



REVIEW OF *THE TEXAS ECONOMY AND SCHOOL CHOICE*

Reviewed By

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Summary of Review

In a recent report, *The Texas Economy and School Choice*, written by Arthur Laffer for the Texas Association of Business and the Texas Public Policy Foundation, Laffer evaluated the effect of the proposed Taxpayer Savings Grant Program (TSGP)—essentially a universal voucher program designed to provide school choice to every student in Texas. Laffer concludes that by raising graduation rates, improving education achievement, and thus increasing human capital, the TSGP would substantially raise wages and income for working families, thereby improving economic growth in Texas. In this review, we highlight two profoundly problematic areas of the report. First, Laffer’s assertions about the educational benefits of choice represent a severe overreach with and misapplication of the available research. Second, the author’s economic estimations are over-generalized and heavily biased towards those families who already have the wealth to choose and relocate. The report applies simplistic economic logic to education and fails to consider all but an extremely narrow and inappropriate slice of research on education, making the report unsuitable as a basis for public policy decisions.

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REVIEW OF *THE TEXAS ECONOMY AND SCHOOL CHOICE*

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I. Introduction

A recent report, *The Texas Economy and School Choice*, was written by Arthur Laffer for the Texas Association of Business and the Texas Public Policy Foundation.¹ Laffer is an influential American economist, widely known as the father of supply-side economics ever since he advised President Ronald Reagan to lower taxes as a way to increase government revenues and expand the economy.

Laffer evaluated the effect of the Taxpayer Savings Grant Program (TSGP), which is essentially a universal voucher program designed to provide school choice to every student who attended a public school the prior year, or who is entering school in Texas for the first time. The TSGP would pay tuition at a private school of the student's choice, "subject to a maximum of 60% of the average per-student cost in public schools."

Laffer concludes that by raising graduation rates, improving education achievement, and consequently, increasing human capital, the TSGP would substantially raise wages and income for working families, and thus improve economic growth in Texas.

In this review, we highlight two profoundly problematic areas of the report. First, Laffer's assertions about the educational benefits of choice represent a severe overreach and misapplication of the available research. Second, the author's economic estimations are also over-generalized, and heavily biased towards those families who already have the wealth to choose and relocate.

II. Findings and Conclusions of the Report

Education benefits:

student achievement, teacher benefits, and school innovations

In education, Laffer projects a reduction of "the 130,000 dropouts statewide by half" as a direct result of the TSGP (p. 1). This drastic drop, he asserts, will be achieved through

higher educational achievement by reducing the gaps between different groups. The state is expected to produce education results that approach those of “higher achieving countries” (p. 1). Increased choice options are also claimed to increase salaries and employment options for teachers. Finally, he relies on unspecified “economic theory” that ostensibly supports the argument that competition accelerates school innovation (p. 8).

Economic gains:

wage increases, employment expansion, property values, and GDP growth

A main focus of Laffer’s analysis is to present the potential effects of school choice on the state’s economy. He projects that increased wages will result from more youths finishing high school while improved education achievement should increase the level of human capital and raise incomes. Overall, higher levels of human capital are suggested to lead to high economic productivity. Laffer speculates that, over the next 25 years, the TSGP will raise the state’s GDP between 17% (\$260 billion) and 30% (\$460 billion). This estimated economic boom then will generate up to a million new jobs, bringing more people to Texas and thereby driving up residential and commercial property values.

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

Laffer bases his predictions regarding the impact of choice on student achievement and school effects on two main assumptions: (1) that schools in a choice scheme will exhibit particular organizational behaviors, such as increasing innovation; and (2) that those behaviors will be shaped in predictable and desirable ways by the competitive incentives introduced through a universal voucher scheme. Laffer also draws from the classic theory of human capital as the basis for his economic predictions: that is, the more education and training one receives, the more productive one becomes, and thus the more one contributes to overall economic growth.

IV. The Report’s Use of the Research Literature

Academic impact

Laffer’s claims regarding education are based on (1) an extremely selective reading of the research literature, and (2) a notable misapplication of that research to make claims that are simply not supported by the evidence.

Laffer bases his projections of academic effects largely on a small set of nine studies that are either (a) authored primarily by voucher advocates, or (b) selectively reported by Laffer. Such use of the studies in question has been critiqued in these reviews before.² Here we will just note that they tend to be funded and/or conducted by voucher proponents such as the Program on Education Policy and Governance, the Texas Public

Policy Foundation, and the-Heartland Institute; are often challenged by independent researchers on methodological grounds; and tend not to be published in peer-reviewed journals.³ (Indeed, of the 182 endnotes in the report, only 12 — citing just 9 separate sources — are from peer-reviewed journals. Findings are often selectively reported, such as claiming (erroneously) that all groups see academic gains from choice programs (see below). Studies that are more applicable to the question of scaling up to universal vouchers, such as those investigating the relative effectiveness of private schools overall, are ignored.⁴

Secondly, the projections made by Laffer regarding the likely academic impact of the TSGP are not supported by the evidence, including the selective set of studies he uses to make his claims. For instance, Laffer cites the “improvement in standardized test scores that has already been shown to develop from *broad school choice reforms*” (p.3, emphasis added), but bases this claim on reports on *means-tested* voucher programs *targeted in specific cities*. Similarly, Laffer quotes Jay Greene regarding the “hidden consensus” on academic effects: “Green (sic) summarizes, ‘Every one of those analyses finds statistically significant benefits from school choice *for those who are provided with opportunities* to choose a private school’” (p.8, emphasis added). Even if we accept Greene’s questionable claims,⁵ Greene is dealing with restricted programs where smaller proportions of the general student population self-selected into choice schemes and lotteries, with only some of those students arguably seeing benefits. There is simply no empirical research showing, despite Laffer’s claims, that school choice “unambiguously improve(s) education performance and achievement for all students...” (p.12.). As another example, Laffer projects dramatic increases in graduation rates based on reports on these local programs, but ignores the fact that there are significant questions about selection bias, attrition, and peer effects in these reports generally published by advocacy groups. The peer effect concern is particularly problematic since, if graduation rates go up in targeted programs due to selection of students into more academically oriented peer groups in private schools, as those programs are scaled up in the TSGP, the peer effect will diminish. Simply put, the evidence Laffer cites does not show that these local programs lead to a lower drop-out rate, particularly in the larger population.

Because the evidence that Laffer uses in support of his claims is typically misapplied, it is difficult to accept the report’s claims.

An area where Laffer is simply out of touch with the research is in terms of the organizational behavior he anticipates from schools in response to competition, based on his simplistic economic logic for schools, rather than empirical evidence of how schools actually operate in market-oriented environments. Laffer writes that

public schools coming under such competitive threat would be expected to focus on improving their education performance. . . . For example, in response to the Milwaukee school choice program, the Milwaukee public schools . . . guaranteed parents that students would be reading at grade level by at least the third grade, or the student would receive individual tutoring. That guarantee was proclaimed

very publicly, with extensive advertising to promote it, on billboards, and the sides of buses (p.12.).

While some research finds no support for the claim that competition causes schools to allocate more resources to academics,⁶ even the reports that highlight increases in academic productivity in response to competition find such *only in certain circumstances*.⁷ Ironically, the very example Laffer uses undercuts his claim: he contends that Milwaukee Public Schools focused “on improving their educational performance” in response to voucher competition, but provides no evidence that they made any such improvements besides some ads on billboards and buses (p.12.). This illustrates his misunderstanding of school innovation in education markets. He asserts, “Schools and teachers would be subject to market competition and incentives to innovate ...to possibly reinvent education at different school levels” (p.31). In making this simplistic claim, he cites such noted organizational theorists as Newt Gingrich and an extremely low-performing online charter school company. Yet much research has shown that competition appears to effect change more at the organizational level in terms of management and governance arrangements, rather than in the classroom.⁸

Perhaps Laffer’s biggest miscalculation of organizational behavior is his broad assertion that vouchers would save Texas taxpayers “billions” (p.2). The grant is capped at 60% of the average per-pupil expenditure for “maintenance and operations in public school,” but competing estimates of that figure, as well as for the number of students who might enter the TSGP, highlight the tenuous nature of these claims (p. 2). But Laffer promises additional savings, since “Two-thirds of private elementary school students in Texas attend parochial schools, where the average tuition is about 22% less than the maximum grant amount. So the savings to taxpayers would be 22% more than estimated above for students that choose to attend those private schools” (p. 6). The apparent precision of a figure like “22%” is belied by the odd assumption that private school operators would not then raise their tuition to the full 60% cap.

Economic impact

In calculating the TSGP program’s economic benefits, Laffer relies extensively on two studies: one is a report written by McKinsey and Co., a multinational consulting company that specializes in using accounting principles to develop management strategies for large corporations; and the other, a working paper by Eric Hanushek. It is notable that both of these studies contain inflated speculation about the effects of standardized testing scores on the U.S. economy as a whole (rather than on a single state). The lack of literature on this topic probably has to do with the fact that economic forecasting is an extremely difficult task; as a former chairman of the Federal Reserve, Alan Greenspan, famously said, “We really can’t forecast all that well, and yet we pretend that we can.”⁹ As such, there are few peer-reviewed studies that make economic predictions over a period of a quarter century, as Laffer has done in this report. In fact, Laffer does not cite a single peer-reviewed study that shows a direct positive relationship between school choice reform and GDP growth.

Laffer also cites the work of economic historian Brian Domitrovic to argue that America's economic success has been achieved because of Reagan's economic policies.¹⁰ Yet again, his review of the literature is one-sided. As notable economists, such as Noble laureate Joseph Stiglitz, have noted, these types of supply-side economic policies have led to extreme inequality.¹¹ The U.S. has not seen its current level income disparity since the Great Depression.

In addition, although Laffer asserts that the "emerging literature" has already begun to discuss school choice reform as a promising avenue for urban redevelopment and revival, he cites no formally reviewed studies that show a direct linkage between school choice and housing price increases (p. 23). Instead, he predicts higher housing values based on the opposite dynamic—by making an inference from a single study (a working paper) that shows a positive relationship between district test scores and housing prices. Another paper he cites is published by the libertarian Cato Institute, a think tank that promotes market-based education reforms. The narrow set of literature thus grossly overlooks an increasing body of spatial education scholarship, which has shown that the types of people who move into these gentrified city neighborhoods are largely middle-income families; in this very process, low-income, racial minority families get displaced and disconnected from their friends, neighbors, leaders and teachers.¹²

V. Review of the Report's Methods

One major limitation of this report is that Laffer does not offer any original method of calculation. Instead, he borrows others' formulas, and then applies these formulas to Texas without any consideration of the differences between what others studied and the case of Texas. For instance, Laffer relies exclusively on McKinsey and Co., and advances the view that what is estimated for the U.S. then can be translated "proportionally for Texas" (p. 21). This exercise might arguably have been acceptable if the Texas economy was representative of the U.S. as a whole, but the report does not provide us with any evidence that that is the case. Also, in assessing wage benefits, Laffer seems to have ignored the realities of labor market discrimination: minority populations earning high school diplomas may not earn wages comparable to their white peers.¹³ In other words, in calculating the benefits, Laffer uses the economic assumption of universality and rational individuals, which often do not reflect human behavior. Similarly, he makes a hasty generalization when asserting that the "successes" of one gentrifying neighborhood are applicable to the rest of the state. He used as a case study the school choice program in the Edgewood School District, in San Antonio, Texas, which gave vouchers to every student regardless of family background. Although the case shows positive correlations (rather than causations) among school choice, educational outcomes and urban redevelopment, it is plagued by insufficient information. We are given little information on who moved into the neighborhood and who moved out. Can we assume that this one neighborhood is representative of all of Texas? We are left with more questions than answers. Laffer is doing armchair theorizing, which may bear little resemblance to reality.

VI. Review of the Validity of the Findings and Conclusions

Because the evidence that Laffer uses in support of his claims is typically misapplied, it is difficult to accept the report's claims. As many advanced economies have seen, raising education levels alone is unlikely to increase GDP substantially. The argument for economic growth based on human capital theory falls short; the accumulation of human capital alone will not guarantee substantial economic growth at the individual or societal level, in part because of labor market discrimination. Moreover, we observe many countries around the world that have high educational performance (which Laffer wants Texas to rival), even if they do not employ "choice" or vouchers. Yet the economies of many nations performing highly on educational performance have slowed down in recent decades, undercutting Laffer's assumed link between education and economic performance.

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

While this report is clearly written to recommend the TSGP to the State of Texas, the lack of comprehensiveness and transparency—as well as the problems in its methodology, literature review, and analysis—make it unsuitable as a basis for public policy decisions. By simply borrowing formulas from other reports, Laffer does not provide any analysis that is sensitive to the state of Texas, and in particular to the policy proposal in question. Indeed, his economic logic continues to be based on the trickle-down theory of cutting government expenditures and reducing taxes, when in fact, this approach over the last three decades has resulted in “the riches accruing to the top...at the *expense* of those down below.”¹⁴ We further note that this kind of inequality has been particularly acute in the education sector, as we have witnessed over 140 court cases since 1970 that have been filed to challenge high-level of funding disparities among school districts across the US.¹⁵ Once implemented, the TSGP would allow families with higher incomes to supplement their children's education even further, while fewer resources would be available for those children from low-income families.

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