

# **REFORMING K-12 EDUCATION THROUGH SAVING INCENTIVES**

**A JOINT ECONOMIC COMMITTEE STUDY**



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## **Abstract**

The efficacy of America's educational system has become the primary concern of American voters. In response to this concern, various proposals to reform K-12 education have been introduced. This paper argues that, by empowering parents rather than bureaucracies, parental choice programs can improve educational quality and raise academic achievement within the nation's schools. Special consideration is given to proposals that promote choice through saving incentives.

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# REFORMING K-12 EDUCATION THROUGH SAVING INCENTIVES

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## EXECUTIVE SUMMARY

The lack of progress in educational reform at the K-12 level is a serious threat to the health of the economy and to the future prosperity of American children. School reforms thus far have focused on increasing funding to public schools. Since 1983, government funding to public K-12 schools has increased by 44 percent and average per-student spending has increased by 32 percent. Total spending on public K-12 education now totals almost \$300 billion, or 4 percent of gross domestic product, per year. However, the increased spending has not improved quality, suggesting that more money is not the answer to school reform.

Instead, effective school reform must address the structure of public education. Public schools monopolize the market for affordable education and, therefore, are not held accountable for their performance. Consequently, they have little incentive to improve quality or control costs because even the worst public schools are protected by the system.

Schools can be effectively reformed through parental choice programs that empower parents rather than school bureaucracies. Parental choice embodies two principles. First, any system which provides more parents with more choices will be superior to one that assigns children to certain schools based on zoning rules. Second, competition ensures that customers receive the highest quality product at the lowest price. If parents are given the financial ability to remove their children from failing schools, these schools will be forced to improve their quality if they want to remain viable. Competition essentially takes away the guarantee that classrooms will remain full regardless of a school's performance or quality.

Competition in education is not a radical policy. The market for higher education is competitive, and this competition has helped make American colleges and universities among the best in the world. Private and religious schools at the K-12 level also compete for students as do pre-schools. Therefore, the lack of competition in public K-12 education is the exception.

Several proposals have been introduced in Congress that would allow parents more choices in K-12 education. One proposal with bipartisan support would allow parents to establish tax-free saving accounts to encourage them to save for their children's K-12 education. Such accounts already exist under current law for higher education. Parents who contribute to these accounts could use their savings to send their children to public, private, or religious schools. Alternatively, the savings could be used to pay for a home computer, tutor, educational therapy, college tuition, or other educational expenses.

Saving incentives can be utilized by all low- and middle-income families in all communities. Their widespread use can provide the competitive pressures needed to generate broad-based reform in the K-12 school system. In addition, low- and middle-income families can receive substantial benefits.

Data on school enrollment show that families with incomes of \$35,000 or less represent 25 percent of all families with children in private schools; 66 percent of all families with children in Catholic elementary schools; and 45 percent of all families with children in Catholic high schools. These families make significant financial sacrifices to provide their children with a good education and would greatly benefit from saving incentives that ease their financial burdens.

Promoting parental choice through saving incentives would not advance private and religious schools at the expense of public schools. It would simply make more options available to more parents and provide new opportunities for schoolchildren both inside and outside the public school system.

Representative Jim McCrery (R-LA)  
Joint Economic Committee

## REFORMING K-12 EDUCATION THROUGH SAVING INCENTIVES

In its landmark study, *A Nation at Risk*, a federal commission warned that “a rising tide of mediocrity” was deteriorating the quality of American education. Since the warning was issued in 1983, school reform at the K-12 level has been slow and ineffective. This lack of progress is a serious threat to the economy, which will accumulate lower levels of human capital, and to American children, whose future prosperity depends on the quality of their education. Accordingly, the efficacy of America’s educational system has become the primary concern of American voters.<sup>1</sup>

In response to this concern, various proposals to reform K-12 education have been introduced. For instance, the Clinton Administration wants to establish national standards by administering national tests on a voluntary basis; some policy makers want to increase federal funding to the nation’s public schools; and others want to provide parents with more control over their children’s education through parental choice programs. This paper argues that, by empowering parents rather than bureaucracies, parental choice programs can improve educational quality and raise academic achievement within the nation’s schools. Special consideration is given to proposals that promote choice through saving incentives.

### INNOVATIONS IN SCHOOL REFORM

Several states and localities have recently established parental choice programs in response to a growing dissatisfaction with the quality of the nation’s K-12 schools. Parental choice programs accomplish two goals. First, they allow parents to seek out the best schools for their children. Second, they encourage deficient schools to improve their programs and curriculums by making them accountable to parents who can leave the school if improvements are not made. Parental choice programs are thus designed to improve educational opportunities for children and to provide the impetus needed to initiate school reforms.

Choice programs vary among different states and districts. Some programs allow parents to send their children to certain public schools within their districts; whereas other programs allow parents to cross district lines. More than 26 states have established charter schools—schools that are publicly financed but privately managed by teachers and parents. Charter schools are free from many state and district regulations that bind traditional public schools.

A few states and localities have adopted, or are considering, publicly funded programs that allow parents to send their children to private schools. Studies reporting success among these programs have prompted a growing number of policy makers to support similar efforts on a national level. For instance, various legislation has been introduced in the 105<sup>th</sup> Congress that would provide eligible families with grants, scholarships, vouchers, or tuition tax credits to help defray the costs of private primary and secondary educational expenses. In addition, proposals have also been introduced that would provide parents with incentives to save for their children’s educational expenses.

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<sup>1</sup> Mario A. Brossard, “American Voters Focus on Worries Close to Home,” *The Washington Post*, September 15, 1996.

## Parental Choice Through Saving Incentives

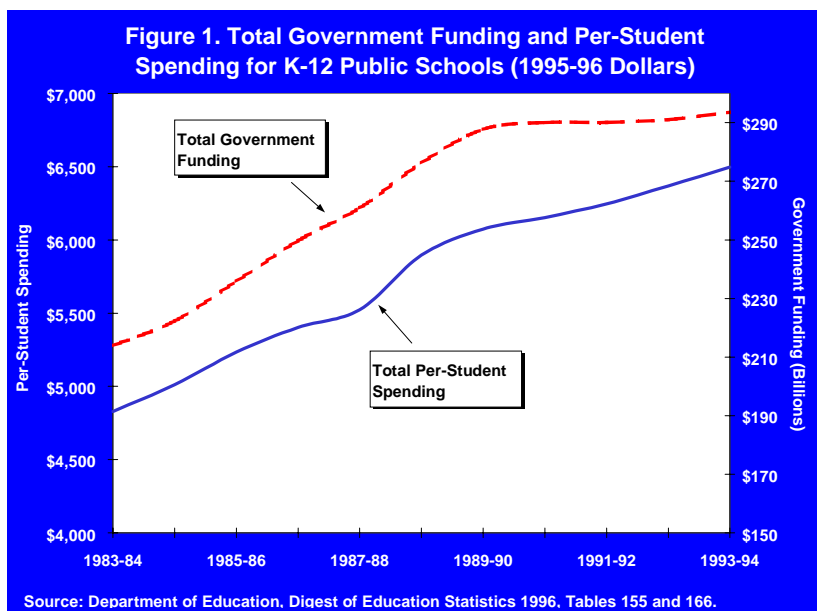
The Taxpayer Relief Act of 1997 includes a provision that will allow parents to make a nondeductible contribution of up to \$500 per year to an Education Saving Account (ESA) for each qualifying child. Savings in an ESA will accumulate tax-free and will not be taxed upon withdrawal as long as the proceeds are used to finance higher education expenses. In June 1997, Senator Paul Coverdell (R-GA) proposed an amendment to the Senate Tax Relief bill that would have allowed parents to use the proceeds of their ESAs for K-12 education as well as for higher education. The amendment was approved in the Senate with bipartisan support. However, it was eliminated from the final budget agreement when President Clinton threatened to veto the entire budget bill if it included any provision that used tax benefits to help parents send their children to private schools. Advocates of the legislation agreed to omit the amendment in order to salvage budget negotiations but reintroduced it in July as an independent bill. In October 1997, Representative Bill Archer (R-TX) introduced a similar bill that raises the allowable contribution to \$2,500 per year. Mr. Archer's bill, called the Education Savings Act, passed in the House of Representatives but is currently stalled in the Senate.

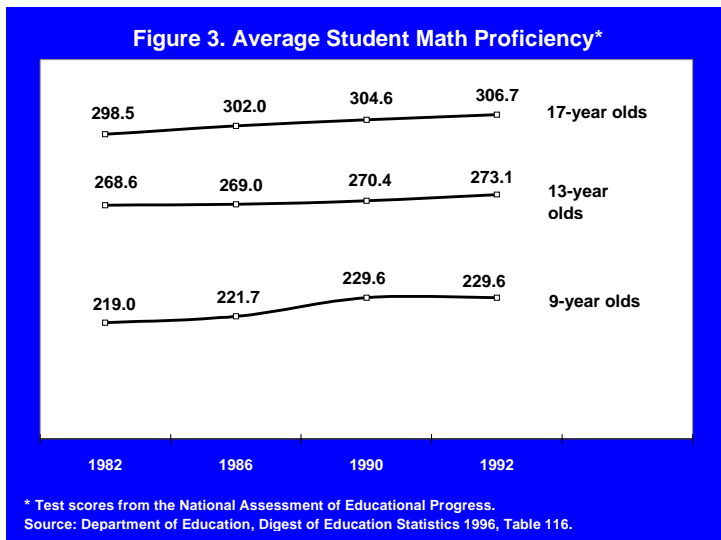
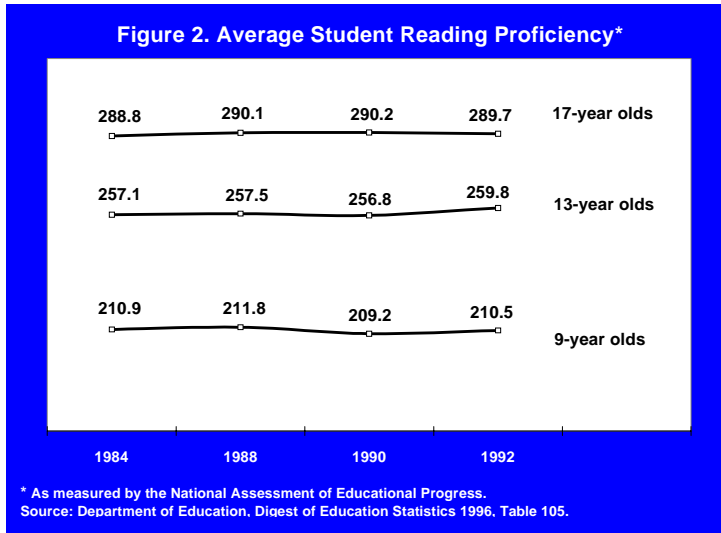
These bills differ from other choice proposals because they do not require the expenditure of public funds. They simply provide parents with incentives to save for their children's education and allow them to use their savings to finance educational expenses from kindergarten through college. Parents could use the proceeds to pay for the cost associated with sending a child to a private school, a religious school, or a different public school. Alternatively, the funds could be used for tutoring, home schooling, purchasing a home computer, or paying for college expenses.

## IMPROVING THE QUALITY OF K-12 SCHOOLS

### Will More Money Help?

Those who defend the status quo believe that the nation's public schools simply need more money; but the historical evidence suggests that more money will not improve quality. Figure 1 shows that since 1983, when *A Nation at Risk* was released, total government funding for public K-12 education has increased by 44 percent after adjusting for inflation. The United States now spends almost \$300 billion, or 4 percent of gross domestic product (GDP), on public





primary and secondary education. Similarly, total spending per student has increased by 32 percent since 1983 and now averages approximately \$6,993 per student.

However, academic achievement has not improved significantly to match the increase in funding. Figure 2 shows that since 1984, average reading proficiency as measured by the National Assessment of Educational Progress (NAEP) has improved by only 0.4 percent for all age groups and has actually dropped among nine-year olds. Figure 3 shows that math proficiency has improved slightly by an average of less than 3 percent for all age groups. Despite the increase in math test scores, only 20 percent of 4<sup>th</sup>, 8<sup>th</sup> and 12<sup>th</sup> grade students were rated “at or above proficient” in math by the NAEP.<sup>2</sup>

Other indicators also suggest that primary and secondary schools have not improved substantially. For instance, freshman college professors find that many high school graduates do not have high school skills. Even

students who enter college with “A” and “B” averages often cannot write clearly, compute easily, or think critically.<sup>3</sup> Similarly, employers often hire college graduates for jobs that only require high school skills because they no longer trust the value of a high school degree.<sup>4</sup>

The statistics indicate that more money does not necessarily translate into a higher quality education. One reason why money may not enhance quality is because increases in government funding are not entirely spent in the classroom. They partially finance higher employee salaries, pensions, and benefits. In addition, public schools are mired by layers of bureaucracy that often prevent funding from reaching the front lines of teaching.

<sup>2</sup> J. A. Dossey, J. Mazzeo, K.E. Miller, and C. M. Reese, *NAEP 1996 Mathematics Report Card for the Nation and the States*. (Washington DC: National Center for Education Statistics, 1997).

<sup>3</sup> Kati Haycock, “Thinking Differently about School Reform,” *Change*, January 1996.

<sup>4</sup> Richard J. Murnane and Frank Levy, *Teaching the New Basic Skills: Principles for Educating Children to Thrive in a Changing Economy*. (New York: Free Press, 1996).

In addition, evidence suggests that many public schools do not use their financial resources efficiently. For instance, the financial assessor of D.C. public schools found that, over a three-year period, \$50 to \$60 million marked for building repairs and school supplies were used to hire as many as 700 unauthorized personnel.<sup>5</sup> Similarly, in New York City, an investigative commission found that millions of dollars budgeted for school supplies were disappearing through various slush funds.<sup>6</sup> Examples of poor money management are widespread, suggesting that schools may need to be more resourceful with their finances before an increase in government funding is justified.

Furthermore, private schools, on average, incur lower costs than public schools, yet produce better schooling outcomes. The average cost of educating a child in public schools is \$6,993, compared to an estimated \$3,475<sup>7</sup> in private schools. School administrators argue that public schools incur higher costs because they enroll a larger percentage of students who require special education. However, according to the Center for Special Education Finance (CSEF), public schools spent a total of \$19.3 billion from combined federal, state, and local sources on special education in the 1987-88 school year (the last year for which accurate data are available). This amounts to less than \$500 of the average per-student cost for that academic year. In 1993-94, CSEF estimated that public schools spent a total of \$32 billion on special education, or \$736 per student.<sup>8</sup> This estimate may overstate the actual amount spent on special education, indicating that special education cannot account for the large cost differential between public and private schools.

In brief, a shortage of funding may be an obstacle to reform in some schools, but in general, there seems to be little correlation between increased government funding and higher educational quality. Since 1983, funding for public K-12 education has increased steadily as has total spending per student; but the increased spending has not significantly improved results, suggesting that more money is not the answer to school reform.

## Empowering Parents

Advocates of parental choice believe that school reform is not a monetary issue. Reform must address the bureaucratic structure of educational institutions, which serves school administrators better than it serves schoolchildren. A primary problem with K-12 education is that public schools have a monopoly on affordable education. As a result, they have no incentive to improve standards, contain costs, or innovate. Most importantly, they are not held accountable to the parents and students whom they serve since there are no consequences to poor schooling outcomes. Even the worst public schools are guaranteed a steady stream of students and tax revenue because most parents cannot afford to remove their children from failing public schools.

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<sup>5</sup> Kathleen Schalch, "D.C. School Crisis," *National Public Radio, Morning Edition*, September 2, 1997.

<sup>6</sup> Edward F. Stancik and Sandra Feldman, "Infestation, Not Education," *The New York Times*, June 28, 1995.

<sup>7</sup> Tsze H. Chan, Michael Garet, and Joel D. Sherman, "Estimates of Expenditures for Private K-12 Schools," *Pelavin Research Institute, Working Paper Series for the U.S. Department of Education, National Center for Education Statistics*, May 1995.

<sup>8</sup> Jay Chambers, Tom Parrish, Joanne Lieberman, "What are We Spending on Special Education in the U.S.?" *Center for Special Education Finance, Office of Special Education Programs*, undated.

The late James Coleman, a sociologist from the University of Chicago, explained that private school tuition effectively acts like a protective tariff. He notes that, “Just as a protective tariff on automobiles would protect the American automobile industry from foreign competition, private school tuition, . . . , protects the public schools from competition by private schools.”<sup>9</sup> He points out that protective tariffs generally oppose the public interest because they benefit producers (school bureaucracies) at the expense of consumers (students). In addition, protective tariffs generally provide the greatest benefits to the worst producers and create the greatest harm for the least well-off consumers.

Parental choice programs reduce the financial barriers to private schools, thereby creating competition among public schools. Giving parents the financial opportunity to seek out the best schools for their children provides schools with the necessary incentives to improve quality. It also motivates schools to become more resourceful with their finances and more innovative with their curriculums. Most importantly, it makes schools accountable to parents and students who can leave the school if improvements are not made. Competition essentially removes the monopolistic protection that many deficient public schools now enjoy.

Opponents of choice programs argue that competition in education is a radical policy that will hurt the nation’s public schools. At a recent Congressional hearing, Senator Carol Moseley-Braun (D-IL) noted that “. . . by definition, markets have winners and losers, and our country cannot afford any losers in a game of educational roulette.”<sup>10</sup>

However, competition in education is not radical; and the status quo in education has already produced many “losers.” Public institutions of higher education already compete for students, and this competition has helped make American colleges and universities among the best in the world. Competition also exists among the nation’s private and religious schools at the K-12 level, and it exists among pre-schools. The lack of competition in public K-12 education is therefore an exception, and introducing competition in this market would enhance quality as it has in other educational markets.

A study by the National Bureau of Economic Research confirmed that public schools would benefit from competition. The study presents evidence that “. . . increasing the potential of private schools to compete with public schools has a beneficial effect on public schooling outcomes, mostly by means that do not require higher spending.”<sup>11</sup>

The results from existing choice programs complement these findings. John Gardner, an at-large member of the Milwaukee Public Schools Board of Directors, stated in an affidavit that Milwaukee’s private school choice program “. . . puts effective pressure on the Milwaukee Public Schools to expand, accelerate, and improve reforms long deliberated and too-long postponed.”<sup>12</sup>

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<sup>9</sup> James Coleman, “Public Schools, Private Schools, and the Public Interest,” *American Education*, Vol. 18: pp. 17-22, January/February 1982.

<sup>10</sup> Carol Moseley-Braun, testimony before the Committee on Education and the Workforce, September 9, 1997.

<sup>11</sup> Caroline Minter Hoxby, “Do Private Schools Provide Competition for Public Schools?” *National Bureau of Economic Research, Working Paper #4978*, December 1994, p. 31.

<sup>12</sup> Cited in the written testimony of Alveda C. King prepared for a Congressional hearing before the Committee on Education and the Workforce, September 30, 1997.

Similarly, a public school teacher from Massachusetts, a state which implemented inter-district public school choice in 1991, notes:

The first year of school choice was punitive to sending schools [schools which choice students left], but otherwise the whole program is going in the right direction. School choice makes each school take notice of educational improvements that nearby schools make, lest it lose students to those other schools.... School choice is improving the quality of education in Massachusetts, in my opinion.<sup>13</sup>

A privately financed choice program that provided vouchers to the students of Giffen Memorial School in Albany, New York also managed to generate change. After one-sixth of the school's students left, the Albany Board of Education replaced Giffen's principal, added nine new teachers and two assistant principals, and pledged \$125,000 for books, equipment, and teacher training.<sup>14</sup> An article in *The New York Times* notes that by overhauling Giffen, "...school officials seem to have inadvertently bolstered a central argument for vouchers: that they foster competition and thereby force public schools to improve."<sup>15</sup> Even community residents who were opposed to vouchers were pleased to "see a long-beleaguered, long-ignored school suddenly getting some much-needed attention."

A recent article in *The Washington Post* also noted that new choices in education "...have begun to send a powerful message to public schools, even prompting some of them to acknowledge a threat of competition for the first time."<sup>16</sup> The article cites several examples of public school districts that have initiated improvements in response to competitive pressures. For instance, Michigan public schools have lost hundreds of students to charter schools prompting them to enact new programs such as all-day kindergarten classes and student enrichment programs.

Thus parental choice would not promote private and religious schools at the expense of public schools. It would improve quality in all schools by forcing improvements and creating accountability. Existing choice programs have proven that competition does work in primary and secondary education. Schools are responding to competitive pressure by improving programs and implementing needed changes. Parental choice would therefore benefit, not only those children who leave the public school system, but also those who stay in the system.

### **More Choices for More Parents**

Advocates of parental choice programs realize that any system which provides more parents with more choices will be superior to one that assigns children to certain schools based on zoning rules. The one-size-fits all approach to public education cannot and should not be expected to meet the needs of a diverse student body, and students would be better served if their parents had more control over their educational setting.

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<sup>13</sup> Massachusetts Executive Office of Education, *School Choice in Massachusetts: Why Parents Choose*. (Boston, April 1994) p. 21.

<sup>14</sup> James Dao, "Antidote to an Exodus," *The New York Times*, September 29, 1997.

<sup>15</sup> *Ibid.*

<sup>16</sup> Rene Sanchez, "Popularity Grows for Alternatives to Public School," *The Washington Post*, October 1, 1997.



One advantage of using saving incentives to promote parental choice is that the benefits are not targeted to a specific population and can, therefore, be utilized by more families. According to the Current Population Survey, one out of four families with children in private schools have incomes under \$35,000 and almost half have incomes under \$50,000. The table below shows that 66 percent of families with children in Catholic elementary schools have incomes under \$35,000 and 72 percent of families with children in Catholic high schools have incomes of \$50,000 or less. These low- and middle-income families would benefit substantially from saving incentives that ease the burden of financing their children’s education.

**INCOME DISTRIBUTION FOR FAMILIES WITH CHILDREN IN CATHOLIC SCHOOLS**

<b>Catholic Elementary Schools, 1994</b>	
Income Bracket	% Families
\$0-\$15,000	11.7
\$15,001-\$25,000	21.0
\$25,001-\$35,000	33.6
\$35,001-\$50,000	22.2
More than \$50,000	11.5
Source: Robert J. Kealey, “Balance Sheet for Catholic Elementary Schools: 1995 Income and Expenses,” National Catholic Educational Association, Exhibit 5.	

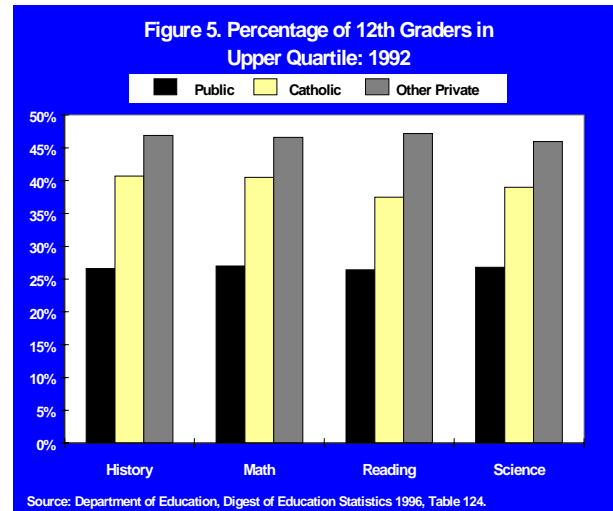
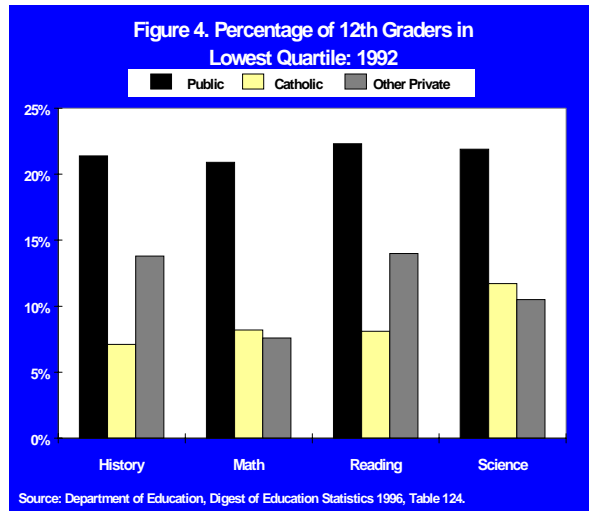
<b>Catholic High Schools, 1994-95</b>	
Income Bracket	% Families
Under \$15,000	7
\$15,001-\$25,000	14
\$25,001-\$35,000	24
\$35,001-\$50,000	27
Over \$50,001	27
Source: Michael J. Guerra, “Dollars and Sense: Catholic High Schools and Their Finances 1994,” National Catholic Educational Association, Exhibit 18.	

A family that contributed the maximum amount of \$2,500 per year to an ESA that earned 8 percent annually would have \$39,113 after 10 years. If the same amount of money were contributed to a regular saving account in which earnings were taxed each year, the family would only have \$34,460 after taxes if they were in the 28 percent tax bracket. Thus the ESA saves the family \$4,650 in taxes over this time period—an amount that could pay for two years of tuition at a four-year public university.

This tax benefit would provide relief to low- and middle-income families who are sacrificing a great deal to educate their children in private and Catholic schools. It would also provide the needed incentive to encourage other families to start saving for their children’s education. In addition, since saving incentives can be utilized by all low- and middle-income families in all communities, the beneficial impact on the K-12 school system would be more consequential and widespread.

**RAISING CHILDREN’S ACADEMIC ACHIEVEMENT**

Private and religious schools generally produce superior schooling outcomes relative to public schools. Figures 4 and 5 show that 12<sup>th</sup> graders in Catholic and other private schools outperform their public school counterparts on achievement tests in every subject. Moreover, students in private schools are also more likely to complete high school and go onto college than are students in public schools. The average college application rate for seniors in public schools



is 57.4 percent compared to 87.5 percent in private schools. For schools with at least 50 percent minority attendance, college application rates for public and private schools are 54.2 and 79.9 percent, respectively. These trends hold in inner city, suburban, and rural communities and for public and private schools with similar demographic compositions.<sup>17</sup> These findings suggest that parental choice in education would raise children's academic achievement by enabling more children to be educated in private school settings and by encouraging public schools to adopt effective educational approaches used in more successful schools.

Some observers argue that private schools produce better schooling results because they are more selective. Although some private schools may have rigorous admission standards, selectivity does not seem to be the key to success for Catholic schools (which serve the majority of private school students in choice programs<sup>18</sup>). One study by economists from the University of Maryland found that graduation and college attendance rates were the same for Catholic schools regardless of whether they had admission requirements.<sup>19</sup> In fact, Catholic schools often cater to minority and disadvantaged students, and pride themselves on their ability to raise the academic achievement of disadvantaged children who do poorly in public schools.

Several studies that control for selectivity bias have found that private schools (especially Catholic schools) produce better results for disadvantaged children. For instance, research conducted by James Coleman and his colleagues found that:

Catholic schools are...more effective than public or other private schools in raising the academic achievement of subpopulations that traditionally achieve at lower levels, including blacks and Hispanics, children from families with lower levels of parental support, and children from families of lower socioeconomic status.<sup>20</sup>

<sup>17</sup> *Op. Cit.*, *Digest of Education Statistics*, Table 181.

<sup>18</sup> Jeanne Allen, "Nine Phoney Assertions about School Choice," *USA Today Magazine*, July 1993.

<sup>19</sup> William N. Evans and Robert M. Schwab, "Finishing High School and Starting College: Do Catholic Schools Make a Difference?" *The Quarterly Journal of Economics*, CX: 942-957, November 1995.

<sup>20</sup> A summary of James Coleman's work is provided in: Luther B. Otto, "Public and Private High Schools: The Impact of Communities," book review, *Science*, September 11, 1987.

According to Coleman, Catholic schools are successful in educating high-risk students because they create a “functional community” in which the school, family, and student interact around common values and goals. Whereas education at any institution enhances “human capital,” by endowing students with skills and knowledge that improve their economic productivity, Catholic schools provide functional relationships that enhance a student’s “social capital.”<sup>21</sup> Social capital is critical to a child’s ability to learn.

Public schools, on the other hand, were designed when the goal of education was to teach a large number of students the most basic social and workplace skills, selecting only a few of the best for “thinking work.”<sup>22</sup> A bureaucratic structure of centralized decision-making and standardized curriculums was created to carry out this goal. Regulatory obstacles make it difficult for schools to develop value-oriented communities or to be responsive to the needs of different students. Although this standardized approach works well for many students, it cannot be effective for all students.

A study by the RAND Corporation concurred with this conclusion. The RAND study identified several reasons why Catholic schools are more successful in educating disadvantaged students.<sup>23</sup> For instance, Catholic schools focus on schooling outcomes, whereas public schools focus on delivering programs and following procedures. Catholic schools consider themselves accountable to parents and other entities who depend on their services, whereas public schools are accountable to bureaucratic superiors. Catholic schools emphasize secular ethics of honesty, reliability, fairness, and respect, whereas public schools see themselves as “transmitters of information.” These traits, among others, enable Catholic schools to improve the performance of children who typically fail in public schools.

These are only a few of the studies demonstrating the positive effects of Catholic schooling on poor and minority children. The findings suggest that selectivity is not the factor behind Catholic school success and that parental choice in education can provide important opportunities that raise children’s academic achievement.

## **ISSUES RAISED BY PARENTAL CHOICE**

### **Funding to Public Schools**

President Clinton has threatened to veto any legislation that provides parents with saving incentives to help defray the cost of private primary and secondary education. The Clinton Administration argues that such a provision would undermine public education by draining money from the public school system. However, parental choice programs do not necessarily divert money from public education.

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<sup>21</sup> *Ibid.*

<sup>22</sup> Linda Darling-Hammond, “Restructuring Schools for Student Success,” *Daedalus*, September 22, 1995.

<sup>23</sup> Paul T. Hill, Gail E. Foster, and Tamar Gendler, *High Schools with Character*. (Santa Monica: The RAND Corporation, 1990)

Promoting parental choice through saving incentives does not require any expenditure of public funds, but eliminating the double taxation of saving would represent a revenue loss for the federal government. In other words, a family that decides to save \$2,500 in a saving account will pay income taxes on the \$2,500 when that income is earned. In addition, they will pay taxes on any interest or dividends that accrue in the saving account. However, if the money is invested in an ESA, the earnings generated by the \$2,500 are not taxed so that the family is only taxed once on their savings instead of twice, thereby reducing government revenue.

Whether this loss in revenue is offset by a reduction in funding to public education depends on the language in the legislation. The Joint Committee on Taxation estimates that the Education Savings Act would reduce revenue by \$2.58 billion over five years. The legislation stipulates that this cost would be offset by a \$2.65 billion increase in tax revenue generated from changes in the tax law relating to employer deductions for accrued vacation pay. Consequently, the proposal will not take any money out of public schools. Moreover, since some students will leave the public school system as a result of the legislation, public schools will be left with the same amount of funding to educate fewer students. Thus it cannot reasonably be claimed that saving incentives would undermine public education by diverting funds away from public schools.

Furthermore, parental choice programs do not represent an abandonment of public schools. Not all financially empowered parents will choose to send their children to private schools. Many may use the funds to send their child to a more reputable public school or charter school. Thus saving incentives do not promote one type of school over another, they simply make more options available to more parents. The only schools that would suffer as a consequence of choice programs are those that have failed to meet the minimum quality standards already established by the public. Schools that are not adequately educating children should not be protected; they should be reformed—and the competitive pressure created by parental choice will provide the impetus necessary to initiate reform.

It is unclear why the Administration opposes public funding of private school choice at the K-12 level, but supports it at the college level. The Administration has provided \$35 billion of tax benefits that will allow families to send their children to private and religious colleges, but it refuses families the same benefits for primary and secondary education. This inconsistency has led many observers to believe that the Administration's opposition is political rather than in the best interest of America's schoolchildren.

## **Legal Issues**

Some opponents of parental choice argue that using public funds to subsidize religious schools raises a potential constitutional violation of church and state separation. It is highly unlikely that the use of saving incentives to promote choice would constitute such a violation. There are three criteria that have been established by the U.S. Supreme Court to determine the constitutionality of a law with respect to church and state separation.<sup>24</sup> First, the statute must have a secular legislative purpose; second, its primary effect cannot advance or inhibit religion; and third, the law must not foster excessive government entanglement with religion.

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<sup>24</sup> *Lemon v. Kurtzman*, 403 U.S. 602, 91 U.S. Supreme Court 2105, 1971.

In 1983, the Supreme Court applied this test in *Meuller v. Allen* and upheld a Minnesota law that provided parents with tax deductions for private primary and secondary school expenses.<sup>25</sup> Justice William Rehnquist, who delivered the opinion of the court, stated that:

A State's decision to defray the cost of educational expenses incurred by parents—regardless of the type of schools their children attend—evidences a purpose that is both secular and understandable. An educated populace is essential to the political and economic health of any community, and a State's efforts to assist parents in meeting the rising cost of educational expenses plainly serves this secular purpose of ensuring that the State's citizenry is well educated.

It was judged that the primary effect of the law did not advance any religion since the deduction was available to parents regardless of whether their children attended religious or non-religious schools; and any benefit accruing to religious institutions was a result of parents' choices rather than government action. This precedence clearly suggests that saving incentives would also be found constitutional.

Furthermore, federal dollars are currently being used to directly subsidize religious education at the pre-school and higher education levels. Students can use federally funded Pell Grants and GI Bills to attend religious colleges and universities; they can also use government subsidized student loans to attend religious institutions of higher education; and parents can use federal day-care vouchers at religiously affiliated pre-schools. In addition, the \$35 billion of tax benefits provided in the new budget bill will allow parents to send their children to religious colleges. Once again, the lack of government assistance at the K-12 level represents an exception.

## **Elitism**

Some concerns have been raised that parental choice programs would create a deeply divided school system as affluent, white students would go to private schools, leaving poor and minority students behind in deteriorating public schools. This concern overlooks the fact that economic realities have already created a deeply divided public school system that barely resembles the "common" school of decades past.

Low-income families tend to live in inner cities where the quality of public schools is lowest. Because of their financial constraints, they have no choice but to send their children to these inferior schools. As a result, the majority of students in deteriorating inner-city schools come from poor, minority families. Wealthy families who live in inner-city school districts can afford to send their children to private schools or move to different neighborhoods where the public schools are more reputable. Accordingly, children of wealthy families are concentrated in private schools and in the best public schools. Thus the current system, in which only wealthy families can afford to choose, has already created a two-tiered educational system. Saving incentives, by design, would foster economic integration by allowing children to attend schools their families otherwise could not afford.

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<sup>25</sup> *Mueller v. Allen*, 463 U.S. 388, 103 U.S. Supreme Court 3062, 1983.

## CONCLUSION

Free public education is one of the most important services provided by the government. Public schools have served the nation well and continue to provide an excellent education to the majority of children who attend them. However, it is becoming increasingly clear that many public schools are providing millions of children with a substandard education. The education crusade cannot be won without reforming these deficient primary and secondary schools.

Since 1983, government funding to public K-12 schools has increased by 44 percent and average per-student spending has increased by 32 percent. Total spending on public K-12 education now totals almost \$300 billion, or four percent of GDP, per year. However, the increased spending has not improved quality, suggesting that more money is not the answer to school reform.

Instead, school reform must address the deficient bureaucratic structure of educational institutions that has lost sight of children's best interests. Public schools have a monopoly on affordable education, and therefore, are not held accountable for their performance. Consequently, they have little incentive to improve quality or control costs.

Schools can be effectively reformed through parental choice programs that empower parents rather than school bureaucracies. Parental choice embodies two principles. First, any system which provides more parents with more choices will be superior to one that assigns children to certain schools based on zoning rules. Second, competition ensures that customers receive the highest quality product at the lowest price. If parents are given the financial ability to remove their children from failing schools, these schools will be forced to improve their quality if they are to remain viable. Existing parental choice programs have managed to initiate improvements in their local public school districts.

Many policy makers support proposals that would allow parents to establish tax-free saving accounts to encourage them to save for their children's K-12 education. Tax-free saving would generate important benefits to millions of low- and middle-income families who are already sacrificing a great deal to educate their children in Catholic and other private schools. It would also benefit children in public school whose parents could use the funds to pay for computers, tutors, or other educational expenses.

Promoting parental choice through saving incentives would not promote private and religious schools at the expense of public schools. It would simply make more options available to more parents and provide new opportunities for schoolchildren both inside and outside the public school system.

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