

After 50 years, do the arguments for K-12 vouchers still hold?

Abstract

In 1955, Milton Friedman authored a foundational paper proposing a shift in funding and governance mechanisms for public K-12 schools, suggesting that parents be awarded tuition vouchers that they could use to pay for private sector education services for their children, rather than relying on government provided neighborhood schools. Friedman theorized three cases in which such a system might fail, requiring greater involvement of the government in the education system: the presence of a natural monopoly; substantial neighborhood effects; and a breakdown in free exchange. This article examines these concerns by applying more than 25 years of school choice research in an attempt to answer the question, after 60 years, do the arguments for K-12 vouchers still hold? Findings suggest that Friedman was correct to be concerned about possible deleterious effects that may arise from a privatized system.

Introduction

Tuition voucher programs have been in place in the United States since the mid 1800s. Both Vermont and Maine have programs in place that offer families tuition vouchers to use at public or private non-parochial schools, if they live in a locality that has no available public schools. In 1955 (and again in a 1962 revision), Milton Friedman put forth a more modern proposal to expand such programs and bring the power of the market to bear on the public school system.¹ His proposal launched what would become

¹ Friedman's chapter focuses on both general education and vocational education, with vocational education serving as the branching off point for a discussion related to higher education. The current article only looks at Friedman's arguments as they pertain to governance of the K-12 system.

an ongoing effort to reform and privatize the public school system in states across the U.S. As of 2011, 15 states and the District of Columbia had some form of publicly funded tuition voucher (or tax credit) system in place (Author, 2011). The recent rise of the Tea Party arm of the Republican party and the shift of Congressional control to Republicans as of 2015, has re-energized efforts to expand these programs within those and other states.

When he proposed tuition vouchers in 1955, Friedman mapped out a careful series of conditions under which government should take responsibility for using tax money to pay for a system of public schools. After establishing a compelling interest for government support of a public system, he next considered whether it was necessary for government to also run the schools, or whether the government could instead fund a program that would funnel public funds through parents to pay for a system of privately operated schools. After concluding that such a system would indeed be feasible (and desirable) he next considered a series of potential negative outcomes that might be generated by such a privatized system—outcomes that could create a compelling need for a stronger government role in the management of schools. At the time, Friedman dismissed these potential outcomes as unlikely, but held open the possibility that such evidence might arise once programs were put in place.

Voucher programs (like those envisaged by Friedman) have now been in place in the United States for over 20 years. While these programs have largely been local in nature, or limited to specific populations (e.g. high poverty or special needs students), a number of other countries (such as Chile and Sweden) have well-established national programs. These programs (in the U.S. and internationally) have generated significant

bodies of research that can allow us to revisit Friedman's 1955 proposal, examine the system he envisioned, and apply research findings to the concerns he dismissed at the time.

Context

In his 1955 article, "The Role of Government in Education," Friedman lays out the case for public education, and then evaluates the role that government should play in such a system. He defines, generally, the reason for government involvement in any economic activity, and identifies three special cases where government involvement is justified: the presence of a natural monopoly; neighborhood effects; paternalism or locus of choice (who should make the educational choices for children). In 1955, he determined that these situations were not a substantial risk. Seven years later, without explanation, he reduced these three cases to only two by dropping concerns related to natural monopoly in a revised version of the article (Friedman, 1962), although he did speak to "technical monopoly" in much the same way. This current article focuses on the arguments found in Friedman's original 1955 work.

In the article, Friedman "takes freedom of the individual, or more realistically the family, as [society's] ultimate objective, and seeks to further this objective by relying primarily on voluntary exchange among individuals for the organization of economic activity." As such, "government's primary role is to preserve the rules of the game by enforcing contracts, preventing coercion, and keeping markets free." (p. 124). While these are the ground rules put forth by Friedman (and other market theorists), he also

notes that there are at times justifications for greater government involvement in organizing economic activity.

Education for Citizenship

An important piece of Friedman's work--one that is frequently either overlooked or ignored, perhaps due to its simplicity--is his definition of the purpose of public education. He notes that, "A stable and democratic society is impossible without widespread acceptance of some common set of values and without a minimum degree of literacy and knowledge on the part of most citizens" (p. 124-25). As such, he identifies two important principles of public education: introduction to a common set of values, and a minimum degree of literacy and knowledge. He notes that the details of these two purposes "are questions to be decided by the judgment of the community expressed through its accepted political channels" (p. 127). This goal of a citizenry with a common set of values and basic level of literacy and knowledge remains central to his proposal, in particular stemming from his discussion of neighborhood effects, but also important when considering the locus of educational choice (see below).

Government intervention in economic activity

According to Friedman, there are only three major grounds on which government intervention in economic activity is to be justified (1955), and all three stem from actions that restrict voluntary exchange among individuals. The first (and the one dropped in his 1962 revision) is "natural monopoly" or another market imperfection that would prohibit the voluntary exchange required for market competition. The second reason for government involvement is the existence of neighborhood effects. Neighborhood effects

result when “the action of one individual imposes significant costs on other individuals for which it is not feasible to make him compensate them or yields significant gains to them for which it is not feasible to make them compensate him” (p. 124). The third impetus for government involvement is “ambiguity in the ultimate objective,” what Friedman calls a “paternalistic concern for children and other irresponsible individuals” (p. 124)—in other words, the ability of the chooser to select a school or curriculum that will achieve the purposes of public education: an individual educated in a common set of values with minimum academic standards. Therefore, if within public education there is a “natural monopoly,” substantial “neighborhood effects,” or challenges achieving the public purposes, then according to Friedman increased government involvement can be justified to address these conditions.

Natural monopoly

A natural or technical monopoly exists where voluntary exchange is limited by a lack of provider options. This may be due to geographic challenges or the expense of starting a new business. Utilities are frequently used as an example, since creating parallel infrastructure for delivery of electricity (for example) would be both unwieldy and expensive, naturally limiting the potential providers. As Friedman highlights, in rural communities, the number of potential customers may be too small to make the presence of multiple providers economically viable. The choice in such a case, according to Friedman, is unregulated private monopoly, state controlled private monopoly, or public operation.

Interestingly, Friedman's solution to this problem is to suggest a hybrid approach: that the natural monopoly be allowed to exist, but that vouchers be provided to allow competition to arise where providers see a market. As he notes, "governments would continue to administer some schools but parents who chose to send their children to other schools would be paid a sum equal to the estimated cost of educating a child in a government school, provided that at least this sum was spent on education in an approved school" (p. 130).

Two related questions then arise. First, where privatization has occurred, does public funding eventually lead to a return to government involvement? In other words, in privatized delivery systems, does the function of the government as the funder ultimately lead to re-regulation of the private sector, losing the competitive benefits choice advocates theorize as the primary justification for privatization? Second, within the concept of a natural monopoly, there is another force at play that isn't specifically addressed by Friedman, but still may influence the behavior of the system. In education, the consumer is compelled by the state to access the education services offered by the state (or other providers). In such a case, the way in which the market system in the competitive arena evolves may differ from that of a typical market economy.

What the research says

The two questions that arise from the challenge Friedman presents are: 1) In systems where the market has been opened, does the market respond by providing substantial new options; and 2) If the market does respond as theorized, how does the system evolve?

There is evidence to suggest an increase in the number of private schools over the past two decades. In 1989 there were 26,712 private schools in the United States, expanding to 28,996 as of 2006 (US Department of Education, 2006). While central cities and rural areas saw declines in numbers, there was substantial growth in urban areas (from 7903 to 11,775). Similarly, while the number of religious schools expanded by just 0.7%, the number of nonsectarian schools grew by 44%. Interestingly, the number of students enrolled in private schools increased only slightly between 1990 and 2006, and by 2009 total enrollment had actually declined overall (US Department of Education, 2012). While the growth in options is aggregated across the United States, it seems likely that much of the growth occurred in geographic areas where additional funding was provided through vouchers and tax credits.

School choice options also include more than attendance at private schools--in the United States many parents (depending on locality) can choose to enroll their children in charter schools, magnet schools, or other public schools outside of their catchment area. Research suggests that these options also expanded considerably from 1995-2003 (Linkow, 2011). The proliferation of school choice options over the past twenty years suggests that at least part of the Friedman's theory that the market will respond to demand if consumer choice is expanded is supported; however, Friedman's concern that choice will not expand in geographically isolated and rural areas is also supported by research.

Legislators are still working to change school funding systems, making it difficult to state with any confidence if the expansion in options is sustainable or simply a short-term response to recent policy changes. That said, there is some data collected that

suggests some of these choice options may eventually be consolidated under corporate and nonprofit management organizations, ultimately limiting choice and potentially leading to the presence of private monopolies in some areas.

For the past 13 years researchers have been collecting data on for-profit and not-for-profit Educational Management Organizations (Miron, et al., 2001). EMOs manage one or more schools within the choice sector and range from organizations focused on individual schools to large conglomerates (such as Mott MacDonald) and publicly traded publishing houses (such as Pearson, PLC). Currently 35% of all charter schools are run by EMOs, enrolling 42% of all charter school students. Large EMOs manage the bulk of for-profit charter schools (70.7% are operated by 14 large EMOs) while 79% of non-profit charter schools are run by large or medium sized EMOs. In the voucher sector, there is research to suggest that small private schools are more likely to fail than larger schools (Ford, 2011), adding to concerns about how the market might ultimately respond to privatization of education services. It will be interesting to see how the sector grows and consolidates over time, and if the concept of multiple providers is sustainable.

Similarly, the legislative framework under which these schools run changes as political changes bring in new policy priorities. Schools participating in choice programs frequently experience shifting requirements regarding accountability, funding, student eligibility and data reporting, and some programs, such as the one in Milwaukee Wisconsin, have seen a return to greater government regulation as they evolve (Rubelen, 2006).

Neighborhood effects

Friedman makes a strong case for the public funding of education, noting that a stable and democratic society requires that citizens have a set of shared values and a basic level of literacy and knowledge. He notes that because of this, the education of each child also benefits the broader society, contributing to the welfare of others even though we cannot quantify that contribution. This, he notes, results in substantial neighborhood effects in as far as educational outcomes vary across localities.

To compensate for these neighborhood effects, Friedman suggests requiring a common curriculum, through the provision of public schools. Rather than requiring parents to pay for this education (something he is sympathetic to but rejects as not feasible given differences in family sizes and resources), Friedman argues that education becomes a valid function of government. While he uses neighborhood effects to justify imposition of both a common curriculum and public funding, he breaks with the current system by suggesting that public funding does not by definition require public management--in other words, governments should be able to fund educational institutions though provision of tuition vouchers to parents for use at the institutions of their choice, as long as "schools met certain minimum standards such as the inclusion of a minimum common content in their programs" (p. 127).

Friedman continues that "One argument from the 'neighborhood effect' for nationalizing education is that it might otherwise be impossible to provide the common core of values deemed requisite for social stability" (p. 128). He continues, "Schools run by different religious groups will, it can be argued, instill sets of values that are inconsistent with one another and with those instilled in other schools; in this way they

convert education into a divisive rather than a unifying force” and that, “the link between the financing of education and its administration places other [private] schools at a disadvantage: they get the benefit of little or none of the governmental funds spent on education;” however, “elimination of this disadvantage might...strengthen the parochial schools and so render the problem of achieving a common core of values even more difficult.” (p. 128).

A final point raised by Friedman regarding the potential negative outcomes resulting from neighborhood effects is that of exacerbated class distinctions. That when given choices, parents would choose to send their children to school with children from similar backgrounds, reducing the “healthy intermingling of children from decidedly different backgrounds” (p. 129).

Even in 1955, Friedman was aware of the potential for a voucher system to be used to maintain class and ethnic distinctions. In a lengthy note within the chapter he discusses the move by some localities in the southern United States to use vouchers as a means for maintaining a segregated school system. While he notes that he initially thought this was a mark against his proposal, after further reflection he maintains that the importance of freedom to choose trumps the integration of schools. He states, “Under [a choice] system, there can develop exclusively white schools, exclusively colored schools, and mixed schools. Parents can choose which to send their children to. The appropriate activity for those who oppose segregation and racial prejudice is to try to persuade others of their views; if and as they succeed, the mixed schools will grow at the expense of the nonmixed, and a gradual transition will take place.” (pg. 131).

As Friedman notes, these are important challenges that, if found to exist, government may need to address. At the time, Friedman dismissed these concerns by claiming that there was no evidence that they will come to pass. As such, it is important to look at whether more recent research suggests that a privatized system would result in a fragmented curriculum and an increase in social or economic stratification.

What the research says

Research regarding economic and ethnic stratification is available for some forms of large-scale school choice in the U.S. (specifically charters and open enrollment). The available research suggests that these programs do generally result in greater ethnic stratification (Ben-Porath, 2012; Bifulco, Ladd & Ross, 2008; d'Entremont, & Gulosino, 2008; Garcia, 2008; Jacobs, 2013; Koedel, Betts, Rice, & Zau, 2010). This trend is supported by research in other countries, where vouchers are much more widely used and firmly entrenched in the educational system (Levin, 1998). Research on Chile's voucher system has found that the voucher systems has exacerbated inequities, with public schools serving more disadvantaged, low-income, and indigenous students than private voucher schools (Elacqua, 2009; Elacqua, & de Gobierno, 2006; González, Mizala, & Romaguera, 2004). Additionally, within Chilean voucher schools there is further stratification linked to differences in tuition levels (Elacqua, 2009; Elacqua, & de Gobierno, 2006). Recent research looking at outcomes in Sweden has also found that choice policies resulted in a large increase in social and economic stratification (Söderström & Uusitalo, 2010; Wiborg, 2008).

Free exchange

While Friedman identifies the concept of locus of choice as important, he spends little time in his essay discussing the problem or the solution. He notes that, “The third [challenge] derives from an ambiguity in the ultimate objective rather than from the difficulty of achieving it by voluntary exchange, namely, paternalistic concern for children and other irresponsible individuals.” (p. 124). In other words, the primary beneficiaries of education are not able to exercise voluntary exchange in a manner that accomplishes the goals of public education. Friedman turns to parents as the primary caregivers and identifies them as the individuals who should be allowed to exercise choice on behalf of their children, although he acknowledges that “such a procedure rests on expediency rather than principle. The problem of drawing a reasonable line between action justified on these paternalistic grounds and action that conflicts with the freedom of responsible individuals is clearly one to which no satisfactory answer can be given.” (p. 124).

This doesn't mean that this issue disappears, however, or that there isn't research that we can use to interrogate the problem. If as Friedman has identified, the primary purpose of the public schools is to establish a citizenry with a common set of values, a basic level of literacy, and understanding of a specific body of knowledge, then the choices made by consumers in a market based system can be evaluated with regard to their impact on these outcome goals. In other words, do parents choose schools that will further Friedman's stated goals of literacy, common curriculum, and citizenship, or do they have other reasons for choosing their child's school?

What the research says

Again, looking into the research on social outcomes related to the use of private school vouchers results in a complex picture. This is particularly true in that many programs are designed to target specific groups of people, enabling them to make choices they might not otherwise make. Even so, we can get a general sense of the stated and observed behaviors of families who choose schools. While research shows that parents are generally more satisfied with their choice in school (Wolf, 2008), it also suggests that parents are likely to choose the schools for religious, not academic, reasons (Denessen, Driessena & Slegers, 2005; Ji & Boyatt, 2007). Other research finds that while most choosers state that they choose schools for academic reasons, their observed behavior is that they chose schools based on peer composition in terms of race and class (Lacireno-Paquet & Brantley, 2008).

Parents don't choose for societal gain, rather they choose for personal gain, suggesting that an important concern Friedman identifies—that privatization will lead to increased fragmentation of society—may indeed be true.

Conclusions and Recommendations

This article is not intended to provide a definitive review of school choice research, nor is it intended to argue the veracity of the arguments Friedman put forth in his foundational essay. Rather, the goal was to apply the available body of research to the specific concerns raised in that essay. When Friedman made his proposal to shift management of public schools from the public sector to the private he identified three challenges that could prove detrimental to such a shift: the presence of a natural

monopoly that prevents choice; the presence of substantial neighborhood effects that work to break down the common educational experience needed for to support a stable and democratic society; and the inability of the consumer (students) to fully exercise voluntary exchange.

While not definitive, as highlighted throughout this article, research suggests that there are substantial concerns in each of these areas, suggesting that the move to a privatized system may ultimately harm the public purposes of education as outlined by Friedman. In particular there are important challenges regarding the societal fragmentation along economic and ethnic lines, and the presence of a natural monopoly—particularly if the trend toward consolidation of privatized educational services through EMOs continues. A major purpose for shifting to a privately run system was to expand choice and competition by increasing the number of providers and decreasing the amount of governmental oversight, management and regulation. Early findings from the recent expansion in education choice in the United States suggest that while options have expanded over the past 20 years, there may be underlying trends in corporate consolidation and re-regulation that may work against the initial expansion in options over the longer term.

Advocates of expanded school choice should think carefully about the design of the programs they propose. In the past, concerns largely focus on empowering the choice of participants, and not the outcomes of that choice. The research highlighted here, and the concerns raised by the foundational work of Milton Friedman, suggest that choice advocates need to also consider the outcomes of choice programs, and take seriously concerns related to the weakening of the broader public purposes of education.

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