully realize the benefits of school choice? Should the Legislature pass and the governor sign into a law a plan to allow some form of universal school choice, it can be assumed that some Texas families will decide to avail themselves of alternatives to their traditional local public school.

Figure 2 charts a hypothetical public school enrollment market share decline from about 86 percent of students today to 81.3 percent of students by 2035, a modest drop of 4.7 percent more than made up for in raw numbers by swelling enrollments. As Texas public schools began reacting to the competition by improving their offerings, as seen in today in the metropolitan Austin region, Hoxby's research suggests that Texas could see an improvement of about 19 national percentile points in its standardized math scores (the figure's data is derived from a model that averages Hoxby's findings across various types of student enrollment). This improvement is roughly equivalent to about half a standard deviation, placing Texas students at the level currently enjoyed by students in Japan and South Korea.

Based on research into the effect of improved cognitive abilities in the workplace on the economy over time (Hanushek and Woessmann 2010, Hanushek and Peterson 2014), an improvement of half a standard deviation in standardized math scores, once accomplished and sustained, would lead to the Texas economy growing by 5 percent above what it otherwise would have 30 years later, doubling to 10 percent at the 42 year mark, as students with stronger cognitive abilities gradually enter the workforce.

In 2014, the Texas economy generated $1.64 trillion in goods and services. A 5 percent increase in the economy driven by school choice improvements in cognitive ability would equate to an $82 billion increase, or a $3,044 hike in output for every Texan at today's dollar value and with 2014's population; a 10 percent boost in the economy would double those numbers to $164 billion and $6,088. The proportional gains would hold as the Texas population is projected to increase from 27 million today to 41 million in 2035.

Just as research shows how public school competition drives gains in overall student academic achievement, other research has indicated that high school graduation rates improve for students offered school choice (Wolf 2010).

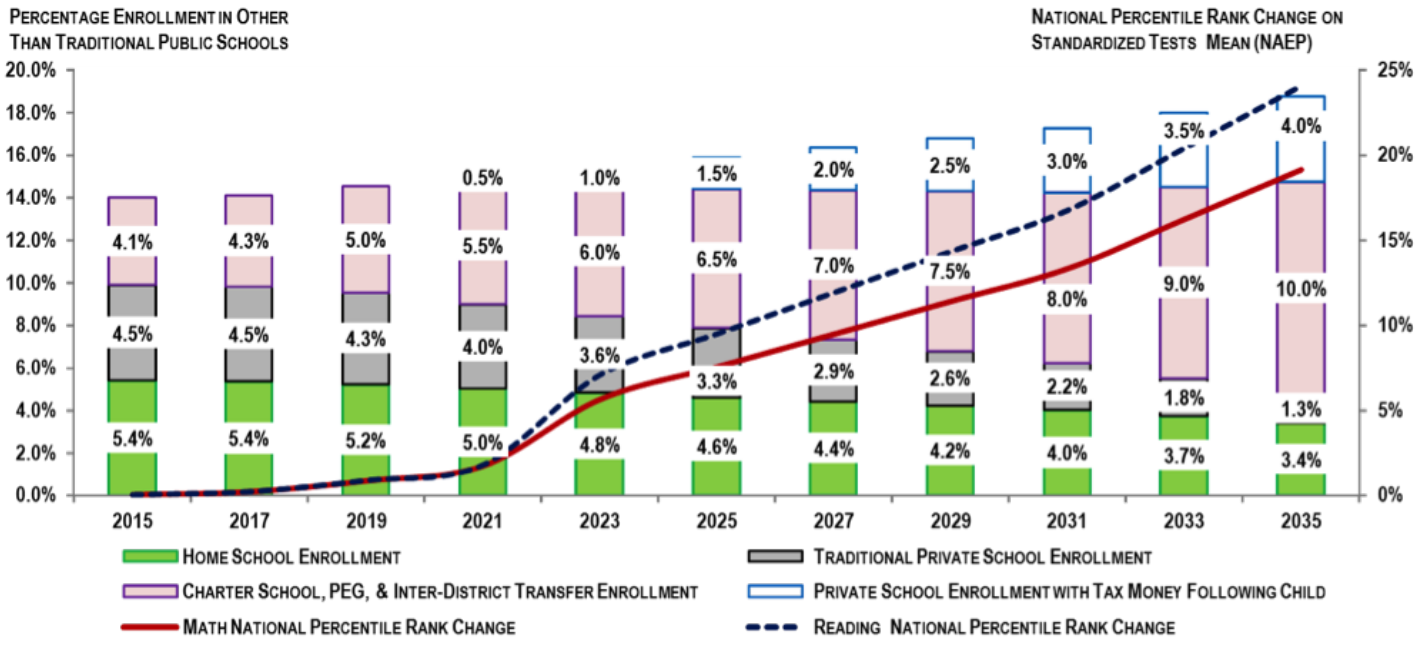

Figure 2—Research shows that shifting less than 5% of students out of public schools to competitive alternatives could result in a sharp improvement in the cognitive abilities of Texas students—equivalent to about 19 national percentile points in standardized math scores.

CONCLUSION

Lawmakers who seek to reform public education policy in Texas to allow for true school choice for all Texans—well-off or struggling, rural or urban, 6th generation Texan or new arrival—will be engaging in a true act of statesmanship. Universal school choice will result in significant improvements to the Texas economy over a generation as public schools improve and the students who use their services enter the workforce better prepared and with higher levels of cognitive ability. ★

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About the Author

The Honorable Chuck DeVore is vice president of national initiatives at the Texas Public Policy Foundation, which he joined in 2011.

From 2004 to 2010, DeVore represented a half-million people in the California State Assembly. He was vice chairman of both the Assembly Committee on Revenue and Taxation and the Veterans Affairs Committee, and also served on the Budget Committee as well as the Joint Legislative Audit Committee. He was named Legislator of the Year by seven groups. DeVore worked in the aerospace industry for 13 years as an executive before his election in 2004.

He also served as a Reagan White House appointee in the Pentagon from 1986 to 1988 as special assistant for foreign affairs, where his duties included working with Congress to advance the President's foreign and military policy. He later served on staff of a U.S. Congressman. From 1991 to 1996, he served as a City Commissioner for the City of Irvine.

DeVore served in the Army National Guard from 1983 to 2007 as an intelligence officer and is a lieutenant colonel in the U.S. Army (retired) Reserve.

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