



REVIEW OF *THE WAY OF THE FUTURE: EDUCATION SAVINGS ACCOUNTS FOR EVERY AMERICAN FAMILY*

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Summary of Review

The Friedman Foundation recently published a report promoting Education Savings Accounts (ESAs). Like conventional vouchers, ESAs provide parents with public funds to purchase approved educational services, including private schools, online education, private tutors and higher education. The report presents ESAs as the optimal vehicle to bring Milton Friedman's school voucher idea into the 21st century. While calling ESAs "the way of the future," it lacks fundamental information to guide policymakers on their design, implementation, financing, and sustainability. These details ultimately determine the equity, efficiency and cost effectiveness of this proposal. For example, ESAs raise serious equity concerns: affluent parents could, if the policy allows, supplement their vouchers to purchase high quality educational services inaccessible to low-income families. This is indeed allowed in Arizona's ESA program, the only existing ESA policy in the United States. Open to legal challenge, the report's plan advocates using ESAs to sidestep prohibitions in state constitutions against supporting religious organizations with public funds. Unaddressed but relevant peer-reviewed evidence on school choice policies suggest that the claimed academic and economic benefits of ESAs are speculative and overstated. The absence of details and evidence in the report suggests it is ideological rhetoric rather than a workable policy proposal.

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REVIEW OF *THE WAY OF THE FUTURE: EDUCATION SAVINGS ACCOUNTS FOR EVERY AMERICAN FAMILY*

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I. Introduction

A recent report by The Friedman Foundation for Educational Choice describes Education Savings Accounts (ESAs) as “managed by parents with state supervision to ensure accountability, [and] parents can use their children’s education funding to choose among public and private schools, online education programs, certified private tutors, community colleges, and even universities.”¹ The report, *The Way of the Future: Education Savings Accounts for Every American Family*, by Matthew Ladner, envisions that religious school tuition and fees charged by companies to “oversee” ESAs would also be eligible for public payment. The report contends that market forces brought into play by ESAs will increase educational quality and decrease costs.

In principle, ESAs are similar to education vouchers, but they expand the voucher concept to include public funding for a broader range of educational services. Arizona is the first state to create such a program, called Empowerment Scholarship Accounts.² The program establishes a savings account for each participating child into which up to 90 percent of each child’s per-pupil allocation of state educational aid is deposited. The family can apply the funds in the account towards multiple approved educational services (e.g., private school tuition, online tutoring, and community college courses) through use-restricted debit cards. Families would be allowed to divert any unused funds from the account into a 529 college savings plan. In addition, the ESA contract prepared by the Arizona Department of Education does not require that the ESA amount be the full and complete tuition payment.³ Schools can therefore apparently demand additional tuition amounts from parents. Families must also sign a release barring them from enrolling their children in a district school, including charter schools. The release also frees the district from “any obligation to educate the participating child.” Thus, Arizona’s program essentially requires participating families to enroll their children in private education options and allows them to add any additional amount to the savings account to pay for whatever type of private option they prefer.

This review examines whether there is reasonable evidence that ESAs can achieve the policy objectives outlined. This goal is difficult to accomplish as the report presents very little evidence that this reform is educationally, economically or legally viable. Moreover, the focus of the policy recommendations is on adoption of statewide, universal ESAs, but only partial or unimplemented programs exist, in Arizona and Florida. A strong literature on vouchers and charter schools, however, speaks directly to the Friedman Foundation's claims.

II. Findings and Conclusions of the Report

After asserting that ESAs are the “Way of the Future,” the author then defines the term and expounds on Milton Friedman’s well-known free-market philosophy of education. This is followed by a lengthy section decrying the outcomes of public education and claiming the shortcomings he identifies as being the fault of unions and governmental monopolies. The achievement gap is portrayed as causing “permanent national recession” (p. 6). Educational stagnation is claimed while competitive industrial progress is illustrated by the relative decline in the cost of TV sets (p. 7).

The author returns to his theme of ESAs for one page (p.8), listing eligible services, how the program is designed and noting it is “under legal assault” in Arizona. School districts would be able to keep local funding but apparently, would lose state funding for students opting out of the public system with an ESA. Claiming academic gains in Florida, he attributes these to the special education vouchers but presents no evidence for this causal claim (pp. 9-10). In a section titled “How Education Savings Accounts will Encourage New Models” (pp. 11-12), the author expounds on the fact that technology will change education. He asserts that market forces are the fundamental change mechanism for a rapidly changing world—again with no evidence.

A lengthy discussion that follows of so-called Blaine amendments (the generic term for measures enacted in various state constitutions forbidding direct government aid to educational institutions with any religious affiliations) contends that since the ESA money goes to parents, state constitutional prohibitions against funding religious institutions are avoided (pp. 14-16). Claims are also presented that vouchers will resolve equity issues, although no citations are provided to support this assertion (pp. 17-19). The concluding section contends that giving parents “education savings accounts” will “Secur(e) the blessings of liberty for our posterity” (p. 19).

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

The rationale stems from the theoretical arguments for education vouchers laid out in Milton Friedman’s seminal work on vouchers more than half a century ago.⁴ What becomes apparent in examining Friedman’s proposal is that crucial details regarding how his

voucher plan would work in practice are missing. This current ESA proposal suffers from the same lack of detail.

In “The Role of Government in Education,” Chapter 6 of *Capitalism and Freedom*,⁵ Friedman argued that government exercised monopoly control over education, which did not serve the best interests of families or the nation as a whole. That is, there is no incentive for innovation, competition and gains in efficiency. Friedman reasoned that introducing market forces into public education through a voucher system could improve student achievement and reduce per-pupil spending—the same argument laid out in the current ESA proposal.

Friedman reasoned that a national system of education vouchers would give:

. . . parents vouchers redeemable for a specified maximum sum per child per year if spent on “approved” educational services. Parents would then be free to spend this sum and any additional sum on purchasing educational services from an “approved” institution of their own choice. The educational services could be rendered by private enterprises operated for profit, or by non-profit institutions of various kinds. The role of the government would be limited to assuring that the schools met certain minimum standards such as the inclusion of a minimum common content in their programs, much as it now inspects restaurants to assure that they maintain minimum sanitary standards.⁶

Thus, the report argues, ESAs would break the government monopoly, increase competition, reduce costs, and increase achievement.

IV. The Report’s Use of Research Literature

None of the 25 citations are to an independent, peer-reviewed study. About 40% of the citations are to partisan sources, while about another third are straightforward descriptive notations. Among the other references are interviews on the Phil Donahue and Charlie Rose television shows.

One citation, to a report from the Manhattan Institute, an advocacy think tank, is to a research study.⁷ That study examines the impact of exposure to a Florida voucher program (McKay Scholarships) for students with disabilities. The study, however, provides limited evidence generalizable to the universal provision of ESAs. Further, the study’s conclusion is that the academic proficiency of voucher students diagnosed with relatively severe disabilities are not, on average, any worse than students in public schools. This hardly amounts to a strong affirmation of the ESA model.

The author’s policy analysis of publicly funded school voucher programs leaves much to be desired. There is a large body of studies available on vouchers, charters and privatization. Unfortunately, the author did not employ it.⁸

V. Review of the Report's Methods

The report employs graphics showing longitudinal NAEP trends, NAEP trends for handicapped students, international expenditures, and national staffing patterns. The report argues from this descriptive data that ESAs would resolve the educational deficiencies the author attributes to this data. However, to accept the author's claims that market models and ESAs are the solution requires an act of faith, unassisted by the presentation of any empirical grounding. The arguments are correlational and associational, but they are presented as causal.

For example, unions and a government monopoly are proclaimed as being the cause of low achievement in the United States. The author presents no evidence that such a cause-and-effect relationship exists. Without regard to other possible contributing factors, such as increasing wealth disparities and school funding inequities, achievement gaps are presented as being caused by schools. Education "stagnation" is claimed on the basis of test scores, and this is compared to the industrial production and obsolescence of the Betamax format without any consideration as to whether such a metaphor is appropriate. ESAs are touted because technology is changing. Equity will also be resolved by ESAs, but how is not explained.

The report is an essay extolling the virtues of ESAs, but it demonstrates no coherence or foundation as a research-based document.

VI. Review of the Validity of the Findings and Conclusions

As was the case with Friedman's original voucher proposal, this report has considerable appeal, but it fails to address fundamental questions central to the viability of any such program:

- **Equality of Opportunities:** How could low-income families gain access to high-quality educational opportunities in a system allowing families to add on "any additional sum" to the initial ESA amount, as Friedman proposed and as Arizona's ESA policy permits? One source of inequality in the current public education system is the ability of affluent families to use residential choice to buy access to good schools that low-income families cannot afford. Promoters of taxpayer funded private school choice contend that private school vouchers give poor families the same opportunities for education as wealthy ones; Ladner makes a similar argument is made for ESAs (p. 18). Yet a universal ESA program modeled after Arizona's policy and allowing families to supplement the ESA from their own resources would most likely exacerbate existing inequalities. For affluent families, ESAs would constitute a public subsidy enabling them to purchase the best possible private education their money could buy, even without having to exercise housing choice. In addition to the greater financial capacity of some parents relative to others, inequalities also could arise from the non-random sorting of families across

different schools.⁹ Research evidence from the United States and abroad suggests that parental choice policies, such as ESAs, result in increased social, economic, and racial stratification.¹⁰ This poses a fundamental equity issue for the provision of universal education in a democratic society.

- **The Politics of ESA Funding:** The report fails to account for the sources of public funding. A universal ESA program would need to be funded by the state. This would mean diverting locally raised tax dollars to the state, which would pose a significant threat to the historically decentralized nature of education funding in the United States. The report, however, is silent on how local education revenues, which consist largely of property taxes, would be used by a universal ESA plan. It is also silent on whether ESAs are envisioned as tax-free accounts in the manner of health savings accounts or Section 529 college savings plans.
- **The Democratizing Purposes of Schools:** Independent educational providers might focus on serving the particular religious, political or cultural preferences of their parent-customers. This could ultimately defeat the fundamental democratic notion that public schools must provide a common foundation of knowledge for all children.¹¹ Likewise, independent providers, under a market model, seek to maximize profits. As such, it is unclear whether universal ESAs would in fact reduce costs or whether the potential splintering of educational options would be best for society.
- **Church and State Constitutional Issues:** Does the fact that Arizona’s Supreme Court ruled in favor of ESAs suggest that other state courts would likewise circumvent their Blaine Amendments? The interpretations used in one state of its constitutional provisions may be rejected in other states, with different constitutions and different case law. A further question is how such controversial issues would play out in other state legislatures.
- **Adequacy of the ESA Amount:** What “maximum sum” would be appropriate for each child and who would decide? What guarantees the ESA amount will keep pace with cost increases? The long, contentious history of school finance reform suggests that this proposal would be financially, educationally and politically problematic.¹²
- **Adequacy of special needs funding:** The report suggests that a weighted funding formula could provide disadvantaged families with additional funds. The amount of funding for each handicapping condition could thus become more a product of political compromise than a scientific determination. In addition, any proposed weighted student funding formula must avoid creating an incentive to mislabel students to gain extra funding. An even thornier issue relates to whether enough is known about weighted student formula funding to determine appropriate weights for English language learners, low-income students, and special education students in any meaningful way.¹³

- **Transferability:** Different states have different cultures, and what proved viable in Arizona may not be the case in other states. These controversies would likely play out in a number of basic infrastructure-related issues. For example, a state-sponsored universal ESA program would require investment in monitoring, school accreditation, information, and serving special needs students. While prior research has suggested that there are potentially large administrative costs associated with operating voucher programs, this report largely ignores these costs and issues.¹⁴
- **Quality Control:** What “minimum standards” and “minimum common content” would service providers need to provide and, more importantly, how would government verify that they met the standards? There would be significant administrative costs in establishing and enforcing educational standards for a wide variety of service providers.

Again, none of these key seven issues is seriously addressed in the report. While the report proposes ESAs as a way to “bring Milton Friedman’s original school voucher idea into the 21st century” (page 1), it fails to address the same types of questions that Friedman’s original proposal also failed to address. If ESAs and other school choice proposals are to advance, the evidence must be strong enough to support the ideology.¹⁵ To date, the evidence on achievement gains does not show any advantage to voucher-like mechanisms, and the evidence on costs shows excess administrative fees.¹⁶

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

The report is a propaganda document designed to advance a particular free-market, ideologically based policy agenda. Although presented as research, it does not provide an acceptable review of the issues. Further, its arguments do not provide a comprehensive, in-depth analysis of the design and policy implementation issues of ESAs. While the report claims a better education at lower cost, and a more equitable and democratic provision of education, no evidence is presented to support these claims. In fact, it is more likely that the implementation of ESAs would have exactly the opposite effects.

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