

ROBERT VERBRUGGEN

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Against Tax-Credit Vouchers

School vouchers are a good thing. Funding them with tax credits is not.

On Tuesday, the Supreme Court ruled that Arizona’s tax-credit school-voucher program — in which an individual who gives money to fund vouchers is fully reimbursed by the government in the form of a tax break — does not constitute government spending, and that therefore its constitutionality cannot be challenged by taxpayers.

As a matter of law, the decision is reasonable. The money in question never actually enters the government’s coffers, and a ruling that it is nonetheless government spending could set a precedent for all sorts of judicial overreach.

To those of us who think legislators shouldn’t circumvent the democratic process and duck court scrutiny, however, the decision is bad news. Tax-credit voucher programs are a shell game that allows people to funnel their tax dollars to a controversial cause, all while legislators claim that those dollars aren’t really tax dollars at all, but “donations.” Everyone, including supporters of normal school vouchers — in which the government funds the vouchers directly — should oppose these efforts to pull the wool over voters’ eyes.

Let’s be absolutely clear about what happens when someone makes a “donation” under a tax-credit regime: If the donation amount is \$1,000, the donor knocks \$1,000 off his tax bill. This isn’t a deduction; he doesn’t merely pay taxes on \$1,000 less of his income. This isn’t a partial credit; his taxes are reduced by the full \$1,000. This is a *dollar-for-dollar reimbursement* by the government. There is absolutely no difference between this situation, and a situation in which the government simply gives \$1,000 to fund vouchers directly. Either way, the government has lost \$1,000 in tax revenue to a voucher program (with all the good and bad that entails), the voucher program has received \$1,000 in funding, and the individual has not foregone a single dollar.

I’ve been [making this point](#) for several months at the NR blog [Phi Beta Cons](#), provoking strenuous pushback from a few folks, including [several members of the Cato Institute](#) and my PBC colleague [David French](#). Let’s look at their objections.

The first is that this way of thinking means that “all your money” belongs to the government, and

therefore it's shocking to see a NATIONAL REVIEW writer endorse it. Well, no: This way of thinking means that *this particular money* — the money “donated” — belongs to the government. And it does.

I can say this because the money doesn't pass the Xbox Test: I can't use it to purchase an Xbox. I also can't use it to buy clothes, take my wife out to dinner, or fly to Wisconsin to visit my parents. All I can do with it is surrender it to the government as taxes, or spend it on something the government approves of — in this case, a voucher program. Even if I wanted to give it to a charity, I'd have to donate a lot more money along with it before I'd save \$1,000 on taxes, because charitable donations are subsidized with deductions, not dollar-for-dollar credits (more about that in a second). Anyone who thinks that's the same as a “tax cut” needs to get his head examined.

A second common objection is that if you “follow the money,” you see that the money is never the government's. The problem here is that if you “follow the money,” you'd also conclude that employers pay payroll taxes — a notion that Walter Williams fans know to be false. The truth is that to see what's really going on in economics, you need to do more than follow the money: You need to follow the incentives and look at who loses money *in the end*. In this case, a “donating” individual neither gains nor loses money as a result of his choice to fund vouchers, so the money at stake can't very well be his.

A third objection is that this logic would also apply to deductions. For example, if I'm in the 25 percent tax bracket and give \$500 to charity, one could say that once I deduct the donation, I've given up only \$375 — and diverted another \$125 in government money. This objection is true, so far as it goes. We *do* lose a ton of tax dollars to charitable donations, many of which don't offset government spending in the slightest (think donations to the opera vs. donations for poverty relief).

There is a major difference as well, however. In order to divert \$125 of my tax dollars to my preferred charity, I had to forego \$375 of my own money. This encourages giving: If I donate \$375, the charity gets \$500, which is a pretty sweet deal. By contrast, dollar-for-dollar credits allow me to allocate government money at no cost to myself whatsoever.

Fourth, some argue that by allowing people to choose whether their particular tax dollars will support vouchers, a tax-credit system keeps people from funding things they don't want to, and thus ameliorates social conflict. This may well be true — it's probably the biggest reason that these programs are so much easier to pass than regular voucher programs — but only because people don't realize that whenever someone takes money out of the system, it has the exact same effect that direct government spending would. This is a justification for a noble lie, not a legitimate argument for this setup.

Fifth, and similarly, some have made an argument along the lines of this Charles Murray piece: It's a good thing in general for people to decide where their tax dollars go, so they can increase funding for good programs and defund bad ones on a year-by-year basis. That's a reasonable point, though it would make more sense if these tax-credit programs were large, had many options, and replaced vast swathes of the government (as Murray suggested). Instead, they carve out a very particular exception to the tax code — donations to voucher programs. This makes it clear that they are primarily a response to the

unpopularity of flat-out vouchers, not a way to calibrate the proper level of funding.

The final objection I've encountered is that school vouchers save money, and that therefore other taxpayers should simply be grateful. This misses the entire point of the school-voucher debate: Opponents object to the fact that vouchers give public money to private schools, many of which are religious. Few opponents, and no honest ones, claim that vouchers are bad because they're more expensive than public education — in fact, most of them are the same people who want us dropping money onto public schools from helicopters. In other words, school-voucher opponents *don't want* to save money if that means funding private schools with government money, and therefore “this saves money” is not a response to their concerns.

For the record, I am a supporter of school vouchers. They reduce the role of government, allow parents to choose the school environment they want for their kids, save money, and arguably increase achievement. But I am a bigger supporter of an honest democratic process. Before we give money to parents to spend on private schools, we have to convince the public that it's a good idea. We can't simply mask government spending as “donations.”

— *Robert VerBruggen is an associate editor of NR.*