



A Libertarian Approach to Educational Freedom: A Response to Robert Wenzel

By Jason Bedrick

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I appreciate Robert Wenzel's thoughtful response to the spirited exchange I recently had with Prof. Walter Block over the libertarian approach to education tax credits.

There are two major types of education tax credits (ETCs): personal-use tax credits and scholarship tax credits. The former offer a tax credit directly to parents to cover educational expenses for their own children, including private school tuition or homeschooling expenses. The latter are tax credits to individuals or corporations who donate to nonprofit scholarship organizations that help families pay private school tuition or (in the case of New Hampshire) cover homeschooling expenses.

In my initial exchange with Block, I argued that ETCs expand educational freedom. At present, every family has the option of sending their children to their zoned government schools for "free" (at least at the point of delivery) and this crowds out the private sector. At present, only about 10 percent of students are enrolled in a private school. This monopolistic system is inefficient, low quality, and it forces citizens into social conflict with one another.

Ideally, there would be a free market in education. Not only is educational freedom the system of education most consonant with the classical liberal principles that America was founded upon, but it is also empirically the best way to provide high-quality education. As Andrew J. Coulson's review of the global evidence demonstrates, "the private sector outperforms the public sector in the overwhelming majority of cases" and "that margin of superiority is greatest when the freest and most market-like private schools are compared to the least open and least competitive government systems (i.e., those resembling a typical U.S. public school system)." Moreover, as James Tooley documented in *The Beautiful Tree*, there are private schools serving even the poorest of the poor around the world.

The question is how to move from our monopolistic, government-run education system to a free market in education. Wenzel and Block appear to want to hold out for Libertopia, but they have presented no viable path to get there. As Ayn Rand once wrote:

I want to stress that I am not an advocate of public (i.e., government-operated) schools, that I am not an advocate of the income tax, and that I am not an advocate of the government's "right" to expropriate a citizen's money or to control his spending through tax incentives. None of these phenomena would exist in a free economy. But we are living in a disastrously mixed economy, which cannot be freed overnight. And in today's context, the above proposal would be a step in the right direction.

Opposition to any effort to move in the direction of educational freedom that falls short of Libertopia is de facto support for the status quo, which is to say, support for the government's monopolistic control over education. That's not to say that all efforts to move in that direction deserve libertarians' full-throated support. Libertarians should support only those efforts that move our education system significantly in the direction of liberty without posing a significant danger to the tiny remaining private sector. Moreover, libertarians should favor efforts that reduce the coercion of the present system as much as possible.

While school vouchers are an effort to move toward educational freedom, there are better alternatives that are also politically viable. Scholarship tax credits accomplish the same ends without forcing taxpayers to support ideas they may not like. Donations to scholarship organizations are entirely voluntary, and donors can choose to support only those scholarship organizations that align with their values. Some may choose to donate to a scholarship organization that only funds schools with a particular religious affiliation (or no religious affiliation), while others may only want to support schools with a particular mission or pedagogy, like Montessori. STCs therefore expand liberty for students and for taxpayers. Moreover, as discussed below, there is reason to believe that they do not pose a significant regulatory threat because, like tax deductions, tax credits constitute private money, not government expenditures.

Do ETCs Reduce Revenue or Merely Offset It?

In Wenzel's response, he first takes issue with my assertion that ETCs "have the added benefit of letting people keep more of their own money and reducing government revenue." Wenzel asks:

But is this really the case? Technocrats when they propose tax credits, tax deductions, etc, often couple it with offsetting tax increases elsewhere.

In fact, the US government is currently operating under The Statutory Pay-As-You-Go Act of 2010, which according to the Office of Management Budget means that "the government must not enact any new laws that would increase projected deficits...PAYGO requires that bills reducing revenues must be fully offset by cuts in mandatory programs or by revenue increases."

Thus, it is an exceedingly rosy scenario that Bedrick is adopting when he states that a tax credit would reduce revenue and allow people to keep more of their money. It would mostly likely simply result in a shift in how tax revenues would be collected.

In reality, this scenario isn't rosy at all—it's one of the key areas where ETCs differ from other types of tax credits. In most states, the district school funding formula is tied to enrollment. The state allocates money to each district school based, in large part, on the number of children attending that school. The only way families can receive personal-use tax credits or a tax-credit scholarship is if they refrain from enrolling their children in their assigned district school, which means that the reduction in state tax revenue is directly tied to a corresponding reduction in state tax expenditures. Since every ETC law yet enacted has been designed to reduce expenditures by even more than it reduces revenue, there is no offsetting involved.

Do ETCs Distort the Market?

Wenzel's second concern is that the ETCs might distort the market:

There is a distortion in the economy that goes on with the credit. It is a nudge for some tax payers to act in a certain way to take advantage of the tax credit.

In the case of an education tax credit, it nudges the tax payer to consider government approved schools.

Here Wenzel overlooks the fact that the market is already terribly distorted by the presence of subsidized government schools, which crowd out almost all alternatives. The ETCs are intended to lessen or eliminate that distortion by creating a more level playing field for alternatives to government schools. As Coulson explained:

In the typical case, the introduction of a tax credit for some specific purpose does skew taxpayer behavior, because the alternative is to simply let taxpayers decide how much, if anything, they will spend for that purpose. But education is not a typical case. In education, unlike virtually all other fields, the government already operates the dominant service provider and not only tells taxpayers how much they must spend on education, but pressures families into consuming its own services through its monopoly on the use of its education revenue (i.e., families pay zero tuition if they accept their assigned government schools, but must pay full tuition if they choose an independent school). Existing state schooling monopolies thus have a much more distorting effect on taxpayer behavior than any school choice program.

When parents can keep more of their money through personal-use ETCs or receive tax-credit scholarships, private schools and other education providers are at less of a disadvantage competing with "free" government schools. Anyone who desires to minimize the distortion of parents' behavior in the market should therefore prefer ETCs over the status quo.

ETCs and Private School Regulations

Wenzel does raise a legitimate concern, however: what if the government only allows citizens to use ETC funds at government-approved schools?

First, it should be noted that the government does not require a tax credit, or even a voucher, to regulate private schools. Every state already imposes regulations on private schools, with varying degrees of onerousness. A recent review of regulations on private schools in state with school choice laws found that the vast majority of the regulations pre-dated the enactment of the school choice laws. Moreover, while voucher laws tended to impose significant additional regulations, tax credit laws did not.

These findings accord with those of a previous study by Andrew J. Coulson, which found that ETCs don't impose a significant additional regulatory burden. As Ron Paul explained: "Unlike taxpayer-funded vouchers, private tax credits do not open the door to government control of education. This is because tax credits allow parents to use their own money on their children's education," as well as the voluntary donations of others, rather than relying on government funds.

Nevertheless, Wenzel offers a reasonable objection:

The very idea of a tax credit implies that government is going to place restrictions on who will be eligible for such credits. Or will the government simply allow any organization to call itself a school?

It is true that tax-credit scholarships in most states can only be used at institutions that meet the statutory definition of a "school," though that definition is everywhere already enshrined in law. Under the status quo, parents seeking an alternative to the government schools can either enroll their children in a private school that meets the government definition of a school, or homeschool. To the extent that the government decides what a "school" is, it has nothing to do with ETC laws. ETCs merely put those private schools on a more level playing field with the fully subsidized government schools, thereby reducing the crowd out effect.

Moreover, ETCs have the potential to break down even that government regulation. New Hampshire allows tax-credit scholarships to be used for a wide variety of educational expenditures, including tutoring, textbooks, online courses, homeschool curricula, and so on. The scholarship organizations have broad discretion to determine which expenses qualify for the approved categories of expenditures. Donors can choose to support scholarship organizations that take a narrow approach to what constitutes "education" or a broader approach.

ETCs and Regulatory Creep

Wenzel also expresses concerns about regulatory creep:

Friedrich Hayek did not title his book, *The Road to Serfdom*, without thought. Government creep on the road to serfdom is a road traveled step by step by step. No one reaches the evil destination of serfdom on day one. It is a process. In the case of government control over education spending via tax credits, it will result in a step by step compromising by private schools to the dictates of government. The speed and intensity of such government creep is not something that can be learned from an empirical study. It is the specific circumstances of a period: who sees the power center created, who understands how it can be used to control and who has the desire and drive to use it, that will dictate how evil it gets how soon. What we do know is that the tax credit has created the power center in waiting for the right individual(s) to come along to use it and abuse it. This can not be denied.

Regulatory creep is certainly a phenomenon libertarians must always be vigilant to guard against. However, such creep can occur in the absence of an education tax credit, and Wenzel has provided no evidence that ETCs speed up regulatory creep. Indeed, there is reason to believe that the scholarship organizations may act as a bulwark against attempts to further regulate private education because they can mobilize parents to fight such attempts.

But even more dangerous than the potential for regulatory creep is the reality of the government's near-monopoly over our children's minds. Perhaps that is why Hayek himself supported even school vouchers, never mind tax credits. Wenzel concludes by noting that libertarians should reject technocracy—and I wholeheartedly agree—but the prime example of technocratic social engineering in the last century has been the government school system—the very system that Wenzel would inadvertently perpetuate. Education tax credits are the opposite of technocracy because they wrest control over the education dollar out of the hands of bureaucrats and restore it to parents.

What we need is a Road to Educational Freedom, and ETCs are the first steps along that road.

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