

# School Vouchers: Does Increased Competition Benefit the Masses?

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## I. Introduction<sup>1</sup>

Three decades have passed since Milton Friedman proposed school vouchers as the answer to America's education crisis. One of the most appealing aspects of Friedman's idea was the claim that vouchers would increase competition among all schools, both public and private. Despite continued majority support for public education, lawmakers have used variations on Friedman's argument to justify educational reforms in urban areas, which allow for more parental choice and encourage school competition (Milton Friedman and Rose Freidman, 1979). Today, as policy makers debate the value of a national school voucher program, economists have similarly considered the merits of the proposed reforms. Some conclude that a voucher system, which would reduce the size of the public school system's market share, would not result in greater school efficiency; others argue that opening public schools to competition would foster dramatic improvements in inner-city education.

The following review attempts to organize and consolidate these competing schools of thought. In the next section, I will summarize the different policies implemented by state and national institutions, as well as their varying degrees of effectiveness. Later sections will discuss public school inefficiencies and non-market interactions such as the peer effect. A concluding section summarizes the policy implications of the review and discusses potential directions for future research.

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## II. School Voucher Policies

David Figlio and Cecilia Rouse (2005) study the effects of the threat of school vouchers and school stigma in Florida on the performance of "low-performing" schools using student-level data from a subset of several critical districts. Under Jeb Bush's *A+ Plan*, districts administer standardized tests for all grade levels between 3 and 10, with grades 4, 5, and 8 being the "critical grades" that the states use to evaluate school performance. Districts that perform particularly poorly are forced to offer their students vouchers to attend other institutions. As an additional incentive to school districts to improve their performance, all test scores are made public.

The results of this study are not altogether surprising. Schools across the board focus additional attention on their low-performing students and increased their scores on subsequent standardized exams. However, Figlio and Rouse (2005) find that the key asset of Florida's accountability system is not the threat of the vouchers themselves, but rather the stigma attached to having to publicly advertise poor test scores. The results of the study indicate that the *A+ Plan* (as will its protégé *No Child Left Behind*) increases student performance by requiring accountability at every grade level, but not because of the threat of school vouchers.

Programs to enhance the quality of education are not limited to the United States. Sweden is perhaps the world's most radical example of school reform, when in the 1990s it instituted an innovative voucher system and parental choice reform. In contrast to US programs whereby vouchers are usually given to the poorest students in low-performing institutions, the Swedish system makes the

program universal. Unlike the American system, independent schools cannot refuse admission to low-ability students, so school systems cannot isolate high-ability students, and their presence among lower-performing counterparts produces a positive externality (Sandström and Bergström, 2005). The results of the study indicate not only that the voucher system is beneficial for the holistic population of Swedish students, but also improves the quality of education for students with a poor socio-economic background. Municipal schools, which for the most part disapproved of the Swedish reforms, had to improve the quality of their own districts in order to stay competitive with the new independent schools. Grades and test score increases are statistically significant across the board, and the study does not find any evidence of grade inflation in either the municipalities or in the independent school systems (Sandström and Bergström, 2005). In contrast to the Figlio and Rouse (2005) experiment, the Swedish system bypasses the standardized testing step. It finds that the vouchers themselves, and not just the threat of giving them away, have proven to be an advantageous policy in this country.

### **III. School Inefficiencies**

Many education reformers hope that the implementation of a voucher program will help to eliminate public school inefficiencies across the country. When met with the threat of a program, it is thought that schools will significantly reduce the amount of wasteful spending that goes into teachers' and administrators' salaries.

According to a study by Ronald Erhenberg, Richard Chaykowski, and Randy Erhenberg (1988, p.397), the financial incentive offered to school administrators does not "seem strong enough to elicit much extra effort from a superintendent to improve his school district's performance." The authors find a statistically significant correlation between superintendent salaries and student performance for only some of their specifications. There is no correlation

between superintendent salaries and the school district's performance.

While upper level administrators do not seem to be the main contributing factors, lower school performance in the public sector could, in part at least, be a result of highly powerful teacher organizations. When unions gain power in a district, they draw power away from the administrators to put it in the hands of teachers and other personnel. Their power is derived from the union's ability to control and monitor the education process by influencing hiring, regulating the evaluation of teachers, and encouraging conformity amongst their own (Rangazas, 1997). The produced inefficiency, commonly referred to as the X-inefficiency, is thus caused by the public school's inability to control teacher effort relative to the ability of the private school system to do the same. Randall Eberts and Joe Stone (1986) quantitatively determine that unions lower performance, raise the cost of education, or both. However, these studies contradict Michael Kurth (1987), who finds that unions actually raise student performance, while only slightly increasing wages.

Another school of thought is the idea that there is an inefficient mix between administrative and teacher inputs in the school budget. Peter Rangazas (1997), in his budget maximizing model, hypothesizes that bureaucrats in the public school sector are profit-maximizers, and are thus more concerned about maximizing the size of their agencies than maximizing the agencies' stated objectives. Unlike the other studies in this section of the analysis, Rangazas finds that vouchers would reduce the inefficiency in the public sector, but cause greater inefficiencies in the private market (thus hurting the children of families who would attend private schools with or without the voucher program).

John Chubb and Terry Moe (1990) quantify the effects of restrictions placed on principals by both the administrations and the unions. They find that an index measure of organizational effectiveness (which includes factors such as

academic excellence, principal motivation, teacher professionalism, disciplinary fairness and effectiveness) is correlated significantly with student performance. Those schools that have a high degree of organizational effectiveness are also the ones which granted their principals greater discretion over curriculum and personnel decisions. According to the Chubb and Moe (1990) study, a more efficient solution than vouchers would be to centralize responsibility in the hands of principals in the public sector.

A study by Maria Jose Luengo-Prado and Oscar Volij (2003) characterizes the general observations of the X-inefficiency subscribers. They show that the introduction of a voucher system may result in a Pareto improvement as an equilibrium outcome. That is, they show that the equilibrium in an economy without vouchers is inefficient (because parents who are willing to pay the higher cost of a better education for their students cannot, because of budget constraints, afford to relocate to a better district, and are thus compelled to send their children to local schools), and that the introduction of a voucher system, without additional government money transfers, would result in a more preferred state of affairs whereby parents would have a greater ability to exercise their roles as consumers in a free market.

#### **IV. School Vouchers and the Peer Effect**

The voucher system alone does not appear to be solely responsible for the increases in educational performance. Other variables, such as the peer effect, play an important role in bettering the education system for students who can take advantage of the new voucher programs. In their study on peer effects in the Chinese secondary education system, Weili Ding and Steven Lehrer (2006) explore how non-market (or social) interactions affect education outcomes. The premise of their research contends that each student influences his classmates not only through knowledge spillovers and how teachers respond to him, but also in how he affects classroom standards.

In their experiment, Ding and Lehrer (2006) exploit the Chinese system to isolate the peer effect from teacher quality (this variable is explicitly quantified in the Chinese system) and other variables. Their data indicate that “peer groups operate in a non-linear manner” and that individual students respond negatively to a variation in peer quality (p. 32). Because the peer group effects are substantial, an appropriate government policy might be to exploit them by optimally grouping students in different classrooms in order to achieve specific educational and long-term socioeconomic results. These findings exist in concert with those of Sandström and Bergström (2005), as they both credit the positive peer effects with substantial increases in education quality.

The peer effect can be extended beyond the reach of the international systems. Even in the United States, researchers such as James Poterba (1995) point out that a positive peer effect correlates significantly with graduation rates, SAT scores, and university attendance rates. What Poterba’s (1995) study fails to indicate, however, is that many of the private schools which would have these positive peer effects select on the basis of competency. Thus sub-par students in low-performing schools would have nowhere to turn to with their vouchers. They face the possibility of being left in a low-performing school, which could suffer from an even more dire lack of funding than before. Such is the case made by Stephen Ferris and Edwin West (2004 p. 23), who conclude that a negative external effect of vouchers would be to encourage for-profit private institutions to “skim the cream off” off the public school system and thus lower the average quality of the students left behind. According to Ferris and West, even if a voucher system improved the overall efficiency of the educational system, it would exacerbate inequalities across districts.

#### **V. Conclusion**

Recent studies have demonstrated that Friedman’s original thesis is in no way bullet

proof. While it is possible that a voucher system could increase the quality of education for students in poor districts, scholars around the table seem to agree that the voucher itself only plays a small role in consumer satisfaction. Other factors such as administrative and union inefficiency and the peer effect direct policymakers toward other avenues of exploration. While the voucher system might help improve the quality of education in low-income districts, the threat of a voucher may impact the mentality of the “education producers.” Administrators and teachers alike may become less self-serving profit maximizers and instead focus more of their energy on the quality of their output (education).

It is yet to be seen whether the voucher system can ever have nationwide success. But before such a policy could ever be implemented, lawmakers should consider exploring the positive and negative social implications of the proposal. On the one hand, a voucher system may result in the more efficient use of public resources in education. On the other, vouchers could exacerbate economic, racial, or ability segregation. Under a system where the value of the voucher does not cover the full cost of tuition at the private institution, the poorest students and their families will be left in the public schools, possibly with even fewer resources than before. With their more affluent classmates away, the most destitute students are likely to be deprived of the positive peer effects associated with high performing students and their own standards for personal excellence could suffer as a result.

Another possibility to consider is the impact of vouchers on the social morale of the community. The public school has traditionally been a haven for community cohesiveness, a place where residents can put aside their differences and participate in a common cause. Would the introduction of the voucher system taint this unity or would it bring the district together to participate in a mass re-bolstering of public education? All these possible implications should be carefully considered before any drastic

changes are made to the present system. Another possible avenue to consider would be the cultural differences that make programs work across different countries. Would the individualistic mindset commonly associated with the United States ever be able to accept the type of universal voucher program that exists in more liberal Sweden? Could we ever segregate students based on ability as they do in China?

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