Third Assignment

School Vouchers

The idea of school vouchers is an old one. A famous economist, Milton Friedman, has championed them for many, many years. Recently it has received renewed interest if not increased support.

There are some curious aspects of this debate, which I personally do not understand. For instance, much of the debate hinges upon whether it is legal to give government aid to church schools by means of vouchers. Why this becomes a constitution issue in K-12 education but obviously passes constitution muster at the college level is unclear to me. Nearly every state gives some sort of state money to church affiliated schools. In particular, in South Carolina, the only private, religiously affiliated college not to get direct state money is Bob Jones Univ. and even it gets money in the form of Life Scholarships.

Put the constitutional issue aside.

I want you to examine the question of whether competition in education will work. I want you to consider the pros and cons of organizing K-12 education by means of a voucher system in which individual schools compete for students as if they were private businesses. Whatever arguments you make must confront the singular fact that higher education is produced exactly this way where the competition occurs on a national basis. There is also a good bit of state-wide competition that differs in form from place to place.

You might claim that higher education is inefficiently produced and so too would be K-12 schooling in a voucher environment, or that the competition at the college level is more apparent than real, or that college education is fundamentally different in its production characteristics, or that indeed vouchers would significantly improve K-12 education. Whatever tack you take, make your argument logically sound and supported by as many facts as possible.

I am particularly interested in seeing you grapple with the managerial issues that confront school administrators and how these might be the same or different than the issues that entrepreneurs, managers, and investors in private enterprises (both profit and non-profit) face.

This is another short paper, but on this one, if you feel so inclined and with a good outline, you might run the word count up above 2000. Do not write a lot unless you have thought carefully about how to say it.

The paper is due next Tuesday at noon.
Notes on Assignment 3

The first, and possibly most important thing to recognize about the voucher question is that there is already competition among schools. Public schools compete against private schools and home schooling. The private schools are largely denominational but only because that provides a funding base. The management of private schools now is the most reasonable expectation about how all schools would be forced to function under a voucher system. Teachers are evaluated based on their classroom and institutional successes. They are compared (implicitly and explicitly) to the alternatives available in the market. They are sorted into the jobs that they can do best. And they compare the work load that is levied on them and the compensation afforded to their alternative employment opportunities.

The competition that exists now is restricted. Families whose children attend private schools pay the private school tuition out of pocket while they also pay taxes that support public schools. Forget the equity issue that this suggests; the equity question comes into play on a larger scale between people who have children in school and people who do not. The important point about the current system of funding is that there is an artificial price wedge driven between the out-of-pocket cost of private versus public schools. As it stands now, only the most educationally driven families have children attending private schools.

Generally, but not always families with children in private schools are in the higher income brackets. One argument against vouchers is that vouchers would merely subsidize the educational expenditures of rich people. Again, sweeping aside the equity issue, this problem can be simply remedied by making the amount of the voucher income or wealth based. That is, give larger vouchers to poorer people.

The important thing to consider is what happens in the public/private school system when the artificial price wedge is reduced. When private schools become affordable to a larger proportion of the population, then public schools will be forced to respond. Schools will specialize. We know this because that is the nature of competition. McDonald's, Burger King, and Wendy's all sell hamburgers, but they are all slightly different, and these are just a micro-dot on the spectrum of fast-food eating establishments.

Specialization will mean that some schools cater to really smart egg-heads while others put up with the mal-contents. Some schools will be sports power-houses. There is no question that there will be schools of last resort. There will be schools that will take anyone: This is true because there will be a profit in it.

Vouchers will bring competition and competition will bring specialization to the K-12 educational process just as it has done at the college level. Few would argue that the higher education system in South Carolina is "awful" or in shambles. There are a wide variety of colleges in the state--all but one (Bob Jones U.) directly subsidized by the state in rough proportion to in-state student enrollment. Recognize that SC colleges with religious affiliations, e.g., Furman, are state supported. More interestingly, the colleges in the state specialize. The

---

1 It is not clear that religion dominates the educational activities at these schools. It certainly does not at the college level or in the Catholic schools.

2 It used to be that the subsidies were directly related to enrollment, but Clemson and USC threatened to put the rest out of business. Politics caused the system to be changed. Since then, the scholarship program is a move back in the direction of enrollment based funding.
specialization in a small state like South Carolina is not as extensive as that in a large state like Illinois, but the specialization occurs.\(^3\)

The question that is raised is not, Will vouchers work? Of course vouchers will work. They work at the college level and we already have a competitive educational system at the K-12 level. Rather we should ask, Is the educational equilibrium created by vouchers what we want in society? Do we want a K-12 system that is specialized? Do we want the brain-children segregated from the less gifted?

It is certainly the case that what we have now in public schools is a muddled mixture of programs that, because they are unspecialized, have restricted educational potential. Any public school that advertises itself as offering special programs for educationally gifted children will be attacked because it is ignoring the dummies. Similarly, if it focuses programs specially for the underachievers, it will be criticized because too few of its graduates place well in college. Vouchers would change this and allow schools to specialize without fear of criticism, except through the market place in attracting students.

However, is that what we want? One view, usually stated in implicit form, is that what we have now is what we want. Society wants to throw everyone together in a pool, mix them around, and try to make everyone come out better (than average). This view argues that specialization will imply segregation (not of the races but of IQ) and segregation will make society worse.\(^4\) The price that we pay for intellectual desegregation is a public school system that is less effective than it could be.

---

**Grading Notes from Karim Gulamhusein**

1) Many students are not too clear about the definition of a voucher. Most imply government will give money to parents which will increase government spending. This is not exactly true. Parents have pre-paid tuition through taxes which government give to school districts. Vouchers give parents their child's share of school tuition and thus allowing them to spend at school of their choice. Vouchers may be equivalent to full tuition or partial tuition and remainder coming from parents pocket.

2) Many students state that money will flow from public schools to private schools. Not true. This is demand driven story. Instead of paying full tuition at private schools, parents will be given a voucher (pre-paid tuition per child through taxes) which may be full tuition or partial tuition and remaining portion made up by the parent. So, schools that attract more students receive more revenue which results in residual surplus (profit?)

3) Many students did not full grasp the dynamic nature of equilibrium. Ultimately, the education market will have multiple equilibria. That is, self-sorting will occur where parents will match theirs children to schools that best cater to their needs. For instance, problem child with military school; artistic child with performing arts school; science interest with schools that offer natural

---

\(^3\) In thinking about the equilibrium that would occur in K-12 education under a voucher system it is useful to liken a small community like Clemson-Seneca to a state like South Carolina and a large community like Columbia to a state like Illinois. Clemson residents would not have as much choice under vouchers as would Columbia residents.

\(^4\) A cynical view from the opposite side claims that the problem with society today is that desegregation of intellectual abilities that occurs in public schools makes people hate each other more.
or social science; and finally, high tech with high tech schools. In other words, schools will be specialized to cater to different type of students.

3a) Continuing with dynamic nature of equilibrium, public schools are not monopolies. There has always been private, charter (many not clear on this as well), and home schooling that coexist with public schools. Reason why parents not send them to these schools with due to parents' unwillingness to pay extra (full tuition) from own pocket.

3b) Many mentioned that parents will flock their children to private schools causing public schools to be without students and funds and therefore force them to shut down. This is not true. As students leave public schools, they take with them their portion of tuition with them in form of voucher. The result is that exiting schools are forced to change and improve their program. Also, the (teacher/student) ratio increases which will result in increase performance, reputation, demand for entry, revenue and surplus (profit). Note that the movement from public to private schools will not make private schools more wealthy and public schools get poor. This is demand driven argument that people take with them their spending money. This is like any private firm in the marketplace. Consumers penalize firms by walking with their dollars (something like that)

3c) As students move to private schools, the demand will shift. This does not necessarily imply that price will increase. Admission is based on money price and non-money price. Tuition fees will be most likely be set by government (?). And admission will involve non-price mechanism to ration limited number of positions. These include: admission exams; past performance; etc.

4) Voucher system will increase competition among schools. This is not a new idea. Education is an economic good like any other good that is in the marketplace. Consumers will try to maximize their utility given their budget. Example of this is at the college level. Schools compete for students and their money.

5) Many mentioned that poor may not be able to afford private schooling. Price serves as an allocative mechanism. Those who value the good (education) the most will pay and consume it.

6) Notion of competition in K-12 has existed for a long time. Consider case of England, Japan, China, Hong Kong, and many eastern block countries.

7) Voucher system will increase competition among schools for students. Many mentioned that teachers will be affected by this increase competition. Teachers will not loose jobs because of teacher unions. It is possible that teachers' salary may increase due to incentive based pay on student performance--scores and admission. Note salaries may not increase since they may be regulated since tuition fees will likely be regulated.

8) Voucher system may be problematic. Giving parents choice to send their children to school of their choice may problematic because parents may not have all the information available to them when making decision. This is mitigated by introduction of firms specializing in education information.