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Education Income Tax Credits for Non-Public Schools and The Economic Repercussions

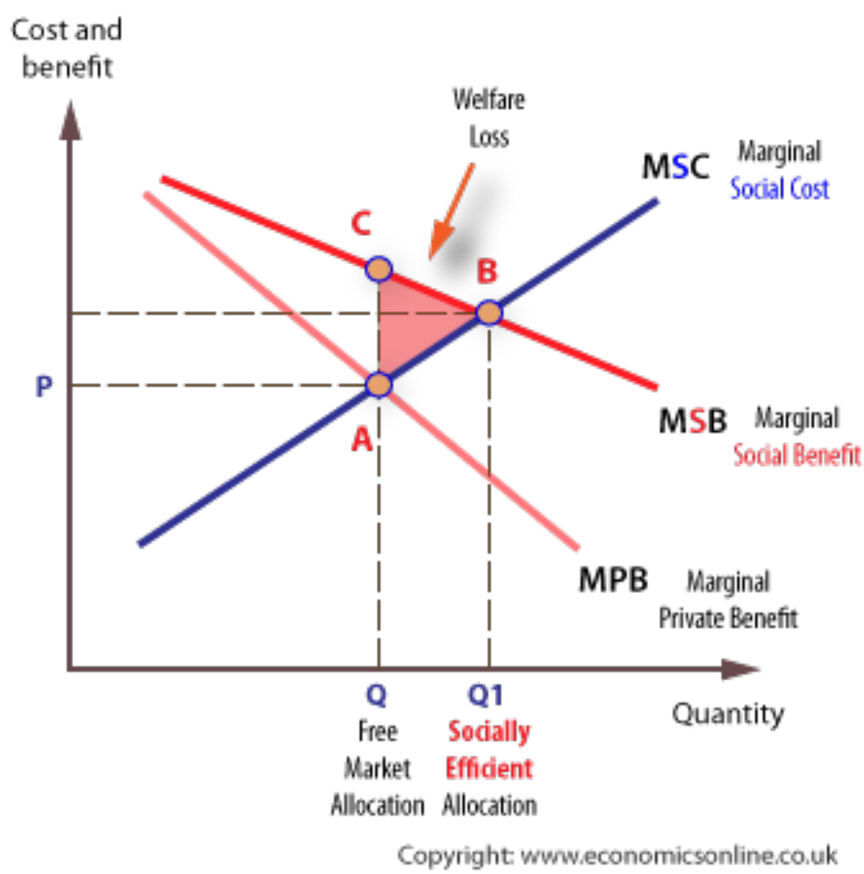
The name of this bill is SB17-039, or *Education Income Tax Credits for Non-Public Schools.* If enacted it would allow taxpayers who have dependents attending private school, or who sponsor scholarships for students enrolled in private schools, to qualify for an income tax credit. The private schools would be the issuers of the tax credit certificates. These tax credits would expire three years after the year issued. The credit will be worth the entirety of the private school tuition, or 50% the State's per pupil average(PPA), whichever amount is less. The credit for a half-time private school attendee will be the total tuition paid by the taxpayer or 25% of the states PPA, again, whichever is less. The bill's purpose is to encourage parents to pull their children out of public schools and enroll them in private schools.

In the first part this analysis, the governments involvement in education will be explored. The issue that arises whenever the privatization of education is discussed is what role, if any, the government should play in a students' education. Education is a private good. This means that it is rivalrous in consumption or one students' consumption can hinder another student through class size and resources. It is also excludable a student can easily be excluded from an education. Economists are almost always against government interference in the markets of private goods, unless there are externalities present

Externalities arise when there is a cost or benefit that occurs when the activity of one entity directly affects the welfare of another in a way that is outside the market mechanism.

When the occurrence is a benefit, it is called a positive externality. With a positive externality, the marginal social benefit for the service is greater than the marginal private benefit.

The Economy under-produces when positive externalities exist. This is due to firms failing to take the social benefit into account when making decisions about how much to produce. Consider the diagram below. Let us consider the idea that the market for education may produce some unpriced social benefits in the market. Then, the free market for education would supply quantity Q at price P. However, by consuming only quantity Q, the marginal social benefit **C** is above the marginal social cost **A**. Thus, the net welfare loss to society, in the presence of positive externalities, is the area of **ACB.**



Education produces positive externalities. Educating children creates more informed and conscientious citizens. It stimulates their civic engagement and lends to the democratic process of our nation. Integration of non-English speaking citizens, differing cultures, and income levels, are also external benefits stemming from the educational system. According to a study done by Glaeser, Ponzetto, and Shleifer in 2006, there is strong correlation between stable, high functioning democracies, and education in countries throughout the world.

If left solely to the free market, education would be provided inefficiently in the presence of such externalities. Government providing education is a way of internalizing the positive externalities. They can control the curriculum to efficiently and properly achieve the externalities coveted in democratic society. Governments have a responsibility to improve efficiency and stimulate the proper output of education. The correct way to stimulate them is very hard to determine.

SB17-039 is a certain way the government may decide to stimulate output by incentivizing tax payers to enroll their children in private schools. Upon examining the possible side effects of reliance on private schools, several problems come to light. The U.S. Department of Education's mission, per their website, "is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access". Equal access to all children is a notion called commodity egalitarianism. It is the idea that education is a commodity that should be available to everyone. Private schools are not egalitarian.

Private school admission is competitive. Private school admissions process can be quite taxing. Admission to the top private schools in Colorado is right around 70% according to

Private School Review's website. This raises a problem commonly referred to as "cream skimming". When the top students are continually drawn away from public schools leaving the worst and less fortunate students behind. Not only are the lesser performing students forgotten, but the racially diverse students are as well.

According to the National Center for Educational Statistics(NCES), 74% of all private school students are white compared to 58% in the public-school system. This is a number that shows how private schools are failing to internalize the positive externality discussed earlier of diversity and integration. Along with racial segregation, religious segregation is rampant. A telling statistic provided by NCES is that 68% of all private schools have a religious affiliation. These tax credits promote enrollment in these majoritively religious run entities, which is a clear contradiction to the 1st amendment of the constitution.

Beyond this contradiction to the 1st amendment, careful analysis has revealed several problems when the government encourages school choice. The tax credits proposed in SB17-039 encourage tax payers to take children out of the government funded public schools and place them in privately run schools. As discussed, the governments intervention in education is to promote externalities efficiently. While private schools do produce positive externalities, analysis shows they are often sub-optimal and skewed in favor of the privileged few.

A paper written by three college professors named Bifulco, Ladd, and Ross, examines the idea of encouraging school choice. In the conclusion, they state, "schools characterized by excessive racial isolation and concentrations of educationally disadvantaged students often have detrimental effects on student achievement and policies that result in more of these types of schools should cause concern." SB17-039 may seem like an efficient way to increase social well-being, but if assessed through the lens of a welfare economist, glaring risks come into focus. Risks such as the new form of segregation mentioned before, and cream skimming. These risks will be very hard to quantify, but will reverberate for decades.

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