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# For Freedom in Education: Vouchers or Tax Credits?

*New study says vouchers invite regulation; tax credits may not*

Fergus Hodgson
Pelican Institute for Public Policy
Friday, 22 October 2010

"If Louisiana wants to give families the best possible educational options… the way to do that seems to be through a combination of education tax credits" – programs that cut taxes on individuals and enable scholarships for low income families. That's the message from Andrew Coulson, author of a new working paper from the Cato Institute's Center for Educational Freedom.

At least fifteen states, including Louisiana, have instituted school vouchers or tax credits, or both, to allow more students to attend private schools. These policies assume, not without research justification, that expanding choice and competition will lead to better outcomes.

However, many skeptics of these programs, including Coulson, raise the concern that these policies will in the end prove counterproductive by placing greater regulatory burdens on the very schools that have benefited from their independence from government interference. If fact, Coulson notes that in 1999 "when [he] reviewed the worldwide historical evidence on this question, [he] was not able to find a single large-scale system of government funding of private elementary or secondary schooling that had escaped heavy regulation."

"Taxpayers want to know what they are getting for their money, and the only way for a government to do that is to impose regulations. So basically it's an attempt at creating accountability for taxpayers… That's why government-funded schools around the world tend to be much more heavily regulated than independently funded private schools."

He theorized at that time, though, that tax credits might not lead to the same regulatory burdens that had plagued earlier attempts to foster private schools. "If you don't spend taxpayers' dollars through the government on private schools, then this justification for regulation goes away."

Caroline Roemer Shirley, director of the Louisiana Association of Public Charter Schools, does not share this interpretation. While her members' views are "mixed" on whether financial incentives ought to be offered to private schools, essentially all members believe "there has to be accountability" with both school voucher and tax refund programs, particularly when money for charter schools comes with so many requirements.

Tax credits allow parents of private school attendees to deduct a certain amount from their tax liabilities or for individuals to make tax-deductable donations for private school scholarships. The donation mechanism allows for poorer students to benefit as well, since their parents may not have tax liabilities to write off. The difference with tax credits is that no new money flows through the hands of departments of education or school boards. Rather, Coulson argues that "the tax burden on other taxpayers goes down when parents opt out of the government school system… because the tax benefits are always much less than the per-pupil cost of the government system."

With the recent expansion of voucher and tax credit programs in the United States, Coulson wanted to test his hypothesis. Do relatively conventional voucher programs – where governments write a per-student check to participating private schools – create a heavier regulatory burden than tax credits? Although his sample size was small, with 20 programs within the 15 states, he was able to find statistically significant results, upheld by two methods of data analysis (multi-level regression modeling and an ordinary least squares regression).

The evidence confirmed that "voucher programs are associated with large and highly statistically significant increases in the regulatory burden imposed on private schools," when compared with non-participating schools. In the case of tax credits, he could not find such an association.

To better affirm the causality of vouchers, he tested for other potential causal factors, such as a state's proportion of students already in private schools, its general tendency towards regulation, and its political affiliations. He also had in-state comparisons to work with. However, consistent with the inference that vouchers are the cause for the regulatory change, he could not replicate the correlation with other measurable conditions.

Alan Schaeffer, president of the Alliance for Separation of School and State, is cautious regarding Coulson's conclusions. His organization's mission is to help others "restore

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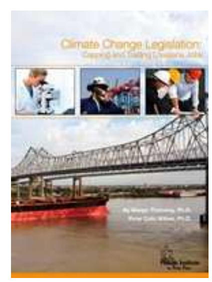


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educational sovereignty to families and individuals."

He wants to like tax credits – since they are so much less involved in tax-funding, regulation, and compulsory attendance – and he describes them as "a well-intentioned effort in the right direction." He also is willing to acknowledge that "there is a significantly decreased regulatory burden, especially when compared to vouchers." However, he predicts one of two less favorable outcomes.

"One is that tax credits will be marginally accepted or implemented. The other is that if tax credits are widely accepted or implemented they will begin to be widely regulated as well… If children are actually moving in large enough numbers that we would all call it a success, the regulatory bodies, because they are 'accountable' for these dollars, will begin to impose conditions on these arrangements, which, at the end of the day, exist with the permission and graces of these government regulators."

He points to two examples from Coulson's research "where some small degree of regulation did follow the money. We really don't know what will happen in the future, but what this means to me is that more regulation can certainly be expected."

In his interview with the Pelican Institute, Coulson identified two categories of regulation as particularly counter to market forces for schools and educators: barriers to entry and price controls. "They really suppress a lot of the forces that are responsible for the success of free markets in other fields." In the context of education, barriers to entry refer to requirements that impede the opening of a new school and on who a school may hire. Price controls refer to constraints on what schools are permitted to charge and how they may compensate their teachers.

In New Orleans, for example, "the small voucher program that operates [has] a very serious barrier to entry. It requires that no school operating for fewer than two years is allowed to enroll more than 20 percent voucher students. So a new school created specifically to serve voucher students is not permitted under the New Orleans voucher program." In fact, by Coulson's standard of measurement, the New Orleans program is the "third most heavily regulated school choice program in the country."

"If someone has a great idea – say someone is running an excellent school in Florida and wants to bring that school to Louisiana. If there are barriers preventing that innovator from entering the market place, parents suffer. This is basically just a way of protecting entrenched interests."

The New Orleans voucher program is also "one of the narrowest in the nation." It is open only to students of New Orleans, from low income households, and who have been attending or have been assigned to attend one of 21 schools that the state identified as failing. Only around 1500 students participate, and that makes it "one of the smallest programs in the country." Unfortunately, Coulson was not able to obtain before-and-after data for an assessment of the success of this program.

However, Neal McDermott, executive director of Christian formation for the Catholic Archdiocese of New Orleans – 28 of his 87 Catholic schools accept "scholarship students" – believes the program has been a success. In his view, the students' "chance at a choice between a failing public school and a private school" far outweighs the LEAP test the school is required to have them take for the voucher program. Last year, as evidence of the quality on offer, 98 percent of the Archdiocese high school graduates entered college programs, and the remaining 2 percent went into the military.

As of the 2009 tax year, which corresponded to the 2010 filing, Louisiana has an education tax deduction of up to $5,000. However, this policy was too recent for it to be included in the report.

Click here or below for an audio interview with Andrew Coulson, the study's author. The discussion goes well beyond the confines of his article and includes material on school integration, teacher training, and a more detailed outline of the distinction between education tax credits and school vouchers (36 minutes).

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*Fergus Hodgson is the Capitol Bureau Reporter with the Pelican Institute for Public Policy. He can be contacted at fhodgson@pelicaninstitute.org, and one can follow him on twitter. This article also appears on the Institute's blog page, where readers may place comments.*

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