

Liberty  
& LEARNING  
MILTON FRIEDMAN'S VOUCHER IDEA  
AT FIFTY

EDITED BY ROBERT C. ENLOW AND LENORE T. EALY

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## 6. Is There Hope for Expanded School Choice?

*Eric A. Hanushek*

Because they are products of circumstance, ideas often become dated. As circumstances change, many ideas lose currency and relevance. Others, however, pick up momentum with time. School choice is among the latter.

Over a long period of time, various philosophers, writers, and policymakers have discussed how schools should be organized and financed, but perhaps no idea about schooling is as directly linked to a single individual as school choice is to Milton Friedman. His proposal for educational vouchers was first put on paper in 1955, and it was included in his 1962 classic, *Capitalism and Freedom*, a broader introduction to the connections between economic freedom and political freedom. Of his insights into a number of government functions in modern societies, none was more powerful than his discussion of education.

### **The Context**

The expansion of schooling during the 20th century dramatically changed the nature of discussions about education in America. The United States, which led the world's educational transformation, saw its largely private, locally run school system expand dramatically in both breadth and depth. Just as elementary schooling had become universal during the 19th century, so did secondary schooling become the norm during the 20th.

The 20th century also saw a dramatic consolidation of school districts. In 1937 there were 119,000 separate public school districts. Today there are fewer than 15,000.<sup>1</sup> Over the same period, funding of education also changed dramatically. In 1930 less than one-half percent of revenues for elementary and secondary schools came from the federal government, and less than one-fifth came from states, leaving over 80 percent to be raised locally. By 2000 the local

share was down to 43 percent and both federal and state shares were rising.<sup>2</sup>

Taking those trends together, it is reasonable to assume that parents were much closer to what was going on in the schools 75 years ago than they are today. Likewise, school administrators in the small districts of the past, supported largely by local funds, almost certainly paid closer attention to the needs and desires of the families they served. School district consolidation has effectively moved decisionmaking about and management of education away from the local population. Moreover, larger districts with larger populations mean that there are more diverse preferences among parents for what they want in their schools. Thus, the administration of any district necessarily requires compromises among the various interests.

The influence of parents and local administrators has also changed because of the overall centralization of decisionmaking that has been occurring over the past century. As states have become more prominent in the funding of schools, they have also moved toward more centralized decisionmaking about the operations of schools. That is understandable because, if states are going to fund schools, they have responsibilities not to waste their (or the federal government's) funds. The overall result of the trends in government revenue and administration of education is that school decisions have migrated away from parents and local voters and toward state bureaucracies.

The experience of Americans with the small school districts prevalent at the beginning of the last century is one model of effective school organization. Schools can be responsive to their constituencies if the schools deal with a limited number of parents and if the parents directly control the funding of the schools.

A somewhat different view appeared in academic writing in the middle of the 20th century. Charles Tiebout acknowledged the persistent desires of parents for greater influence in local schools (or public services in general) but didn't believe that responsiveness of districts would have to be restored through direct consultation with all of the parents. Tiebout suggested that parents could satisfy their desires for local governmental services by shopping for the jurisdiction that provided the services that best met their individual desires. Thus, by living in the same area, parents with similar desires could

group together to ensure more homogeneous demands. Moreover, since one aspect of schools involves how effectively they use their resources, competition for consumers could put competitive pressures on school districts to improve their performance and efficiency.<sup>3</sup>

The idea of shopping across alternative jurisdictions does, however, have limitations. Specifically, it requires that there be a large number of districts so that there is a sufficient range of choice. It also becomes very complicated when parents have multiple interests. For example, some parents may, in addition to schools, have desires with respect to welfare payments, hospital coverage, police, and safety. Selection of place of residence on the basis of school districts may compete with or fail to satisfy the other interests of the family.

A significant percentage of housing decisions involves finding a location that meets demands for commuting to work. With decentralized workplaces, different jurisdictions become more or less attractive, and that makes parents' choices much more complicated than simply choosing a school.

Finally, for a variety of reasons, the public schools in adjacent jurisdictions may not look too different from one another. Central state restrictions; the limited viewpoints of school personnel in terms of curricula, pedagogy, and effective administration; and other things could lead schools to be quite similar in approach, curricula, and goals. The contraction of choices of different school districts when subsumed by the other choice aspects of residential location thus puts natural limits on how widespread any version of school choice such as Tiebout's might be. Few locales across the nation provide the optimum conditions for balancing the various interests of families in a way that allows genuine choice of schools to be effectively achieved.

Enter Milton Friedman. In his 1955 essay, Friedman provided a more compelling approach to securing the interests of parents in their children's schooling. Friedman acknowledged that government may want to intervene in education for a variety of legitimate reasons, but he argued that none of the potential reasons, including ensuring a minimal level of education for the population or enabling the children of the poor to attend school, requires government to actually run the schools. Friedman proposed that, although some sort of government financial mechanisms may be desirable, there

was no reason why governments should be involved in the operation of schools.

Friedman thus compellingly proposed that the best means of balancing legitimate state interests and the natural interests of families would be to provide vouchers to parents. The vouchers would transfer funding to the government or nongovernment school that parents chose for their children to attend. Thus, within the context of the other aspects of locational decisions, parents could search for the optimum place for their residence on the basis of commuting, housing prices, and the range of services available in the jurisdiction. They could then use their school voucher to shop for the best school without having to make the other sacrifices possibly called for in Tiebout's scenario of school choice.

### **The Challenge of Implementation**

The brilliance of the voucher idea has yet to be met with much policy success in the United States. A few cracks have developed in the resistance to vouchers, but nothing that looks like a general movement toward widespread implementation. It is useful to consider why this idea has not caught hold more quickly.

Perhaps the most obvious factor is the rise of teachers' unions. When school choice was originally introduced, teachers' unions were not pervasive. Their subsequent rise and increase in power, however, have forever changed the ability to introduce any radical new policy in schools. A fundamental precept and implication of competition in schools, namely, that the job security of some current personnel would be threatened, is anathema to unionized educators. Thus, any hint of even experimenting with school choice has been vigorously attacked by the unions. Their efforts to resist change, including powerful media campaigns to prevent citizen referenda on vouchers from being adopted, have been very effective.

Despite the significant braking effect of the unions on choice-based school reform, there remain grounds for hope. To set the scene for optimism, it is necessary to review the current state of experimentation with vouchers and other vehicles of choice.

### **Experience with Vouchers**

Recent experiences with school choice include the introduction of a limited voucher program in Milwaukee, the introduction of a more

broadly accessible program in Cleveland, the U.S. Supreme Court's affirmation of such policies, and the introduction of a variety of private voucher programs. These experiences have been discussed and analyzed in a variety of different places.<sup>4</sup> Although different authors and commentators have interpreted the data differently, my summary is fairly straightforward.

First, it is important to recognize that, whatever conclusions we might draw from these programs, none of them looks like a general test of a universal voucher program such as that proposed by Friedman. They rely (at least until recently) on schools in existence before the vouchers were introduced. Thus, they give little indication of any supply response that might be seen if there were a more far-reaching, universal voucher program that was sure to be available for some time into the future.

Second, in almost all situations the expenditure in the voucher schools is noticeably less than that in the competing public schools. That differential implies that present voucher programs are constrained tests of Friedman's voucher idea. On the one hand, if they survive with fewer resources, they demonstrate that competition can improve efficiency. On the other hand, limited resources may severely reduce the number of schools willing to enter the market and may dampen seriously the innovation that is seen.

Third, parents tend to be happier with the nongovernment schools they have chosen through the voucher programs than with the corresponding public schools.<sup>5</sup> In other words, even given the restrictions noted above, there is a group of parents that highly values the alternative schools.

Finally, the achievement of students receiving vouchers appears to be as high as or higher than that of students in comparable public schools. Allowing for possible differences in student bodies, those students opting out of government schools through a voucher program on average score better than those who apply for but do not receive vouchers—although this is not consistent across subgroups, across outcome measures, or across length of voucher program operation.

Despite the initial positive indicators observed in even limited experiences with vouchers, the current political situation is nonetheless easily summarized: there is as yet no strong political support for vouchers, and, while some states looked poised to try experiments, it seems unlikely that extensive new efforts will come to fruition.

**Experience with Other Forms of Choice**

One of the significant changes in the educational climate since the publication of Friedman's voucher proposal in 1955 has been the introduction of the principle of choice in schooling in other ways. Although universal vouchers are the purest form of choice, and the one obviously preferred by Friedman, innovation in choice has occurred.

*Homeschooling*

To begin with, there has been a considerable surge in homeschooling. A significant number of parents have simply withdrawn their children from the regular public schools and taken personal responsibility for their education. Some estimates put the number of homeschoolers at between 1.5 and 2 percent of all school children, although there is uncertainty even about the numbers involved.<sup>6</sup> Unfortunately, however, little is known about this in terms of movements of children in and out of homeschool environments or of their performance trends.

*Intradistrict Open Enrollment*

Citizen sentiment for expanded choice has generally increased over time, a fact not missed by opponents of more choice. Thus, one reaction to expanding calls for vouchers and more choice has been some people's mantra that they are for choice but it should be restricted to public school choice. That position has been particularly popular among politicians who want to protect the existing public schools from any competitive pressures yet still seem open to more fundamental reforms of schools.

A particularly popular version of public school choice involves an open-enrollment plan, under which, for example, students could apply to go to a different school in their district rather than the one to which they are originally assigned. In a more expansive version, no initial assignment is made at all, and students apply to an ordered set of district schools. A common version of this has been the use of magnet schools that offer a specialized focus such as college preparatory or the arts. Forms of open-enrollment plans were the response of a number of districts in southern states to the desegregation orders flowing from *Brown v. Board of Education*. In general, simple open-enrollment plans were not found to satisfy the court

requirements for desegregation of districts, but magnet schools (with racial balance restrictions) became a reasonably common policy approach.<sup>7</sup> In 2001–02, 3 percent of all students attended magnet schools.<sup>8</sup>

It is fair to say that these public school choice plans do not even bear a pale resemblance to the ideas of choice included in voucher plans. First, the flow of students is heavily controlled. For example, the first caveat is always "if there is space at the school," but the desirable public schools virtually never have space. Second, large urban school systems where there is a natural range of options frequently face other restrictions, such as racial balance concerns, that severely constrain the outcomes that are permitted. Third, and most important, these plans seldom have much effect on incentives in the schools. The competitive model of vouchers envisions that schools that are unable to attract students will improve or shut down. That threat provides an incentive to people in the schools to perform well or to potentially lose their jobs. In a district with open enrollment, personnel in undersubscribed schools generally still have employment rights and simply move to another school with more students, diminishing the effect of competitive incentives.

*Interdistrict Open Enrollment*

Another variant of open-enrollment plans permits students in a city to attend any public school in the state. Conceptually, this could offer some competitive incentives. If a district lost sufficient students through out-migration, it could be left with less funding and could be forced to reduce its workforce. Again, however, the reality does not bring to bear many of the potentially positive effects of competition. In the first instance, voluntary interdistrict enrollment typically requires the approval of the boards of the schools a student is exiting and entering, meaning that the parents can face significant hurdles in making choices. The "if there is space at the school" clause generally stops all but some token movement. In addition, because of complicated formulas for school funding that mix federal, state, and local dollars, the funding following the choice student is typically less than the full funding for a student in the receiving district, meaning that any district accepting students is asking its residents to subsidize the education of students whose families reside and thus pay school taxes outside the district. The funding of transfers

is also complicated by the common practice of basing current-year funding on prior-year enrollment or attendance figures, or both.

### *Charter Schools*

The rise of charter schools has introduced an element of choice in schooling that promises to better mimic a genuine voucher program. Because they are creatures of the separate states and operate in different ways according to state rules, there is no common model of a charter school. The essential features are that they are public schools that are allowed to operate to varying degrees outside the normal public school administrative structures. To the extent that they survive through their ability to attract sufficient numbers of students, they are schools of choice. They differ widely, however, in the rules for their establishment, in the regulations that apply to them, in the financing that goes with the students, and in a host of other potentially important dimensions.<sup>9</sup> Some states, for example, impose a variety of requirements about teacher certification, curriculum, acceptance of special education students, and the like—advertised as “leveling the playing field”—in order to ensure that charter schools do not offer any true innovation and competition. Other states, however, remove a substantial amount of regulation and truly solicit innovation and competition.<sup>10</sup>

Despite the regulatory diversity surrounding them, charter schools can nonetheless offer true competition to the traditional government schools, because they can draw students away from poorly performing schools. Employment rights typically do not transfer between charters and existing school districts so there is potentially pressure on school personnel to attract students. Moreover, we see that charters are truly susceptible to the necessary downside of competition in that a substantial number of attempted charters do not succeed in the marketplace.<sup>11</sup>

Since the nation's first charter school legislation was enacted into law in Minnesota in 1991, some 41 states and the U.S. Congress, on behalf of the District of Columbia, have enacted legislation that provides for charter schools, although some had yet to open any schools by 2004. In the nation as a whole, charter schools increased from a handful in 1991 to more than 3,000 schools serving an estimated 700,000 students, or approximately 1.5 percent of the public school population, in 2004.<sup>12</sup>

In some places, charters have become quite significant. For example, in the 2001–02 school year, 9.2 percent of students in the District of Columbia, 6.7 percent of students in Arizona, 3.8 percent of students in Michigan, and 3.7 percent of students in California attended charter schools.<sup>13</sup>

What do we know about the performance of charter schools? Analysis has actually been very limited. To begin with, any school of choice—from the classic Catholic schools to charters and other schools that may emerge under a broad-scale voucher program—necessarily has a self-selected population. Thus, inferring the impact of the school, as distinct from the characteristics of the students who are attracted, is always difficult. In addition, because charter schools are largely new, most are still going through a start-up phase. The results observed during this phase may not be indicative of what they will look like in the steady state.

The situation is also complicated by the politics of charter schools. The teachers' unions, as part of their resistance to competition, gained national publicity for their simple comparison of scores of students in charter schools with those of students in regular public schools.<sup>14</sup> More serious work, however, has concentrated on adjusting for the special populations that choose charter schools.

My own work provides some preliminary estimates of the performance of charters in Texas.<sup>15</sup> Texas has a significant number of charter schools (although the legislature has capped the total number). Because Texas has tested students for a decade, it is possible to trace the students who enter and leave charter schools. The simplest research design that deals with the selection problems is a comparison of the average learning growth of individual students when in the regular public schools with their performance in the charters. In this way, charter students become their own control group.

Three things come out of this in terms of quality indicators. First, on average, charter schools perform very similarly to the traditional public schools. But, second, start-up problems are real, and new charters do not perform as well as more established charters. More established charters (those more than two years old) on average outperform the traditional public schools of Texas. Third, there is a significant distribution of performance across both traditional government schools and charter schools. The good are good, and the bad are truly bad.

Those findings are consistent with much of the other recent work on charter school performance, although there are some remaining uncertainties. The average North Carolina charter appears less effective than the average traditional public school,<sup>16</sup> whereas the average Florida charter is on a par with the traditional government schools after a start-up phase of two to four years.<sup>17</sup> On the other hand, relying on comparisons between charter applicants in Chicago who were randomly accepted or randomly denied admission, Caroline Hoxby and Jonah Rockoff conclude that the city's charter schools significantly outperformed their regular school counterparts.<sup>18</sup>

One other aspect of charter schools deserves mention. Schools selected on the basis of family choice, such as charter schools, have potential advantages attributable to allowing students to find schools that meet their own interests and needs. But another important aspect of competitive markets is enforcing a discipline on the other participants—in this case the traditional government schools. Is there any evidence that the traditional government schools respond to the pressures of competition? Even though it is still very early in the development of charters, Hoxby introduces preliminary evidence that there are competitive improvements.<sup>19</sup>

Our Texas study also provides information on the potential effects of competition. If we look at the behavior of parents, we find that they are significantly more likely to withdraw their children from a poorly performing charter school than from a charter that performs well. That finding is particularly important because parents are not typically given information on the comparative performance of their charter school. The behavior of parents shows, however, that they are good consumers and that they can use the performance data that are available to infer the quality of the school. An early and continual criticism of the voucher idea is that parents are not good consumers, an assertion belied by the data that emerge from observing the choices of charter school parents.<sup>20</sup>

It is useful to note that parents make similar judgments about the traditional government schools, but they are much less likely to exit such schools, given bad performance. The reason is obvious: it is generally much more costly to change government schools, given that a change of residence is usually required. Further, the ability to exit a given government school is not shared equally by all parents. Middle- and upper-income parents have the resources to select

among alternative districts, which almost surely explains their generally greater satisfaction with the public schools.<sup>21</sup>

In the end, while charter schools are beginning to provide us some insights into the effects of broader options and choices in schooling, definitive assessment of the promise of charter schools awaits both the general maturation of more charter schools and the investigation of their performance in different settings.

### Some Conclusions

The remarkable thing about our current discussions of choice is that much was predicted and anticipated by Milton Friedman when he wrote about these things a half century ago. First, he noted that parents indeed take a keen interest in the schools their children attend—and that shows up in the continued demand for expanding forms of choice. Second, although many people questioned the ability of parents to make good choices, the evidence available from even limited introductions of parental choice in the forms of homeschooling, open enrollment, and charter schools suggests that consumers are good decisionmakers even in these complicated markets.

What Friedman failed to appreciate fully was the resistance to choice. The potent political force of the teachers' unions with their vested interests has been successful in stopping much of the movement toward expanded choice. Nevertheless, there are reasons for optimism. High on the list is the growing recognition that American schools are extraordinarily expensive but not very effective.<sup>22</sup> That fact has been driven home by recent attempts to introduce accountability into schools, a move that has provided much more direct information to parents about the state of their schools.<sup>23</sup> One outgrowth of that is likely to be renewed energy for alternatives and the potential for even purer forms of school choice to be tested in the future.

### Notes

1. National Center for Education Statistics, *Digest of Education Statistics, 2003* (Washington: U.S. Department of Education, 2004).
2. *Ibid.*
3. Charles M. Tiebout, "A Pure Theory of Local Expenditures," *Journal of Political Economy* 64 (October 1956): 416–24.
4. See generally Cecilia Elena Rouse, "Private School Vouchers and Student Achievement: An Evaluation of the Milwaukee Parental Choice Program," *Quarterly*



*Journal of Economics* 113 (May 1998): 553–602; and William G. Howell and Paul E. Peterson, *The Education Gap: Vouchers and Urban Schools* (Washington: Brookings Institution Press, 2002).

5. See John F. Witte Jr., *The Market Approach to Education* (Princeton, NJ: Princeton University Press, 1999); Howell and Peterson; and Paul E. Peterson, "The Theory and Practice of School Choice," Paper presented at a conference on the Legacy of Milton and Rose Friedman's Free to Choose: Economic Liberalism at the Turn of the Twenty-First Century, Dallas, TX, October 22–23, 2003.

6. Robin R. Henke, Phillip Kaufman, Stephen P. Broughman, and Kathryn Chandler, *Issues Related to Estimating the Home-Schooled Population in the United States with National Household Survey Data* (Washington: National Center for Education Statistics, September 2000).

7. See David J. Armor, *Forced Justice: School Desegregation and the Law* (New York: Oxford University Press, 1995).

8. See Lee McGraw Hoffman, *Overview of Public Elementary and Secondary Schools: School Year 2001–02* (Washington: National Center for Education Statistics, May 2003).

9. See Chester E. Finn Jr., Bruno V. Manno, and Gregg Vanourek, *Charter Schools in Action* (Princeton, NJ: Princeton University Press, 2000).

10. See Center for Education Reform, *Charter School Laws across the States: Ranking Score Card and Legislative Profiles* (Washington: Center for Education Reform, January 2003).

11. See Center for Education Reform, *Charter School Closures: The Opportunity for Accountability* (Washington: Center for Education Reform, 2002).

12. Current data on charter schools are fragmentary and must be pieced together from various private sources. See U.S. Charter Schools, <http://www.uscharterschools.org>; and Center for Education Reform, <http://www.edreform.org>.

13. See Hoffman.

14. See F. Howard Nelson, Bella Rosenberg, and Nancy Van Meter, *Charter School Achievement on the 2003 National Assessment of Educational Progress* (Washington: American Federation of Teachers, August 2004).

15. Eric A. Hanushek and Margaret E. Raymond, "Does School Accountability Lead to Improved Student Performance?" *Journal of Policy Analysis and Management* 24, no. 2 (Spring 2005).

16. See Robert Bifulco and Helen F. Ladd, "The Impacts of Charter Schools on Student Achievement: Evidence from North Carolina," Duke University, Terry Sanford Institute of Public Policy, SAN04-01, August 2004.

17. See Tim R. Sass, "Charter Schools and Student Achievement in Florida," Paper presented at American Economic Association annual meetings, Philadelphia, 2005.

18. See Caroline Minter Hoxby and Jonah E. Rockoff, "The Impact of Charter Schools on Student Achievement" (unpublished mimeo, November 2004). It is important to note that many of these assessments of charter schools are also biased against charter schools to the extent that the objectives of such schools may not simply be developing the basic math and reading skills that are used in the analysis. Little attention has been paid to evaluating how well charter schools achieve their own uniquely chosen specialized purposes.

19. See Caroline Minter Hoxby, "School Choice and School Productivity (or Could School Choice Be a Tide That Lifts All Boats?)" in *The Economics of School Choice*, ed. Caroline Minter Hoxby (Chicago: University of Chicago Press, 2003).

20. See Eric A. Hanushek et al., "Charter School Quality and Parental Decision Making with School Choice," National Bureau of Economic Research, March 2005.

21. See Terry M. Moe, *Schools, Vouchers, and the American Public* (Washington: Brookings Institution Press, 2001).

22. See Eric A. Hanushek, "The Failure of Input-Based Schooling Policies," *Economic Journal* 113, no. 485 (February 2003): F64–F98.

23. See Hanushek and Raymond.