School choice and competition

On April 27–28, the Federal Reserve Bank of Chicago held the first of three conferences on education reform. Highlighting the importance of this issue for the Midwest, Bank President Michael Moskow noted in his opening remarks that we can not separate our region’s competitiveness in the world economy from the skills and education of our work force. This Chicago Fed Letter summarizes the presentations at the conference, which focused on initiatives to promote choice and competition in elementary and secondary education.1

The pace of education reform has greatly accelerated in recent years, with the development of charter schools, voucher programs, and state tax credits. Today, some 35 states have passed charter legislation, with Michigan having the most extensive program among Midwest states. Since 1994, for-profit educational organizations have gained popularity, primarily through contracts with charter school directors seeking to outsource school management to private entities. Privately funded voucher programs have grown from 17 nationwide in 1995 to a current level of 41. In addition, some states are providing tax credits to help families meet the cost of educating their children outside the public school system.

Why might we believe that schools can do much better? Steve Rivkin, Amherst College, presented U.S. trends in spending and academic performance. U.S. students lag behind many of their peers in the other G-7 countries in science and math, despite substantial increases in real spending. While rising expenditures have produced decreases in class size and a higher ratio of school administrators to pupils, they have not yielded much in educational product. Wage increases for teachers, especially women, have lagged behind those of their similarly educated peers, and have probably reduced the average quality of the teaching force. Rivkin’s research on Texas schools finds that individual teacher quality matters greatly to student outcomes. He also finds a great deal of variation in teacher quality within schools, suggesting that administrators do not do a very good job in either hiring or retention. If vouchers or expanded choice can increase the overall effectiveness of teachers, such programs may succeed in raising average school quality.

Do private schools improve student performance?

Summaries of separate studies of the Milwaukee Parental Choice Program, the nation’s first (1990) and longest voucher experiment, were presented by John Witte, University of Wisconsin–Madison, and Cecilia Rouse, Princeton University. The program currently provides vouchers of approximately $5,000 per year from state government revenues for low-income students to attend private schools in Milwaukee. The program now includes religious private schools, but the studies, based on the first four years of the program, did not include religious private schools because they were not eligible until the program was expanded in 1995.

Witte and Rouse agree that there were no differences in reading achievement between either the private school “choice” students and a random sample of non-choosing Milwaukee Public School (MPS) students; or between choice students and students who applied to choice but were not selected to attend private schools (and later attended MPS instead). However, they disagree on math results. While both Witte and Rouse found a significant math difference when choice students were compared to non-selected choice applicants, Witte argued that the non-selected applicants were a contaminated control group because so many dropped out of the study and the sample sizes were so small that a few students in a single year created the achievement difference. Further, when Witte compared the choice students to MPS students, he found a slight difference favoring choice students, but the difference was not statistically significant. In contrast, using different models, Rouse found a significant difference in math test scores when comparing choice students to MPS students.

Witte was pessimistic about producing valid random experiments of voucher programs in the future and about the ability of evaluators to address problems inherent in education experiments, such as self-selection, student mobility, and selection/retention behavior of participating schools.

Rouse emphasized that while the evidence suggests that providing vouchers to low-income students to attend private schools may improve their achievement in math, these results hold on average; however the “choice” schools did not generate higher performance than all of the public schools. In fact, the math test scores of students in a subset of public schools characterized by smaller classes grew as much as those in choice schools and their reading test scores grew faster. She also cautioned that while the results of programs such as that in Milwaukee can potentially provide evidence on whether vouchers would improve participating students’ achievement, they cannot assess whether vouchers would improve the outcomes of non-participants by putting competitive pressures on the public schools, nor can they gauge the supply response of private schools. A larger-scale voucher program would
likely be necessary to generate any
such effects.

Because voucher programs are still in
their infancy and because of the prob-
lems of experiment design, some re-
searchers opt to study the large number
of longstanding private schools. Should
private schools prove to deliver better
education at lower cost after control-
ling for socioeconomic differences,
then expansion of school choice pro-
grams may be more easily justified.
Joseph Altonji, Northwestern Univer-
sity, focused his study on Catholic
schools, which account for over half
of all private school enrollment in the
U.S. Students that attend Catholic
schools typically perform better on na-
tional test scores and are more likely
to attend college than public school
students. So can we say that Catholic
schools are more effective than public
schools? Not exactly. The positive out-
comes enjoyed by those attending Cath-
olic school may be caused by family
characteristics as well. Parents that are
highly motivated or that have abundant
resources may be more likely to choose
private schools for their children.

Altonji controls for these differences
in his study of Catholic and public
school eighth graders. In contrast with
other recent studies, he finds little evi-
dence that Catholic schools are more
effective than public schools with re-
spect to student achievement. However,
Catholic schools do show reduced
dropout rates and increased college
attendance relative to public schools.

Paul Petersen, Kennedy School of
Government, is evaluating the New
York School Choice Scholarships Pro-
gram, which, he notes, is the first pro-
gram of its kind to incorporate many
aspects of a laboratory experiment.
The research project sponsored 1,300
scholarships to allow low-income stu-
dents to transfer from public to pri-
ivate schools. The scholarships are
worth up to $1,400 annually and can
be redeemed for at least three years at
both religious and secular schools.
Applications from over 20,000 stu-
dents were received between Febru-
ary and late April 1997. Scholarship
recipients were selected in a lottery
held in May 1997 and began school
the following fall. The results of the
experiment after one year support
the effectiveness of vouchers. Students
who received vouchers scored higher
in math and reading (2 percentile
points) than students in a control
group. The results are more impres-
sive for fourth and fifth grade students,
with differences of 4 percentile points
in reading and 6 percentile points in
math. Petersen also finds that parents
of scholarship students are more satis-
fied with their children’s education
than those of the control group—
a finding that is echoed across most
such studies. In all, 58% of scholarship
parents express the highest satisfac-
tion with “what’s taught in school,”
compared with only 18% of the con-
trol group. Other results include in-
creased racial integration, reduced
disciplinary problems, and reduced
class size within scholarship schools.

Sammis White, University of Wiscon-
sin–Milwaukee, discussed lessons to
be learned from PAVE (Partners
Advancing Values in Education), a
privately funded voucher program in
Milwaukee. First, there is a great deal
of support for the scholarships and
the schools participating, even among
families who left the program. Second,
academic gains may not be the only
appropriate measure of a school’s
success. Parents are balancing multiple
goals, perhaps trading off some aca-
demic gains for discipline, location,
and friendliness. Finally, there is a lim-
it to how universal a partial-scholarship
program can become. PAVE was able
to give scholarships to all students
who applied and qualified. That num-
ber stabilized at about 4,300 students
in a school district of over 100,000 stu-
dents, more than 70% of whom quali-
fied for PAVE on the basis on income.
Only a portion of those who qualified
could ultimately come up with the rest
of the tuition and the desire. Partial
scholarships are a boon to the students
and schools that participate, but the
scale of participation may not be suffi-
cient to challenge the public schools.

Systemic effects of privatization
While these studies provide evidence
for the effectiveness of vouchers, they
do not assess the impact of such pro-
grams on competition in education
and on the broader school population.
David Figlio, University of Florida,
finds that, in a system of choice associ-
ated with tuition payments, students
become sorted across private schools
on the basis of both income and abili-
ty. The highest-tuition private school
tends to have the highest income and
highest ability students. Figlio also
finds a negative relationship between
income (or tuition paid) and ability
within a given private school. These
findings suggest that stratification
would be pervasive in a private system.
However, it remains difficult to assess
how such stratification compares with
the existing public school system, in
which significant geographic stratifi-
cation arises from patterns of disparate
housing and family income. Other
models predict that having more pri-
ivate school options decreases the ten-
dency of wealthier families to move
out of lower income neighborhoods.

Aside from stratification, researchers
explore the effects expanded choice
can exert on public schools through
competition. In theory, the presence
of private schools could raise or lower
the level of student achievement,
either by introducing a degree of
competitiveness within the school
district or by drawing the most capable
students away from the local public
schools. William Sander, DePaul Uni-
versity, analyzed private schools in
Illinois to determine their influence
on public schools. Sander pointed
out that an above-average percentage
of the school-age population in Illinois
attends private schools, and Chicago
has one of the largest Catholic school
systems in the country. He finds that
private schools do not improve or
weaken public school achievement.

Some analysts are skeptical that private
sector competition alone will motivate
public schools toward higher achieve-
ment. Fredrick Hess, University of
Virginia, argued that the school system
lacks the appropriate incentives to
take advantage of increased competi-
tion within a school district. Citing an
extensive study of public schools in
Milwaukee, he outlined several obsta-
cles to reform—teachers are not eval-
uated on their performance; system
leaders do not have the ability to hire
and fire teachers to encourage greater
productivity; and administrators are not
rewarded based on school performance
or market share within the district.

Another way to learn about the effects
of system-wide choice and competition
is to study school systems with those features in other countries. Helen Ladd, Duke University, discussed New Zealand’s decade of experience with self-governing schools and, since 1991, with full parental choice. With an ethnically diverse population of 3.7 million people, New Zealand may be compared with the median U.S. state. Since 1991, parents have had the right to choose their child’s school (including traditional public schools and Catholic schools). Controlling for demographic changes, Ladd finds that choice increases ethnic polarization. Schools that initially served concentrations of minority and low-income groups experienced the largest enrollment declines as both white and minority students fled to schools serving a more advantaged mix of students, with white students moving somewhat more aggressively. The result is probably better schools for many students but worse schools for the remainder. Ladd observed that the combination of school autonomy, strong competitive incentives to improve, and somewhat higher funding for struggling schools was not enough to enable them to compete successfully for students. Recently, the New Zealand Ministry of Education has acknowledged that some form of direct intervention is needed. Many schools are now oversubscribed and are allowed to pick the students they will enroll. Thus, the system of parental choice is moving toward a system of choice by schools.

Choice, competition, and accountability

To improve public schools, and to preserve the public interest in educational provision, state legislatures and local school districts across the Midwest have adopted a panoply of reforms. Susan Heegaard, Minnesota Chamber of Commerce, discussed Minnesota’s experience with tax credits and deductions. In 1997, following its rejection of a school voucher program, Minnesota became the first state to establish a statewide program for K–12 education tax credits and deductions. The deduction covers some public and private school expenses, including tuition, family computer purchases, tutoring, and academic summer camp. It is available to all taxpayers. A tax credit is available to lower income families who would not substantially benefit from the deduction. Heegaard noted that there are a few wrinkles to be ironed out before the true effects of the program can be assessed. For one, the state needs to improve awareness of the program. And because low-income families must wait for reimbursement, several local lending programs are assisting families with up-front funding.

Kevin McCarthy, state representative from Illinois, discussed an active bill to allow a state income tax credit on tuition paid to private and parochial schools. (The Illinois Education Tax Credit Program recently passed the Illinois House and Senate and is expected to go into effect in January 2000.) The legislation aims to expand parental choice; take pressure off the public schools; and bolster the sagging finances and enrollments of Catholic schools, which serve some of the poorest neighborhoods in Chicago.

Leslie McGranahan, Federal Reserve Bank of Chicago, discussed the Illinois proposal, which establishes a refundable tax credit of up to $500 per family for 25% of tuition, lab, and book fees above $250. In contrast to Minnesota’s tax credit, the program is independent of family income. It will provide some relief to parents already sending their children to private schools, but the small size of the credit reduces the likelihood of families, especially low-income families, using it to send their children to private schools. Accordingly, McGranahan expects the program to be largely ineffective in increasing competition in the school system.

To promote competition and innovation, many states are authorizing charter schools, which are funded through the public sector but are largely free from the restrictive regulations and management of public sector agencies. In return, the schools remain accountable to the public sector for improving student performance. Eight charter schools opened in Michigan during the 1994–95 school year. The number had increased to 138 by 1998–99, although charter schools account for only 2% of all Michigan K–12 students. Michigan spent an estimated $6,100 per pupil for charter schools during the 1998–99 school year.

Gary Miron, The Evaluation Center at Western Michigan University, discussed the results of a state-mandated evaluation of the western/central charter schools during the first four years. Miron noted that it is still too early to judge the initiative, and the schools are very diverse, making generalizations difficult. The evaluation finds only limited innovations in instructional practices, but greater advances in operational practices and governance.

Second, school leaders and companies play a strong role in the initiative relative to parents and teachers. Third, the availability of charter schools may have heightened segregation by race, class, and ability. Fourth, teachers, parents, and students are generally quite satisfied with their charter school. Finally, there is no strong evidence yet that the schools, as a group, are performing better than the local public schools.

There is evidence of a positive competitive impact on school districts with charters, reflected by the introduction of all-day kindergarten, increased adult supervision on the playgrounds, more before and after school programs, increased efforts to involve parents, increased marketing of public schools, greater emphasis on foreign languages,
and more attention to standardized test scores. The most negative impact is a loss of funding for the local schools. And, while many charters cater to minorities and at-risk pupils, several appear to strategically target families with profitable socioeconomic characteristics.

In a study of factors influencing charter school location in Michigan, Gerhard Glomm, Michigan State University, finds that a district’s racial composition is important. However, lower test scores also seem to lead to more charter schools, indicating dissatisfaction by parents whose children attend public schools. Spending by public schools, excluding teacher salaries, does not seem to be an important factor, suggesting that higher administrative salaries and support services do not improve parent satisfaction.

John Ayers, Leadership for Quality Education, argued that charter schools in Chicago are successful because they promote autonomy with accountability. The schools are not bound by hundreds of rules and regulations, as well as union contracts, but must maintain high student performance or be closed down. In addition, the sense of ownership fostered by these schools provides strong performance incentives for the practitioners. Demand for such schools is extremely high, but the supply is limited. To maintain the high standards associated with charter schools, only a small number of school developers have been allowed the charter option. Ayers warned that the increasing demand for charter schools has created an opportunity for those who would take advantage of prospective students. To prevent such developments, he recommended a strong accreditation process, with public oversight and the ability to quickly close bad schools.

Some opponents of publicly funded voucher-type grants to families with children believe that the outcomes of publicly funded education, whether provided by private or public sector, should be highly accountable to (and shaped by) the interests of the general public. “Contracting out” educational choice offerings through a public authority (e.g., school district or state board of education) would seem to fulfill this balance between accountability on the one hand and choice and competition on the other. One example of such an initiative was presented by Roger Kilpatrick, Peoria Public Schools. In spring 1999, the district entered into an agreement with a for-profit educational management company to provide and manage the educational program for two of its primary schools, beginning in August 1999. The district has experienced a dramatic change in the demographics of its student population over the last 20 years. By early 1999, enrollment had decreased from over 27,000 students to less than 16,000 and the population of low-income students had increased from 19% to almost 60%; and the district faced a growing challenge in providing services to students with significant needs. Among several alternatives, the district reviewed the Edison Partnership School program. With a pledge of support from a private foundation, the district decided to explore the concept, seeking input from parents, staff, and the community. The Edison Project promised both a longer school day and school year with a curriculum based upon nationally recognized best practices. Concerns were voiced over the potential loss of neighborhood schools, lengthening the school day and year, transfer of some teachers, and the involvement of a for-profit company.

The approval of the two schools targeted the ideas of school choice, educational best practices, the integrated approach of different educational programs, and accountability of an outside firm to its host. The program will be monitored and evaluated by the district’s Research Department, as well as by the Edison Project, and any future expansion of the program will be based upon both demonstrated and measured results.

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