ARIZONA STATE UNIVERSITY

EPSL | EDUCATION POLICY STUDIES LABORATORY
Education Policy Research Unit

Document Reviewed: "Education Scholarships: Expanding Opportunities for Students, Saving Taxpayers Money" Darcy Olsen (Goldwater Institute, March 26, 2002).

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Arizona's private school tuition tax credit program provides credits to individual taxpayers who donate money to finance private school tuition grants. The Goldwater Institute's recent publication, "Education Scholarships: Expanding Opportunities for Students, Saving Taxpayers Money,"[1] advocates extending the program to corporations.

Although billed as an "Issue Analysis," the Goldwater paper limits itself to describing a perceived problem and advocating for the organization's preferred solution. It fails to include a substantive policy analysis and largely ignores the complex educational and legal issues raised by tuition tax credits.

On Whose Authority?

Instead of building its claims on a solid foundation of independent authorities, *Education Scholarships* relies upon assumptions that may be solid axioms in libertarian circles but beyond those circles are only conjecture. For instance, the reader is assured of the "common wisdom" that "the private sector runs businesses more efficiently than does government," and that this principle extends to public schools. In reality, the research on privatization of educational services is mixed at best.[2]

Lacking independent research on which to rest its assertions, *Education Scholarships* falls back on the passive voice, using phrases such as "…is expected to…," often with no authority cited to support the claim. For instance, the author bolsters the Florida corporate tax credit plan with the unsubstantiated assertion: "The tax credit is expected to save Florida taxpayers millions of dollars a year."[3]

When the paper does offer references, the support is often weak or imaginary. For example, footnote 8 cites a Cato report for the following statement: "A survey of the scholarship organizations published by the Cato Institute found that more than 80 percent of the scholarships were awarded on the basis of financial need." The Cato Institute, however, cites a Goldwater employee as the source for this data point, and offers no hint of its ultimate support or its origin.[4] This sort of circular reference amounts to little more than an academic version of money laundering: citing "the guy down the hall" but depicting the authority as independent.

Pennsylvania and Florida

The *Education Scholarships* proposal holds up the Pennsylvania and Florida programs as successful programs that Arizona should emulate. These states' programs have not existed long enough to draw any meaningful policy conclusions, however. In both cases, the tuition tax credit legislation was passed only a year ago, in the spring of 2001.

Legal Concerns

The Goldwater proposal would present legal questions comparable to those put at issue by A.R.S. § 43-1089, the present Tuition Tax Credit law. One of the legal issues raised in a lawsuit challenging that law concerned the question of whether it violated the establishment clauses of both the federal and the state constitutions. The challengers argued that the law unfairly favored private religious schools with state money. In *Kotterman v. Killian*, 972 P.2d 606 (1999), the ruling majority on the Arizona Supreme Court dismissed these contentions, repeatedly citing the parallel public school tax credit law (A.R.S. § 43-1089.01), which allows a credit of up to $200 for fees paid by taxpayers in support of public school extracurricular activities.[5] Essentially, the court majority held that, since the tax credit for private school tuition grant donations is not the only option available to potential donors, there is no unconstitutional favoritism of religious institutions; when considered together, the private and public tax credit laws offer fair treatment overall. The new Goldwater *Education Scholarships* proposal only benefits private schools, yet includes no analysis of the legal problems that this would summon. Nor does this Goldwater proposal explore the fiscal repercussions of a parallel tax credit provision benefiting public schools, should the state legislature determine that its inclusion would be necessary or wise.

Merely a Foot in the Door?

Backers of the original tax credit law initially presented it as primarily benefiting the poor.[6] The *Kotterman* majority also stressed the potential benefits of the tax credit law for low-income residents of the state:

> Until now low-income parents may have been coerced into accepting public education. These citizens have had few choices and little control over the nature and quality of their children's schooling because they have been unable to afford a private education that may be more compatible with their own values and beliefs. Arizona's tax credit achieves a higher degree of parity by making private schools more accessible and providing alternatives to public education.[7]

Notwithstanding the rhetorical use of poor families in passing and defending the law, however, the "scholarships" awarded through the tuition tax credit program have provided few actual benefits to these low-income parents.[8] Only days before the release of *Education Scholarships*, its author, Darcy Olsen, was quoted in *The Arizona Republic* acknowledging the strategic use of poor kids. Olsen admitted that the present system "probably" helps the middle-class and wealthy more than the poor; she also said that attempts to sell the program as helping poor kids would have been "only an angle."[9]

To its credit, the new Goldwater proposal differs from the original tax credit law in that it expressly limits student beneficiaries to those who attended public school in the previous year and who qualify for the federal free and reduced-price lunch program. Even so, some skepticism may be warranted. In the paper, Olsen writes: "This scholarship program is a starting point for reform, designed to assist the neediest students in public schools first."[10] The statement strongly suggests that the new proposal targets poor children only to gain a policy foothold, and that its supporters' ultimate aim is to ratchet up the system in the future.

<u>No Empirical Support for Key Propositions</u>

As just noted, unlike the grants funded by tax credits to individual taxpayers under the current program, the Institute proposes that grants awarded through a corporate tax credit be means-tested. Grants would be limited to students eligible for the federal free and reduced-price school lunch program.[11] The inclusion of means testing raises the question of why tuition grants under the present tax credit program should not also be means-tested. The means-testing proposal also raises important implementation questions.

Olsen asserts that the corporate income tax scholarship credit could, within five years, help send "an estimated 22,500 students, or 7 percent of students participating in the federal school lunch program, to private-sector schools." The Goldwater report, however, appears to pay little attention to who these children would be and what obstacles they would have to overcome. While Olsen acknowledges that they would have to fund the balance of their own tuition, she does not address the fact that they would also have to fund their own transportation and books and other supplies. More troubling, they would have to clear all admissions obstacles set by the private schools. This means that schools could exclude these students based on academic and religious criteria, as well as through so-called "sweat equity" requirements (that is, compelling parents to donate a certain amount of time to the school). The institute's proposal would have been much stronger had it addressed the implications of such exclusionary policies and the issue of whether they could deepen divisions and exacerbate social inequities.

Finally, one must ask, "What about the other 93% of these students?" This question raises another key omission of the Goldwater document. In lieu of the present libertarian assumptions about the workings of the private market, the reader could have benefited greatly from a review of the literature about the actual benefits and detriments of privatization. The key positive finding of such research is that parents who take advantage of school choice appreciate the freedom, and they perceive the chosen school as preferable to their child's old school.[12] Moreover, while school choice does not seem to have generated the sort of widespread innovation that advocates initially theorized, there do exist some impressive examples of innovation.[13]

On the negative side of the ledger, school choice mechanisms appear to stratify children by income, test score, special education, and race.[14] Research suggests that the parents who actively avail themselves of choice programs for their children have higher levels of education than those who do not.[15] If this tendency were to hold true under the Goldwater proposal, one would expect the 7% of federal lunch program students who are awarded these scholarships to have more highly educated parents than the 93% of this subpopulation who remain in the public schools. As such, one can see that the proposal may do little to benefit the great majority of low-income students.

The key, of course, is what happens to those 93% of low-income students who remain in the public schools. In the Goldwater proposal, Olsen describes an optimistic scenario:

> By infusing the state education system with dynamic, competitive forces, the program has the potential to benefit all students, not just those who receive direct scholarships. As more and more families exercise choice, educators respond by improving their services to attract and retain students. When parents choose schools, schools that can't teach will be shut down and schools where children excel will flourish. That process raises the quality of education for all children in all schools while improving fiscal responsibility to taxpayers.

Unfortunately, this is not the way school choice has played out in the real world, where the best teachers flee from choice-disadvantaged schools (those losing students), as do the most efficacious families.[16] These schools, faced with the loss of funding, teachers, students, and morale, are in no position to "respond by improving their services to attract and retain students." Instead, they tend to spiral downward, taking the left-behind students with them.[17]

Conclusions

Vouchers, tuition tax credits, and school privatization in general are highly charged political issues. They implicate deep value judgments about the role of schools in a democratic society. As such, one wonders, when reading the new Goldwater proposal, what is the "end game." Where does the privatization stop? Why not push all students into privatized schooling? Is the state heading toward a bifurcated system where the public schools serve only as warehouses for those with no financial means to flee to private schools?

Likewise, when Olsen describes the "elastic" ability of the private educational sector to expand to serve a growing number of students, what sort of market is she envisioning? Will these be “McSchools” – chains designed for efficiency – or truly innovative and exciting facilities? The wealthy will demand the latter; but what will low-income families have for their choices?

Elements of the Goldwater proposal may be worth further study. As noted earlier, the state may want to consider amending the present law to include means testing. And the state may also want to study ways to involve the business community in charitable educational activities. But little in the present proposal offers empirical support for the proposition that this is a sensible way to channel that community's financial contributions. While there is real value to policies that encourage corporate generosity, little is gained from a policy that merely gives corporations the power to redirect tax money that is otherwise targeted for public purposes.

NOTES

1 Olsen, Darcy (2002). “Education Scholarships: Expanding Opportunities for Students, Saving Taxpayers Money.” Phoenix: Goldwater Institute.

2 See, for instance: Gill, B.P., Timpane, P.M., Ross, K.E., & Brewer, D.J. (2001). *Rhetoric Versus Reality: What We Know and What We Need to Know About Vouchers and Charter Schools*. Santa Monica, CA: RAND.

3 Olsen, p. 4.

4 See footnote 17 of Cato Policy Analysis No. 414 (September 17, 2001), “The Arizona Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money,” by Carrie Lips and Jennifer Jacoby (http://www.cato.org/pubs/pas/pa-414es.html); the footnote cites a representative of Center for Market-Based Education, which is part of the Goldwater Institute.

5 *Kotterman v. Killian*, 972 P.2d at 613, 615, and 616 (1999).

6 Keegan, L. G. (2001). Tuition tax credits. Education Leaders Council [On-line]. Available: http://www.educationleaders.org/issues/010401keegan.htm .

7 *Kotterman v. Killian*, 972 P.2d at 615.

8 Bland, Karina (2000, April). “School tax credits wide open to abuse: Millions are diverted from needy students.” *The Arizona Republic.*

See also: Wilson, Glen (2002). *The Equity Impact of Arizona’s Education Tax Credit Program: A Review of the First Three Years (1998 – 2000).* Tempe, AZ: Education Policy Studies Laboratory, Arizona State University.

9 Kossen, P. (2002, Mar. 23). School tax credits fail poor. *The Arizona Republic.*

10 Olsen (2002), pp. 1 and 11. See also similar statements on pages 4 and 7.

11 Olson (2002), p. 7.

12 Mayer, D.P., Peterson, P.E., Myers, D.E., Tuttle, C.C., & Howell, W.G. (2002). *School Choice in New York City After Three Years: An Evaluation of the School Choice Scholarships Program* (p. 28). Mathematical Policy Research, Inc. Note that the authors also claim to demonstrate other, academic, benefits of the voucher plan they studied, but these results are much more controversial – generally as well as in the particular case studied. Thus far, choice schools have shown no reliable achievement benefits. See

Gill, B.P., Timpane, P.M., Ross, K.E., & Brewer, D.J. (2001). *Rhetoric Versus Reality: What We Know and What We Need to Know About Vouchers and Charter Schools*. Santa Monica, CA: RAND.

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13 Wells, A. S., Lopez, A., Scott, J., & Holme, J. J. (1999). Charter Schools as Postmodern Paradox: Rethinking Social Stratification in an Age of Deregulated School Choice. *Harvard Educational Review, 69*(2), 172-204.

14 Howe, K., Eisenhart, M., & Betebenner, D. (2001, October). School choice crucible: A case study of Boulder Valley. *Phi Delta Kappan, 83* (2), 137-146.

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Cobb, C. & Glass, G. (1999, January 14). Ethnic segregation in Arizona charter schools. *Education Policy Analysis Archives, v. 7, n. 1*. Retrieved on October 6, 2001 from http://epaa.asu.edu/epaa/v7n1.

Fiske, E. B. & Ladd H. F. (2000). *When schools compete: A cautionary tale.* Washington, D.C.: The Brookings Institution Press.

15 Witte, J. (2001). *The market approach to Education: An Analysis of America's first voucher program*. Princeton: Princeton University Press.

16 Howe & Betebenner (2001).

Taylor, G., Shepard, L., Kinner, F., & Rosenthal, J. (2001). *A Survey of Teachers' Perspectives on High-Stakes Testing in Colorado: What Gets Taught, What Gets Lost. Draft Report.* Boulder, CO: University of Colorado at Boulder; National Center for Research on Evaluation, Standards, and Student Testing; Center for Research on Evaluation, Diversity and Excellence.

Flannery, M.E. (2000, May 5). "Teachers may be able to switch from F schools." *The Palm Beach Post*.

17 As a practical matter, a policy maker might also wonder, given Arizona's open availability of charter schools and the present individual tuition tax credits, why the system is not already "infused with dynamic, competitive forces" sufficient to drive the innovations and improvement theorized by the Goldwater proposal.

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