

NEPC Review: Fiscal Effects Of School Choice: The Costs and Savings of Private School Choice Programs in America Through FY 2022 (EdChoice, October 2024)



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Rutgers, The State University of New Jersey
New Jersey Policy Perspective

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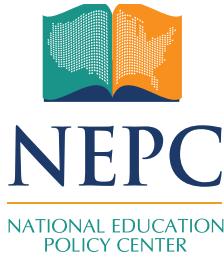
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Summary

The expansion of school “choice” (i.e., voucher) programs, which provide taxpayer-financed subsidies for families enrolling students in private schools, has prompted a debate about their fiscal impact. A recent EdChoice report argues that these subsidies of private school costs save taxpayers money when—as is typically the case—the per-pupil cost of the subsidies is less than the average per-pupil spending of public schools. However, the report’s estimation of the number of students likely incentivized by vouchers to switch from public to private—as opposed to students who use the vouchers to subsidize a private-school education that they would avail themselves of even without the voucher—is wholly invalid. The report also fails to apprehend that private and public schools serve different students, with public schools enrolling more students with specific educational needs that drive up costs. In addition, the report’s methodological assumptions are fatally flawed; consequently, it almost certainly underestimates the true costs of “choice” programs. Ultimately, the report’s lack of empirical evidence, reliance on poorly formed theories, and slapdash methods render it useless to policymakers.



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I. Introduction

The expansion of private school “choice” programs has accelerated in recent years, prompting a much-needed debate over their fiscal impact. These programs—which allow students to enroll in private schools at public expense—divert funding away from public schools: As students switch enrollments from public to private schools, state revenues to a school district (which are based on student enrollments) decline, leaving districts with less funding.

In addition, these programs impose fiscal burdens on taxpayers if students who would have otherwise still attended private schools receive public funds. Reports show that new or expanded choice programs subsidized the tuition of students already attending private schools.¹ Thus, taxpayers are taking on additional spending on behalf of families who can afford private school tuition themselves without a public handout.

Fiscal Effects of School Choice: The Costs and Savings of Private School Choice Programs in America Through FY 2022, written by Martin F. Lueken and published by EdChoice, argues that “choice” programs do not negatively affect public school finances and actually save taxpayers substantial sums of money.² However, the report relies not on empirical evidence, but instead on several unvalidated and questionable assumptions that drive its methods. These erroneous assumptions lead to questionable conclusions. In sum, policymakers interested in being cautious stewards of taxpayer dollars should avoid its recommendations.

II. Findings and Conclusions of the Report

The report asserts that because per-pupil costs of “choice” programs are lower than per-pupil spending in public schools, they generate estimated savings of between \$1.70 and \$2.64 for each dollar spent. It states:

In total, choice programs enroll 2.4% of publicly funded K–12 students while receiving only 1% of public funding. Therefore, education choice programs are funded at a lower public cost when compared to public K–12 school systems.³

Extrapolating from this conclusion, the report finds that 48 education programs—consisting of private school voucher, education savings account, and tax-credit scholarship programs—saved states between \$19.4 billion and \$45.6 billion from their inception through 2022.⁴

Importantly, the \$45.6 billion figure is *cumulative*. If purported savings are divided by the years that each program has operated, the figure is a much smaller average of \$2.9 billion per year.⁵ For context, in 2020–21, the United States spent \$927 billion on elementary and secondary education⁶; the supposed average annual savings from “choice” is, therefore, about 0.3 percent.

III. The Report’s Rationale for Its Findings and Conclusions

The report’s conclusions center on the argument that the cost of private school subsidies is less, per pupil, than the amount of spending at public schools. Consequently, the difference between average spending in public schools and the amount of a “choice” subsidy represents a savings to taxpayers.

The report does acknowledge (but does not fully explore) that public schools experiencing enrollment losses due to private school subsidies face an additional fiscal burden. These schools have fixed costs (e.g., heat, school building maintenance) that cannot be adjusted easily as enrollments decline. The report also concedes that some students receiving a public subsidy to attend private school would still attend without a subsidy, creating an additional burden for the taxpayer.

The report argues, however, that if enough students switch from public to private schools, the amount of savings from a “choice” program will equal, and eventually surpass, additional costs from enrollment losses in public schools. As the subsidy to private school students is less than the average per-pupil spending on public schools, the more students who take the subsidy, the greater taxpayer savings. In addition, it asserts that the number of students who would attend private schools even without a subsidy is relatively small. Thus, the costs of subsidizing these students can be recouped by enrolling a relatively small number of students in private schools.

In addition, the report argues all public school costs are, in the long term, variable; therefore, public schools will eventually adjust their spending to match their lower enrollments, leading to long-run savings.

IV. The Report’s Use of Research Literature

Like many reports from pro-“choice” advocates, the report relies heavily on previous briefs published by the author and associates. While it does cite some criticisms of “choice” programs and their effects on public school finances, it does not acknowledge multiple critiques of EdChoice’s previous reports on the topic.⁷

Additionally, the report emphasizes the alleged positive competitive effects of “choice” programs, asserting that their introduction improves outcomes in public schools. Yet it ignores research showing that these effects are generally small and do not fully account for confounding factors.⁸ Worse, it ignores recent studies that show substantial *negative* effects for students enrolled in large-scale programs.⁹

V. Review of the Report’s Methods

To arrive at its conclusions, the report makes several questionable assumptions that underlie its methods:

- It assumes it has made a complete accounting of the public expenditures made on behalf of private schools participating in school “choice” programs.
- It assumes per-pupil expenditures are the most relevant to its argument, and that it has fully accounted for the additional subsidies on behalf of students who would have attended private school regardless of whether or not they received a subsidy.
- It asserts it has made a valid distinction between fixed and variable costs.

Yet, as explained below, these assumptions are plainly erroneous or already without grounding in any expert literature on the topic.

Methods Fail to Account for All Public Spending on School “Choice”

When the report compares spending on a school “choice” program with per-pupil expenditures at public schools, it assumes that the only public revenues going to private schools are revenues from vouchers, scholarships, and other direct payments to private schools. In fact, private schools are subsidized in other ways by the government.

First, both federal and state aid flows to private schools through a variety of programs. Title I “equitable aid” is available to private schools enrolling disadvantaged students.¹⁰ Private schools recently accepted considerable pandemic aid.¹¹ Many states also provide funding to private schools for transportation, textbooks, auxiliary services, and other educational programs and services.¹² An accurate account of taxpayer funding for private schools should include all of these sources of public revenue. Yet they are not included in the calculation of per-pupil spending.

Second, there are costs associated with administering and regulating a school “choice” program. These costs may be considerable. One early study found a large-scale system of school vouchers could raise educational costs 25 percent.¹³

Third, one cannot consider the “costs” of a private choice system without also assessing system outcomes (e.g., educational achievement). “Cost” has a specific definition in school finance research: It is the amount needed to have students reach a particular educational goal.¹⁴ A state, for example, may choose to spend less per pupil on some form of private school subsidy than it would spend in aid for its public schools. But if those private school students get worse test scores, that state has not reduced its “costs,” because the students are not achieving the same level of academic outcomes.

The report’s methods fail to account for declines in outcomes when calculating costs. Yet these declines are, in many cases, substantial. Recent studies of large-scale school “choice” programs show large losses in academic achievement for students attending private schools receiving government revenues.¹⁵ Even if moving these students from public to private schools saved money, a state can’t say it cut “costs,” because the students are not performing as well as they would have in public schools.

In sum, the report considers none of these factors, employing a simplistic method that leads to a convenient conclusion: These programs result in savings for the taxpayer.

Issues With Using “Per-Pupil Expenditures” When Comparing Public and Private Schools

The report’s use of per-pupil fiscal figures for comparisons masks an important reality: Public schools perform a different function than private schools. To begin with, public schools must enroll all students in their boundaries at any time; private schools have no such obligations. Public schools enroll more students who have learning disabilities and who are English language learners than do private schools.¹⁶ Public school students are also far more likely to qualify for free or reduced-price lunch, a proxy measure of poverty, than private school students.¹⁷ These student differences drive up costs for public schools relative to private schools. The report omits them in its calculation, however.

Given these differences, per-pupil spending in public schools should not be seen as the amount needed to educate *any* given student. Instead, it is the total amount spent to maintain an open-enrollment schooling system serving a diverse population of students, expected to meet certain standards, divided by the number of pupils enrolled. Private per-pupil spending, in contrast, is the amount spent to educate a selected sub-population of students who may or may not be meeting basic educational standards, divided by a much smaller number of students. The two figures are, therefore, measuring different things. But, again, this is unaccounted for in the methods.

The report further muddies this distinction by concentrating heavily on a hypothetical group of “switchers”: private school students who would otherwise enroll in public schools were it not for the subsidy provided by a “choice” program. Emphasizing this group reinforces the

false notion that private and public schools are performing the same function, as if all students could just as easily be “switched” from public to private schools as any other.

In addition, the report’s methodology for determining the proportion of “switchers” in the entire group of private school students using “choice” program funds is highly suspect. The report does acknowledge at least some students would still attend private school even without a subsidy, and that this is an additional burden on the taxpayers. It also acknowledges the “switchers” cannot be directly observed. However, it argues instead that the proportion of students who lost lotteries in a small number of oversubscribed choice systems, and then enrolled in public schools, is a valid estimation of the number of “switchers” in any choice program.

The Appendix of this review describes in detail the problems with this methodology. Most importantly: Like any study that uses a lottery as a natural experiment, the results can only be generalized to the population that enters the lottery. There is no reason to believe the families who entered their children into a limited “choice” lottery in a few states can be generalized to a larger population of families who avail themselves of a “choice” program with a different type of lottery, or no lottery at all. The report’s estimation of the number of “switchers” in all “choice” programs is, therefore, wholly unvalidated.

Unsupported Calculations of Fixed vs. Variable Costs

The report makes distinctions between fixed and variable costs for public schools. It agrees that school districts that lose enrollments to private schools have fixed costs not easily reduced as students leave; therefore, “choice” can raise per-pupil costs for public schools.

Fixed costs are just that: fixed and generally unresponsive to an enrollment decline. For instance, despite losing students, a school must continue to supply heat in the winter for a school. Those costs remain and there are no savings realized despite the loss of a need to supply an education for the students who left. In this scenario, per-pupil costs for public schools are not fully elastic to enrollment losses. As researchers have noted, this economic reality has real consequences for calculating the true savings when a student leaves a public school.¹⁸

The report argues that some costs are more elastic than others; instructional costs, for example, are supposedly more elastic to enrollment losses than other costs, as they can be adjusted to enrollment losses more easily than capital expenses or other fixed costs. No empirical evidence, however, is presented to support these claims. In addition, the report contradicts itself: It classifies instructional support, which includes teacher compensation, as “variable,” but then also asserts: “Gaining or losing a few students does not typically require hiring or laying off teachers, as staffing adjustments are not easily made on a per-student basis.”¹⁹ Somehow, the report finds that teacher costs can be variable and fixed simultaneously.

Ultimately, the report finds that all costs, including fixed costs, are variable in the long term, because changes in enrollment are inevitable.²⁰ This assumes that increased per-pupil costs

due to enrollment losses always, in the long term, resolve themselves. In other words, all schooling costs are eventually elastic to enrollment changes.

To the contrary, it is well established in school finance literature that there are economies of scale in education: Smaller schools and school districts have higher costs than larger schools and school districts because they are less efficient.²¹ The report never acknowledges that “choice” programs may be creating permanent enrollment reductions that drive up costs.

Furthermore, the report’s insouciant dismissal of the fiscal burdens of “choice” programs—burdens the report admits are real—ignores the reality that some fiscal burdens are the direct result of policy decisions, and some are not. There is little to nothing a state can do, for example, about population shifts between school districts. But it can choose to have or not have a school “choice” program that affects district enrollments and, subsequently, costs. If the report is willing to admit that fixed costs in the face of enrollment losses induce genuine fiscal challenges for a district, it must also admit that the *choice* to have school privatization programs has ramifications, regardless of whether there are other causes of enrollment losses. The failure to account for this fiscal reality undercuts the report’s conclusions.

VI. Review of the Validity of the Findings and Conclusions

The report imagines there are substantial savings from expanding school “choice” programs. However, these savings are purely theoretical and based on multiple questionable assumptions embedded in the report’s methods. Simply subtracting the amount spent on “choice” programs from average per-pupil spending in public schools (a number reached through a flawed method) ignores a host of important factors that affect school district finances, taxpayer outlays, and educational costs. Ultimately, even as a theoretical exercise, the report fails to present any compelling evidence to support its conclusions.

VII. Usefulness of the Report for Guidance of Policy and Practice

Not only does the report fail to present a convincing argument for school “choice” programs, its poorly constructed frameworks muddy the issues policymakers must contend with when considering the establishment or expansion of these programs. Stakeholders would be well advised to ignore this report altogether.

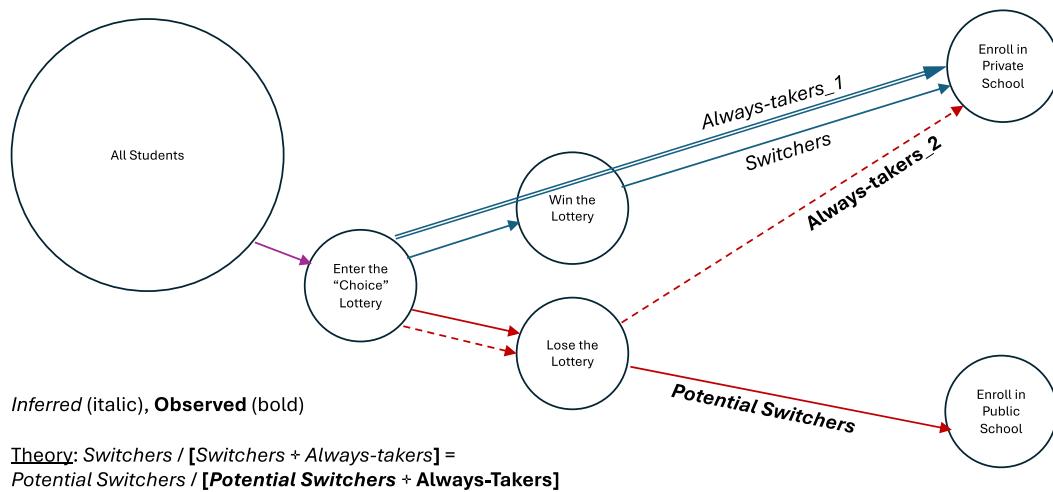
Appendix: The Problem of “Switchers”

The report is premised on the idea that the alleged savings from “choice” programs is balanced by increased costs to taxpayers, who are subsidizing the private school costs not just of students who switch from public to private schools because of the subsidy, but also of students who would always attend private schools, even without a subsidy. To calculate the supposed total savings, the report must, therefore, determine the number of “switchers” in the program: the number of students who would only attend private schools if offered a subsidy.

The report concedes that this number of students cannot be observed: There is no way to determine which students are “switchers” among all the students who accept a private school subsidy. Instead, the report argues that a small handful of studies, focused on programs with school “choice” lotteries, can be used as a natural experiment to estimate the proportion of “switchers” in any “choice” program. This argument is more fully explained in previous work by the report’s author, Martin Lueken.²²

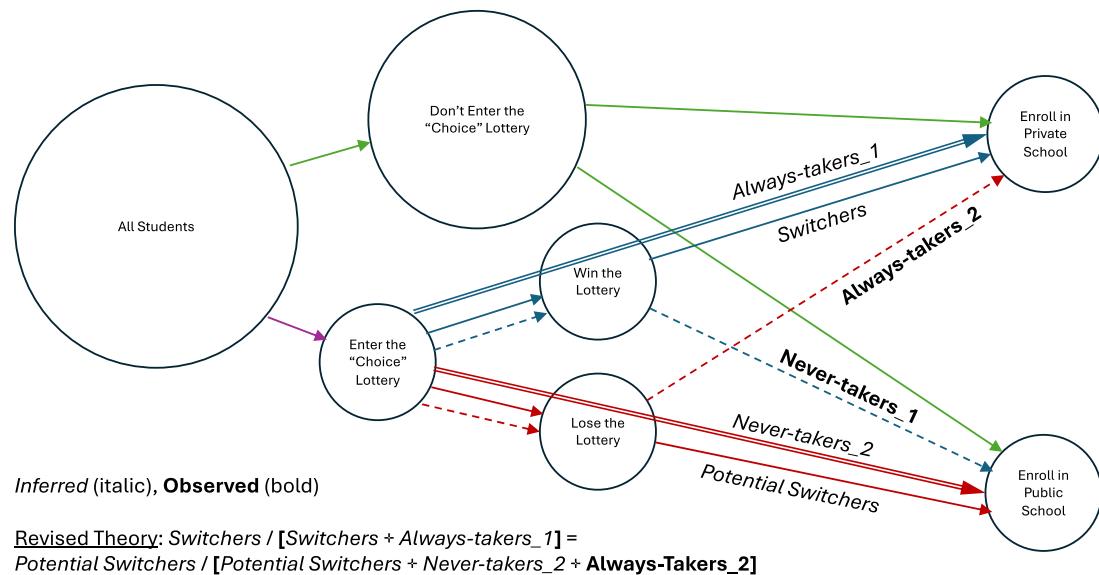
I sketch out the theory behind this argument in Figure 1. A group of students enters a lottery for a private school subsidy. Some students win the lottery; some lose. Among the winners, some unobserved subgroup would have attended private school anyway, even without the subsidy; that group, which I label “Always-takers_1,” cannot be directly observed. However, what can be observed is the number of students who lose the lottery and attend private school, which I label “Always-takers_2.” The theory is that the proportion of these students in the total group of lottery losers is equivalent to the proportion of “always-takers” in the group of lottery winners. Because the lottery is random, we can assume the winners and losers will behave similarly; consequently, the proportion of “switchers” among the losers can be assumed to be the same proportion of “switchers” among the winners.

Figure 1



There are at least two problems with this theory, one more subtle than the other. I sketch out these issues in Figure 2.

Figure 2



First, and most obvious: the report assumes that this theory can be extended to the large population of students who did not enter a school “choice” lottery (those following the green arrows in Figure 2). But the results of any randomized natural experiment can only be generalized to a population similar to that which participated in the experiment. Families, however, self-selected into these limited lotteries in a small number of communities. There is no reason to believe the population of those receiving private school subsidies in programs with different lotteries—or no lottery at all—would behave similarly. “Always-taker” parents, for example, may be much more likely to enroll in subsidy programs without a lottery, thus decreasing the rate of “switchers.” Given the lack of empirical evidence, policymakers should be skeptical about applying the report’s conclusions to all school “choice” programs.

Second, and more subtly: The report does not consider that, in addition to “always-takers,” there are “never-takers” among the entrants to the lottery. While “always-takers” will always enroll in private school regardless of the availability of a subsidy, “never-takers” will always enroll in public school, even if they win the lottery.

Why would a family enter a student in a lottery if they were always going to go to public school? Perhaps the family didn’t know much about the private options available; perhaps they only learn after entering the lottery that private school students often perform worse on tests than public school students, holding other factors even.

Even if one further theorized that the proportion of those who lost the lottery but would have gone to public school anyway (Never-takers_2) is the same as the proportion who won the lottery but went to public school (Never-takers_1), the possibility still exists that winning

the lottery, as opposed to just entering it, triggers the decision to enroll in public school. The lottery, therefore, is not random, as winning it changes the characteristics of the winners compared to the losers.

Ultimately, there is no way to know who among the lottery losers is a never-taker, just as there is no way to know who among the winners is an always-taker. Further, there is no way to know whether families in different choice programs with different selection systems—or universal enrollment, with no selection at all—would behave as families in these limited studies did.

The fact is that, in several states, many families using private school subsidies already had their children enrolled in private school.²³ There are certainly caveats that should be considered when assessing these figures; however, extrapolating the results of a small number of randomized studies to all school “choice” programs, and subsequently claiming the proportion of “always-takers” is small, is simply not warranted.

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