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School Choice, Equity, and Efficiency

JULIAN R. BETTS AND TOM LOVELESS

In 2001 the Brookings Institution initiated the National Working Commission on Choice in K–12 Education, chaired by Paul Hill. With funding from the Bill and Melinda Gates Foundation and the Annie E. Casey Foundation, the commission worked over several years to study school choice in the United States. This book evolved from the deliberations of that commission. It analyzes the potential costs and benefits of school choice and the mechanisms that policymakers can adopt to maximize the benefits of choice while mitigating its risks.

This approach may seem unusual given that current public debate in the United States is often focused on the more elemental question of whether school choice is “good” or “bad.” Although commission members had a wide range of views on school choice, they unanimously agreed that the debate over school choice needed to move beyond the issue of whether parents should be allowed to choose a school for their children. The commission report recognizes the reality that school choice in the United States is here to stay and is likely to grow.¹ In this context, the most important policy question is, How can we implement school choice in a way to maximize the benefits while mitigating the potential costs?

Indeed, the question of school choice is not an “if” or a “when.” We have always had school choice in the United States, through the right of parents

to send their child to a private school and through the ability of parents to pick a public school for their child by choosing where to live. Clearly, affluent parents have typically been the main beneficiaries of these forms of school choice.

In recent decades new forms of school choice have arisen that have fundamentally changed the education landscape. In many cases these new mechanisms have provided less affluent families with their first taste of school choice. The busing efforts beginning in the 1960s sought to desegregate schools, often under court order. Magnet schools sought to provide specialized schools while at the same time desegregating districts. Many of these programs, or variants, survive today.

More recently, charter schools, which are exempt from much of a state's education code, have sprung up in most states. Another program is open-enrollment programs, which make open seats at a school available to students who live outside the local attendance area. In a handful of cities and states, students are eligible to receive vouchers, which they can use toward tuition at a school of their choice.

Supporters of school choice point to several strong arguments in its favor. First, proponents argue, increased competition among schools for students will force schools to operate more efficiently in order to survive. Second, the newer forms of choice level the playing field in favor of less affluent families. Third, decentralized providers of education services better meet the diverse needs of students than does a monolithic public school system.

Ironically, one of the main benefits of school choice espoused by its proponents—increased variety—is also seen by opponents of choice as one of its greatest weaknesses. Opponents worry that school choice will undermine the notion of the common school, that is, the melting pot of shared educational and cultural experiences supposedly provided by public schools. Others fear that school choice will resegregate schools. A third concern is that choice will hurt students who are left behind in failing schools. These concerns deserve serious study.

The essays in this volume assess the basic mechanics of school choice, with a focus on the question of how, if the nation decides to expand choice, it might do so in a way that will benefit students while reducing the social costs. The first part of the book studies lessons for the design of school choice emanating from the economic theory of markets and from practical experience. The essays describe what policies promote both a vigorous demand for and an adequate supply of education choices. Because opponents of choice have raised many valid concerns about the impact of choice on the distribu-

tion of education opportunities, the second part of the book examines some related concerns. These range from the impact on students who are left behind in failing schools, to the impact of choice on racial integration, the complex and sometimes nasty politics of school choice, and the implications of choice for the civic engagement of tomorrow's adult population.

Designing School Choice

How should choice systems be designed so as to squeeze the most benefit from a preset education budget? Economic theory, with careful application to the case of schooling, is informative on this point. Similarly, observation of the real-world operation of the demand and supply sides of the market for education yields policy prescriptions.

The Economic Case

Some of the fundamental arguments in favor of allowing school choice derive from economic models of how markets function. Economic theory, backed by a large number of empirical studies of markets for goods and services, argues that the more competition there is to supply goods or services to a market, the better off consumers will be. Many economists, beginning with the Nobel Laureate Milton Friedman in 1955, argue that the American norm of requiring parents to send their child to the nearest public school is economically inefficient because it prohibits competition among schools.²

In chapter 2, Julian Betts provides an overview of the lessons provided by economic theory for the design of school choice. The chapter makes several contributions. It discusses the benefits to consumers from a market that is "perfectly competitive" relative to a market that is served by a single monopoly provider. The theory has direct applications to public education, because a school district that strictly limits a family's choice of school to the family's neighborhood is in effect a monopolist. In contrast, a system that affords families a genuine choice from a menu of public (and perhaps even private) schools would generate competition among schools for students. In the case of perfect competition, in which a large number of schools compete for students, less efficient schools would cease to exist, increasing the effectiveness of each dollar spent on education. Theory predicts that under perfect competition no change could be made to the allocation of education dollars that would improve the welfare of one or more students without decreasing the welfare of one or more other students. In addition, a greater variety of schools would spring up to cater to the heterogeneous needs of different

students, providing a rich array of services that a single monopoly provider could not hope to imitate.

Opponents of school choice often question, and even mock, the relevance of the economic theory of markets to school choice. According to this line of thinking, education is not a homogeneous commodity that can be provided by a huge number of suppliers. Further, children are not widgets. And just what, exactly, does it mean that the least efficient “firms” (schools, in our case) should be allowed to go out of business? All of these criticisms hold some merit.

Betts discusses these and several other ways in which school choice is likely to fall short of perfect competition. In each case, he offers policy prescriptions to reduce these problems. In addition, it is crucial to understand that the efficiency benefits of competition do not disappear if a market is not perfectly competitive. As the chapter emphasizes, there is a continuum between the myth of a completely monopolistic district at one extreme and a perfectly competitive school choice system at the other extreme. In general, students and their families will be better off with more, not less, competition.

Although perfect competition can improve the efficiency of the provision of goods or services in a market, society cares about equity as well as efficiency. Indeed, one of the most prevalent concerns about expanding school choice is that it would further widen the gap between “have” and “have-not” families. Again, economic theory provides some important insights. Competitive markets can produce a range of efficient outcomes, both equitable and inequitable. What determines the outcome is the initial allocation of “buying power” among families. This has important practical implications. Betts studies these in some detail and outlines a number of potential policies that could level the playing field. Examples include both lottery systems with geographic or other quotas designed to ensure access to the best schools for the disadvantaged and voucher schemes that give schools a financial incentive to enroll educationally disadvantaged students.

Supply and Demand

All choice systems depend on parents choosing schools. In chapter 3, Laura Hamilton and Kacey Guin analyze the demand side by looking at how families make such choices. The topic is crucial. The effectiveness of choice in allowing good schools to flourish and bad schools to go out of business hinges on parents making sound choices. Moreover, schools serve both public and personal interests. If parental choices are based on personal interests at

the expense of public ones, the public benefits that schools provide may diminish.

Hamilton and Guin conclude that the literature is consistent in pinpointing academic quality as the top criterion for why parents say they choose a particular school. The situation is less clear when it comes to studies of how parents act rather than what they say. Several studies show, for example, that the racial composition and socioeconomic status of charter schools appears to matter more when choosing schools than parents let on in surveys of preferences. Parents may be responding to surveys with socially acceptable answers rather than expressing their true reasons for selecting schools. Or they could be using demographic characteristics as proxies for school quality. Having good information appears essential for parents who are choosing schools. Hamilton and Guin call for a series of demonstration programs to provide high-quality information to parents, both to facilitate wise choice making and to allow for more research on the matter.

In addition to policies that empower families to choose, or “demand,” nonlocal schools, it is essential that an adequate supply of schools be available to meet this demand. Chapter 4, by Betts, Dan Goldhaber, and Larry Rosenstock, studies the supply side of school choice. The chapter reasons that because parents will want to send their children to a school that is not far away, even a well-developed market for school choice would probably resemble monopolistic competition. In this situation, monopoly-like schools have some power either to set the cost of education holding constant school quality or, more realistically, to set the quality that they will provide for a given revenue per pupil. However, more schools will open up in areas dominated by one or a few schools to the point at which new schools would find it unprofitable to enter. This benefits local students by increasing their number of choices while increasing the quality of schooling that can be obtained for each education dollar spent by society.

The chapter then considers the many factors that are likely to influence the supply of schools. Funding of schools of choice is perhaps the most important form of regulation to consider. In practice, most new choice programs have not received adequate funding. Some of the voucher plans put forth across the nation have called for vouchers that would not come close to paying for tuition at the better private schools, which raises concerns that vouchers might in the end prove a sop to well-heeled families that have already enrolled their children in elite private schools. Charter schools provide a second example of the difficulties imposed by inadequate financing.

Charter schools often have to fund the building of a school campus through nongovernmental sources, because the funding formulas do not take this need into account. Further, in many instances charter schools often receive less funding per average daily attendee than regular public schools. This does not seem to be an oversight so much as an actively made political decision. Indeed, when the National Working Commission on Choice in K–12 Education issued its main report, its call to equalize funding between schools of choice and regular public schools was opposed by one of the main national teachers' unions, the American Federation of Teachers. As *Education Week* reporter Caroline Hendrie wrote: “The notion that alternatives to regular public schools should receive funding on a par with district-managed schools is ‘pie in the sky,’ said Bella Rosenberg, an assistant to AFT President Sandra Feldman.”³

The decision to create a new school is a very dynamic process that is based not only on current policy but also on *beliefs* about the future policy and funding environment. In practice, school operators face much uncertainty—legal, regulatory, and financial. Taking examples mainly from the case of charter schools, the chapter points out that potential school operators are less likely to open up a school knowing that in recent years some state legislatures have changed the law governing charter schools with little notice and that states and individual chartering districts have similarly sometimes altered their agreements to support charter schools financially. These uncertainties, plus the added uncertainty that a charter school may not have its charter renewed, make it extremely difficult for charter schools to borrow money to build facilities. This puts the charter school movement at a distinct disadvantage vis-à-vis regular public schools, which typically benefit from public bond issues to cover capital expenses.

The chapter concludes with recommendations for policy reforms that could enhance the supply of new schools in the face of these many uncertainties.

Inside the Black Box

In chapter 5, Frederick M. Hess and Tom Loveless examine the operation of schools under choice. The authors liken school choice to a black box, referring to the failure of both critics and supporters to specify the mechanisms producing choice's purported effects on student achievement—whether one believes the outcomes of choice are positive or negative. Choice is not an educational program in the sense of promulgating a new approach to instruction—a particular way of teaching reading or math, for example. Schools of choice may be all over the map in their handling of curriculum and instruction. Indeed,

supporters claim heterogeneity as a benefit of choice—that choice regimes would stimulate diverse approaches to important aspects of schooling in order to satisfy diverse consumer preferences.

Surely, Hess and Loveless argue, some of these approaches will prove to be more effective than others. If that is true, then the effects of choice may be confounded with the success or failure of particular practices at the schools parents choose—that is, the practice, not the choice itself, may be producing the effect. The key to replicating successful systems of choice or to importing lessons from choice schools into traditional public schools, then, rests on knowing precisely what it is inside the black box that is producing the benefits. Simply making a choice does not increase student learning. Hess and Loveless analyze how in choice schools school structure, student population, and classroom practices affect outcomes.

School Choice and Social Inequality

Given that competition can lead to all sorts of “efficient” outcomes, which vary dramatically in terms of the distribution of outcomes for students, it is important to be concerned about social equity. The second section of the book studies the impact that a widespread school choice program might have on nonchoosers, offers new thoughts and evidence on the impact of school choice on racial integration, examines the complex politics surrounding school choice, and closes with an analysis of whether the decentralization of decisions about how to educate children will reduce social cohesion by reducing young people’s commitment to shared civic values.

Leaving Nonchoosers Behind?

In chapter 6, Dan Goldhaber, Kacey Guin, Jeffrey R. Henig, Frederick M. Hess, and Janet A. Weiss discuss whether school choice will academically help or harm students who do not exercise their choice to attend other than a local school. The theoretical issues here are themselves nuanced, but again, the devil is in the details. As the authors state: “We believe that this debate will be far more useful when it focuses on the policy design of the choice system itself.”

The theoretical argument that nonchoosers will benefit from school choice has multiple facets. The basic theory of competition suggests that providing consumers with choice will benefit all consumers by forcing less efficient schools to adopt better teaching methods and curricula to prevent loss of students to more efficient schools. In the extreme, this competition for

students will also drive the least efficient providers out of business altogether. In practical terms, this means that badly run schools will be shut down or taken over by those who have better ideas on how to teach children.

There are several other sources of potential benefits to nonchoosers. Should choice lead to greater homogeneity among students who choose to stay at underperforming schools, then these schools might be better able to tailor teaching methods to help these students. A separate mechanism for choice to help nonchoosers operates through political channels. The authors speculate that if choice fosters voter confidence that the public school system is spending resources wisely, it could increase support for higher school spending. Such increased spending could benefit nonchoosers and choosers alike.

The authors also delineate reasons why, in theory, expanded school choice could lower educational quality. One concern is that the cost of operating a school that has lost, for example, half its students through choice programs will cost more than half as much to run than if it were operating at full capacity. This is because many costs such as administration, heating, and lighting are relatively fixed. Second, increased regulatory oversight could reduce funding available for the classroom. Both of these arguments suggest that all students, including nonchoosers, could be hurt by these added costs. Some of the authors' other concerns suggest an especially negative impact on nonchoosers. Chief among these is the idea that choice, by inducing outflows of talented students, could hurt the quality of the student peer group at underperforming schools. This could hurt the academic achievement of those students left behind, based on a growing body of evidence suggesting that students learn from one another.

Goldhaber and co-authors provide a menu of policies that administrators can implement to improve the impact of choice on nonchoosers. For instance, schools that lose students should receive timely notice of how many students have opted out and which schools they have chosen. Otherwise, how will failing schools know what other schools to emulate?

In addition, the authors tackle the ethically difficult question of whether to starve an underperforming school of money or to give it additional funds. They reason that the key issue is whether an underperforming school that loses a student should lose the marginal cost of educating that one additional student, or to lose more or less than this amount of funding. To give these schools a chance to reform and adjust, the authors argue for removing less than the marginal cost of educating the student who left "so that the school will actually have slightly more to spend on each remaining student as school

administrators face the initial challenge of responding to market signals.” However, this would be a rather perverse incentive to provide to the school in the long run. Thus, they argue, eventually the school should be penalized by more than the marginal cost.

School Choice and Racial Integration

Historically, some of the most bitter fights related to school choice occurred in the 1960s and 1970s, when courts ordered busing in many districts as a means to desegregate schools racially. In chapter 7, Brian Gill provides a thoughtful commentary on school choice viewed as a means to increase racial and socioeconomic integration in schools. He argues that policymakers who promote school integration should think carefully about their goals before designing a school choice program. For example, is integration by race the sole objective, or should we also be concerned about gender and socioeconomic integration? Similarly, should integrationists be concerned more about the racial balance *among* schools or *within* schools? If the main goal of integration is to increase social contact among socioeconomic and racial groups, then policymakers must also think about how to reduce segregation across classrooms in a school.

Although Gill’s chapter argues that “external factors” such as families’ preferences can greatly influence whether school choice helps or hinders integration, there do remain many policy levers that can improve the chances that a school choice program will increase integration. For example, a school voucher program that provides each family with a voucher that covers only a fraction of typical private school costs would probably exacerbate racial and socioeconomic segregation. A partial subsidy such as this would leave less affluent parents unable to afford many local private schools. Instead, the main beneficiaries would be parents who were likely to send their children to private schools without the subsidy. On the other hand, a targeted voucher that provides generous subsidies only to less affluent groups could integrate both the private and public school sectors if student flows into private schools caused the percentage of public school students who are nonwhite to fall and the corresponding percentage in private schools to rise.

Gill lists a number of factors that policymakers should consider in designing a school choice program with integration in mind. These factors include admissions, funding mechanisms, the supply of schools, and the provision of adequate information to all families.

Just as policymakers need to be clear on why they want school choice to increase integration, researchers need to exercise care in measuring the

impact of school choice on integration. Gill argues that many past attempts to examine the impact of choice on integration do not answer the right question. For instance, if administrators seek to increase contacts among social groups, researchers should then measure integration at the classroom level rather than the school level. Such analysis has been rare, in part because of inadequate data. Other problems Gill outlines include inappropriate selection of comparison schools against which to compare schools offering choice, and inadequate information on how school choice programs induce flows of students between the private and public school sectors. He gives the example of a new public magnet school that might look less integrated than other public schools but that drew many nonminority students out of private schools, thus serving to integrate both the public and private school sectors.

In chapter 8, Karen E. Ross studies how charter schools in Michigan have altered racial integration in the regular public schools. Michigan is well worth studying because the number of its charter schools has grown rapidly compared to most other states. In addition, black-white segregation is high in Michigan's schools. Ross asks a series of related questions. First, how does the racial mix at charter schools compare to the mix in nearby regular public schools? Second, do charter schools locate in districts in a way designed to attract mainly white students, thereby perhaps exacerbating segregation in the regular public schools? Third, in districts that have attracted charter schools, has racial segregation in the regular public schools increased or decreased over time?

In Michigan's charter schools, 47 percent of students are black, compared to a mere 17 percent in regular public schools in that state. This huge discrepancy can be explained almost completely by the decisions of charter school operators to open schools in predominantly black neighborhoods. Ross proves this by comparing charter school enrollment to the enrollment at regular public schools within a two-mile radius and finding highly comparable racial mixes. Similarly, the chapter shows that charter schools are much more likely to spring up in districts that already have highly segregated schools and that these areas tend to have greater proportions of black and Latino students than districts that do not attract charter schools. Taken together, these findings provide powerful evidence that in Michigan charter operators on the whole aim to serve nonwhite students, which contradicts the theory that charter schools will skim off affluent (and typically white) students.

Finally, the chapter examines trends in racial segregation in public school districts between 1990 and 2000 and asks whether the arrival of charter

schools exacerbated or reduced racial segregation in the regular public schools over this period. The results are mixed, and in many cases no significant link appears. In some districts in which charter schools' enrollment share surpasses the median of 7 percent, black and Hispanic isolation appears to have increased over the decade, although white isolation fell somewhat. In spite of elaborate demographic controls in her models, Ross cautions that it is not possible to know the causal mechanism behind these patterns. Put differently, if charter schools had not been created in the 1990s would these districts have become more segregated—at least in terms of black and Hispanic isolation—anyway?

The Politics of School Choice

In chapter 9, Jeff Henig asks why the politics of school choice are so divisive. Henig acknowledges that ideological differences and interest group politics both play roles. But tensions run deeper. Henig draws a distinction between pragmatic and systematic privatization. He explains that proposals for seemingly pragmatic choice run into stern opposition, in part, because opponents fear that modest forms of privatization could unleash forces that ultimately undermine democratic control over schooling. In the first half of the essay, Henig explains why this fear may be overblown. Inherent in American political institutions is the assurance that change will be incremental, subject to countless veto points, and governed by divided power. Moreover, the public school system, as Henig points out, already offers parental choice in the form of magnet schools, charter schools, inter- and intra-district choice, and the like. In 1999 about 14 percent of children in the public school system attended schools that parents had chosen.

So is opposition to choice unreasonable? Not at all. In the middle part of the essay, Henig discusses the idea that “when there is a prospect that the resulting changes may erode, in ways that are not readily reversible, the basic capacity of public institutions to take the measure of and effectively act for the public interest, there are good reasons to take note and take care.” In particular, Henig believes that choice could weaken support among three key constituencies that traditionally support spending on public schools: loyally Democratic African Americans and Hispanics, by exploiting political fissures in minority communities; conservative Jewish voters who want to save Jewish private schools; and homeowners, by weakening the link between schools and property value. Henig concludes the essay by holding out pragmatic privatization as having the greatest potential for offering common ground to proponents and opponents of school choice. But with highly mobilized

interest groups and ideological rancor governing the contemporary choice debate, it is doubtful, Henig admits, for common ground to be found any time soon.

School Choice and Civic Engagement

One concern about a widespread system of school choice is that balkanization will result, in the end weakening the ability of the K–12 sector to impart desired civic values to the nation's youth. This concern seems particularly relevant in the case of voucher programs that allow students to attend private schools. In the United States, the vast majority of private schools are religious schools. In chapter 10, Patrick J. Wolf examines school choice and the inculcation of civic values. Public schools occupy a unique place in American society as institutions responsible for handing down the legacy of democracy from one generation to the next. Supporters of school choice argue that this reputation is largely a myth and that private schools are equally adept at preparing good citizens. Wolf examines the empirical evidence comparing public and private schools in teaching civic values and lists seven values in order from the most studied to the least studied: political tolerance, voluntarism, political knowledge, social capital, political participation, civic skills, and patriotism.

Wolf finds evidence supporting the argument that schools of choice are just as effective as public schools in teaching civic values. Of the nineteen studies he reviews, only one uncovered negative results for private schools. The bulk of the studies are neutral to positive. Notably, most of the positive studies are of Catholic schools or Latino students. When Wolf removes studies involving Catholic schools or Latinos from the review, the positive effect is less pronounced. The conclusion remains, however, that research does not support the notion that private schooling undermines the teaching of civic values. As Wolf puts it, "The statistical record thus far suggests that private schooling and school choice rarely harms and often enhances the realization of the civic values that are central to a well-functioning democracy."

Closing Thoughts

As so vividly described in the chapter by Jeffrey Henig, the politics of school choice has brought forth some strong claims by both sides about the likely advantages and disadvantages of moving to a more widespread system of school choice. To believe the strongest proponents, school choice will make all but a few special interests, such as teachers' unions, better off. In particular, it

will empower parents living in the nation's inner cities to choose a better school for their children.⁴ In contrast, opponents of choice voice concerns that widespread choice will increase the variance in school quality, often to the detriment of less affluent families, while resegregating the nation's schools both racially and socioeconomically.

As is so often the case in public policy, the truth is likely to lie somewhere between the claims made by parties on the two extremes of the debate. School choice by itself is not inherently good or bad. Rather, the ability of school choice to improve both efficiency and equity in the nation's schools hinges upon a number of key policy decisions. As the following chapters show, the flow of information to parents, the mechanisms society provides to induce parents to engage in choosing the ideal schools for their children, the regulatory and funding framework that will influence the supply of schools, and the financial and regulatory incentives that will be given to choice schools to encourage racial and socioeconomic integration all play key roles. Should society decide to move further toward a universal system of school choice, it should do so armed with full knowledge of the potential benefits, the potential risks, and the policy options available to mitigate those risks. This book represents one step in that direction.

Notes

1. National Working Commission on Choice in K–12 Education, *School Choice: Doing It the Right Way Makes a Difference*, Brown Center on Education Policy (Brookings, 2003).

2. Milton Friedman, "The Role of Government in Education," in *Economics and the Public Interest*, edited by Robert A. Solo (Rutgers University Press, 1955).

3. Caroline Hendrie, "Panel Says Choice's Benefits Worth Risks," *Education Week*, November 19, 2003 (www.edweek.org/ew/articles/2003/11/19/12choice.h23.html).

4. For an updated statement by Milton Friedman along these lines, see Milton Friedman, "Public Schools: Make Them Private," *Education Economics* 5, no. 3 (1997): 341–44.

2. School choice and efficiency. Supply side flexibility Financial implications of student numbers Policy: lottery scheme to prevent over-subscribed popular schools. 3. School choice and equity. Low-income families: quality and duration of education Marie M Stack Economics of Public Issues 11. Govt Policy: Higher Education (HE). Link between education and growth? Substantial private returns Variable govt intervention 1. Traditional model of state provision and state funding Public sector universities Entrance exam Free of charge Student grants. 2. Cost-sharing Costs of provision High private r Production efficiency in education also involves the choice of optimum outputs, among various alternatives, as illustrated in Figure 2b. There is more than one output in education at both the intermediate and final-good levels, with the result that there is both the difficulty and the need to ascertain society's output goals and the weight to be assigned to each.Â ments in the social efficiency of these schools would simultaneously increase equity. To suggest some of the problems, the persistence of child inequity is suggested by indices of inequality (or dispersion) of expenditure per. â€” pupil among schools and among districts inequality so vast that expen An equity-efficiency tradeoff results when maximizing the productive efficiency of a market leads to a reduction in its equityâ€”as in how equitably its wealth is distributed. The debate around the tradeoff often focuses on addressing growing economic inequality within a country or region where the economy and GDP are growing. The concern for some is that the least affluent members of society receive a disproportionately small share of the increasing wealth.Â The term "equity" is often normative. That means it is associated with a school of economics that is ideologically prescriptive. Normative economics heavily concerns itself with value judgments and statements of "what ought to be," rather than facts based on cause-and-effect statements.