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## Government And Equal Educational Opportunity

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*EDITOR'S NOTE: This testimony was to have been delivered by Dr. Vedder before the Subcommittee on Alternative Methods of the Select Committee on Public School Finance. It was not delivered due to a schedule conflict, but the concepts are unique and a similar written version was distributed to the subcommittee members.*

Thank you, Mr. Chairman. I am pleased to be with you today. My name is Richard Vedder. My titles are Distinguished Professor of Economics at Ohio University, and also Adjunct Scholar at the American Enterprise Institute. My appearance here is made possible with the support of the Texas Public Policy Foundation.

Texas is one of the most vibrant states in the Union, and education is important to its continued success. We invest vast resources into public support of education at all levels, in large part because of the American equalitarian ideal, as stated in our Declaration of Independence, that "all men are created equal." While this expression means slightly different things to different people, there is near universal agreement amongst us Americans that it means that persons from all walks of life, all races, religions and genders, and all different sets of economic circumstance should have roughly an equal opportunity to receive the education necessary to compete in a sophisticated economy requiring increasingly skilled and knowledgeable workers.

While American public education in some respects has fulfilled this ideal, there are many serious problems. The quality of education overall is too low, and, perhaps more disturbing, varies dramatically across the nation, and, more to the point, across the Lone Star State. In inner city Dallas, San Antonio, Houston, Austin or several other cities, the performance of children in the schools is dramatically lower than in surrounding suburbs. Dropout rates are high, scores on standardized tests are low, and preparation to be part of the work force or receive post-secondary training is severely deficient. To be sure, a large proportion of learning reflects such out-of-school factors as parental education, household economic status, and parental involvement with their children. That suggests we have a special public obligation to assist inner city children with an adverse out-of-school environment with educational support. Instead, we are actually typically treating these children less well than other kids, consigning them to inner city schools that border on being educationally dysfunctional.

To be sure, we have tried a number of compensatory educational programs to overcome these problems, efforts like Head Start and federal assistance to school districts with disproportionately large numbers of low income children. These programs have had, at best,

limited success. A new approach is needed. I believe that a very promising alternative approach exists: student-centered scholarship assistance, probably provided in a progressive fashion to overcome some of the current deficiencies in the education of low-income children.

Our educational system closely resembles the economic system in the old Soviet Union. Many of the decisions are made by bureaucrats located hundreds of miles away from where services are provided. Consumers are directed as to where to go to get the product, which is often poor in quality. The producers of services have no incentive to provide a better product. The well-connected and wealthier members of society have access to better quality products than the rest of the citizenry. The similarities between the old Soviet centrally planned economic system and the American or Texan system of public education are greater than the differences. The old Soviet economic system was a failure, as I am afraid our system of education is as well.

An alternative approach is to make our educational system more closely resemble our highly successful economic one. Make the consumers the kings or queen, who have choice where they go; make producers compete for students by making their products better. Do this by giving public monies not to producers, but to consumers of educational services. I ask you: who more loves children attending public school – their parents or school superintendents, principals or even teachers? I would submit no one better promotes children welfare more than their parents – let them control their child's education.

Give kids vouchers, which I prefer to call scholarships, to attend any school they want. Done appropriately, all the vexatious political problems that you have with Robin Hood disappear. The 1.50 property tax limitation becomes a non-issue. Moreover, given the fact that children from poorer families typically are disadvantaged in terms of the out-of-school-factors that impact learning, give these kids larger vouchers than other children. For example, give them enough resources to not only pay tuition charges at public or private schools, but also money to pay for some enrichment programs after school or during the summer vacation period, either at conventional schools or at Sylvan Learning centers or other private providers, or through Internet based services.

Any doubts that such a program would be unconstitutional with respect to the American constitution were resolved by the U.S. Supreme Court in the case of *Zelman v. Simmons-Harris*. The Texas Constitution speaks of efficiency, and efficiency is enhanced by increasing competition, by making the customers more satisfied. By any rational reading, a voucher approach, particularly one that makes a good faith effort to help those most in need, should meet constitutional muster.

Obviously, there are some significant transition issues associated with moving from the existing Soviet-style system to a student-centered system based on competition. Putting those aside for the moment, what would a progressive voucher system ultimately look like? Let us look first at household units with incomes near the median or typical levels, let us say from \$35,000 to \$70,000 for a family of four. Let us suppose the State of Texas gives every child from such a family a voucher equal to average state spending per pupil for all non-special education students, say \$6,000. Some refinement might be desirable, for example, giving larger vouchers for secondary school students than primary school ones.

For families with incomes below \$35,000 a year, the voucher would be increased by 10 cents for each one dollar below that amount. For example, a child from a household with a \$20,000 income would receive a voucher for \$7,500, the basic \$6,000 voucher and \$1,500 for the \$15,000 income gap between the household's income and the minimum for the standard grant. On the other hand, families with incomes greater than \$70,000 annually would receive a reduction of the grant equal to five cents for each one dollar that income exceeds \$70,000. Thus a family with a \$100,000 annual income would receive a voucher for \$4,500. A good case can be made that all families should receive some public support, even wealthy ones, so perhaps a minimum voucher size of, say, \$1,500 should be established. Under that rule, households with over \$160,000 annual income would receive a \$1,500 voucher.

Obviously, the system can be fine-tuned in a number of ways to try to make it still more equitable, although at a cost of a loss of simplicity and a rise in administrative expenses. For example, perhaps families with large number of children should be treated differently. A family with a \$170,000 income and five school age children arguably should receive more than a total of \$7,500, since their school tuition charges might well reach \$30,000 or more a year. Special education children probably must be treated differently, although the voucher approach for them is a viable option as well, as Florida is presently demonstrating.

Recipients of the state assistance, which I will dub Texas Equal Opportunity Scholarships, or TEOs, can use them at any chartered school, with the mandate that chartering of schools should be liberally granted with minimal bureaucratic restriction. This includes schools with a faith-based orientation. Public schools will no longer receive any general state or local tax-funded assistance, with an important caveat noted shortly. They therefore will charge tuition just like private schools do.

Armed with TEOs, Texan parents will be empowered to search for the best educational option for their children. Lower income families not only will be able to bypass the current public school monopoly, but the additional funds provided for low income persons will allow them extra opportunities to learn, going to summer school, getting Internet-based instruction, or getting additional training in basic skills from any of a number of educational providers.

How would such a system be financed? While a number of options exist, one possibility is to replace local property taxes completely with a statewide school property tax set to raise precisely enough funds to finance the TEOs. I would allow affluent local communities to tax themselves an extra amount to provide either larger TEOs or funds to existing local public school districts to finance enrichment activities.

The progressive voucher transfers the intent of Robin Hood to individuals, and makes explicit the income redistribution hidden somewhat in the current scheme. My suspicion is that the statewide property tax rate would be below the 1.50 limitation, and would allow localities which wanted to supplement funds to do so.

Why change the current system? The reason is simple. There is ample empirical evidence that many local public school districts fail to educate the students in their care in a manner consistent with national goals of equal educational opportunity, thereby consigning them to marginal

participation in the world of work. This, in turn, likely serves to lower the nation's and Texas's labor productivity and potentially our standard of living. John Bishop of Cornell University, writing in the *American Economic Review*, probably the most prestigious journal in economics, has shown convincing evidence that the slowdown in labor productivity in the United States after 1973 is intimately tied to declines in student learning beginning a few years earlier at the secondary level.

Would TEOs work better? Obviously we will not know for certain until we try. Certainly economic theory would predict they should lead to improved results. Also, however, there is beginning to accumulate a fair amount of empirical evidence based on existing voucher programs in places such as Milwaukee and Cleveland, as well as privately funded scholarship programs enacted in a number of cities in recent years. For example, William Howell, a professor at the University of Wisconsin, and Paul Peterson, the Henry Shattuck Professor of Government at Harvard University, have written a book conducted elaborate empirical tests on students participating in private voucher programs in Washington, D.C., Dayton, Ohio, and New York City. The evidence is strongly supportive of these schemes. More generally, while the evidence is not all unambiguous, but the predominance of evidence suggests the following:

1. Students and their parents using vouchers are generally very happy, pleased to have left the mandatory public school setting they previously were in; if pleasing the citizenry is a criterion, then vouchers are unquestionably successful.
2. The evidence with respect to academic performance is somewhat mixed, but most of it shows that participants in voucher programs who come from low income and disadvantaged families on average do better academically, particularly after a period of two or three years. For example, math scores of students using vouchers are on average improved compared with the traditional public education experience.
3. A number of studies show that the introduction of greater competition improves the performance of students remaining in traditional public schools. Far from creaming off the best students from the public schools, the evidence is that test scores improve in public schools because the competition of private schools for enrollments forces the public schools to clean up their act, improving academic standards and doing other things to make their schools more attractive.

I do not want to bore you with a lot of statistics or scholarly references, but with respect to the last point, a new study released just Wednesday by the respected Manhattan Institute is worth noting. The study, entitled *The Effects of Vouchers on Florida Public School Achievement* by well known researcher Jay Greene and Marcus Winters, examines the A+ program in the state of Florida.

In that program, scores from the Florida Comprehensive Assessment test, or FCAT, are used to grade schools from A to F. If a school receives two F grades in a four year period, students become eligible to receive vouchers that can use to attend other public or private schools. As the press release notes, and I quote, "By comparing test score improvements at schools facing voucher competition to those made by schools with similarly low test scores but not facing the threat of vouchers, the study is able to identify the impact of vouchers on public school

achievement. “ The release goes on to say that the authors “find that schools facing voucher competition mad extraordinary gains in the 2002-2003 school year compared to other Florida public schools on both the FCAT and the Stanford-9, a nationally respected norm-referenced test also administered to all Florida student.”

Public schools are supposed to be about kids, not the people running them. Public support of education is about improving the nation’s human capital stock and helping meet the equalitarian ideals that our founding fathers so eloquently proclaimed in our fundamental founding document, the Declaration of Independence. The TEO program would work, it is cost effective, it ends a host of problems relating to Robin Hood, and it should meet constitutional muster. I urge that you give it our something similar to it careful consideration.