

MACKINAC CENTER FOR PUBLIC POLICY



SCHOOL CHOICE AHEAD

Education Reform in a
Fiscal Crisis

BY JOSEPH G. LEHMAN



EDUCATION REFORM IN A FISCAL CRISIS

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Editor's note: The following is an edited transcript of a speech delivered by Mackinac Center President Joseph G. Lehman at the Detroit Athletic Club on March 2, 2010, to the Southeast Michigan Committee of the Heritage Foundation.

There is no business I'd rather be in than public policy. You might think charts and data and legalese and general wonkery are boring. But public policy is actually very exciting for one basic reason: Policy changes lives.

And education policy may change lives most of all. Get it right, and civil society is better in a thousand ways. But get it wrong, and it may not matter if we get a thousand other policies right. Abundant evidence shows the state is getting education policy wrong. The cost soars while performance is flat. Students graduate unprepared. Violence grows in the schools.

Middle- and upper-class parents listen and nod their heads as they picture the benighted children who attend poor, inner-city schools. But I'm talking about the so-called good schools that their children attend. The fact that urban schools have the worst problems does not imply that the rest of the schools are still OK. Even the so-called good schools are not succeeding if your definition of success includes factors like cost, student achievement and safety.

Education reform is as old as public education itself. Every reform falls into one of three categories: rules, resources and rewards.

"Rules" are restrictions and mandates like time in class, teacher certification requirements and curriculum standards. The Michigan School Code with all its regulations is hundreds of pages thick.

“Resources” are the things money can buy, like high teacher salaries, low student-to-teacher ratios and new buildings.

“Rewards” encompasses initiative-based systems, including all kinds of school choice, including charter public schools, vouchers and education tax credits. Good schools and their teachers are rewarded by attracting more students. Choice is powerful because it opens up the monopoly school system to competition.

After 160 years of bureaucratic micromanagement and ever-higher spending, it’s doubtful that more rules or more resources will finally fix the schools. Reforms based on rewards are all we have left. School choice should be front and center in policy debates.

But we don’t hear as much about choice as we used to in Michigan for two reasons. The first is that school choice lost some momentum when a voucher plan was soundly defeated at the polls here in 2000. The second reason is that Michigan’s economy never recovered from the recession of 2001.

The memory of that voucher defeat is fading, but policymakers right now are completely preoccupied by the fallout from Michigan’s terrible economy.

Here’s a brief, ugly snapshot: Compared to all other states, Michigan ranks the very worst in unemployment for four straight years, the very worst in jobs destroyed over eight years, and the very worst in per-capita personal income growth over eight years. Only three states had worse population loss over eight years.

Lawmakers have given us chronic deficits by repeatedly overspending. They raised taxes another \$1.4 billion three years ago, but they spent all that and then some. The fiscal 2011 budget is already overspent by \$1.6 billion, and the governor wants another tax increase. You can see why the economy dominates the headlines.

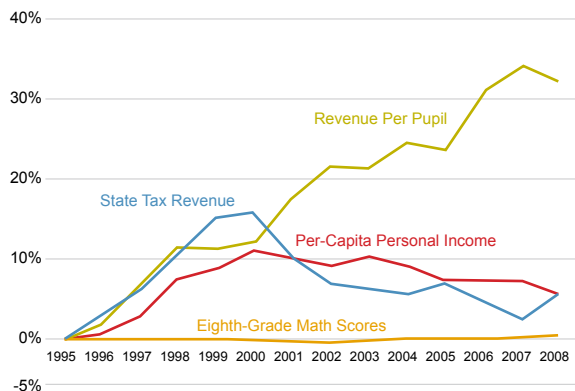
When education does make the news, it's all about money, not school choice. School officials say they are terribly underfunded.

The reality is somewhat different.

The entire state budget, from all sources, totals \$44 billion. We spend more than \$19 billion on the schools from state, local and federal taxes. That's more than \$12,000 per student if you include the cost of buildings, and about \$11,000 if you don't.

Michael Van Beek, our director of education policy, put together some data. Chart 1 shows Michigan's school funding is remarkably resilient to economic downturns.

Chart 1: Percent Change Since 1995



Source: Center for Educational Performance and Information, National Assessment of Educational Progress, Bureau of Labor Statistics, Senate Fiscal Agency. Some tests scores linearly interpolated

The green line shows how our per-pupil funding has increased more than 30 percent, after inflation, since 1995. It continued its upward march even as state revenue began to decline around 2000 (the blue line) along with per-capita personal income (the red line).

We might feel OK about the higher per-pupil spending if test scores had improved, but they haven't. The flat, orange line shows eighth-grade math scores. The fourth-grade math and fourth- and eighth-grade reading scores look about the same.

Charts 2 and 3 show that Michigan prioritizes education quite highly compared to other states.

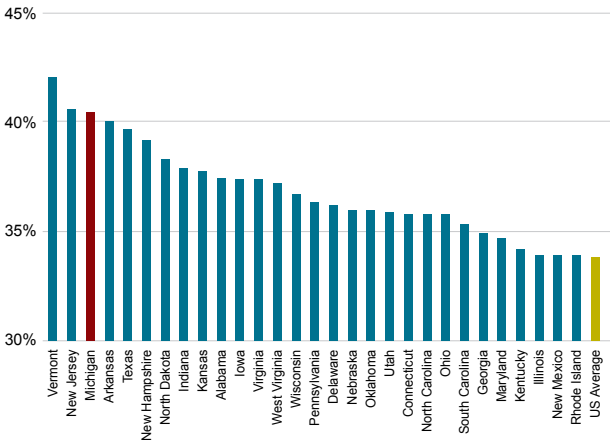
Chart 2 compares states by the amount of school revenue as a percentage of total state expenditures. Only two states, Vermont and New Jersey, spend more on their schools than Michigan by that measure.

Chart 3 compares states by the amount of school revenue relative to taxpayers' personal income in that state. Only Vermont spends more on schools than we do by that measure.

Michigan teachers are also the eighth-highest paid in the country, while our per-capita personal income ranks 37th.

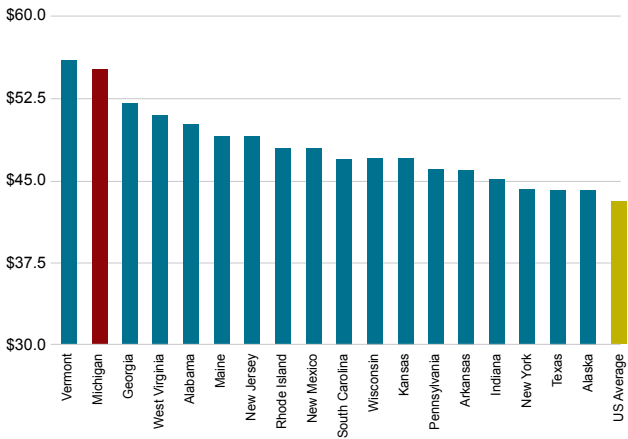
The schools might not be in bad economic shape, but there's no denying that the state is. School choice has a hard time penetrating the din of bad economic news. That will remain true until we start framing school choice in one additional way. Choice is more than just a way to get kids into better schools, as important as that is. It's also a way to fix the state's budget problem.

Chart 2: State and Local Revenue for Public Education as a Percentage of Total State Expenditures, 2007



Source: U.S. Census Bureau

Chart 3: State and Local Revenue for Public Schools Per \$1,000 Personal Income, 2007



Source: Bureau of Economic Analysis

Charter schools give us a hint of what's possible. The average charter school educates a child for \$2,000 less per year than the conventional public schools.

But that's the tip of the savings iceberg. Vouchers and education tax credits have even more power to save money. Here's how that works. The beauty of a voucher or education tax credit is that the money follows the child to the school of choice. A well-designed voucher or credit might be for half of the state's annual per-pupil aid of \$7,000. That's \$3,500 that would help offset the tuition costs for a student to attend a private school.

But, you might ask, wouldn't the state lose money if \$3,500 follows every kid who chooses a private school? The answer is no. The state actually saves money because it no longer has the financial obligation to educate the child in a public school, but the state keeps half the money it would have spent anyway. That's a deal any of us would take.

Vouchers and tax credits can both save money, but Mackinac Center analysts favor credits for a couple reasons. A voucher

involves taxing everyone and then sending government checks to parents or private schools. Invariably, some taxpayers will object to being forced to indirectly fund religious schools or some other school for some other reason. It will end up in court. And every argument to increase the amount of a voucher is an argument to increase government spending.

Education tax credits, on the other hand, don't force anyone to fund anything and don't automatically make government bigger. With a tax credit, taxpayers keep more of their own money if they choose to make education a higher priority. A tax credit isn't government money, because the money never passes through the government's hands. And every argument to increase the amount of a tuition tax credit is an argument to make government smaller.

My Mackinac Center colleagues designed a universal tuition tax credit that would allow any taxpayer to support the education of any child at any school. It would not be limited just to parents. It could be claimed by anyone who pays state taxes on income, property or business.

What retiree wouldn't want to claim a tax credit to help a grandchild? What business wouldn't prefer to sponsor scholarships for inner-city children instead of paying the same amount to the state's general fund?

A universal education credit could very conservatively save the state more than \$500 million per year while giving every parent the option of a safer and better school.

But the method of school choice is not as important as the imperative of school choice. The kids we save won't care if their life ring says "charter" or "voucher" or "credit."

And the Michigan Education Association won't care at all — it fights charters and vouchers and credits without prejudice, with all the fury it can muster. School choice is the one battle the union cannot afford to lose. The reason is simple.

The system of unionized public schools is a compound monopoly — a monopoly labor provider on top of a monopoly education provider. That combination generates cash for the union far beyond what's possible if money follows children to non-unionized schools.

Yet I believe this is a battle we will ultimately win. Choice is growing in other states. The flaws in today's school system are more apparent to everyone every year. And policymakers are more open than ever to any idea that helps balance the state budget. The idea of school choice is no more controversial than tax deductions we already get for private preschools, or government tuition grants we already get for private colleges.

The Mackinac Center helped crack open the door with charter schools a few years ago. We laid the groundwork for laws that make it easier for schools to save millions by privatizing services. We literally wrote the textbook on Michigan school finance.

The MEA knows we're effective. That's why they set up their own think tank to analyze our reports. That's why they've sued us — unsuccessfully. That's why they have a 90-minute training session to tell teachers what to think about the Mackinac Center. The MEA is afraid that every Mackinac Center idea the Legislator adopts translates to less union cash and union clout.

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Policy changes lives. The American success formula is free people making their own choices while injuring no one, with government providing a basic framework and rules of play.

We've moved far away from that ideal in education. School choice can make education the new American success story.

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ABOUT THE AUTHOR

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